

Commonwealth of Pennsylvania

2008-09 Budget Update

Mary A. Soderberg
Secretary of the Budget

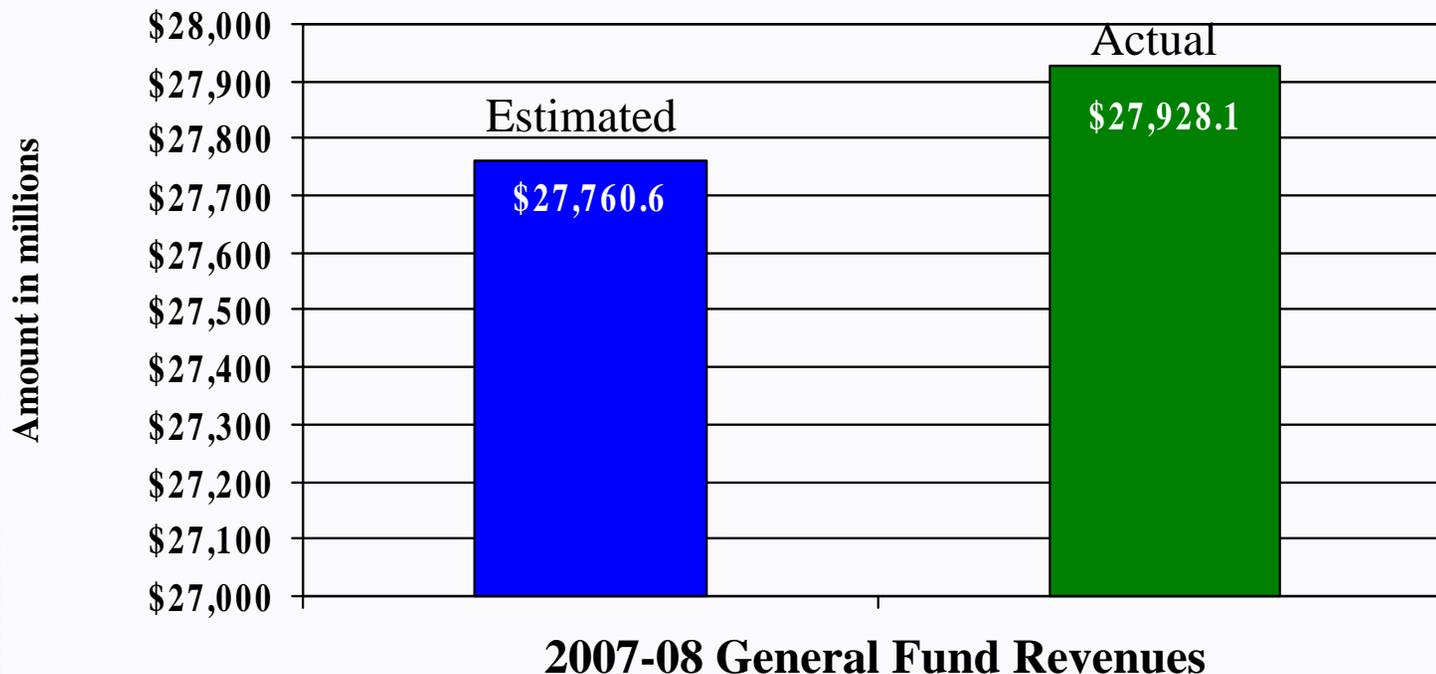
November 19, 2008

Presentation Overview

- 2008-09 Budget Enactment
- Making Government Work Smarter
- Post-Enactment Developments
- Challenges in 2008-09 and Beyond

2007-08 General Fund Revenues *Estimated versus Actual Revenue Collections*

Collections for the fiscal year ending June 30, 2008 were \$27.9 billion, which was \$167.5 million above the official estimate.



Edward G. Rendell, Governor ▪ Mary A. Soderberg, Secretary of the Budget

2008-09 Enacted General Fund Budget

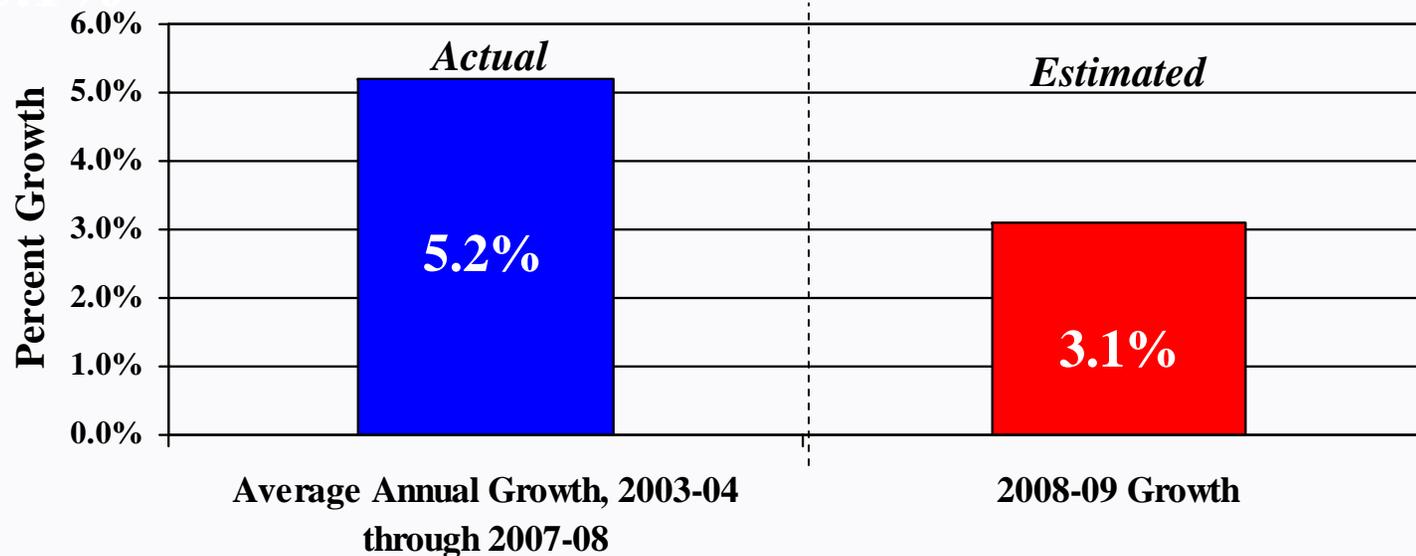
Dollars in Millions

	<u>2007-08</u> <u>Actual</u>	<u>2008-09</u> <u>Enacted</u>
Beginning Balance	\$ 531	\$ 583
Receipts	26,878	27,689
Prior-Year Lapses	142	0
Funds Available	<u>\$ 27,551</u>	<u>\$ 28,272</u>
Expenditures	\$ (27,175)	\$ (28,264)
Supplemental Appropriations	(7)	0
Current-Year Lapses	214	0
Total Expenditures	<u>\$ (26,968)</u>	<u>\$ (28,264)</u>
Preliminary Balance	\$ 583	\$ 8
Transfer to Rainy Day Fund	0	(2)
Ending Balance	<u><u>\$ 583</u></u>	<u><u>\$ 6</u></u>

General Fund Revenue Growth *2003-04 through 2008-09*

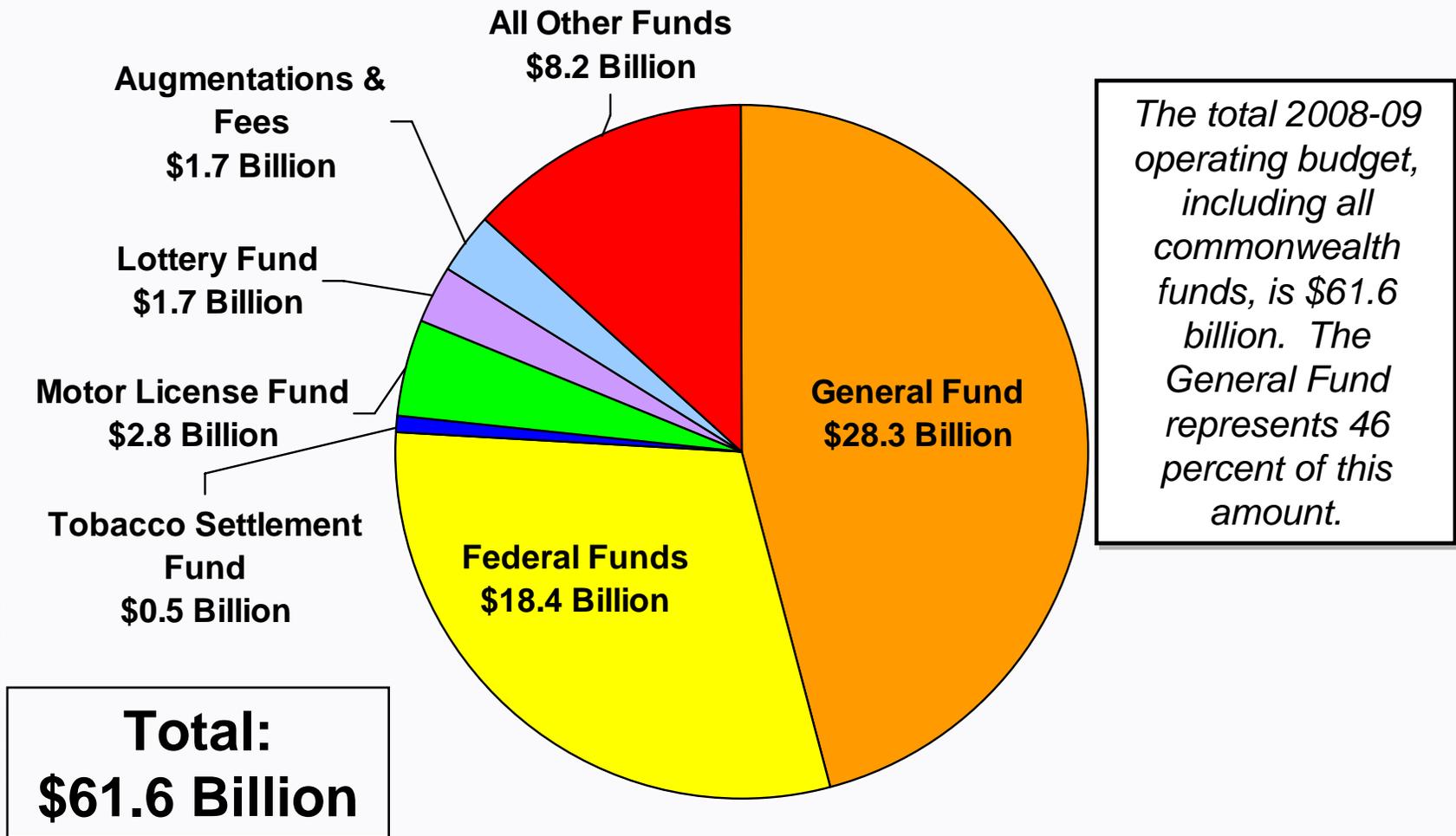
Because of the current weak economy, the percentage growth in General Fund revenues in 2008-09 is estimated to be much lower than the average annual rate of growth in revenues for the previous four years.

General Fund Revenue Growth *Four-Year Average vs. Projected 2008-09*

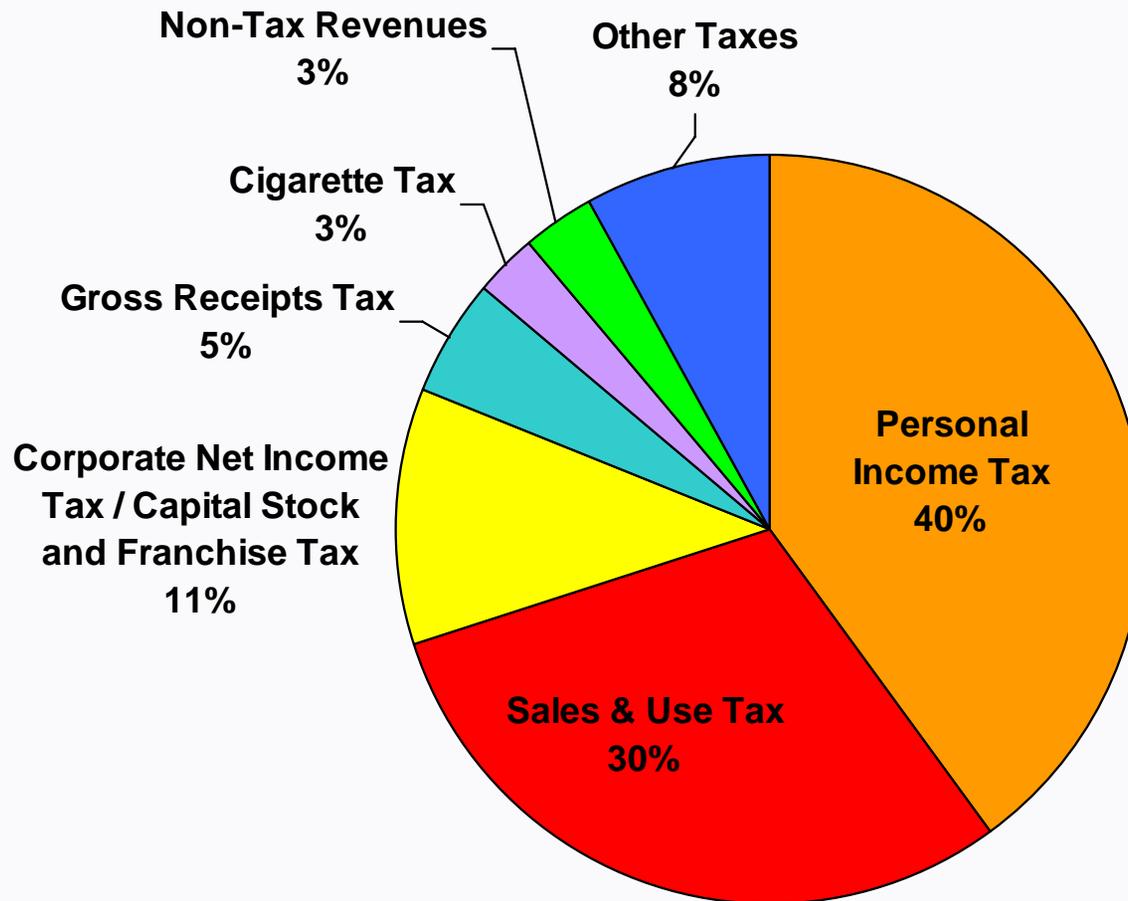


Edward G. Rendell, Governor ▪ Mary A. Soderberg, Secretary of the Budget

2008-09 Total Operating Budget (All Appropriated Funds)



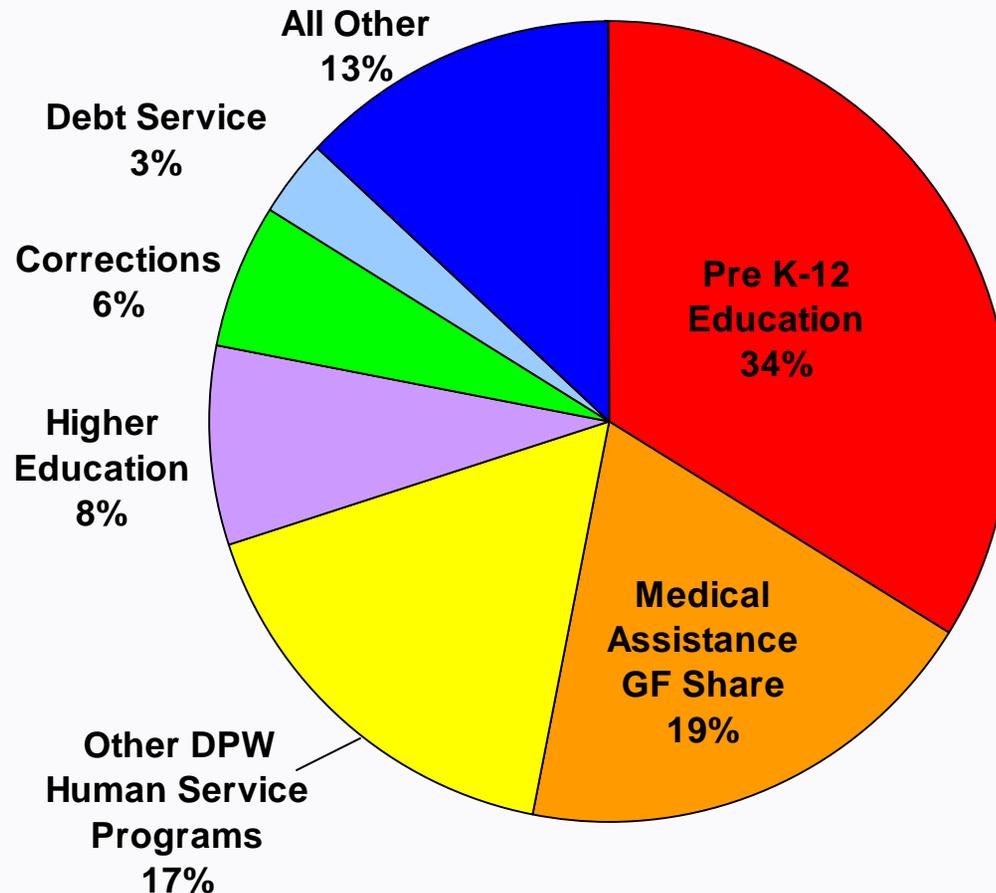
2008-09 General Fund Revenue Sources



More than two-thirds (70 percent) of General Fund revenues are derived from the Personal Income Tax and the Sales & Use Tax.

2008-09 General Fund Expenditures

The 2008-09 enacted General Fund budget is \$28.3 billion, an increase of \$1.1 billion, or 3.98 percent, over 2007-08.



Spending on Education, Medical Assistance, other Department of Public Welfare programs, Corrections and Debt Service accounts for 87 percent of total General Fund expenditures.

**Total GF Expenditures:
\$28.3 Billion**

2008-09 Budget Highlights

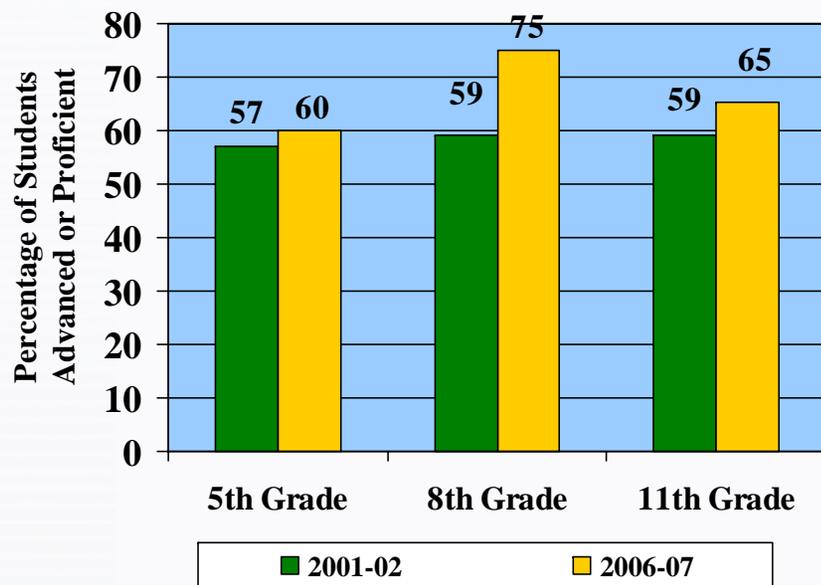
The 2008-09 budget was passed by the General Assembly and signed by the Governor on July 4, 2008.

- The 2008-09 enacted General Fund budget is \$28.3 billion, an increase of \$1.1 billion, or 3.98 percent, over 2007-08.
- The 2008-09 budget has no tax increases.
- More than 32 percent of the \$1.1 billion increase in the General Fund budget – or \$347.4 million – is for education.
- The 2008-09 General Fund budget increases spending by just 1.3 percent in all areas other than education, public welfare, corrections and probation/parole, while improving many vital state-funded services.
- The enacted 2008-09 General Fund budget is \$72.4 million less than the Governor's proposed budget.

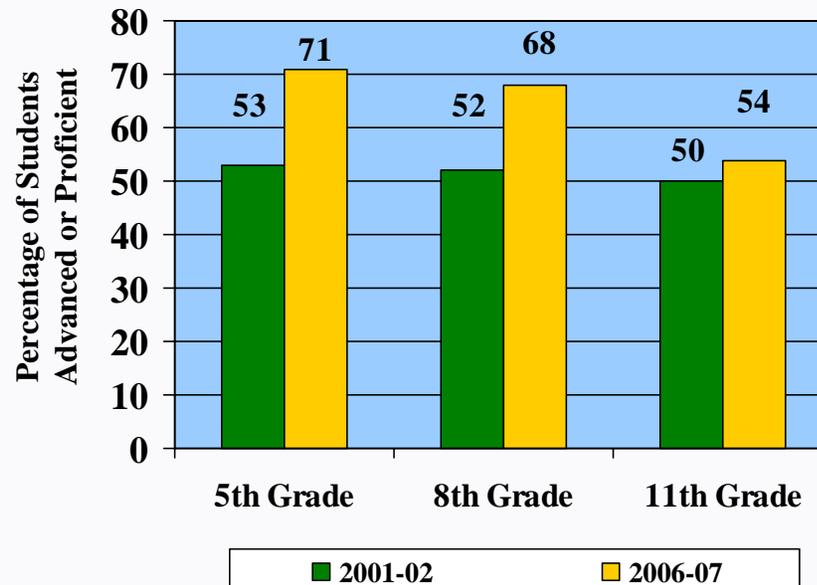
Student Achievement

Since 2002, students across Pennsylvania have made significant progress in achievement. There has been an improvement in performance across every grade level in both reading and math. Pennsylvania is one of only nine states that made significant progress in elementary school reading and math achievement from 2003-2007, according to the National Assessment of Education Progress, also known as “The Nation’s Report Card.”

**Reading PSSA Results
2001-02 vs. 2006-07**



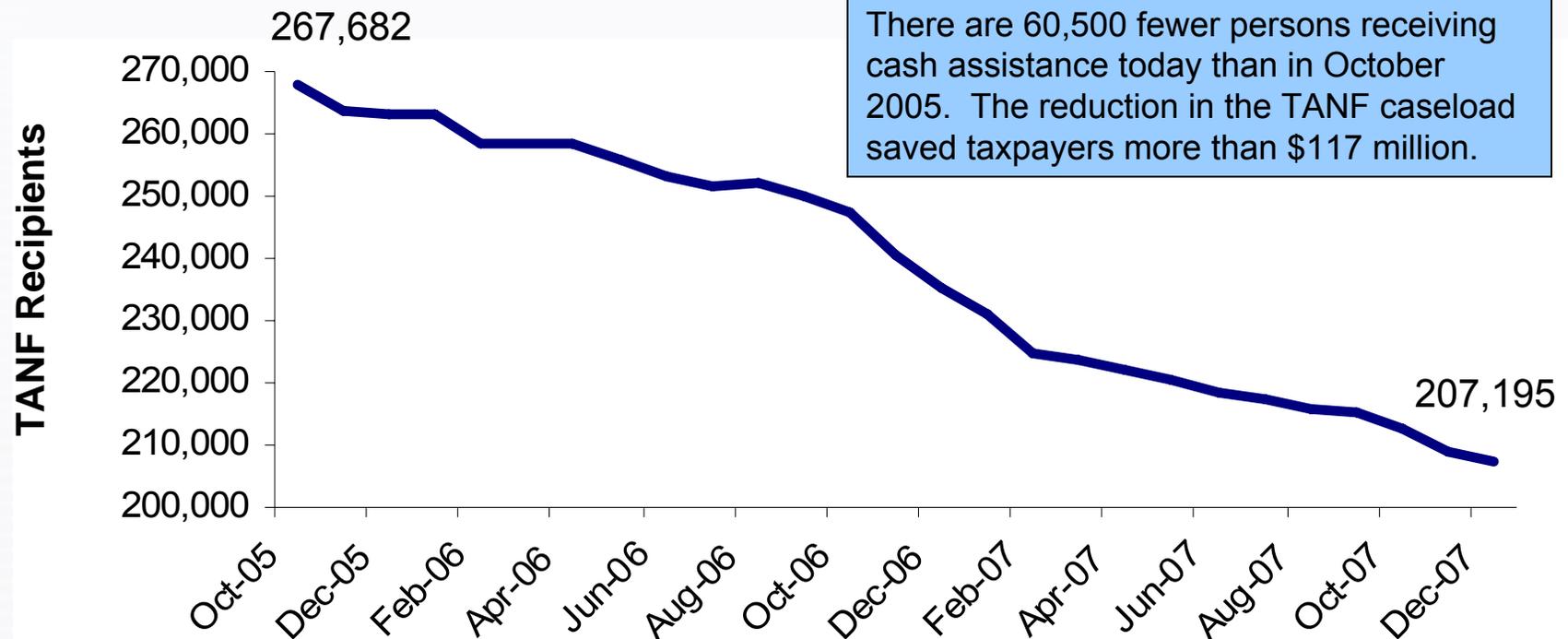
**Math PSSA Results
2001-02 vs. 2006-07**



Source: Pennsylvania System of School Assessment

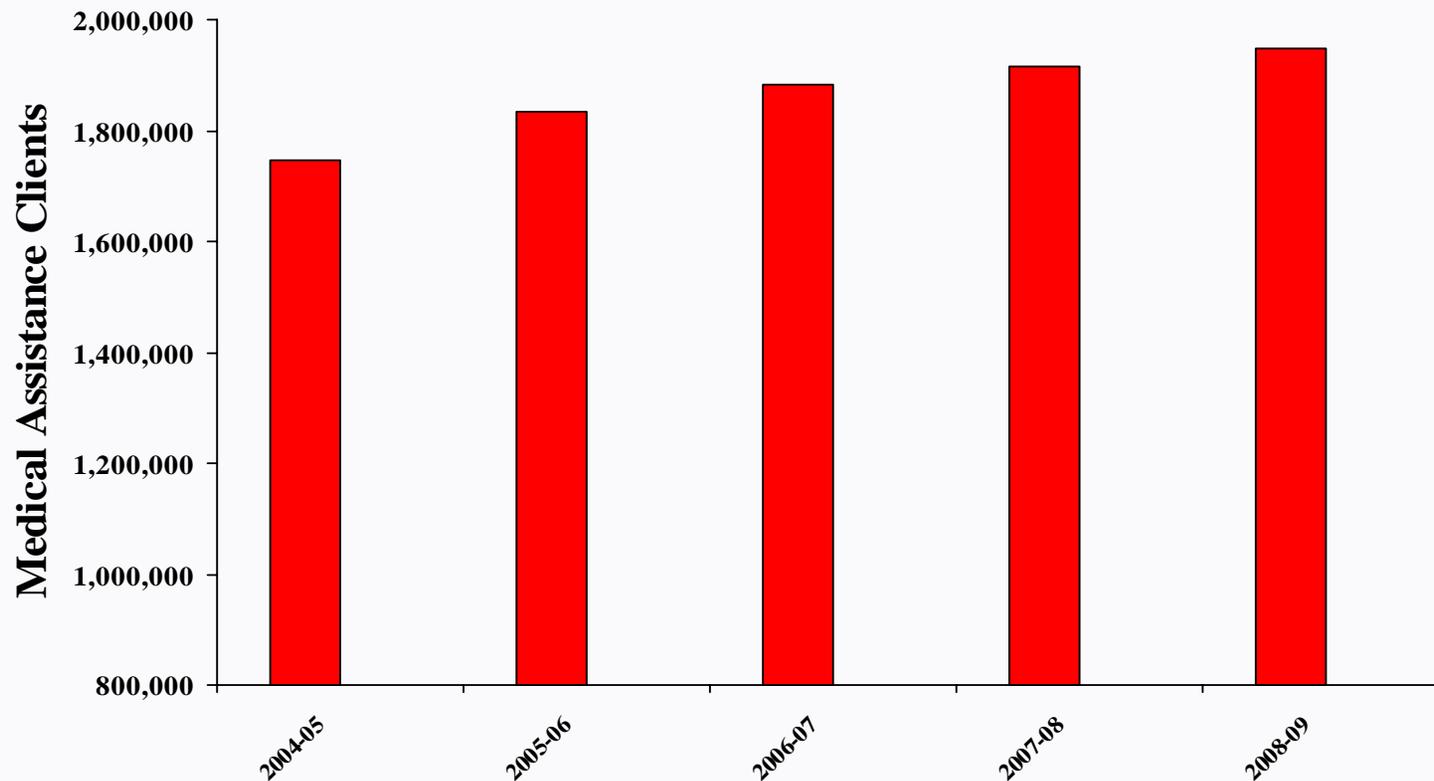
TANF Caseload Declines

Fewer Pennsylvanians are receiving cash assistance than any time since 1961. As of December 2007, there has been a 23 percent decrease in the number of people receiving Temporary Assistance for Needy Families (TANF) benefits since October 2005. The 2008-09 budget continues this trend, projecting an additional 2 percent decline in the TANF caseload.



Medical Assistance *Serving More People in Need*

The Medical Assistance program is projected to provide services to an additional 34,478 clients during 2008-09, for a total of 1.9 million clients. The projected 1.8 percent growth in the Medical Assistance caseload comes primarily from serving additional elderly people, persons with disabilities and the chronically ill.



Improving Pennsylvania's Economy *Selected Economic Development Projects*

Since January 2003, the Governor's Action Team has successfully completed 1,053 projects statewide. The projects represent commitments for 111,788 new jobs and 257,938 retained jobs. The commonwealth has offered more than \$2 billion in funding to these projects, leveraging more than \$12.9 billion in additional investment.

- **Greater Pittston Chamber of Commerce-Mericle Commercial Real Estate Services (Luzerne County):**

- Phase II of the project will result in 3,000 jobs.

- **Keystone Helicopter Corp. (Chester County):**

- Retain 591 existing employees, create 559 new, full-time jobs at project site within three years.

- **Trader Joe's East, Inc. Distribution Facility (Northampton County):**

- Create at least 486 new, full-time jobs at project site within three years.

Comprehensive Crime-Fighting Legislation

Reducing Crime, Recidivism and the State's Prison Population

Legislation that will reduce crime, lower the rate at which offenders return to prison and make our communities safer has been enacted recently. In its entirety, this legislative package will also decrease costs for the Department of Corrections and the Board of Probation and Parole by tens of millions of dollars over the next five years.

Projected 2008-09 and Five-Year Impact of Enacted Legislation

	2008-09	2012-13	Five-Year Total
Reduction in Offender Population (in number of inmates)	-257	-877	
Savings to Department of Corrections	-\$1,500,000	-\$5,400,000	-\$64,200,000
Change in Number of Offenders on Parole	145	267	
Savings to Parole Board	\$0	-\$6,000,000	-\$13,100,000

2008-09 Budget Enactment *Budget Balancing Measures*

- One-time 2008-09 revenue and expenditure adjustments
- Suspend 2007-08 transfer to the Rainy Day Fund
- Increased 2007-08 and prior year lapses
- 1.3 percent across-the-board expenditure reductions with additional targeted expenditure reductions

Edward G. Rendell, Governor ▪ Mary A. Soderberg, Secretary of the Budget

Enacted vs. Actual 2007-08 General Fund Budget

Dollars in Millions

	<u>2007-08</u> Enacted	<u>2007-08</u> Actual	<u>2007-08</u> Difference
Beginning Balance	\$ 531	\$ 531	\$0
Receipts (net of refunds)	26,641	26,878	237
Prior-Year Lapses	0	142	142
Funds Available	\$ 27,172	\$ 27,551	\$ 379
Expenditures	\$ (27,162)	\$ (27,175)	13
Supplemental Appropriations	0	(7)	7
Current-Year Lapses	0	214	214
Total Expenditures	\$ (27,162)	\$ (26,968)	\$ (194)
Preliminary Balance	\$ 10	\$ 583	\$ 573
Transfer to Rainy Day Fund	(3)	0	3
Ending Balance	\$ 7	\$ 583	\$ 576

Selected 2008-09 General Fund Spending Cuts

The 2008-09 enacted budget made numerous cuts to the Governor's recommended amounts.

<u>Department</u>	<u>Appropriation</u>	<u>Amount</u> <u>(in millions)</u>
Commission on Crime and Delinquency	<i>Police on Patrol</i>	- \$10
Community and Economic Development	<i>Infrastructure Development</i>	- \$10
	<i>Opportunity Grant Program</i>	- \$12
Conservation and Natural Resources	<i>State Parks Operations</i>	- \$1
Corrections	<i>Inmate Education and Training</i>	- \$1
	<i>State Correctional Institutions</i>	- \$25
Education	<i>Special Education</i>	- \$14
	<i>Classrooms for the Future</i>	- \$45
Environmental Protection	<i>Environmental Protection Operations</i>	- \$2
Public Welfare	<i>County Child Welfare</i>	- \$8
	<i>Mental Health Services</i>	- \$5
Revenue	<i>Technology and Process Modernization</i>	- \$5

Making Government Work Smarter

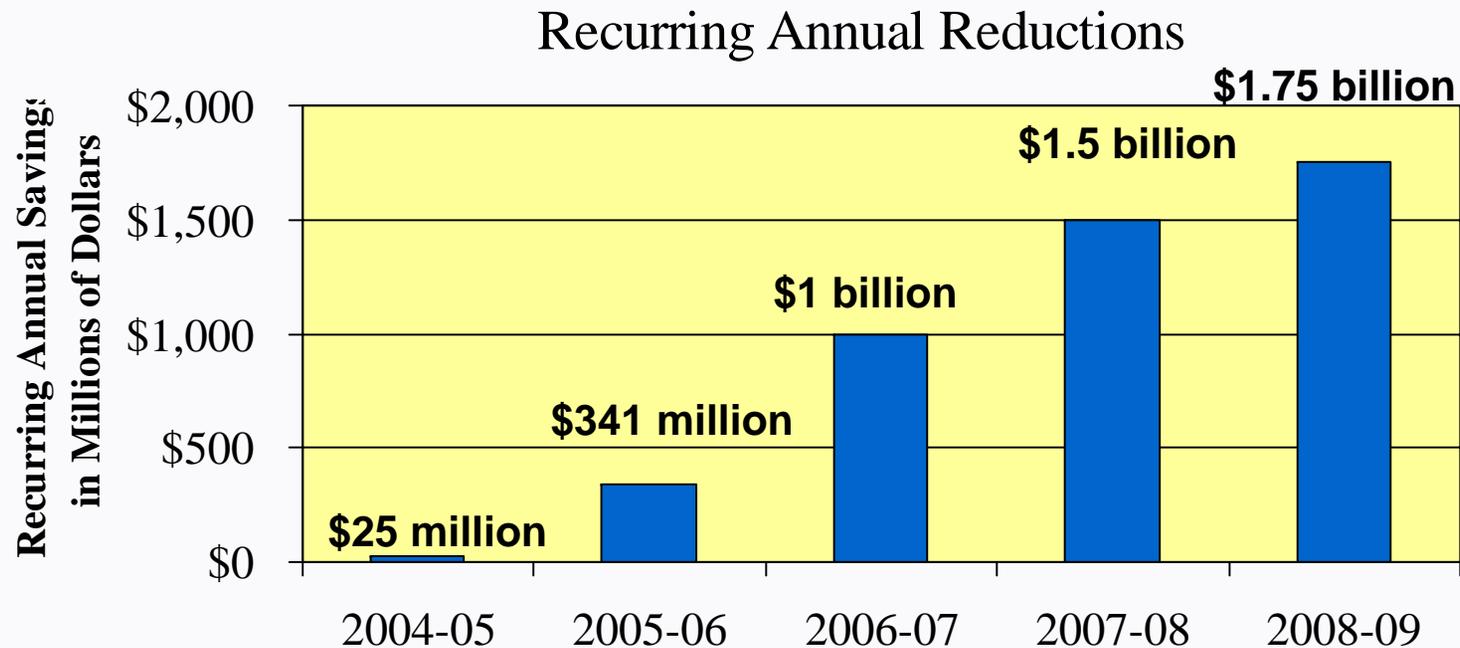
Examples of Making Government Work Smarter

Because it is the largest state agency, the Department of Public Welfare has been a major focus of the administration's management and productivity efforts. Other areas of focus have been reducing the size of the commonwealth's fleet and increasing revenues from the Liquor Control Board and the state Lottery.

- ✓ **Implementing a Preferred Drug List**
- ✓ **Developing the Strategic Sourcing Initiative**
- ✓ **Using Electronic Payments Instead of Paper Checks**
- ✓ **Eliminating Unused Phone Lines and Consolidating Warehouses**
- ✓ **Reducing Fleet Costs**
- ✓ **Controlling Construction Costs with Energy-Efficient Materials**
- ✓ **Increasing Liquor Control Board Revenue through the Consumer-Oriented Business Practices**

Management & Productivity Improvements Are Projected to Reach \$1.75 Billion in 2008-09

Governor Rendell pledged to cut the cost of government and improve the way the commonwealth works. In five years, by developing new business practices and focusing on innovation and efficiency throughout the government, the administration exceeded its projections and reached annual recurring savings of \$1.5 billion in 2007-08.



Management & Productivity Improvements

- 2007-08 recurring savings - **\$1.52 billion**
- 2008-09 recurring savings target - **\$1.75 billion**
- Significant projects in progress:
 - Data Powerhouse consolidation and contract restructuring will result in **savings of \$17 million** in 2008-09.
 - DGS strategic sourcing initiative remains a consistent source of savings – anticipated **savings of \$313 million** in 2008-09.
 - Changes to the Retired Employee Health Plan will save **\$94 million** in 2008-09.
 - DPW's creation of two separate managed care contracts for federal and state-only recipients will generate **savings of \$61 million** in 2008-09.
 - Changes to pharmacy reimbursements and the Department of Aging's preferred drug list will result in **\$158 million** in federal funding that would otherwise be paid by the commonwealth.

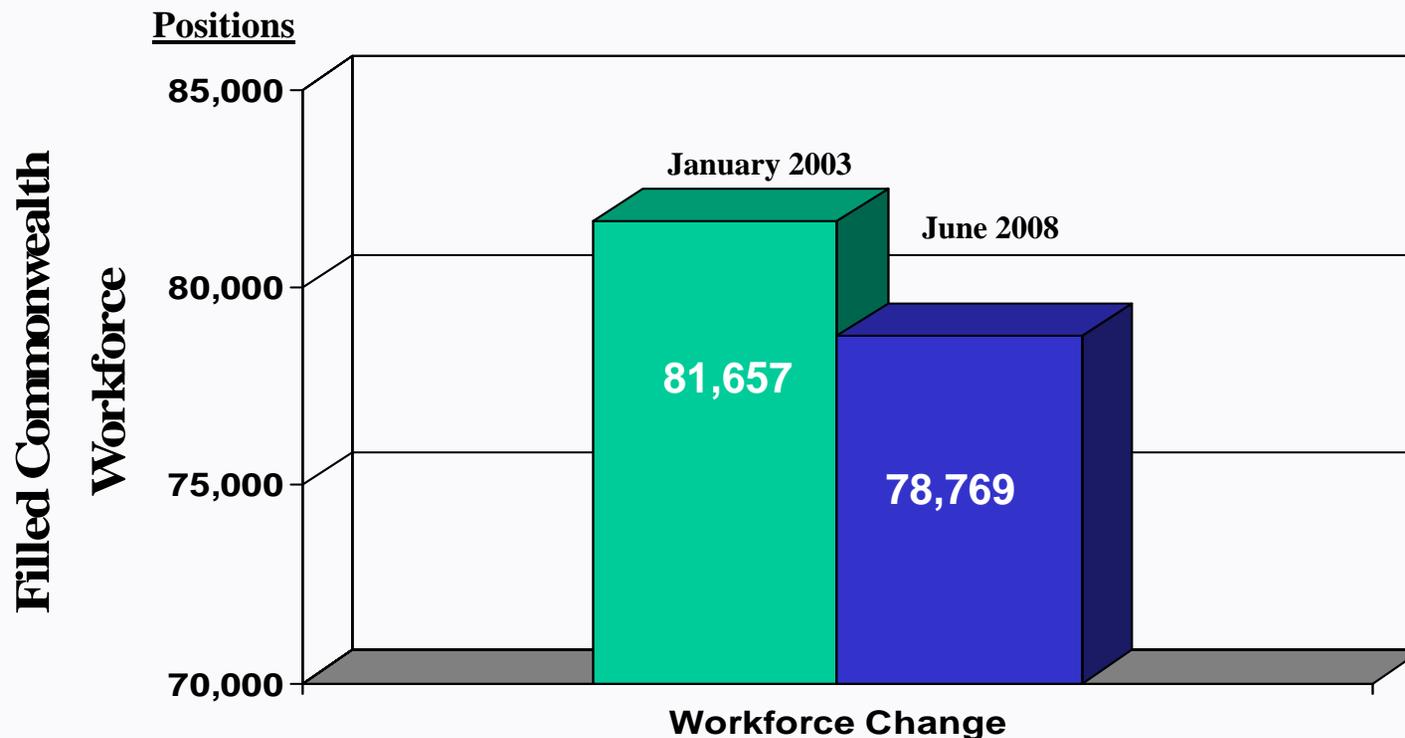
Health Care Management for State Employees

The commonwealth, through the Pennsylvania Employees Benefit Trust Fund, has successfully managed the increased cost of health care while maintaining a high quality of care. The cost of providing health benefits to employees has increased at an average annual rate of less than three percent over the last five years.

- Health plan redesign
- "Get Healthy" wellness and disease management programs
- Aggressive renegotiation of all major contracts
- Increased compliance audits for validation of eligibility for medical and prescription coverage
- Ongoing task force to continue to seek savings

Percentage Change in Filled Complement 2002-03 vs. 2007-08

Between January of 2003 and June of 2008, commonwealth agencies under the Governor's jurisdiction reduced the commonwealth's filled workforce by 3.5 percent or 2,888 positions. Further, a general hiring freeze was implemented in September 2008.



Post-Enactment Developments

National Economic Downturn Hits State Budgets

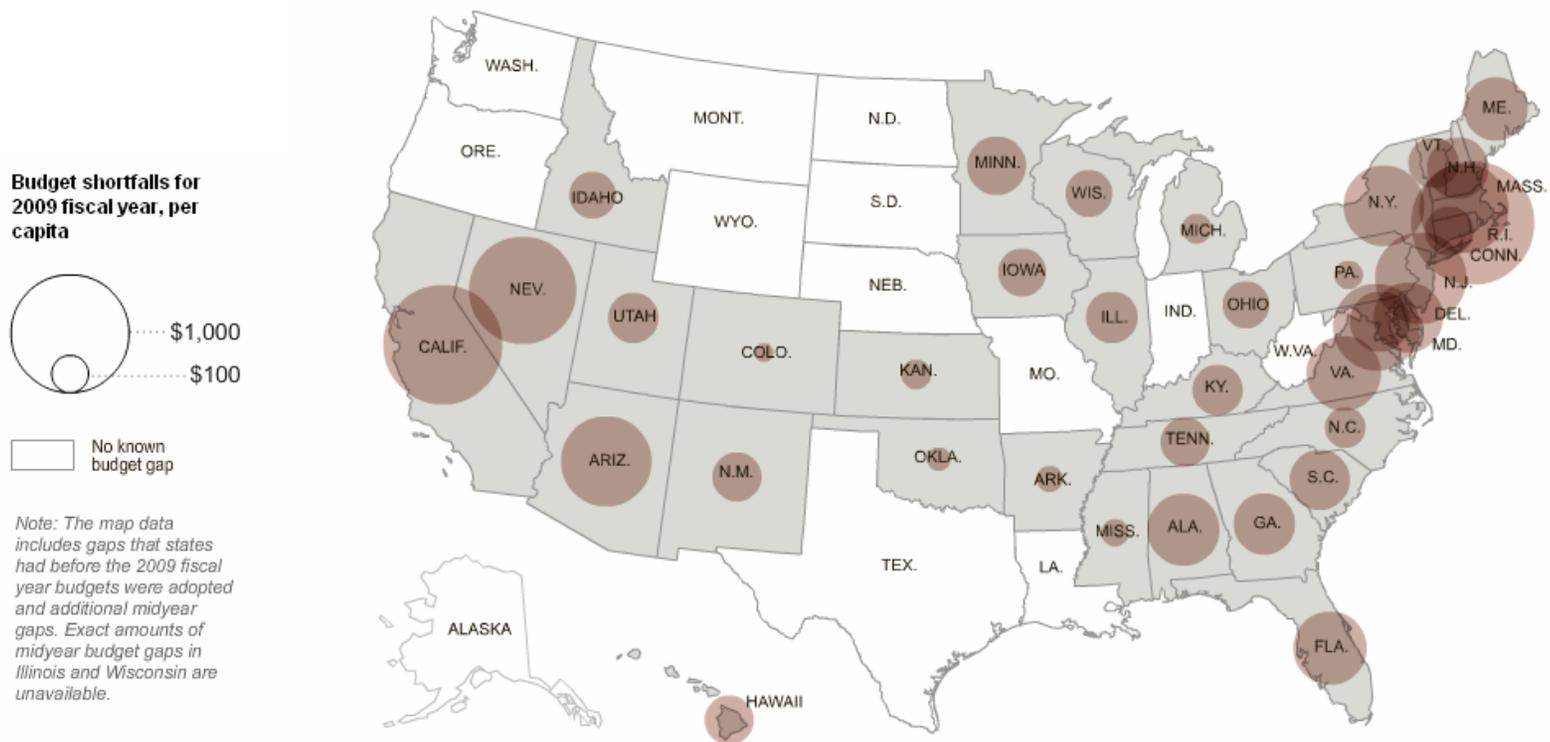
“A majority of states – many with budgets already full of deep cuts and dependent on raiding rainy-day funds or tax increases – are scrambling to find ways to get through the rest of the year without hacking apart vital services or raising taxes.”

News Story: “Facing Deficits, States Get Out Sharper Knives”

The New York Times, November 17, 2008

Edward G. Rendell, Governor ▪ Mary A. Soderberg, Secretary of the Budget

37 States Currently Facing Budget Shortfalls



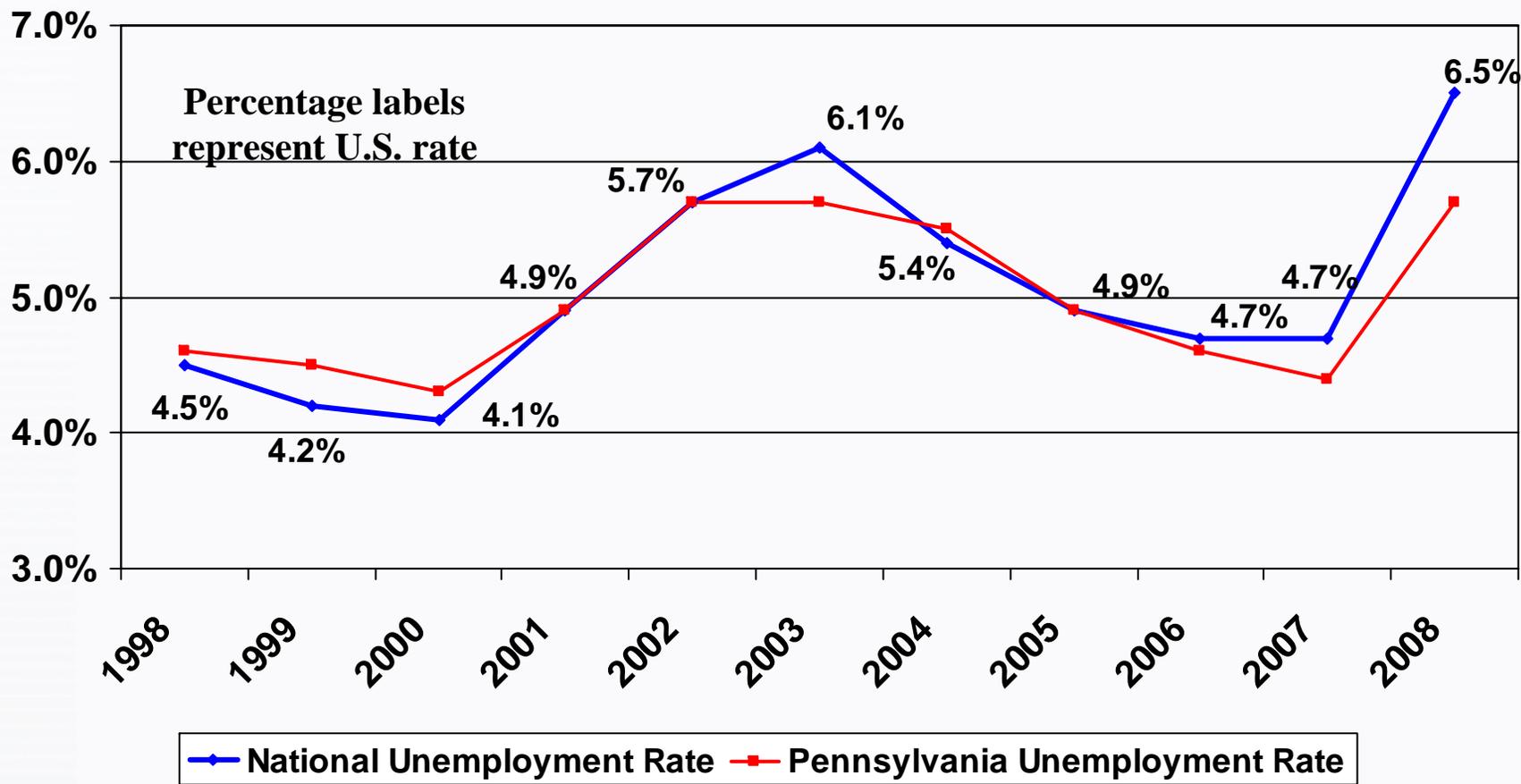
Map from *The New York Times*, November 17, 2008

Sources: Center on Budget and Policy Priorities; Rockefeller Institute

Haeyoun Park/The New York Times

Edward G. Rendell, Governor • Mary A. Soderberg, Secretary of the Budget

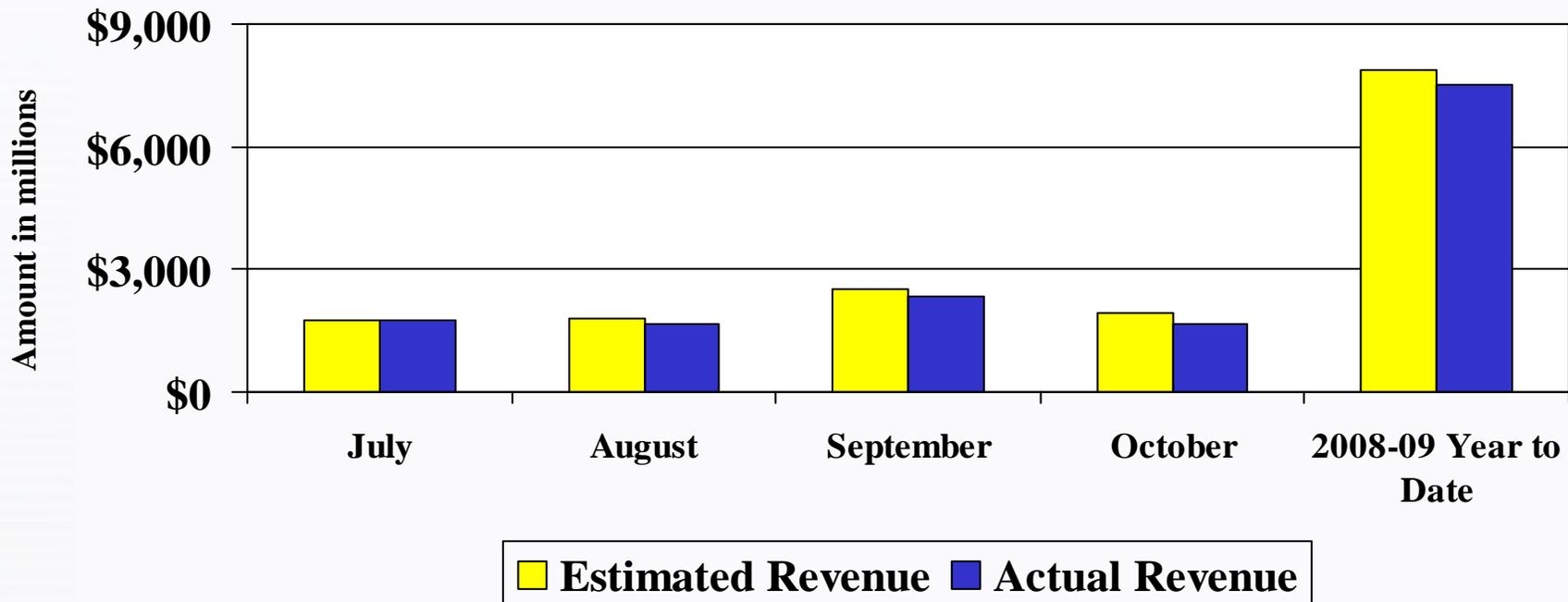
National and State Unemployment Rates at Five-Year Highs



2008 rates represent most recent data: October 2008 for U.S. rate and September 2008 for PA rate (5.7%). October PA rate to be released November 20, 2008.

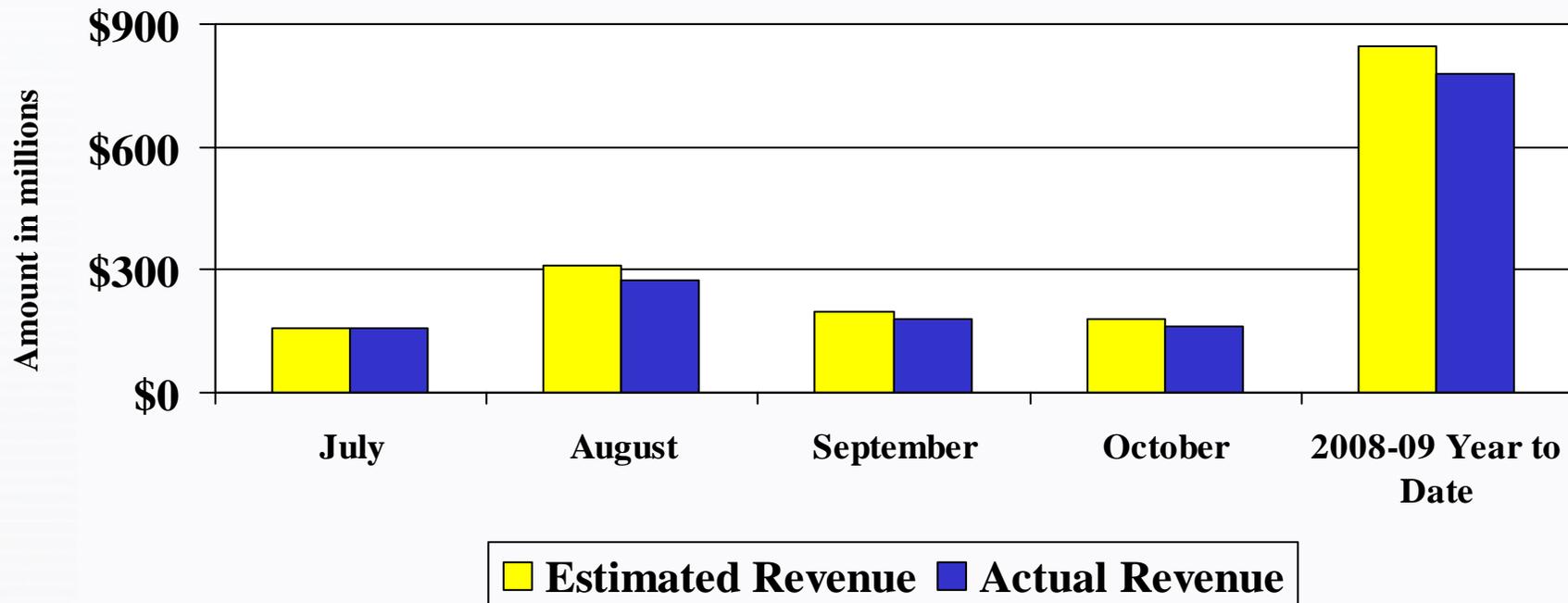
2008-09 General Fund Revenues *Estimated versus Actual Revenue Collections*

In the first four months of 2008-09, revenue collections were \$564.8 million, or 7.1 percent, lower than estimated.



2008-09 Motor License Fund Revenues *Estimated versus Actual Revenue Collections*

In the first four months of 2008-09, revenue collections were \$69.2 million, or 8.2 percent, lower than estimated.



Budgetary Freeze

On September 16th Governor Rendell directed commonwealth agencies to freeze portions of their discretionary budgets in order to put \$200 million of General Funds and \$40 million of Motor License Funds in budgetary reserve.

- \$311 million in cuts (4.25 percent of discretionary spending) were implemented on October 30th
- Motor License Fund - \$40 million cut
- \$39 million more in cuts can be achieved if the independent agencies follow the Governor's approach to cutting 4.25 percent of discretionary spending.

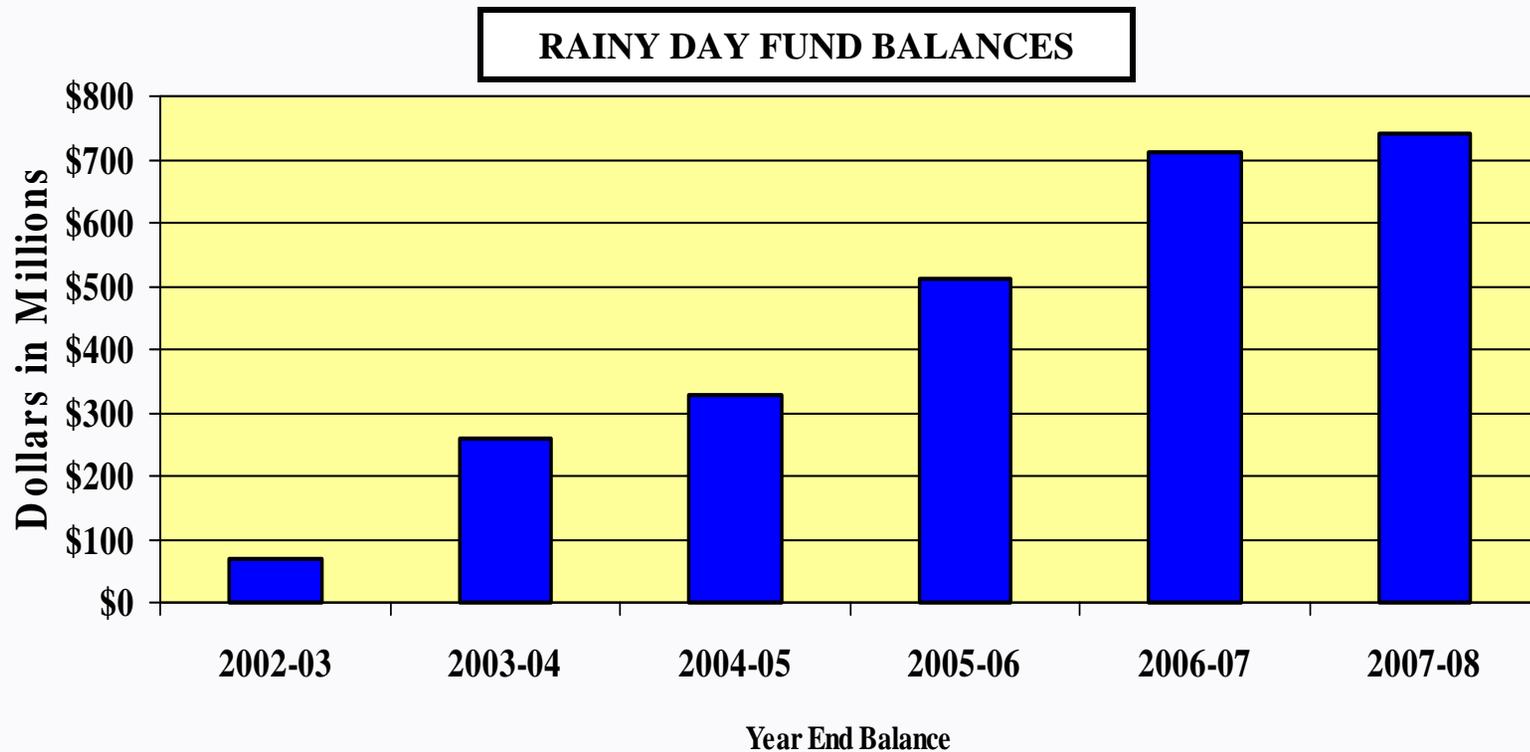
Administrative Actions

In addition to directing agencies to reduce their spending, the Governor also announced the following administrative actions:

- Implementation of a general hiring freeze
- Elimination of out-of-state travel
- A ban on the purchase of new vehicles

Status of Pennsylvania's Rainy Day Fund

Through disciplined budget administration, the Rendell administration has been able to increase the balance in the Rainy Day Fund from \$70 million in 2002-03 to more than \$748 million today – a more than ten-fold increase.



Challenges in 2008-09 and Beyond

- Economic downturn
- Health care cost inflation
- Projected increase in pension costs in 2012-13
- Critical infrastructure needs
- An aging population