



Executive Budget Address, Fiscal Year 2009-2010
Edward G. Rendell, Governor
February 4, 2009

Good morning. I am pleased to be with you today to present my proposed FY2009-2010 state budget.

But before we do so, let us take a moment to pay tribute to the Pittsburgh Steelers, who refused to lose this year's Super Bowl and whose thrilling last-minute victory incontrovertibly established them as the premier franchise in the history of the National Football League. I also note that the Steelers helped exact a measure of revenge for our once-beloved Pottsville Maroons, who in 1925 were robbed of their rightful NFL championship by the then-Chicago Cardinals.

Each year as we gather to begin the budget process, I stress that crafting the budget is the single most important thing that we do for our fellow citizens. It's the fundamental task of governing: setting priorities, making choices that are often difficult but necessary, and allocating resources to keep moving Pennsylvania forward.

This year, however, the FY2009-2010 budget presents challenges the likes of which Pennsylvania and the nation have not seen since the Great Depression. The worst economic crisis of our lifetime has dramatically re-ordered priorities in Washington, in Harrisburg, and most importantly, around the kitchen tables in homes all across our Commonwealth, where families are asking themselves questions that were unthinkable just six months ago:

What happens next? Will I keep my job? Seventy-six thousand, two hundred Pennsylvanians lost their jobs last year. That's more people than live in the city of Bethlehem. They are asking themselves: Will I be able to find a new job now? How will I pay my mortgage, or heat my home? How will I pay for my children's college? What happens if I get sick? How will we survive?

For far too many of our fellow citizens, what has happened in the last year has shaken their faith in our economic system, because they're losing their grip on their own piece of the American dream.

Here in Harrisburg, we have engaged in rigorous debate over the last six years about the priorities that we set in the budget. We have made tremendous progress on many issues, and we've fought hard on others. It hasn't always been easy, and it hasn't always been pretty.

But the truth is, our work together has put us in a position to weather this economic storm far better than most. Since 2003, we have invested more than \$3.2 billion in an unprecedented effort to stimulate Pennsylvania's economy, attracting at least \$8.6 billion in new private capital investment. It has paid enormous dividends with the retention and creation of 288,000 jobs throughout the Commonwealth, and its 2,800 projects have helped businesses across the state survive and thrive. It's remarkable that just a few short years after we started our economic stimulus program, IBM Business Consulting Services recognized Pennsylvania as the number one destination for new projects and named the Commonwealth as the top location for manufacturing projects in all of North America, surpassing the powerhouse sunbelt states. We wisely directed state funds to fix our bridges, dams, and highways, and - thanks to Growing Greener II - we invested to protect our dams and water systems and to preserve and enhance our open space so that our children and their children can enjoy Pennsylvania's natural treasures for years to come.

These and other strategic investments in our future - including the additional \$2.7 billion we have spent on public education since 2003, so that our children will be able to compete for better jobs and brighter futures - were made at the same time that we began the hard work of putting our own financial house in order. Today, nearly 30 percent more of our students are on grade level than just six years ago, and we are one of only nine states in the nation that has made significant progress in elementary school reading and math.

At the same time, since 2003 we have greatly reduced the cost of operating our state government. In The Department of Public Welfare alone fiscal discipline, performance based contracting and mandated efficiencies will have generated \$5 billion in savings by end of next fiscal year. Overall by the end of next year, due to new business practices and cuts to wasteful spending we will have reduced the cost of operating the government by \$1.75 billion annually, and have eliminated more than 4,700 government positions. To date we have not had to impose any state layoffs to reduce our complement. In the last six months, to address the current year deficit which we project could be as high as \$2.3 billion, we cut spending by a half-billion dollars, tapped our unspent funds, suspended raises for all management and non-union employees and before the end of this year I have directed that our state fleet shrink by 1,000 cars. Let there be no doubt: Here in Pennsylvania, we are learning to "do more with less." As a result of these measures, the cost of administering the state government next year will be the same as it was in the FY 2002-2003 budget. When adjusted for inflation, we will be spending 18% less on administrative expenses than we did six years ago - a reduction almost unrivaled across the nation.

Notwithstanding all of these efforts, we are now faced with the worst recession since the Great Depression. We are not alone. All across America, states are struggling to close gaping holes in their budgets - a cumulative deficit of \$200 billion over the next two years. Many states have deficits that are far worse than the one we face in Pennsylvania. In New York state, for example, the deficit is \$14 billion and climbing - a staggering total that is equivalent to half of Pennsylvania's *entire General Fund budget*.

Yet even this figure pales in comparison to California, which faces a projected deficit of \$41 billion over the next 18 months - or 58 percent larger than our entire General Fund budget!

In Massachusetts, the deficit is projected at \$3.1 billion, Ohio faces a deficit of \$3.5 billion, and our New Jersey neighbors project a deficit of \$4 billion. These are numbers that radically change the game for state governments all across the nation. They are forcing every state to find new revenues, increase cost-containment strategies and enact massive cuts across the board, even in many of the safety net programs that we have thus far been able to protect in Pennsylvania.

For example, while nursing home, medical care and most other critical social service providers have been held harmless in the budget I am submitting today, in California my friend and colleague Governor Schwarzenegger has proposed a 10 percent cut in all payments to hospital, nursing home and managed care providers. New York is considering a \$256 million cut in payments to nursing homes and a cut of a half-billion dollars for their hospitals.

Many other states have followed suit, and in some cases they have had to make very painful decisions about which of their most vulnerable citizens they must abandon when it comes to providing the medical or social services that are the very fabric of the social safety net.

And that's in addition to a host of draconian cuts in other basic services. Massachusetts and Maryland have eliminated more than \$300 million in aid to counties and cities from their budgets, while in our budget we are doing all we can to hold our counties at level funding. In fact, I believe that we should do more to help cities and counties address the budget challenges they also face, and that's why I am proposing to give counties the ability to broaden their tax base by allowing them to impose a sales tax increase of up to one percent on top of the state sales tax and share 50% of those proceeds with our hard-pressed cities.

Several states, including Maryland, Ohio and New York, are cutting funding to local libraries at a much deeper level than the 2.3 percent cut that we are proposing in the FY2009-2010 budget. This cut follows the record high level of state funding for libraries in last year's budget, and it is far less drastic than the reductions being imposed in states across the nation.

And nearly every state with a budget deficit is cutting funds for higher education. New York will cut \$233 million from its state university system funding; Maryland cut community college funding by \$50 million; Indiana required its public colleges to cut spending by 4% and imposed even deeper cuts in state appropriations for these colleges. However, we recognize that the long-term growth of our economy is tied to the success of our students, and that our state institutions of higher learning are among Pennsylvania's largest employers. Therefore, the FY2009-2010 budget holds these schools to the same levels of funding that they currently receive. I am also proposing that

we *increase* funds for our community colleges, which serve as the training ground for Pennsylvanians seeking new skills to help them re-enter the job market.

While we may be in better shape than many other states, we should not for a moment underestimate the enormity of the challenge that we face this year. And I know that we can all agree on this much: We must address these challenges together, knowing that our fellow citizens need our help. We must act *now* to adopt a budget that recognizes the pain we all must share, provides critically needed emergency relief, and continues to make the strategic investments that can spell the difference between *productivity* and *panic* for Pennsylvanians all across our great Commonwealth.

Before we begin to look ahead, however, let us take a moment to honor those whose dedication to our freedom and our Commonwealth set an example for us all in 2008. First, let us remember as we gather here today, the many heroic Pennsylvanians who are on duty in the service of freedom in Iraq, Afghanistan, and throughout the world. Twenty-four of these courageous Pennsylvanians died this past year, and since 9/11, 217 Pennsylvanians have died in that dangerous corner of the world. We all strongly support our fellow citizens who serve in the military, and none more than the 4,177 members of the Pennsylvania National Guard's 56th Stryker Brigade and Air Guard who are currently deployed there, and the 2,000 more from the 28th Combat Aviation Brigade who are about to be deployed to Iraq. Since 9/11, 43 members of the Guard have lost their lives in freedom's cause, including five who perished in 2008. Tragically, Pennsylvania ranks first among the states for Guardsmen lost.

Their devotion to duty is an example for us all, and I ask you to keep these outstanding women and men, and their families, in your prayers.

I also ask that in addition to our veterans, we pause to remember two other Pennsylvania heroes who are no longer with us: Lt. Governor Catherine Baker Knoll, a kind, caring and generous public servant who was an inspiration to women across the state, died in November after a valiant struggle against cancer; and Sen. Jim Rhoades, our champion for public education who was killed in a tragic car accident last October. Both of these distinguished public servants left us far too soon, and I ask that we pause for a moment of silence to pay homage to all of these heroes - to our veterans, and to Lt. Governor Knoll and Sen. Rhoades.

As we begin the budget process, it is critically important for all of us to understand the magnitude of the problem. Ladies and gentlemen, despite all of the work that we have done together to squeeze every nickel of waste from the operation of government; despite the tremendous savings that we have identified in almost every department of state government, as well as the painful cuts to numerous state programs; and despite our dedicated work in making the kinds of strategic investments over the last six years that have left us in far better shape than many other states, we face a current projected budget deficit of \$2.3 billion as a direct result of the national economic recession.

It is a staggering number, and despite the fact that our problems are largely *not* of our own making, we nevertheless have to act *now* to put our financial house in order. Because if we fail to act, if we fail to make the difficult decisions to close the gap through cuts in spending and enhancements in our revenues, we run the risk of creating a deficit in the near future that would be truly *catastrophic* for the state budget and the citizens we serve.

We must confront our problems and the FY2009-2010 budget that I propose is designed to do just that. I want to start by telling you one thing this budget doesn't do. It does not require a tax increase on hard working Pennsylvania families. It does not require a personal income tax, state sales tax or any business tax increase. In fact, while I recognize that inequities still exist in our business tax system, I believe it is vital to protect the \$1.6 billion in business tax cuts that we have enacted since 2003. And that's why I propose to continue the phase-out of the Capital Stock and Franchise Tax for this year, which will boost our total business tax reductions to \$2 billion in the last six years. To raise these taxes at this time could cause a reduction in much-needed spending and business investment.

While this budget does not rely on any broad-based tax increases, it does require targeted revenue increases. First, I once again propose a tax on smokeless tobacco. Pennsylvania is the only state in the nation that does not tax chewing tobacco, snuff, or cigars, and our citizens overwhelmingly support a tax on smokeless tobacco, just as they strongly support increases in the state cigarette tax. Together, they will generate more than \$100 million in additional state revenues.

Pennsylvanians also believe that just like other resource-rich states such as Texas and Alaska, the minerals under our soil should be taxed when extracted. We have a Pennsylvania gold rush going on in the form of drilling for natural gas along what is known as the Marcellus Shale. Scientists now estimate that if we can extract just 10 percent of the natural gas that exists below ground in the Marcellus, it would be enough to supply the natural gas needs of the *entire United States* for two years. Experts believe that much of the most potentially productive portions of the Marcellus Formation exist right here in Pennsylvania.

Given the tremendous potential value of the Marcellus Shale, the FY2009-2010 budget proposes to impose a tax on this natural gas extraction in the same exact manner as is used by our neighbor West Virginia. Some have suggested that exacting such a tax would hinder development of this important resource. However, I spoke personally with West Virginia Governor Manchin who told me that their approach did not inhibit gas extraction and that it is continuing at a record pace, and it's reaping critically needed revenues so the state can provide services to its citizens.

To help close our deficit this year and next year we will need to tap some of our Rainy Day reserves. The Rainy Day Fund was created to help us bridge the gap when economic circumstances demand it, and without question these are the most extraordinary

economic circumstances in our lifetime. And I would point out that the budget leaves \$125 million in the Rainy Day Fund.

To reduce the deficit in the current year we are counting on the return of surpluses in the Legislature's own accounts. And, as I outlined in the Mid-Year Budget Update, it also requires a cut in current-year legislative spending by 4.25 percent. The Executive Branch has made these cuts, and the House Democrats informed me that they would do the same. As this budget makes clear, all of us in government must share the pain to close the deficit that we face. I was pleased to receive a letter last week from Lieutenant Governor Scarnati which said, "The legislative caucuses agreed that the final budget package must include a significant portion of the legislative account surpluses." I thank the Lieutenant Governor for his leadership and all of the caucuses for understanding this dilemma and sharing responsibility for addressing it. We are making progress in this regard, and we will need to continue to work together to bring this budget into balance.

To that end, many members of the Legislature have suggested looking at other revenue enhancement options. Just as I have also been open to discussions about cutting expenditures, I welcome any revenue enhancement proposals made by any member of the Legislature. Among some of the ideas that have been shared with me are, for example, amendments that close the enormous tax loopholes that exist for companies located outside the state who do business here. It has also been suggested that we enact an assessment on municipalities who rely on the State Police for their local policing needs. In the last year alone, 18 more municipalities have shifted their tax burden for policing to the state. These are good ideas and if the Legislature puts them or others on the table I will consider them.

To put the proposed budget in perspective, even with the revenue enhancements I propose, General Fund revenues are projected to shrink by \$193 million compared with this year. Keep in mind that our personal income, sales and corporate tax collections continue to fall each month and we expect that to continue for many, many months ahead. In fact, this budget is based on our projection that there will be negative growth in state revenues. To put this in context, our average growth in revenues over the last five years was 5.6 percent. After factoring in the budget relief we hope will accrue to Pennsylvania from the American Economic Recovery and Reinvestment Act, General Fund expenditures will be \$65 million less than what we are spending in the current year. We cannot get starry-eyed about the billions in federal relief that may come our way. This recession requires that we make the difficult decisions, even with federal funds, to end this year and next year in balance.

The budget I propose requires considerable sacrifice and pain, so that we can close the deficit and put our fiscal house in order, while at the same time continuing the kinds of strategic investments that strengthen Pennsylvania's economy for the long-term. As we have prepared the cuts on the expenditure side, we have been guided by our commitment to the following core budget principles: first, public safety must be preserved - we now have the highest authorized State Police complement in the

Commonwealth's history; second, we must and we will continue to provide as much support as possible to families who are the hardest hit, and particularly the thousands of Pennsylvania working families who are struggling to hold on; and third, we will continue to make strategic, affordable investments that will stimulate our economy and provide new jobs and opportunities for our fellow citizens.

Expenditures in the budget I propose decrease by point two percent - let me repeat that, in the budget I am proposing, General Fund expenditures decrease by point two percent. In large part this reduction is due to the relief we hope to receive from the federal stimulus package. In assessing our expenditures, it is important that everyone understand that increases are often driven by mandates that cannot be altered in the budget process and we do not control. By federal law, we must pay for increases in health care spending in our programs that provide care to children, seniors and vulnerable families. Our prison population continues to grow in spite of our best efforts to expand alternative sentencing. Clearly this increases Corrections spending, since our collective bargaining agreements mandate a ratio of staff to prisoners so that we run our prisons safely. Our general union agreements include pay increases next year. This obligation alone adds \$92 million to our expenditures.

All of this demands that we enact a series of painful reductions in services, and in some cases we must eliminate programs altogether. To be sure, some are programs that produce very little value for our citizens and should be cut. Others involve services that simply fall outside the purview of state government. And still others may be programs that have a laudable goal but simply have not achieved those goals, or even if they have, when balanced against the needs of those who have lost their jobs and homes, cannot continue to be funded. In specific cases, with programs like libraries or the critically needed drug and alcohol programs, my intention is to restore funding as soon as our economy recovers and state revenues improve. But in other cases, I want to be clear that the cuts will be permanent, because they are outside of the essential business of the state. That said, I fully recognize and regret the hardship that these cuts will cause, but we have no choice. The crisis demands that we make these cuts.

The FY2009-2010 budget cuts or eliminates funding across 89% of the line items in the budget. Specifically, I propose to cut \$395 million in spending by completely eliminating 20 percent of the 500 line items under the control of the Executive Branch. As I said, in some cases we are cutting terrific programs that we can perhaps restore when the economy recovers, but we just cannot afford them today. One such example is one of my favorite programs, the Governor's Schools of Excellence, a terrific week-long series of academic enrichment forums offered by the Department of Education to students from all over Pennsylvania. Great, great program, but we simply cannot afford to fund it this summer. Another is Pennsylvania Housing Finance Agency funding to upgrade child care centers. We simply don't have the money for this worthy program right now.

Other cuts will be permanent, such as those involving programs whose goals may be laudable, but which fall outside the core functions of state government. One such example is the Scotland School. It is operated by the Department of Military and

Veterans Affairs at a cost to taxpayers of \$45,000 per student. The Scotland School was founded so that the orphans of the Civil War could receive a free public school education. Many states did the same, but those schools are long since closed. The fact is, none of the students in the school are orphans of veterans, and only seven have parents who are currently deployed. There is no question that other viable options exist for the Scotland School students. And by closing this school we free up \$1.4 million in state funds to expand services to veterans across the Commonwealth. Consequently, I am proposing that we eliminate funding for the continued state operation of this institution.

In addition to the elimination of 101 lines, we have proposed reductions in 346 other budget lines that total \$582.2 million for the FY2009-2010. Another 54 expenditure lines do not increase at all, meaning that the programs they represent are simply funded at current levels. Together, the collapsing economy has forced us to make almost a billion dollars in budget cuts.

For every position where I can impose a wage freeze, I have stopped salary increases for this year and next. But more must be done to contain employee wage growth in these tough times. That is why we are currently negotiating with leaders of our state unions to reach agreement on ways to meet our fiscal challenges with the lowest possible number of layoffs.

Painful as they may be, with these cuts we can meet our commitments to public safety, maintain the essential elements of our social safety net, and provide for continued support of public education.

And while the cuts that I propose reflect the extraordinary circumstances brought on by the national recession, the FY2009-2010 budget also requires us to continue to find ways to improve the government's productivity even as we reduce the cost of its operations. This budget puts our long term living services under the umbrella of one agency, our newly named Department of Aging and Long Term Living. This shift will improve services to Pennsylvanians -streamline paperwork for providers and improve businesses practices to make it possible to expand our aging and disabled services.

As you know, safety net services and services for the aging and disabled are the biggest cost drivers in the budget. In fact, since 2003, the cost of providing services to meet the needs of our elderly and disabled citizens has increased 276%. Without question, these are the fastest-growing expenditures in our budget. We have managed the welfare caseload exceptionally well - before the economic collapse, Pennsylvania's welfare caseload was at an all-time low, and the number of welfare recipients working was at an all-time high. Our efforts to eliminate those who seek to defraud us from our food stamp rolls were once again hailed by the federal government with our third four-million dollar bonus for this good work. We have ceased payments to hospitals for surgeries that never should have been performed, and we continue to lead the nation with the innovative pay-for-performance system that is significantly boosting the wellness of the children and adults served by our managed care companies. While growth in demand is unstoppable, growth in cost is under our control. That is why this year I am proposing

the Smart Pharmacy program to make sure that the Commonwealth can fully benefit from discounts due the state for prescription drugs for Medicaid recipients.

It is abundantly clear that any fair examination of the facts compels the conclusion that the Department of Public Welfare is committed to doing all in its power to manage ever-escalating costs and demands for service, particularly during the recession. In fact, had we not changed the management practices we inherited when I took office in 2003, spending on public welfare programs would have increased by \$1.2 billion next year. Instead, in the FY2009-2010 budget we have instituted cost controls and imposed cuts totaling nearly \$800 million in DPW spending.

The economic crisis that we confront forces us to consider good ideas from every possible source. There is no corner on the marketplace of ideas when it comes to saving taxpayer dollars and improving the productivity and responsiveness of government. For example, I want to take this opportunity to publicly thank the members of the Sustainable Water Infrastructure Task Force for their invaluable work in recommending a series of legislative measures to improve the efficiency and management of our drinking and waste water systems. I urge you to seriously consider and enact their proposals.

I also call on the Legislature to enact two other initiatives that will improve the level of services we deliver to the public, while also dramatically reducing the cost of government. Pennsylvania is home to 2,566 local governments that employed upwards of 400,000 people in 2008. At this rate, government is far and away the largest employer in Pennsylvania. Yet common sense dictates that the cost of providing local government services can be significantly reduced if local communities join forces to share a host of administrative or even police or fire services - all without surrendering their individual identities and the features that make them unique. I urge you to enact the recommendations of our State Planning Board, which would accelerate local community mergers where it makes sense to do so.

Almost everyone agrees that Pennsylvania has far too many school districts. This means there is an ever-increasing pressure to raise local property taxes. I propose to address this pressing issue in three ways: First, there is no question that the best way to relieve the pressure of local property taxes is to continue to demand accountability and grow state funding for public education. In the last six years, working together, we have made tremendous strides in this regard, committing more than \$2.7 billion in additional state funding to our public schools. Prior to the market collapse, I had anticipated proposing an additional \$418 million for our public schools in FY2009-2010, so that we could continue to achieve the goal of closing the "adequacy gap" in education funding set forth in the Costing-Out Study that was prepared for the General Assembly last year.

Sadly, we can no longer afford this level of increase, though the need for this funding is no less compelling than before. But even in these difficult times, we must not lose sight of the fact that every additional dollar we allocate to public education will benefit our children even as it helps relieve the burden of local property taxes. For these reasons, the FY2009-2010 budget includes \$300 million to help contain local property

tax increases and pay for the very public school activities that have proven so effective in the last six years. I am hopeful that when the American Economic Recovery and Reinvestment Act passes it will include the extraordinary temporary support for schools outlined in the House passed version of this bill. If that were to happen, I would urge us to agree to put this \$300 million state funding increase into a lockbox so that when the federal funds expire in two years we can ensure that our school districts continue on the path toward full adequacy funding.

Secondly, last session, the House Education Committee passed terrific legislation which would consolidate health care benefits for all school employees in the state. I am a strong proponent of moving in this direction because this bill will save taxpayers hundreds of millions of dollars and dramatically slow the rise in annual health care costs. I urge the chambers to act quickly to pass a bill that accomplishes this goal.

Third, full-scale school consolidation provides a very effective way to relieve the local property tax burden all across Pennsylvania. There is nothing sacrosanct about the need to maintain 500 separate schools districts across the state - each with its own staggering, and growing, administrative costs. In Maryland, for example, they have just 24 districts, all at the county level, and Maryland enjoys student achievement levels that are among the highest in the nation. And for the record, consolidation is not a new idea in Pennsylvania. Consider that in 1955, there were 2,700 separate school districts. At that point, the Legislature authorized consolidations statewide, and within two years the number of separate districts fell to 1,900. Five years later, in 1962, the number of separate school districts fell to 600, and as of July there will be 500 school districts statewide.

We just don't need that many school districts, and more importantly, in today's economy we cannot afford them. Let's be clear: We all agree that small schools are important, but reducing the number of *districts* doesn't automatically mean bigger schools. Fewer districts *does* mean that we can spread the local share of public education costs across a wider population, and *that* means reducing the pressure on local property taxes. For this reason, I am proposing in the FY2009-2010 budget that we establish funds for the creation of a legislative commission to study how best to right-size our local school districts. I ask that you charge this commission with the responsibility of reporting back, within one year, a set of recommendations for the Legislature's approval that sets forth an optimal number of local districts and a plan with specific timelines for adjusting our boundaries to meet the optimal size.

I challenge this commission to develop a plan that includes no more than 100 local districts statewide. We need to stop spending our taxpayers' funds on redundant administrative costs and put those funds in the classrooms where they truly belong. If we can succeed in right-sizing our school districts, we can generate a major new source of funding that will benefit our students and Pennsylvania taxpayers all across the Commonwealth.

Finally, while we are on the subject of schools, we must enter the league of states that have clear laws in place that hold superintendents and principals accountable for boosting student achievement. We also need strong laws that require fundamental change when schools or districts fail to improve year after year. And we need to direct our school boards to focus their valuable volunteer time to wisely guide district improvement. I look forward to engaging in an energetic discussion focused on accountability, governance and student outcomes in the year ahead.

Improving school performance and reducing the pressure on local property taxes is an essential part of the work that we must undertake this year. But now more than ever, as we cope with the economic recession, we must do even more to help families weather these tough times.

One of the highest priorities in this regard must be to help working families confront the impact of expiring caps on electricity rates. At some point in the next 24 months, most Pennsylvania families will experience sticker shock when they open their electric bills. Even though some electricity rate increases may be lower than projected, these increases will arrive in the midst of the recession, and make no mistake: they will swamp families that are already having a very hard time keeping their heads above water. For this reason, we must work together to mandate a phase-in of the rate increases over three or four years, so that Pennsylvania ratepayers don't get hit with the full cost of these increases all at once.

We must also take action to address once and for all an issue that ranks among the greatest failures in our nation's history. Across America, more than 45 million people have no health care at all. Here in Pennsylvania, a stunning one million people cannot go to the doctor, because they have no health insurance. Since 2000, more than half a million Pennsylvanians have been dropped by their employer-sponsored health care. That trend is getting worse. The evidence of this is in the swelled numbers on Pennsylvania's Adult Basic waiting list - 183,000 people, up from 90,000 just two years ago. The failure to reach agreement on providing health care for the uninsured is both a political failure and a moral outrage. I recognize that the prospects for expanded health care certainly have not improved in the current economic climate. I also know that some members of the Legislature wonder why we should take action to expand health insurance if the Obama Administration is going to propose federal legislation that solves this problem. I have complete confidence that President Obama will do just that. But I have spoken with high-ranking members of the Administration and they point out that even if a universal health care bill is passed by the end of this year, rolling out such a program nationally will take two to three years. I know that each and every one of us in this chamber cares about this pressing problem, and all of us care enough to want to do something about it. My plan is to at least double those enrolled in expanded Adult Basic care and it includes a sunset of the program after four years - making it clear that our expansion is a state bridge to health care until the federal program is up and running.

The ranks of the uninsured cut across a broad spectrum of Pennsylvania's population, reaching into rural, urban, and suburban communities throughout the

Commonwealth. We cannot and must not turn our backs on the uninsured in these tough times. And we can no longer tolerate a state health insurance program that does not cover prescription drugs. At a minimum, we must work together to double the number of adults we insure and provide them with a common-sense health insurance plan that pays for doctor visits and the medicine they need to stay healthy.

The FY2009-2010 budget does not rely on federal stimulus funds to expand access to health care. Instead, covering prescription drugs for all Adult Basic enrollees makes it possible for the Commonwealth to tap traditional federal Medicaid matching funds for this program. It makes no sense from a health care perspective to have an insurance plan that exempts medications and it makes no sense to leave this federal money on the table.

I am also pleased to report that the malpractice reforms put in place by the General Assembly and the Supreme Court in the last several years have worked, and as a result the cost of malpractice insurance has been flat, and in some case even dropped, for the fourth year in a row. The members of this body and the Court deserve the thanks of a grateful citizenry for their outstanding work to address the malpractice crisis. And because of this success, the Commonwealth is now positioned to use a portion of the revenues from the 2003 cigarette tax increase to provide access to health care for at least 50,000 more Pennsylvania adults. In addition, we have sufficient funds in our Health Care Provider Retention Account, if combined with a slight increase in our tobacco taxes, to pay off the huge accumulated malpractice debt in the MCARE program. It is patently unfair that young doctors today are paying for the malpractice claims of doctors that came before them. We should relieve Pennsylvania physicians of the obligation to pay the MCARE debt.

The extensive list of new savings, targeted revenue enhancements, and admittedly painful budget cuts allow us to chart a course that will stabilize our finances now and achieve fiscal stability in the years to come.

To this point, I have not discussed in detail the level of new federal funding that we anticipate as Pennsylvania's share of the long-awaited and critically needed economic recovery plan that has been put forth by President Obama. As one conservative economist wrote, "The economy is shutting down." To his great credit, the President recognizes that the federal government must lead the recovery by injecting a massive stimulus into the economy. Respected economists of every ideological stripe agree that it is the only choice for our economic recovery. Without it, we simply don't have a chance.

I applaud the President's leadership in driving America's economic recovery. It is the right path for our country and our Commonwealth, and we most certainly appreciate the hand that Washington is likely to provide, because we need it desperately to address each of the areas it targets.

But I also want to caution us all against assuming that the federal stimulus funds provide an easy way to balance the FY2009-2010 budget. To those who believe that

these funds somehow resolve the crisis we face, I urge you to think again. The stimulus money comes with definite requirements about how it is spent, and more importantly, it will carry with it the requirement that the funds be spent over the next two or three years.

If the federal recovery package passes in its current form, the bulk of the funds will flow to the state by allowing us to bill the federal government for up to \$4 billion in state Medicaid costs over a three-year period. The federal law is prescriptive and limits the amount of federal funds that we can draw down in each of the three years. Based on the federal language, we could charge the federal government for approximately \$1.1 billion in Medicaid costs in the current year to help us close our \$2.3 billion current year deficit. In the next fiscal year, that number rises to \$1.9 billion in Medicaid expenditures, and then, in FY2010-2011, the number would drop to \$1 billion.

The more flexible State Fiscal Stabilization Fund of the federal Recovery Act is shown in our budget documents as funding our Corrections costs. In fact, by putting federal funds toward these costs, we free up precious General Fund dollars to hold our counties harmless from most cuts, protect our higher education institutions from any further erosion of state funds, and make it possible for the Commonwealth to continue to make a significant contribution toward the budgets of the non-profit institutions considered "non-preferred" appropriations in our state budget.

So let me say again, there are limits to the stimulus package. I am hopeful, for example, that the final bill will also include new temporary increases in federal funds that will go directly to the school districts. Because if it does not, there will not be enough money for a variety of general and special education purposes, not to mention the pressing capital needs for modernizing our schools, including our colleges and universities.

But by any measure, the federal stimulus package is terrific news for Pennsylvania if it happens. But reading the details of the stimulus bill also compels two very important cautionary conclusions: First, even if we could choose to use the federal stimulus funds to balance the state budget, and the law says that we cannot, these funds do nothing to allay the certain disaster that awaits us in the future if we fail to take the necessary steps to close the revenue gap that exists in the state budget today. The federal stimulus funds go away in three short years, and they do not make our budget deficit disappear; on the contrary, the money just puts off the day of reckoning. And the longer we wait to put our own house in order, the greater the deficit will grow - especially if our economic recovery takes longer than the estimated three or four years the experts are currently predicting. But, secondly there is increasing pressure in the U.S. Senate to reduce the size of the package passed by the U.S. House. If the final bill has less funds going to states than we anticipate, we must together shoulder the burden of making deeper and even more painful cuts in our current and next year's budgets.

While I am certain that it is our obligation as stewards of the public trust to follow this course, I am also *convinced* that the crisis we face provides extraordinary opportunity for our Commonwealth. Ladies and gentlemen, if we get this right, we can chart a course

that ensures our long-term fiscal stability AND propels a remarkable Pennsylvania recovery.

How we get there demands, as I have outlined thus far, that we all share some short-term pain. But even in the face of this extraordinary economic crisis, we must continue to focus on our future. We must continue to make the kinds of strategic investments that have carried us this far.

Economists from all around the world agree that it is critically important to invest in programs that help our economy. Even the ultra-conservative Martin Feldstein, who served as Ronald Reagan's Chairman of the Council of Economic Advisors and as a principal economic advisor to John McCain, has said: "Another round of one-time tax rebates won't do the job. . . . The only way to prevent a deepening recession will be a temporary program of increased government spending."

I agree with that advice. Here in Pennsylvania, the key to recovery lies in putting our citizens back to work through continued infrastructure investments, including the ongoing efforts to repair our bridges, roads and mass transit systems, improve our water quality and delivery systems, and expand our rail freight capacity.

Your efforts last year will make it possible for as much as \$1.2 billion to flow into repair and construction projects that update our water and waste water systems. Pennvest and the Commonwealth Finance Authority are reviewing projects as we speak. These water projects are exactly the type of stimulus activity we need because they repair our assets, put our citizens to work and produce much-needed orders for Pennsylvania factories.

As you know, last year I proposed that we embark on a five-year, \$1 billion program to accelerate the number of bridges repaired in our state. The number of structurally deficient bridges is staggering - nearly 6,000 in all - and it is important to the public safety that they be repaired.

Moreover, this task represents a great opportunity to put our citizens to work. I am proud to report that, in the first year of this program, we exceeded the goal we set for bridge repairs for this fiscal year. Our proposed capital budget supports the continuation of the bridge repair program by allocating \$200 million for the FY2009-2010. I want to be clear that these funds are in addition to the federal stimulus funds, estimated at \$1 billion over the next two years for bridge and road repair and other infrastructure projects in Pennsylvania. While that is certainly a lot of money, the reality is that Pennsylvania maintains 39,872 miles of road, as well as 25,300 state-owned bridges. Together, federal stimulus funds, our traditional federal highway funds and the additional state funds I propose we invest will allow us to repair over 5,000 miles of roads and 450 bridges, while putting 84,000 Pennsylvanians to work. Given the absence of construction in the private sector, I am confident that we can put the State and Federal road and bridge funds to work, and put Pennsylvanians to work, in short order.

The Rail Transportation Assistance Capital Bond Program, which increased last year from \$20 million to \$30 million, is also paying dividends in the effort to stimulate our economy. In December, 20 grants were announced for infrastructure repairs in 18 counties across the Commonwealth, funding another 950 jobs in the process.

Pennsylvania literally sits at the crossroads of dramatic rail freight expansions planned by CSX and Norfolk Southern. Together these powerhouse companies will spend more than \$2.7 billion to improve their capacity to move more goods through our state and provide permanent good-paying jobs to more than 2,000 Pennsylvanians. CSX is building new capacity to transport goods from America's Southeastern ports to the Midwest. Norfolk Southern is expanding its ability to do the same from the South to the New York ports. If we make these investments Pennsylvania will be the only state in the nation that has border to border clearance for double stacked containers for the three major freight rail companies - Norfolk Southern, CSX and Canadian Pacific. The budget I propose includes a \$27 million investment to ensure the impressive job-creating opportunities from these projects happen in Pennsylvania.

This budget also doubles the state capital investment in projects at the Pennsylvania State System of Higher Education, as well as continuing our annual commitment of \$100 million in funding for important campus projects at the University of Pittsburgh, Penn State University, Lincoln University, and Temple University. Our economy depends on the vitality of our higher education institutions. It is critical that we move forward with these capital projects.

Public sector driven capital investment is clearly the best option we have these days for keeping Pennsylvanians employed. But it is imperative that we begin to unlock private capital and get the private economy moving again. The stimulus package we passed in 2003 had many effective programs that grew our economy, but some of the smaller pools of funds in the program have proven unnecessary. In this budget, I propose that we redirect those funds to expand the enormously successful Business in our Sites program by \$60 million, create a \$100 million working capital loan guarantee program and increase the funds available to water and other infrastructure improvements needed for business growth by \$40 million. In addition, the budget I propose adds \$10 million to the very successful Infrastructure and Facilities Improvement Program to help our businesses grow. All of these state investments leverage private sector funds for business operation, expansion and site upgrades. By putting more state funds on the table, companies will need less private financing, and as a result new projects can become more viable. We cannot let the state of the credit markets shut down our economy. I believe, as I did when I proposed the stimulus in 2003, that these funds will make it possible for Pennsylvania companies to weather this recession and hopefully come out of it even more competitive than they are today.

Last year you also enacted legislation that will spark new private investment and grow our alternative energy sector. Last week the bipartisan partnership of Senator Erickson and Representatives Vitali and Ross called for ambitious, needed and achievable improvements to the Alternative Energy Portfolio Standards enacted in 2004.

What is especially impressive in their work is their dual focus on increasing the use of solar and other renewable energy sources and greater speed in the application of technologies that will reduce greenhouse gas emission from energy generation. I applaud their proposal and believe that if passed, it will stimulate further job creation in the Commonwealth in a sector that holds real promise for decades ahead.

In addition to improving our AEPS, we need to advance our progress toward energy independence by enacting a Pennsylvania Green Building Code as some municipalities and California have done. Buildings account for 40 percent of our energy use; they consume 72 percent of our electricity, emit 38 percent of our CO2 emissions, and use 13.6 percent of our water. We can do this, and if we do, household and business heating, cooling and water costs will drop. More building products will rely on recycled materials and as a result less building waste will take up space in our landfills. And, by requiring that buildings use only sustainably harvested timber, we ensure that our forests are around for future generations to enjoy and rely on. If we are going to become energy independent and reduce greenhouse gas emissions, we need to push the envelope on conservation. A Green Building Code does exactly that. It's good for Pennsylvania's economy, and it's good for Pennsylvania.

Here in Pennsylvania, we must target those investments that continue to improve the ability of our fellow citizens to compete in the global economy. That means continuing to make investments that produce better-educated workers, for example. And that should come as no surprise, given the way that the recession is impacting our workforce. Education is the best defense against recession. While it is true that people from all walks of life have been impacted in these tough times, it is also a fact that college graduates are faring much better than anyone else in today's job market. How much better is a real eye-opener, and it provides a lesson for us all. In December, the unemployment rate for college graduates was 3.7 percent, compared with 8.4 percent for those without college degrees. In reporting this trend, the Associated Press said: "The reason is simple: A degree usually leads to higher-paying, more stable jobs. And if that job goes away, a highly educated worker can always take a step down the career ladder. When they do lose jobs, they tend to find work more quickly than others. Their wages are higher, and they typically have enough savings to survive between jobs. Yes, it still pays to get a college degree."

Getting that degree, and being qualified to enter the working world, makes all the difference in our economy. And when it comes to helping young people get there, we learned from the State Board of Education hearings, we are simply not doing enough to provide students and the families that support them with the means to complete their college degrees.

Tom Friedman, the Pulitzer Prize-winning author and New York Times columnist, recently summarized the problem as follows: "Even before the current financial crisis, we were already in a deep competitive hole — a long period in which too many people were making money from money, or money from flipping houses or

hamburgers, and too few people were making money by making new stuff, with hard-earned science, math, biology and engineering skills.

"The financial crisis just made the hole deeper, which is why our stimulus needs to be both big and smart, both financially and educationally stimulating. It needs to be able to produce not only more shovel-ready jobs and shovel-ready workers, but more Google-ready jobs and Windows-ready and knowledge-ready workers. If we spend \$1 trillion on a stimulus and just get better highways and bridges — and not a new Google, Apple, Intel or Microsoft — your kids will thank you for making it so much easier for them to commute to the unemployment office ..."

Just as we propose to stimulate the economy by investing in shovel-ready public works projects that rebuild our infrastructure of roads, bridges, dams, streets, schools and seaports, so too must we invest in the all-important intellectual infrastructure that is every bit as necessary to the future growth of our economy.

Investment in higher education may be the single most important thing we can do to grow our economy over the long term, and it is unquestionably one of the best ways to prevent, or at least limit, the impact of any recession in the future.

We must act now to help students and families survive the economic crisis that threatens to overwhelm them. Let's remember that for years, based in no small part on the advice of legions of experts, Pennsylvania families dutifully scrimped and saved money for their children's college funds, investing heavily in the 529 college tuition programs that were touted as the best way to pay for college tuition.

Today, after having done as they were told, families are discovering that almost overnight, the value of some of those plans have dropped dramatically. Suddenly, families who were counting on those funds find themselves out of luck, and very nearly out of hope. Add to that the growing jobless rate and the urgent need to pay for health care, and you get some idea of the economic tide that threatens to overwhelm thousands and thousands of our fellow citizens. Pennsylvania families are today wrestling with a gut-wrenching question: Can we still afford to send our children to college?

Government's job is to help, and in this case, our job must be to provide a lifeline to families that will permit their children to have the chance to go to college, earn a degree, and help them compete for quality jobs in the global marketplace. In helping them we help ourselves and our Commonwealth. It is the right thing to do, and more importantly, it is the thing to do right now.

I propose to help these Pennsylvanians with the announcement of two major initiatives aimed at making it easier for families to afford college. First, I am proposing to restore the cuts to student grants that will occur next year caused by reductions in the PHEAA education grant programs. This budget includes \$35 million in funds to restore the PHEAA cutbacks. In addition, the budget includes a \$15 million increase in funding for enrollment at community colleges across the state. This initiative alone will make it

possible for 10,000 more students to receive grants to study in our community colleges next fall.

Next, the FY2009-2010 budget includes a provision known as the Pennsylvania Tuition Relief Act, which will provide critically needed college tuition assistance to Pennsylvania families earning less than \$100,000 a year.

Here's how it works: All students who qualify and seek to attend public or community colleges will pay what they can afford in accordance with established financial aid practices. Every family will pay at least \$1,000 a year for each child in college. This is not a proposal for a free ride. For families with incomes under \$100,000, students could obtain as much as \$7,600 in relief for tuition, fees, room and board. These payments will greatly enhance the ability to fund a public or community college education. And in helping these students, we are investing in a brighter future for ourselves as well.

The critics will carp that we are spending when we should be cutting, and that Pennsylvania cannot afford to provide tuition relief. But the truth is we can't afford NOT to provide this relief. Through no fault of their own, families who trusted that they could save for their children's college education have seen those funds decimated. And if we don't offer them a helping hand, we will reap the whirlwind of a future in which our citizens cannot compete for the high-tech and other quality jobs that demand a college education. We have to help them, and we have to do it now.

To pay for this program, I propose today that the Commonwealth enact legislation to legalize video poker and tax its proceeds. As you know, video poker has long been a popular, though illegal, form of entertainment in private clubs and bars across the state. There are an estimated 17,000 video poker machines in operation today. By any measure, video poker is a thriving business in Pennsylvania, and it is completely unregulated and untaxed. Several other states have acted to wrest control of this activity from the underground, shadowy sponsors who otherwise run it. In Oregon, the state's decision to regulate video poker has generated more than \$400 million annually in state tax revenues, which help run Oregon's acclaimed public school system. In neighboring West Virginia, regulation of video poker has generated \$150 million annually, which is also directed to public education.

Despite what some might think, I do not view the legalization of video poker as the first step in an attempt to expand gaming in Pennsylvania. I remain opposed to any such expansion, and I have said so publicly many times. But we are not talking about an expansion, because video poker already exists and is thriving here. Rather, what I propose is to take control of this industry, so that we can remove unscrupulous operators, establish strict new regulations and tough penalties for those who fail to obey the law, and generate needed revenues that can fully fund the Tuition Relief Act. At a time when families desperately need to find a way to reclaim their children's college education, I challenge anyone to justify why we should deny this relief to our fellow citizens.

In his first Inaugural Address, President Bill Clinton said: "**There is nothing wrong with America that cannot be cured by what is right with America.**" The very same view holds true for Pennsylvania. Many Pennsylvanians are doing the right thing to help others even in these difficult times. Here are a few examples of Pennsylvanians who are doing it right:

Last December the Dunmore Oilers PeeWee Football team showed us that in some ways this recession can bring out the best in us. Instead of spending their championship winnings on trophies, these young athletes used that money to buy Christmas hats, gloves, coats and toys for local families who couldn't buy presents for their own children. These times demand selflessness and I want to thank these young football players for doing what they can to help our hard-hit families. With us today is the great Junior Football team and their terrific coach Pat Reese.

As the ranks of the unemployed swelled in the Lehigh Valley, Dr. Art Scott, the visionary president of Northampton Community College, realized that his empty seats could be the ticket to a new job for hundreds of his fellow citizens. He opened the doors of the college for free and today 250 unemployed workers are preparing for their next job. Dr. Scott, your great idea set an example that is spreading across the state. Thank you for using Northampton Community College as a vehicle to help hard-hit Pennsylvanians get back on their feet.

Without a team, without an institution, and without any money, Michele Cogley is finding a way to help. Michele was laid off from the airline industry. She turned to her local Career Link in Kittanning for help. She quickly realized that she had more marketable skills than most of the other job seekers. While looking for a job, Michele regularly volunteered at the Career Link to teach computer skills to others who were unemployed. Michele, you are a true inspiration to each of us. You are proof positive that each of us can help a fellow Pennsylvanian get back on track.

In August 2008, Albert Boscov saw the chain of stores that bear his family name - the stores that were his life's work - declare bankruptcy. As the business world waited for the death knell to sound for this Reading-based retailer, an amazing thing happened. At age 79, Al Boscov decided to come out of retirement and fight for the future of the stores and the 5,000 Pennsylvanians they employ. In December, at a time when many corporate CEOs were taking hugely lucrative golden parachutes and leaving companies where their decisions caused thousands of working people to lose their jobs, the Boscov family invested more than \$50 million of their own money to take an enormous financial risk to buy the chain out of bankruptcy. Today, Al Boscov is working in partnership with the Commonwealth and local governments to secure the recovery of Boscov's in the midst of the recession.

In approving the sale, the U.S. Bankruptcy Court Judge had this to say: "This is really a testament to the purchaser.... In these dark economic times, the family has indicated that it has faith in the future." And that faith appears to be paying off: last week, Boscov's reported that it enjoyed the best December in the company's history.

The courage that Al Boscov and his family have shown, as well as their abiding faith that there are better days ahead, demonstrates the kind of commitment that will lead our economic recovery. Al Boscov is with us this morning, and I ask that he stand and be recognized for his extraordinary commitment to Pennsylvania.

These examples inspire us all, showing us once again that no matter how dire the crisis, no matter how formidable the challenge, we as Pennsylvanians persevere. They also remind us to hold dear the things that really count: faith, family, and community. These are the values that will sustain us in the difficult days ahead. Let us go forward to do the hard work that must be done to build a better future for our families and our Commonwealth, secure in the knowledge that, as President Obama said on Inauguration Day: "The challenges we face are real. They are serious and they are many. They will not be met easily or in a short span of time. But know this, America - they will be met."

We can all pledge the same thing for our beloved Commonwealth. For every single one of us in this hall today, Republican or Democrat, urban or rural, young or old, this is our moment. How we respond to this crisis will define us for years to come, because for years to come they will look back on these days to determine whether, when we were faced with the great challenge of our time, we acted to repair the damage by putting Pennsylvanians back to work; whether we helped to keep families afloat in the turbulent seas of this recession; and most of all, whether our actions provided hope for a brighter tomorrow.

May God bless the Commonwealth of Pennsylvania and the United States of America.