2006-07 Governor’s Budget Briefing
February 8, 2006

Edward G. Rendell
Governor
Education: $601 million, or 6 percent, increase in funding for educational programs

Historic level of investment in PA libraries - $75.5M

Cover All Kids: affordable health insurance coverage for all uninsured Pennsylvania children

PACE Plus Medicare: Prescription drug coverage for an additional 120,000 seniors

Jonas Salk Legacy Fund: $500 million investment to accelerate bioscience research in Pennsylvania

World Trade PA: $15M to increase Pennsylvania’s competitiveness worldwide

An additional $130 million to continue improvements to Pennsylvania’s highways and bridges

90 additional state troopers to support public safety.
No new taxes or tax increases

More than $221 million in new business tax cuts, for a cumulative total of $1 billion during the Rendell administration

- **Capital Stock and Franchise Tax** – accelerates the phase-out by one-tenth of a mill ($18.3 million) to lower the rate to 4.89 mills, a total savings of $204 million

- **Research and Development Tax Credit** – $40 million, an increase of $10 million

- **Net Operating Loss** carry-forward – $7.3 million, by increasing the cap from $2 million to $3 million

Holds the line on administrative spending – zero increase

Re-invests savings realized through innovation and efficiencies in government operations, with $841 million in annual savings in 2005-06, $1 billion in 2006-07

Brings the total reduction in the Commonwealth’s authorized complement to 4,000 positions since January 2003.
2005-06 Supplemental
# 2005-06 Supplemental Appropriations

<table>
<thead>
<tr>
<th>Agency/Program</th>
<th>Amount (in Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pennsylvania Housing Finance Agency</strong></td>
<td></td>
</tr>
<tr>
<td>Homeowners Emergency Mortgage Assistance</td>
<td>$ 3,000</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td></td>
</tr>
<tr>
<td>Special Education Approved Private Schools</td>
<td>$ 1,330</td>
</tr>
<tr>
<td><strong>Pennsylvania Emergency Management Agency</strong></td>
<td></td>
</tr>
<tr>
<td>July 2003 Storm Relief</td>
<td>$ 75</td>
</tr>
<tr>
<td>Volunteer Company Grants</td>
<td>$ 25,000</td>
</tr>
<tr>
<td><strong>Public Welfare</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$ 168,014</td>
</tr>
</tbody>
</table>

*Mental Health Services ~ $3.6 million decrease due to increased federal funds*

*Cash Grants ~ $44.4 million increase due to increased utilization and cost*

*Supplemental Grants ~ $3.5 million decrease due to lower utilization*

*Capitation ~ $10.2 million increase due to higher cost.*

*Long-Term Care ~ $127.9 million increase due to increased utilization and cost*

*Intermediate Care Facilities ~ $7.5 million decrease due to reduced need*

**Total Supplemental Appropriations**                                         $ 197,419

## Previously Enacted Funding

**Law Enforcement and Emergency Response Personnel**                          | $ 1,632               |
| Death Benefits                                                               |                       |
| Low-Income Home Energy Assistance                                            | $ 19,300              |
2006-07
Budget Overview
2006-07 Total Operating Budget

General Fund $25.4 Billion
Federal Funds $16.9 Billion
Motor License Fund $2.5 Billion
Tobacco Settlement Fund $0.4 Billion
Lottery Fund $1.4 Billion
Augmentations & Fees $1.8 Billion
All Other Funds $5.8 Billion

The total Fiscal Year 2006-07 operating budget, including all Commonwealth funds, is $54.2 billion. The General Fund represents 47 percent of this amount.
2006-07 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.
The proposed General Fund budget increases State spending by $924 million, or 3.8 percent. Removing increases for education, welfare and debt service, the budget proposes a 2.5 percent decrease in funding for all other Commonwealth agencies and programs.
Growth in 2006-07 Expenditures

If increases of more than $1 billion for Public Welfare, Education and Debt Service are removed for 2006-07, all other expenditures actually decline by 2.5 percent relative to the 2005-06 budget.
The 2006-07 budget increases spending by 3.8 percent compared to the 2005-06 budget. That rate is lower than the average annual growth in the Commonwealth budget from 1996-97 to 2005-06.
## 2006-07 General Fund Financial Statement

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Available</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2004-05</strong></td>
<td>$ 77</td>
<td>$ 365</td>
<td>$ 204</td>
</tr>
<tr>
<td><strong>2005-06</strong></td>
<td>23,309</td>
<td>24,278</td>
<td>25,225</td>
</tr>
<tr>
<td><strong>2006-07</strong></td>
<td>97</td>
<td>120</td>
<td>. . .</td>
</tr>
<tr>
<td><strong>Funds Available</strong></td>
<td>$ 23,483</td>
<td>$ 24,763</td>
<td>$ 25,429</td>
</tr>
<tr>
<td><strong>Expenditures</strong></td>
<td>$ – 23,054</td>
<td>$ – 24,304</td>
<td>$ – 25,425</td>
</tr>
<tr>
<td><strong>Supplemental Appropriations</strong></td>
<td>. . .</td>
<td>-197</td>
<td>. . .</td>
</tr>
<tr>
<td><strong>Current Year Lapses</strong></td>
<td>. . .</td>
<td>10</td>
<td>. . .</td>
</tr>
<tr>
<td><strong>Preliminary Balance</strong></td>
<td>$ 429</td>
<td>272</td>
<td>$ 4</td>
</tr>
<tr>
<td><strong>Transfer To Rainy Day Fund</strong></td>
<td>-64</td>
<td>-68</td>
<td>– 1</td>
</tr>
<tr>
<td><strong>Ending Balance</strong></td>
<td>$ 365</td>
<td>$ 204</td>
<td>$ 3</td>
</tr>
</tbody>
</table>
Making Government Work Smarter

$1 Billion In Lower Costs for Government Administration
Governor Rendell pledged to cut the cost of government and change the way the Commonwealth works. The results of those efforts are impressive. In just three years, by developing new business practices and focusing on innovation and efficiency throughout the government, this administration has already generated recurring savings totaling $841 million, and is on target to meet Governor Rendell’s goal of reducing the cost of state government by $1 billion by 2006-07.
### Making Government Work Smarter

Because it is the largest state agency, the Department of Public Welfare has been the primary focus of the administration’s management and productivity efforts for the past year. Other areas of focus have been reducing the size of the Commonwealth’s fleet, the Get Healthy Initiative and revenue generation activities at the Liquor Control Board and State Lottery.

<table>
<thead>
<tr>
<th>Increasing Savings: Department of Public Welfare</th>
<th>Creating A More Efficient Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>✔ Pharmacy Savings ($51M)</td>
<td>✔ Reducing Fleet Costs ($33M)</td>
</tr>
<tr>
<td>✔ Pharmacy Reimbursements ($32M)</td>
<td>✔ Get Healthy Initiative ($18M)</td>
</tr>
<tr>
<td>✔ Collecting Money Owed from Private Insurance Companies ($16M)</td>
<td></td>
</tr>
<tr>
<td>✔ Fraudulent Claims Denied ($16M)</td>
<td>Generating New Revenues</td>
</tr>
<tr>
<td>✔ Using Electronic Payments Instead of Paper Checks ($2M)</td>
<td>✔ Revenue Increases from Consumer-Oriented Business Practices at the Liquor Control Board ($34M)</td>
</tr>
<tr>
<td></td>
<td>✔ Expanded Lottery Venues ($8M)</td>
</tr>
</tbody>
</table>
Between January 2003 and December 2005, the number of authorized positions has decreased from 86,125 to 84,385. The 2006-07 budget proposes an additional reduction of 2,272 positions. Since the beginning of the Rendell administration, the total number of authorized positions has decreased by 4,012 – or 4.7 percent.
2006-07 Budget Highlights
Education
Investing In Pennsylvania’s Future

The 2006-07 budget increases total State education funding by more than $601 million, or 6 percent. Since 2002-03, the Rendell Administration has boosted investments in education by $1.8 billion, or more than 20 percent.

- $224.6 million increase (5 percent) in Basic Education Funding - $4.7 billion in total. This increase continues the foundation-based funding supplement to help school districts where per-student spending is inadequate to deliver a quality education.

- $38.1 million increase (4 percent) in Special Education Funding - $991 million in total.

- $250 million, a $50 million increase, for the third year of the Accountability Block Grants. These grants help nearly 80,000 students benefit from pre-kindergarten, full-day kindergarten, reduced class size and tutoring.

- $45 million, a 50 percent increase in state funding for Head Start pre-kindergarten classrooms, to serve nearly 6,250 children.

- Job Ready PA: $66 million for tutoring in the most academically challenged school districts.

- Job Ready PA: $12.6 million increase for community colleges.
Transforming Pennsylvania’s High Schools

The 2006-07 budget provides more than $22 million in additional funding to increase the rigor of high school curricula and improve accountability and results.

• **Job Ready PA:** $7 million for dual enrollment programs that let high school students earn college credit while they complete their graduation requirements.

• **Job Ready PA:** $9 million to transform Pennsylvania’s high schools through **Project 720**, the state’s high school improvement initiative.

• Reinvigorating College and Career Counseling: $3 million for school districts to upgrade their career and counseling programs.

• Accountability for Results: $2 million to make school-leader accountability a reality through annual incentive bonuses for meeting targets for increasing student learning in math and reading.

• Improving Teacher Quality: $1.2 million to help 500 Pennsylvania teachers earn National Board certification.
Investing In Pennsylvania’s’s Future

The 2006-07 budget builds on Pennsylvania’s accomplishments over the last three years by recommending three new initiatives that will make Pennsylvania a leader in readying our students for the jobs of the future while giving our high-tech businesses the employees they need to thrive.

• $10 million - Science: It’s Elementary. Provides hands-on learning equipment and intensive teacher training to elementary schools that commit to upgrading their science curriculum. Makes every Pennsylvania student a scientist in the classroom and gives school districts access to a strategy that has been proven to lead not just the nation but also the world.

• $20 million - Classrooms for the Future. Makes every high school classroom in the Commonwealth a high-tech center of learning. Through a multi-year initiative, every high school classroom in the four core subjects will have an Internet-equipped laptop computer on each student desk and multi-media technology at the teacher’s fingertips.

• $4 million for technology professional development for Pennsylvania teachers and school leaders.

• $3.7 million - From the Classroom to the Board Room. Expands the New Economy Technology Scholarship Program to 500 more college students and raises the maximum annual grant to $4,000. The current program provides grants of up to $3,000 a year for three years to students pursuing college degrees in computers, math and science who commit to work in Pennsylvania after graduation.
Investing In Pennsylvania’s Future

Early Childhood Education Funding

Pennsylvania is moving from near-last among the 50 states to becoming a key investor in early childhood education. These investments will continue in 2006-07 – highlighted by a 50 percent increase in funding for Head Start expansion so that this proven program can serve nearly 6,250 children. According to Kids Count, a project of the Annie E. Casey Foundation, Pennsylvania’s ranking in the percent of 3 to 5 year-olds enrolled in nursery school, pre-school or kindergarten increased from 29th to 23rd from 2002 to 2004.

In 2005-06, with more than $135 million in state funding for Head Start, pre-K and full-day kindergarten…

• 318 school districts funded full-day kindergarten with the Accountability Block Grant,

• 40 school districts funded quality pre-kindergarten with the Accountability Block Grant, and

• 18,165 children benefited from K-3 class reduction size.
No Child Left Behind Reading & Math Targets

Pennsylvania has until 2014 to reach 100 percent proficiency in reading and math, as required by the federal No Child Left Behind standards. Our investment in proven educational programs must keep pace if Pennsylvania schools are to reach these achievement goals. These investments are already showing results. The number of fifth-graders meeting state standards in math has increased from 53 percent of our students in 2002 to 69 percent last year, and fifth-grade reading scores have increased from 57 percent to 64 percent during the same period. In addition, in a recent ranking of the percentage of proficient fourth grade reading students, Pennsylvania advanced from 13th in 2002 to 9th in 2005.

In 2003-04, nearly one-in-five Pennsylvania schools failed to make Adequate Yearly Progress as defined by No Child Left Behind, and the requirements will get even steeper beginning this Spring.
Higher Education in the 2006-07 Budget

Pennsylvania is making significant investments in higher education funding in the 2006-07 budget, increasing funding by 3.7 percent. According to a 2005-06 study by the College Board, Pennsylvania had the best national ranking for tuition at four-year public institutions.

5.0% increase for the **Community Colleges** ............................................. $ 264.7 M

4.5% operating increase for **State System of Higher Education** $ 483.0 M

4.0% operating increases for the **State-Related Universities**
- Penn State University ................................................................. $ 322.4 M
- University of Pittsburgh ........................................................... 163.1 M
- Temple University ...................................................................... 168.7 M
- Lincoln University ...................................................................... 13.5 M
- Total – State-Related Universities ............................................... $ 667.7 M

3.0% for **Non-State Related Universities and Colleges** .......... $ 87.5 M

4.9% increase for the **Pennsylvania Higher Education Assistance Agency’s** Grants to Students program ........ $ 386.2 M

119.4% for **SciTech Scholarships** .................................................. $ 6.8 M

Expansion of clinical education opportunities and student retention activities to address a projected **shortage of nurses** $ 10.0 M
Historic Level of Support for Public Libraries in the 2006-07 Budget

(amounts in thousands)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-96</td>
<td>$26,190</td>
</tr>
<tr>
<td>1996-97</td>
<td>$28,550</td>
</tr>
<tr>
<td>1997-98</td>
<td>$29,407</td>
</tr>
<tr>
<td>1998-99</td>
<td>$30,289</td>
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<tr>
<td>1999-00</td>
<td>$47,286</td>
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<tr>
<td>2000-01</td>
<td>$62,289</td>
</tr>
<tr>
<td>2001-02</td>
<td>$75,289</td>
</tr>
<tr>
<td>2002-03</td>
<td>$75,289</td>
</tr>
<tr>
<td>2003-04</td>
<td>$47,789</td>
</tr>
<tr>
<td>2004-05</td>
<td>$57,914</td>
</tr>
<tr>
<td>2005-06</td>
<td>$61,362</td>
</tr>
<tr>
<td><strong>2006-07</strong></td>
<td><strong>$75,500</strong></td>
</tr>
</tbody>
</table>

The 2006-07 budget recommends a 23 percent increase in the Public Library Subsidy – to $75.5 million. This will be the greatest amount ever appropriated by the Commonwealth in support of public libraries, enabling Pennsylvania to retain its rank as a national leader in state support of public libraries.
Caring for Pennsylvanians in Need
Cover All Kids

Although Pennsylvania has one of the highest rates of health care coverage for children in the country, a recent survey commissioned by the Insurance Department determined that 133,589 children in Pennsylvania remain uninsured. Some of these children already qualify for publicly funded health care coverage, including the Medical Assistance program and the Children’s Health Insurance Program (CHIP). Others are children of working parents who are caught between public programs they are not eligible for because of their parents’ income limits and private health insurance their parents cannot afford.
Cover All Kids will:

- Provide comprehensive health care coverage, including visits to doctors, hospitalization, prescription drugs, mental health and substance abuse services, vision, dental and home health care.

- Subsidize coverage for children in families whose annual income does not exceed 350 percent of the federal poverty level ($70,000 for a family of four). Family premiums will range, on average, between $23 and $32 per month per child.

- Offer at-cost coverage for children in families whose income exceeds 350 percent of poverty (on average, $143 per month per child).

- Begin January 1, 2007, assuming federal approval.
Cover All Kids will enroll nearly 15,000 uninsured children in 2006-07, growing to nearly 70,000 currently-uninsured children within five years. These increases will be achieved through enhanced outreach efforts, federally-approved increases in income eligibility for subsidized coverage and new opportunities for higher-income families to purchase health care coverage at cost.
Guiding Principles for Preserving and Reforming the Safety Net

- No changes will be made to the array of health services and social services provided to children.
- No one currently receiving health care services from the Commonwealth will lose their eligibility.
- Pennsylvania will be able to meet the increase in demand anticipated this coming year for services to low-income children, chronically ill adults, uninsured working families, disabled individuals, the infirm elderly and other Pennsylvanians in need.
Caring for All Pennsylvanians

Additional People Served in 2006-2007 (Projections)

Medical Assistance 49,671
Children in Child Welfare System 2,827
Children in Child Care 17,000
Community Mental Retardation Programs 885
Behavioral Health Community Programs 498
Children’s Health Insurance Program (CHIP) 17,118
  (Including Cover All Kids)
Uninsured Working Pennsylvanians (adultBasic) 8,575
PACE Plus Medicare 120,000
  Prescription Drug Coverage for Older Pennsylvanians
Caring for All Pennsylvanians

The 2006-07 budget recommends $97 million to increase services for children, adults and families in need. In addition, this budget proposes the statewide expansion of the Behavioral Health HealthChoices program, which will provide managed mental health and substance abuse services to more than 200,000 additional Medical Assistance recipients in 2006-07.

- $1.7 million to provide breast and cervical cancer screening for 4,209 additional low-income, high-risk women ages 40 to 49.

- $5.5 million to provide subsidized child care services to 1,861 additional low-income families – a total state investment of $107.7 million.

- $16 million to provide early intervention services for 5,174 additional children from birth through age five – a total state investment of $236.6 million.

- $6.3 million to allow more children to be adopted and to continue to provide financial assistance to those who have already been adopted – a total state investment of $55.2 million.

- $5.8 million to expand quality early learning experiences to 12,000 additional children through the Keystone STARS Program – a total investment of $32.4 million.
The 2006-07 budget recommends $97 million to increase services for children, adults and families in need. In addition, this budget proposes the statewide expansion of the Behavioral Health Choices program, which will provide managed mental health and substance abuse services to more than 200,000 additional Medical Assistance recipients in 2006-07.

- $28.3 million to provide child care services to 15,000 additional children in TANF and former TANF families who are moving from welfare to work – a total state investment of $155.5 million.

- $16.8 million to provide home and community-based services to 806 additional people with mental retardation and to address new federal requirements – a total state investment of $789.4 million.

- $16.7 million to provide subsidized health care insurance for 8,757 additional uninsured working adults – a total investment of $177.3 million.

- $16 million to provide early intervention services for 5,174 additional children from birth through age five – a total state investment of $236.6 million.
Improving the quality and availability of early childhood programs has been a priority for the Rendell administration, and affordable child care is an essential component of the Commonwealth’s efforts to move families from welfare to work. Since 2002-03, the number of children participating in subsidized child care has grown from 182,000 to 221,000 – an increase of more than 20 percent. In addition, the 2006-07 budget unifies the Commonwealth’s child care programs so that families have “one door” for all subsidized child care in their local communities.

Pennsylvania Children in Subsidized Child Care

- 2002-03: 182,000
- 2003-04: 195,000
- 2004-05: 208,000
- 2005-06: 215,000
- 2006-07: 221,000

TANF = Temporary Assistance to Needy Families
Former TANF
Low-Income

TANF = Temporary Assistance to Needy Families
The 2006-07 budget recommends $16.7 million in additional funding for the adultBasic program, which provides basic health care insurance for low-income working adults. This additional funding will provide health insurance to nearly 8,600 additional low-income working adults. Since the beginning of the Rendell administration, enrollment has grown from 34,171 adults to 50,146 adults – a 47 percent increase. Some of this increase is attributable to an agreement with Pennsylvania’s four Blue Cross/Blue Shield plans for an annual commitment of funds, totaling an estimated $1 billion over six years. This additional funding will provide affordable basic health care coverage for thousands of low-income and uninsured Pennsylvanians.
Medical Assistance
Medical Assistance in Pennsylvania

• Provides medical care for low-income individuals
  - Children, pregnant women, elderly & disabled
  - Currently serves over 1.9 million people

• Comprehensive benefit package
  - inpatient & outpatient services
  - long term care
  - prescription drugs
  - limited cost sharing

• PA provider network includes 68,000 providers

• Total annual expenditures exceed $14.2 Billion

• State administered but jointly funded with Federal and State & County funds
The Elderly Are the Fastest Growing Group in Pennsylvania’s Medical Assistance Program

The number of elderly MA recipients has been growing at the fastest rate over the past few years, fueling increases in Medicaid spending.
Seniors and People with Disabilities Use the Greatest Share of Medical Assistance Resources

Medical Assistance Recipients by Category and Cost

2006-07

- Elderly: 253,036 (13%), $4,683,859 (35%)
- Disabled: 380,880 (20%), $4,342,803 (33%)
- Families: 1,150,855 (61%), $3,236,356 (24%)
- Chronically Ill Adults: 104,440 (6%), $1,024,263 (8%)

(Dollar Amounts in Thousands)
Preserving and Modernizing the Safety Net

In order to preserve essential social welfare services in the face of ever-growing caseloads and escalating health care costs, the 2005-06 Public Welfare budget required the department to implement 21 cost-containment initiatives. The Department is successfully implementing these initiatives, which will generate more than $321 million in cost containment.

(Amounts in millions)

<table>
<thead>
<tr>
<th>Major Initiatives</th>
<th>Budgeted Savings</th>
<th>Year-to-Date</th>
<th>Projected Year-End Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced administrative costs and enhanced efficiencies</td>
<td>$88.8</td>
<td>$41.0</td>
<td>$98.6</td>
</tr>
<tr>
<td>Increased third-party liability collections and decreased fraud and abuse</td>
<td>$20.5</td>
<td>$18.2</td>
<td>$21.2</td>
</tr>
<tr>
<td>Preferred drug list and other pharmaceutical efficiencies</td>
<td>$82.1</td>
<td>$52.3</td>
<td>$82.1</td>
</tr>
<tr>
<td>Fee-for-service benefit package redesign</td>
<td>$24.2</td>
<td>$7.1</td>
<td>$24.2</td>
</tr>
<tr>
<td>Other initiatives (academic medical centers, loophole premium, unpaid medical expense deduction and MATP efficiencies)</td>
<td>$51.5</td>
<td>$13.8</td>
<td>$51.5</td>
</tr>
</tbody>
</table>
Increasing Efficiency and Integrity in the Medical Assistance Program

Building upon the reforms to the Commonwealth’s safety net initiated in last year’s budget, this budget proposes additional measures to increase the efficiency and integrity of the Medical Assistance program. These initiatives will result in savings of nearly $126 million, freeing up those funds to expand other programs that serve Pennsylvanians in need.

### 2006-07 Initiatives

<table>
<thead>
<tr>
<th>Initiative</th>
<th>State Savings (in Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementing Selective Contracting</td>
<td>$16.8</td>
</tr>
<tr>
<td>Improving Oversight of Hospital Utilization</td>
<td>$13.0</td>
</tr>
<tr>
<td>Enhancing Program Management: Prevention of Fraud/Abuse</td>
<td>$6.5</td>
</tr>
<tr>
<td>Enhancing Program Management: Third-Party Liability</td>
<td>$5.5</td>
</tr>
<tr>
<td>Seeking Federal Payments for Veterans in Nursing Facilities</td>
<td>$5.1</td>
</tr>
<tr>
<td>Expanding Federal Reimbursements for County Long-Term Care Costs</td>
<td>$10.0</td>
</tr>
<tr>
<td>Reforming Hospital Supplemental Payments</td>
<td>$68.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$125.7</strong></td>
</tr>
</tbody>
</table>
Medicaid is a National Problem

- Pennsylvania is not alone in its struggle to cope with growing costs for the Federal-State Medicaid program. Most states have experienced significant increases in caseloads and costs over the past several years.
- Recent trends suggest that caseload growth is beginning to slow.
- Evidence suggests that the states are doing a better job of managing their Medicaid health care costs than the private health care market.
- Even at slower rates of growth in caseloads and cost, Medicaid growth still exceeds state revenue growth.
- Cost containment and strong management of the Medicaid program will remain a necessity in 2006-07.
Per Capita Medicaid Spending Growth in the U.S. Compared to Growth in Private Health Spending, 2000 - 2003

Medicaid Spending Growth in the U.S. 1996 - 2006

Note: Estimates in State Fiscal Year. FY 2005 estimate based on states’ adopted FY 2006 budget.

SOURCE: KCMU analysis of CMS Form 54 Data and KCMU / HMA State Budget Survey
Percent Change in U.S. Medicaid Enrollment, FY 1998 – FY 2006

Annual growth rate:

-2.4%

0.6% 3.2% 8.1% 9.9% 5.7% 4.1% 4.0% 3.1%


Note: Percentage changes from June to June of each year.

SOURCE: Health Management Associates estimates based on information provided by state officials.
Advances in health care have made it possible for more people to live longer with chronic diseases and conditions. Many of these people need but cannot afford services to assist them in their daily lives. The Commonwealth provides these supports as well as health care services through the Department of Public Welfare’s Medical Assistance program.
Prescription Drug Coverage for Older Pennsylvanians
PACE Plus Medicare Prescription Drug Program

Integrating PACE/PACENET Benefits with Medicare Part D

Current estimates are that between 60,000 and 80,000 PACE enrollees became eligible for the Medicare Part D Low-Income Subsidy Program beginning January 1, 2006. The 2005-06 state budget assumes $87 million in PACE program savings from enrolling the lowest-income PACE recipients in the Medicare Prescription Drug Low-Income Subsidy Program, which offers a comprehensive benefit.

- On November 30, 2005, Governor Rendell and Secretary Leavitt of the U.S. Department of Health and Human Services announced that PACE and PACENET recipients eligible for the Medicare Part D Low-Income Subsidy Program should apply for federal low-income subsidy prescription drug benefits and continue to benefit from PACE/PACENET.

- The Department of Aging is working with the eligible PACE beneficiaries to ensure that they enroll in the Medicare Part D Low-Income Subsidy Program.

- The Department of Aging is working with the federal government on final approval of the prescription drug plans, thereby making it easier to direct PACE and PACENET enrollees to the Medicare prescription plan that best suits their needs.

- This budget assumes that 120,000 people who are eligible for but not currently enrolled in PACE and who do not have credible coverage will enroll in PACE Plus Medicare over the next 18 months.
Medicare Part D Prescription Drug Program

How the Standard Medicare Part D Program Works for Households with Incomes Greater Than 150% of Poverty

<table>
<thead>
<tr>
<th>Annual Prescription-drug spending</th>
<th>Out-of-pocket spending</th>
<th>Medicare drug benefit</th>
<th>Catastrophic benefit</th>
<th>Deductible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over $5,100</td>
<td>5%</td>
<td>95%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$2,250 - $5,100</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$250 - $2,250</td>
<td></td>
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</tr>
<tr>
<td>0 - $250</td>
<td></td>
<td></td>
<td></td>
<td>Up to $3,600 out-of-pocket spending</td>
</tr>
</tbody>
</table>

Medicare Part D plans may offer alternative options as long as they are actuarially equivalent.
# The PACE Plus Medicare Benefit

<table>
<thead>
<tr>
<th>Costs</th>
<th>PACE</th>
<th>PACENET</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The state will:</strong></td>
<td></td>
<td>The state will:</td>
</tr>
<tr>
<td>Co-payments</td>
<td>Pay co-pay differentials.</td>
<td>Pay co-pay differentials.</td>
</tr>
<tr>
<td>Premiums</td>
<td>Pay the cost of the annual premium.</td>
<td>Eliminate the $40 per month PACENET deductible and instead consumer will pay $30 per month Part D premium.</td>
</tr>
<tr>
<td>Gap Coverage</td>
<td>Cover the gap.</td>
<td>Cover the gap.</td>
</tr>
<tr>
<td>Drug Coverage</td>
<td>Pay for all Part D drugs, plus those excluded under federal law.</td>
<td>Pay for all Part D drugs, plus those excluded under federal law.</td>
</tr>
<tr>
<td>Network</td>
<td>Recommend which Part D plan is best based on individual pharmaceutical and health needs.</td>
<td>Recommend which Part D plan is best based on individual pharmaceutical and health needs.</td>
</tr>
<tr>
<td>Pharmacy Payment</td>
<td>Pay the same as the federal government plus a $4 dispensing fee for the pharmacy.</td>
<td>Pay the same as the federal government plus a $4 dispensing fee for the pharmacy.</td>
</tr>
</tbody>
</table>
The 2006-07 budget provides funding to extend PACE coverage to an additional 120,000 seniors who are currently eligible for but not enrolled in PACE/PACENET, assisting them with coverage gaps in the federal Medicare prescription drug program. PACE enrollment has already increased by 110,000 seniors since 2002-03.
Long Term Living
Providing Consumers With Long-Term Living Choices

In the fall of 2005, Governor Rendell established the Long-Term Living Council to develop plans for the future of Medical Assistance long-term living services in the Commonwealth, building upon the administration’s successes to date in reforming and rebalancing the state’s long-term care system. The Long-Term Living Council has developed several initiatives to improve state long-term living services in Pennsylvania. Those initiatives are included in the 2006-07 budget.

- Continue the administration’s expansion of home and community-based services to serve an additional 2,800 seniors in the next fiscal year.
- Expand the Community Choice process to expedite applications for home and community-based services.
- Increase efforts to educate and assist nursing home residents in implementing options to return to their homes and communities.
- Encourage nursing homes to reconfigure their businesses to provide more home and community-based services.
- Initiate a study of long-term living supply and demand over the next 20 years, to prepare the Commonwealth for the services that will be required by baby boomers.
Expanding Long-Term Living Choices for Seniors

The number of seniors using home and community-based services has increased 70 percent since 2002-03. An additional 14 percent increase is projected in 2006-07. Long term living services in Pennsylvania are beginning to resemble the service mix in other states where seniors have a range of appropriate options for meeting their long-term care needs.

Growth in Nursing Facility and Home and Community-Based Services for Seniors

- Seniors Served
- 100,000
- 80,000
- 60,000
- 40,000
- 20,000
- 0

- 2002-03
- 2003-04
- 2004-05
- 2005-06
- 2006-07

Nursing Home  Home and Community Based-Services for Seniors
Promoting Economic Growth, Job Creation and Business Competitiveness
Improving Pennsylvania’s Business Tax Climate and Economic Competitiveness

In 2006-07, the Commonwealth will lower business taxes by more than $221 million, raising the total value of business tax cuts since the beginning of the administration to nearly $1 billion. According to the Washington, D.C.-based Corporation for Economic Development, Pennsylvania advanced in a national ranking from 46th to 15th for short-term economic growth from 2003 to 2004.

- **The Jonas Salk Legacy Fund:** *Accelerating Medical Research in Pennsylvania.* Leverage a portion of Pennsylvania’s Tobacco Settlement Fund to provide up to $500 million over the next two years to invest in life sciences research and commercialization.

- **World Trade PA:** $15 million to increase Pennsylvania’s global engagement. Create a World Trade PA Operations Center. Attract new foreign direct investment to secure jobs and capital. Leverage global networks from Pennsylvania colleges and universities.

- Accelerating the phase-out of the **Capital Stock and Franchise Tax** by an additional one-tenth of a mill, saving companies a total of $204 million.

- Increase the **Research and Development Tax Credit** cap from $30 million to $40 million.

- Increase the **Net Operating Loss** tax benefit from $2 million to $3 million in losses per year.
The Rendell Administration and the Pennsylvania General Assembly have enacted several pieces of legislation that together make up the Commonwealth’s Economic Stimulus Program, a comprehensive integrated set of programs in which the Commonwealth is investing $2.3 billion to jump-start Pennsylvania’s economy and leverage at least $5 billion in private investment. Funds are targeted towards the following areas: site preparation, infrastructure and construction; community revitalization and business development.

- **Act 12 of 2004**
  - Expands Machinery and Equipment Loans to make biotech and medical facilities eligible for loans.
  - Creates Keystone Innovation Zones (KIZs) to encourage research and development in cooperation with institutions of higher education.

- **Act 22 of 2004** creates the Commonwealth Financing Authority (CFA) to issue economic development bonds to finance several major Stimulus programs.

- **Act 23 of 2004** establishes Tax Increment Financing- Multi year grants to issuing authorities toward payment of debt service on local projects. Grants are based on anticipated sales, hotel occupancy, and personal income taxes to be generated.
## Update on the Economic Stimulus Program

(dollar amounts in thousands)

<table>
<thead>
<tr>
<th>Program</th>
<th>Projects Funded</th>
<th>Funds Committed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Infrastructure Projects:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business in Our Sites</td>
<td>85</td>
<td>$210,000</td>
</tr>
<tr>
<td>PennWorks</td>
<td>30</td>
<td>$53,000</td>
</tr>
<tr>
<td>Tax Increment Financing</td>
<td>1</td>
<td>$5,000</td>
</tr>
<tr>
<td>Infrastructure Facilities Improvement Program</td>
<td>5</td>
<td>$3,000</td>
</tr>
<tr>
<td>Redevelopment Assistance Capital Program</td>
<td>241</td>
<td>$656,000</td>
</tr>
<tr>
<td><strong>Community Revitalization:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Main Street Downtown Business Renewal</td>
<td>162</td>
<td>$15,230</td>
</tr>
<tr>
<td>Elm Street Downtown Residential Renewal</td>
<td>64</td>
<td>$11,830</td>
</tr>
<tr>
<td>Enterprise Zones</td>
<td>90</td>
<td>$13,760</td>
</tr>
<tr>
<td>Housing and Redevelopment Assistance Program</td>
<td>243</td>
<td>$63,380</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,344</td>
<td>$1,246,135</td>
</tr>
<tr>
<td><strong>Program</strong></td>
<td><strong>Projects Funded</strong></td>
<td><strong>Funds Committed</strong></td>
</tr>
<tr>
<td><strong>Community Revitalization:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Homeownership Choice</td>
<td>24</td>
<td>$25,000</td>
</tr>
<tr>
<td>Hometown Streets</td>
<td>226</td>
<td>$128,500</td>
</tr>
<tr>
<td><strong>Business and Other Private-Sector Investments:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First Industries Fund (Agriculture/Tourism)</td>
<td>148</td>
<td>$23,000</td>
</tr>
<tr>
<td>Second State Loan Program</td>
<td>2</td>
<td>$375</td>
</tr>
<tr>
<td>Venture Capital Guarantee Program</td>
<td>7</td>
<td>$29,500</td>
</tr>
<tr>
<td>Keystone Innovation Zones</td>
<td>16</td>
<td>$4,100</td>
</tr>
<tr>
<td>Base Realignment and Closures</td>
<td>Multiple Sites</td>
<td>$4,460</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,344</strong></td>
<td><strong>$1,246,135</strong></td>
</tr>
</tbody>
</table>
Growing Greener II

To address Pennsylvania’s critical environmental concerns, Governor Rendell proposed Growing Greener II, a 6-year, $625 million plan enacted by the General Assembly and approved by voters in 2005. Growing Greener II represents one of the largest investments ever in improving Pennsylvania’s environment. Thus far, $65M in commitments have been made in 2005-06 -- $33.5M for DEP and $31.5M for DCNR -- and an additional $50M is expected by year’s end. By the end of 2006-07, commitments are expected to reach $300M.

- **$230 million** to the Department of Environmental Protection to clean up rivers and streams, take on serious environmental problems at abandoned mines and contaminated industrial sites, and finance the development and deployment of advanced energy projects.

- **$217.5 million** to the Department of Conservation and Natural Resources to preserve natural areas and open spaces, improve state parks and enhance local recreational needs.

- **$80 million** to the Department of Agriculture to protect working farms.

- **$50 million** to the Department of Community and Economic Development to revitalize communities through investments in housing and mixed-use redevelopment projects.

- **$27.5 million** to the Pennsylvania Fish and Boat Commission to repair fish hatcheries and aging dams.

- **$20 million** to the Pennsylvania Game Commission for habitat-related facility upgrades and repairs.
Growing Greener II is already proving itself, as demonstrated by the increasing number of farmland acres that will be preserved for Pennsylvania’s future. Approximately 67,000 acres of farmland will be preserved in 2006-07, an increase of nearly 160 percent since 2002-03. Pennsylvania’s efforts in preserving its farmland earned it the top ranking in 2005 from the National Association of State Departments of Agriculture in the number of acres of farmland preserved.
Public Safety and Security
Pennsylvania Safety and Security –
A Commonwealth Priority

The 2006-07 budget proposes additional investments to continue Pennsylvania’s efforts to increase the security and safety of Pennsylvania’s residents and businesses.

- $80.8 million federal funds for bio-terrorism preparedness
- $25.0 million State funds for volunteer company grants
- $16.9 million State funds for statewide radio system
- $12.3 million federal funds for pandemic influenza preparedness
- $8.8 million State funds to increase driver’s license security
- $8.0 million total funds for hazard mitigation
- $4.0 million State funds for statewide digital map
- $2.1 million State funds for five new correctional housing units
Pennsylvania is Supporting Those Who Defend Our State and Nation

The 2006-07 budget continues Governor Rendell’s efforts to support the men and women of Pennsylvania’s National Guard. The Pennsylvania National Guard has been called upon to join in the global war on terror and to support hurricane-ravaged areas of the Gulf Coast, providing the largest number of troops of any state outside the region.

- $275,000 continued funding for Pennsylvania base preservation and development efforts
- $300,000 for the implementation of Governor Rendell’s Support Our Troops Initiative and other veterans programs:
  - Military Family Relief Assistance Program to help soldiers and their families who face emergency situations
  - National Guard’s Educational Assistance Program has been improved by extending benefits
- New protections for soldiers:
  - allowing soldiers to qualify for their parents’ health insurance coverage when they return to school after deployment
  - supporting soldiers who defer their motor vehicle insurance coverage during deployments
  - granting additional paid military leave to state employees who are deployed
Recognizing the critical role of the State Police in ensuring public safety in the future, Governor Rendell is proposing an additional 90 trooper positions in 2006-07, bringing the State Police to its highest enlisted complement ever – 4,548. Reaching this unprecedented number of enlisted personnel at the State Police, however, is dependent on the Pennsylvania State Troopers Association accepting a proposal from the State Police. This proposal would add 30 new troopers in 2005-06 (adding to 90 already added this year), move an additional 68 enlisted personnel currently performing desk duties to active law enforcement duties and keep 45 experienced corporals on the road rather than in dispatch centers answering calls.
Transportation
2006-07 Motor License Fund Revenue Sources

- Fines, Penalties and Miscellaneous Revenue (6%)
- Liquid Fuels Tax (26%)
- Motor Licenses and Fees (38%)
- Fuel Use Tax and Alternative Fuel Tax (7%)
- Motor Carrier Road Tax (2%)
- Oil Company Franchise Tax (21%)

Total Revenues: $2.3 Billion
2006-07 Motor License Fund Expenditures

About 68 percent of all non-restricted Motor License Fund dollars are used to build or maintain roads and bridges in the Commonwealth. The remainder is used for highway law enforcement, licensing, and safety and support activities.

- State Highway and Bridge Construction (15%)
- State Highway and Bridge Maintenance (43%)
- State Police (19%)
- Safety Administration and Licensing (6%)
- Local Highway and Bridge Assistance (10%)
- Transportation Support Services (3%)
- All Other (4%)
Highway Funds Continue Strong Growth Trend

Even after “flexing” some additional federal transportation funds to keep the state’s 13 transit agencies operating, Pennsylvania highway spending is still growing substantially, with an anticipated $252 million increase in total funds in 2006-07. Pennsylvania highway spending in 2006-07 is 23 percent, or $980 million, higher than when Governor Rendell took office. From 2002 to 2004, Pennsylvania’s highways improved by 6 percent on the widely used International Roughness Index.

<table>
<thead>
<tr>
<th>Year</th>
<th>State Funding</th>
<th>Federal Funding</th>
<th>Total Funding</th>
<th>Dollar Change</th>
<th>Percent Change</th>
<th>Standard Flex Funds</th>
<th>“Crisis” Flex Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>$2,943</td>
<td>$1,112</td>
<td>$4,055</td>
<td>-</td>
<td>-</td>
<td>$46</td>
<td>-</td>
</tr>
<tr>
<td>2001-02</td>
<td>$2,940</td>
<td>$1,272</td>
<td>$4,212</td>
<td>$157</td>
<td>3.9%</td>
<td>$36</td>
<td>-</td>
</tr>
<tr>
<td>2002-03</td>
<td>$2,949</td>
<td>$1,265</td>
<td>$4,214</td>
<td>$2</td>
<td>0.0%</td>
<td>$31</td>
<td>-</td>
</tr>
<tr>
<td>2003-04</td>
<td>$2,966</td>
<td>$1,205</td>
<td>$4,171</td>
<td>($43)</td>
<td>-1.0%</td>
<td>$59</td>
<td>-</td>
</tr>
<tr>
<td>2004-05</td>
<td>$3,124</td>
<td>$1,081</td>
<td>$4,205</td>
<td>$34</td>
<td>0.8%</td>
<td>$48</td>
<td>$74</td>
</tr>
<tr>
<td>2005-06</td>
<td>$3,518</td>
<td>$1,424</td>
<td>$4,942</td>
<td>$737</td>
<td>17.5%</td>
<td>$25</td>
<td>$202</td>
</tr>
<tr>
<td>2006-07</td>
<td>$3,758</td>
<td>$1,436</td>
<td>$5,194</td>
<td>$252</td>
<td>5.1%</td>
<td>$25</td>
<td>$138</td>
</tr>
</tbody>
</table>
Pennsylvania’s Bridges

The 2006-07 budget proposes an additional $130 million in state funds for the Commonwealth’s highway and bridge infrastructure, including $100 million for the Smoother Roads and Bridges program, $20 million for the Bridge Preservation program and $10 million for the Emergency Highway and Bridge Maintenance Repair program. Department of Transportation spending on bridges will increase $241 million, or 93 percent, from 2002 through 2006.
Economic Outlook

General Fund
Revenues
Real U.S. Gross Domestic Product

Annual Growth

Calendar year 2005 GDP growth was 3.7 percent. Current GDP forecasts for 2006 estimate the annualized growth rate at 3.5 percent. Economic forecasting firms project that peak GDP growth occurred in 2004 and that real U.S. GDP growth will slow, staying close to 3 percent annually through 2010.
The most recent Index of State Economic Momentum, published by State Policy Reports, indicates that the Commonwealth vaulted twelve spots to 30th in total economic momentum in the 2005 Index, as measured by the combination of population growth, personal income and employment growth.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2004</th>
<th>2005</th>
<th>2006p</th>
<th>2007p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP</td>
<td>7.0</td>
<td>6.5</td>
<td>6.1</td>
<td>4.8</td>
</tr>
<tr>
<td>Real GDP</td>
<td>4.2</td>
<td>3.7</td>
<td>3.5</td>
<td>2.9</td>
</tr>
<tr>
<td>Real Personal Consumption</td>
<td>3.9</td>
<td>3.5</td>
<td>3.2</td>
<td>3.3</td>
</tr>
<tr>
<td>Corporate Profits (After Tax)</td>
<td>11.8</td>
<td>35.3</td>
<td>5.8</td>
<td>-2.0</td>
</tr>
<tr>
<td>Unemployment Rate (Rate)</td>
<td>5.5</td>
<td>5.1</td>
<td>4.8</td>
<td>4.9</td>
</tr>
<tr>
<td>CPI</td>
<td>2.7</td>
<td>3.4</td>
<td>2.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Federal Funds (Rate)</td>
<td>1.3</td>
<td>3.2</td>
<td>4.7</td>
<td>4.8</td>
</tr>
</tbody>
</table>

* Assumptions contained herein as well as others are incorporated in the 2006-07 fiscal year revenue estimates.

p=projected
The brightest spot in the economic outlook for Pennsylvania is job growth. In December 2005, Pennsylvania reached a historic high in the number of non-farm jobs, seasonally adjusted. Also in December, the unemployment rate dropped to 4.9 percent – down by eight-tenths of a percent from a year ago. Since January 2003, the Pennsylvania economy has generated a net increase of 102,900 jobs. State investments, including the Economic Stimulus program, have been a major factor behind the turnaround.
General Fund Revenues
2005-06 Forecast versus Actual Collections

Total 2005-06 General Fund revenues through January are $307 million, or 2.4 percent, higher than official estimates. One-time revenues comprise $62.5 million of the $307 million in revenues collected in excess of the official revenue estimate for the current fiscal year. When collections are adjusted for these one-time settlements, recurring General Fund revenues are reduced to $244.5 million above the official estimate.
The 2006-07 budget proposes more than $221 million in new business tax cuts, including $204 million from the Capital Stock and Franchise Tax, an additional $10 million from the Research and Development Tax Credit and $7.3 million from raising the Net Operating Loss cap from $2 million to $3 million. Since 2003, the administration has reduced business taxes by nearly $1 billion. According to the Tax Foundation, Pennsylvania’s state and local tax burden decreased from 26th highest in the nation to 35th highest from 2002 to 2005.
Accelerating the Phase-Out of the Capital Stock and Franchise Tax

- Accelerating the phase-out by an additional one-tenth of a mill beyond the scheduled rate for tax year 2006 will lower the rate from 5.99 mills in 2005 to 4.89 mills, saving businesses a total of $204 million in the 2006 fiscal year.

- Cumulative business tax reductions from major tax savings initiatives for 2003-04 through 2006-07 will total nearly $1 billion, including nearly $700 million from the Capital Stock and Franchise Tax reductions.

- An additional $1.2 billion in revenue would have been collected in 2006-07 if the Capital Stock and Franchise Tax rate had remained at 12.25 mills.

An additional reduction of one-tenth of a mill in 2006-07 produces an added $18.3 million in savings.
National Trends in State Tax Revenue Growth
Rates of Revenue Growth – Third Quarter 2005 Compared to Third Quarter 2004

Nationwide, states are generally realizing healthy revenue growth that is increasing faster than the rate of inflation. In Sales tax and Personal Income tax, Pennsylvania is achieving rates of growth similar to the nationwide median. However, Pennsylvania’s rate of growth for the Corporate Net Income tax is nearly 50 percent lower than the median growth other states are experiencing, additional evidence that Pennsylvania’s Corporate Net Income tax needs to be reformed.

<table>
<thead>
<tr>
<th></th>
<th>Sales Tax</th>
<th>Personal Income Tax</th>
<th>Corporate Net Income Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median (among states that levy)</td>
<td>5.9%</td>
<td>8.3%</td>
<td>34.6%</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>5.5%</td>
<td>7.7%</td>
<td>17.8%</td>
</tr>
<tr>
<td>States in sample</td>
<td>41</td>
<td>38</td>
<td>42</td>
</tr>
<tr>
<td>States with higher tax growth than PA</td>
<td>21</td>
<td>21</td>
<td>35</td>
</tr>
<tr>
<td>Percentage of states in sample higher than Pennsylvania</td>
<td>51%</td>
<td>55%</td>
<td>83%</td>
</tr>
</tbody>
</table>

No data from Louisiana, Missouri, New Mexico and Wyoming.
Corporations that elect Pennsylvania “S corporation” status are exempt from the Corporate Net Income tax. Pennsylvania S corporation shareholders instead include their share of Pennsylvania S corporation income in their Pennsylvania Personal Income tax filings. This effectively allows corporations to pay their business income tax at the Personal Income tax rate of 3.07 percent rather than the Corporate Net Income tax rate of 9.99 percent. In 2006-07, the Department of Revenue estimates that S corporations will pay nearly $701.5 million less in taxes to Pennsylvania because of this allowance. From 1991 to 2005, the number of S corporations is projected to grow by 168 percent, an average annual growth rate of 7.3 percent.
Pennsylvania S Corporation and Corporate Net Income Tax Filings

At the same time the number of S corporations has been increasing, the number of Corporate Net Income tax filers has decreased.
Corporate Net Income Tax

The percentage of Corporate Net Income tax filers with no taxable income has been steadily increasing – from 64 percent of returns in 1998 to nearly 73 percent of returns in 2003. More than 95 percent of all Corporate Net Income tax filers paid $10,000 or less in Corporate Net Income taxes during 2003.

1998
- 64% pay no tax
- 30% pay $1 to $10,000 in tax
- 6% pay more than $10,000 in tax

2003
- 73% pay no tax
- 22% pay $1 to $10,000 in tax
- 5% pay more than $10,000 in tax
Business Tax Filers

An increasing percentage of the Commonwealth’s business taxpayers are electing pass-through status (S corporations or LLCs) and are paying their business taxes at the personal income tax rate of 3.07% or are paying less Corporate Net Income tax.

Note: Business Tax Filers defined as those filing the RCT-101 – S Corporations, C Corporations, and Limited Liability Companies.
Business Tax Reform – Still Needed

In March 2004, the Governor created the Business Tax Reform Commission to recommend changes to make Pennsylvania’s business tax structure more competitive. The Commission made the following unanimous recommendations to improve Pennsylvania’s business tax climate.

- Reduce the CNI Tax rate to 7.90 percent. **This historic reduction will lower the CNI Tax rate by more than 20 percent from the current 9.99 percent rate.**
- Eliminate the $2 million annual cap on Net Operating Losses.
- Continue the scheduled phase-out of the Capital Stock and Franchise Tax.
- Change the weighting of the sales factor of the CNI Tax apportionment formula from 60 percent to 100 percent. **This will encourage employers to locate or expand production in Pennsylvania.**
- Shift to market-based sourcing in the CNI Tax apportionment formula for the sale of services. **This will encourage growth in service-related industries.**
- Reform Pennsylvania’s tax appeals process and related administrative procedures.
- Implement a mandatory unitary combined reporting system. **Requires members of a unitary group of businesses to combine income and expenses for tax purposes.**
Pennsylvania currently has the second highest Corporate Income Tax rate in the U.S. At 7.99% PA’s rate would be comparable to or lower than the rates charged in competing states.

<table>
<thead>
<tr>
<th>Tax Rate*</th>
<th>PA</th>
<th>PA**</th>
<th>NY</th>
<th>OH</th>
<th>WV</th>
<th>NJ</th>
<th>DE</th>
<th>MD</th>
</tr>
</thead>
<tbody>
<tr>
<td>current 9.99</td>
<td>7.99</td>
<td>7.50</td>
<td>8.50</td>
<td>9.00</td>
<td>9.00</td>
<td>8.70</td>
<td>7.00</td>
<td></td>
</tr>
</tbody>
</table>

* Based on comparison of top tax rate per state. ** Proposed rate
The Rainy Day Fund
Status of PA’s Rainy Day Fund

The Rainy Day Fund balances were built up substantially during the latter part of the 1990s and peaked at more than $1.1 billion in 2000-01. The Fund was depleted in order to balance the 2002-03 General Fund budget. The current balance in the Fund is $334 million. This budget projects statutory transfers of $68 million from 2005-06. In addition, in order to meet rating agency requirements for reserves of at least 5 percent of annual revenues and maintain the Commonwealth’s bond rating, Pennsylvania would need to increase the Rainy Day Fund balance to $1.32 Billion, an increase of $918 million.
Major Initiatives in the 2006-07 Budget

- **Education**: $601 million, or 6 percent, increase in funding for educational programs
- Historic level of investment in PA libraries - $75.5M
- **Cover All Kids**: affordable health insurance coverage for all uninsured Pennsylvania children
- **PACE Plus Medicare**: Prescription drug coverage for an additional 120,000 seniors
- **Jonas Salk Legacy Fund**: $500 million investment to accelerate bioscience research in Pennsylvania
- **World Trade PA**: $15M to increase Pennsylvania’s competitiveness worldwide
- An additional $130 million to continue **improvements to Pennsylvania’s highways and bridges**
- **90 additional state troopers** to support public safety.