



Governor's 2007-08 Budget Briefing

February 6, 2007

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Governor

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www.state.pa.us

PA Keyword: Budget

See: Budget & Financial Reports



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Agenda for Pennsylvania Progress

- Reduce Property Taxes
- Make needed investments in education
- Implement Prescription for Pennsylvania
- Achieve greater energy independence
- Make Pennsylvania a strong economic competitor
- Solve the transportation funding crisis
- Maintain the safety net
- Move people off welfare into the labor force
- Manage the growing prison population
- Protect our environment



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2007-08 Budget Highlights



2007-08 Budget Highlights

The 2007-08 budget provides \$900 million in property tax relief for Pennsylvania homeowners, invests in our children, promotes job creation, expands health care for the uninsured, accelerates property tax relief, resolves the public transportation crisis and preserves the social safety net that protects the elderly, people with disabilities and other Pennsylvanians in need.

- The 2007-08 General Fund budget is **\$27.3 billion**, an increase of \$948 million, or 3.6 percent, over 2006-07.
- In the budget, **\$544 million**, or more than half, of the \$948 million increase in General Fund expenditures is for **Education**.
- The 2007-08 General Fund budget reduces spending by 3.6 percent in all areas other than Education, Public Welfare, Corrections and Probation and Parole, while improving many vital state-supported services.
- Administrative spending in 2007-08 is 2 percent **below** 2002-03 levels.
- Since 2002-03, the federal government has cut \$2 billion in funding for Pennsylvania, forcing the commonwealth to use state funds to replace lost federal funds. In 2007-08, federal cutbacks will cost the commonwealth nearly \$720 million.
- The budget re-invests savings realized through innovation and increased efficiency; by **eliminating waste and improving government operations**, the commonwealth has already achieved \$1 billion in annual savings in 2006.



Major Initiatives in the 2007-08 Budget

- **Education:** Recommends a \$529 million, or 6 percent, increase in funding for PreK-12 education.
- **Prescription for Pennsylvania:** Makes Pennsylvania's health care system more affordable and accessible and improves health care quality.
- **Property Tax Relief:** Accelerates property tax relief to occur in 2007-08.
- **Public Transportation:** Addresses the transportation funding crisis for Pennsylvania's roads, bridges, and public transit systems.
- **Long-Term Living:** Continues investments to make appropriate options available for long-term living.
- **Energy Independence Strategy:** Proposes the Energy Independence Initiative to invest in alternative energy production in Pennsylvania.
- **The Jonas Salk Legacy Fund:** Provides accelerated funding of up to \$500 million for bioscience research, commercialization and early-stage capital investments.
- **Corrections and Probation and Parole:** Proposes additional funding to address the continuing offender population growth and new resources to reduce the rate of prison re-entry.

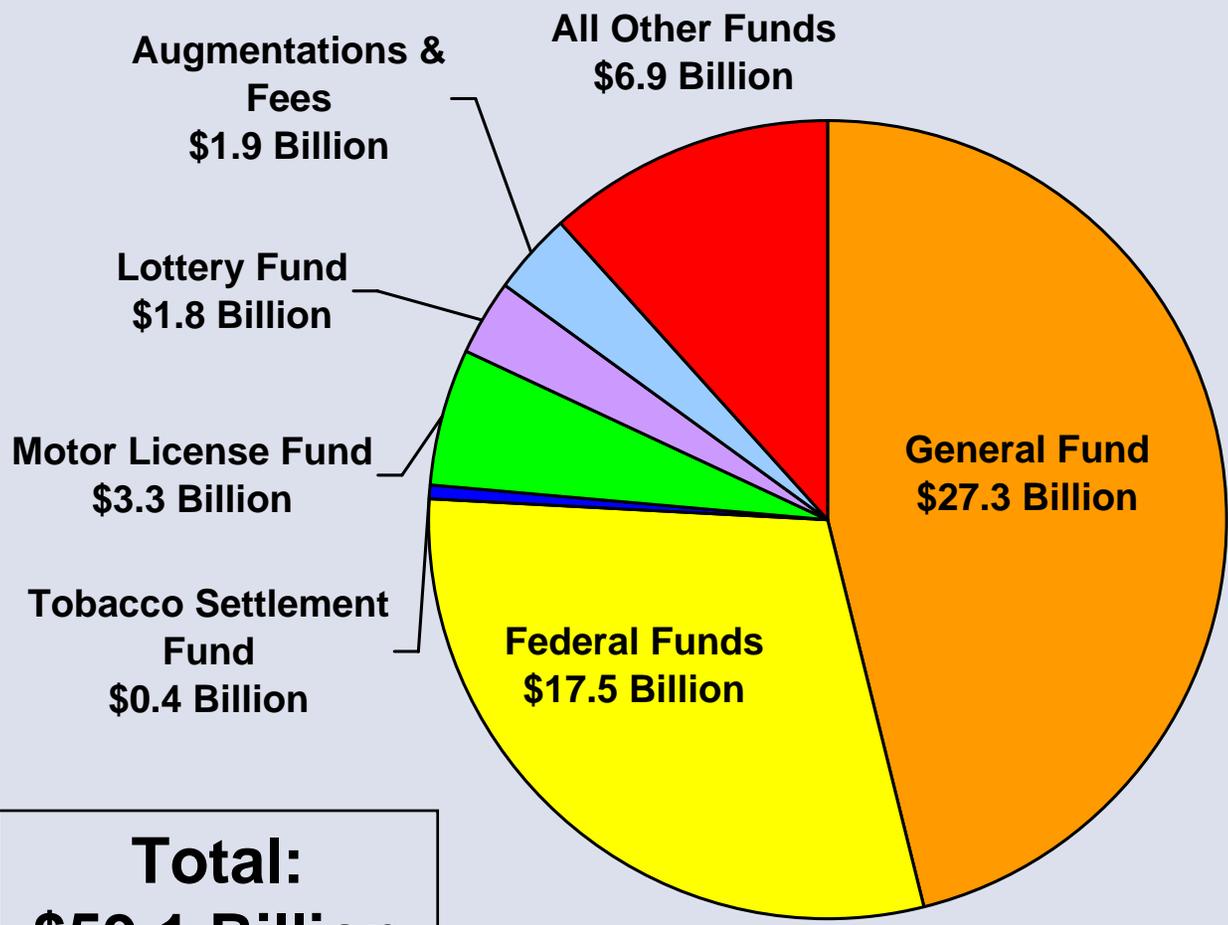


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2007-08 Budget Overview



2007-08 Total Operating Budget

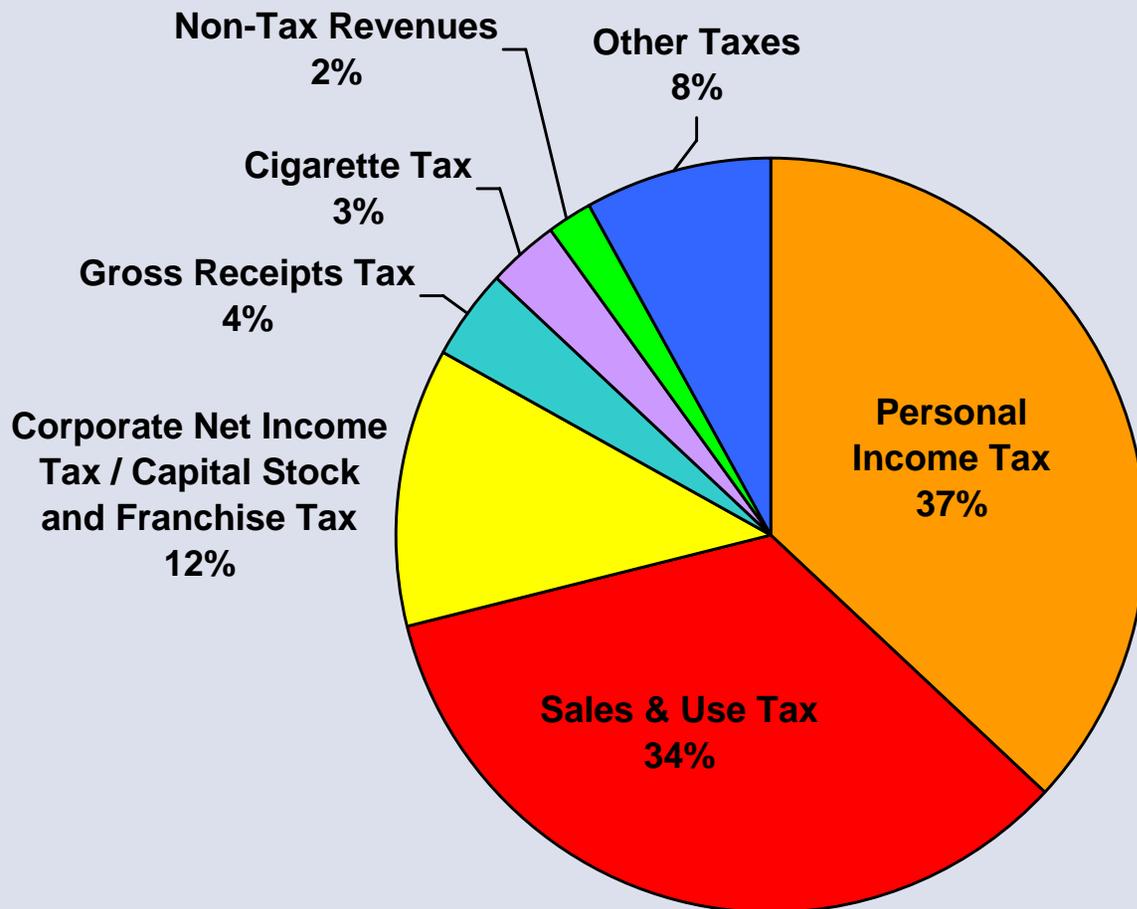


The total 2007-08 operating budget, including all commonwealth funds, is \$59.1 billion. The General Fund represents 46 percent of this amount.

**Total:
\$59.1 Billion**



2007-08 General Fund Revenue Sources

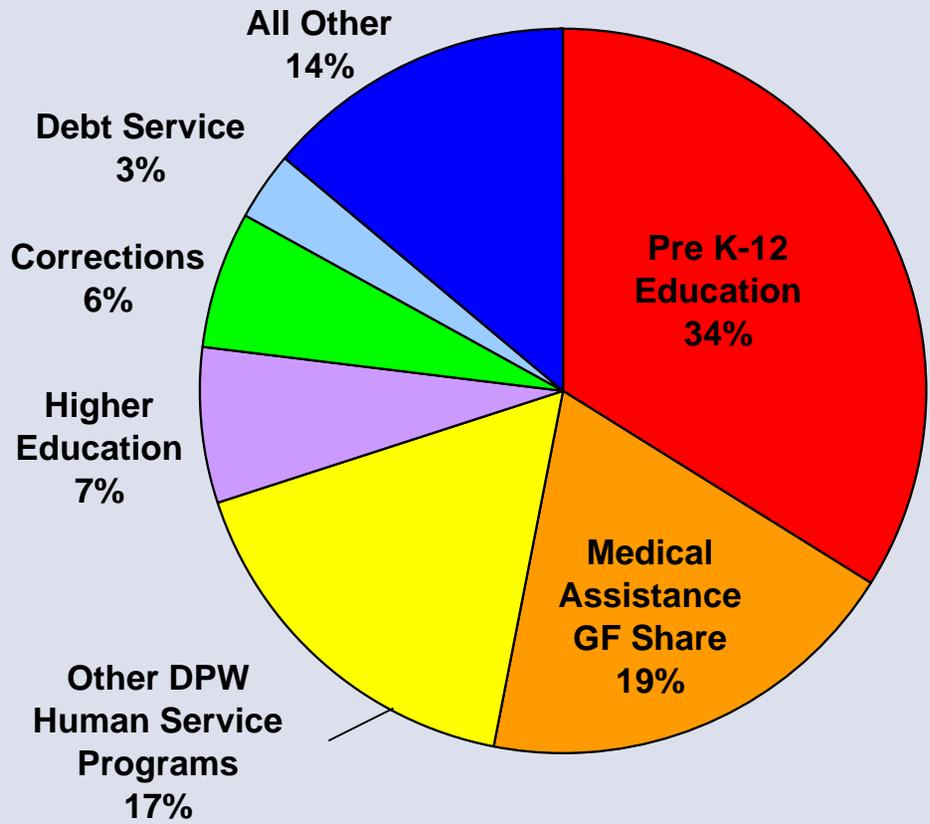


More than two-thirds (71 percent) of General Fund revenues are derived from the Personal Income Tax and the Sales & Use Tax.



2007-08 General Fund Expenditures

The 2007-08 General Fund budget is \$27.3 billion, an increase of \$948 million, or 3.6 percent, over 2006-07.



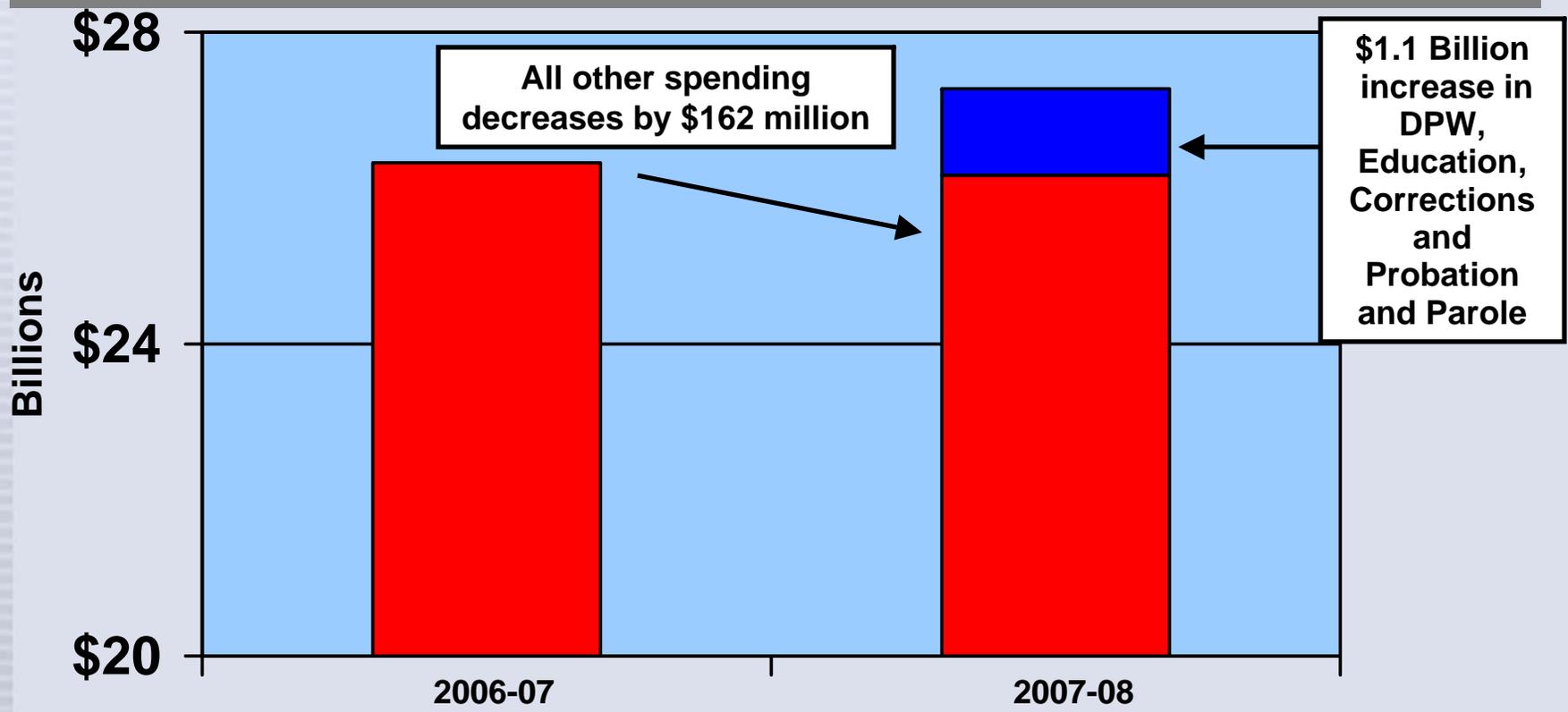
Spending on Education, Medical Assistance, other Department of Public Welfare programs, Corrections and Debt Service comprises 86 percent of total General Fund expenditures.

Total GF Expenditures: \$27.3 Billion



Growth in 2007-08 Expenditures

The 2007-08 budget increases spending on Education, Department of Public Welfare, Corrections and Probation and Parole by \$1.1 billion, or 5.1 percent, from 2006-07. The remainder of the General Fund budget decreases by 3.6 percent.





2007-08 General Fund Expenditures

The 2007-08 General Fund budget reduces spending by 3.6 percent in all areas other than Education, Public Welfare, Corrections and Probation and Parole, while improving many vital state-supported services.

dollars in millions

	<u>2006-07</u>	<u>2007-08</u>	<u>Difference</u>
PreK-12 Education	\$ 8,878	\$ 9,407	\$ 529
Higher Education	2,015	2,030	15
Medical Assistance	5,089	5,123	34
DPW - Other Human Services	4,271	4,604	333
Corrections/Probation and Parole.	1,518	1,717	199
All Other	4,556	4,394	-162
Total	\$ 26,327	\$ 27,275	\$ 948



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The 2007-08 Budget Saves the Typical Household Money

The budget provides for lower property taxes, a cleaner environment, and lower health care costs.

*The 2007-08 budget calls for an increase in the sales tax from 6 percent to 7 percent, an increase in municipal solid waste disposal fees and a modest new energy surcharge. But the spending plan provides long and short-term benefits that will outweigh the cost of those increases. **The average homeowner will see their total taxes and fees drop.** In addition to property tax cuts (wage tax cuts in Philadelphia), the average residential customer is expected to save \$73 a year as a result of the Governor's Energy Independence Strategy, with net energy cost savings for all consumers of \$10 billion over the next ten years.*

<u>Tax Increases</u>	
Sales tax	\$168.23
Solid waste disposal fee	\$6.13
Energy surcharge	\$5.43
Total tax increase	\$179.79
<u>Tax Cuts</u>	
2007-08 broad-based property tax relief *	\$186.00
Total household savings – homeowners**	\$6.21

* Does not include benefits from expanded Property Tax / Rent Rebate program for 757,000 senior citizens.

** Does not include energy conservation savings projected at \$73 per household.



2007-08 General Fund Financial Statement

	Dollars in Millions		
	<u>2005-06</u> Actual	<u>2006-07</u> Available	<u>2007-08</u> Budget
Beginning Balance	\$ 365	\$ 514	\$ 38
Adjustment to Beginning Balance . . . . .	. . . . .	2	. . . . .
Receipts	<u>24,819</u>	<u>25,766</u>	<u>27,242</u>
Prior Year Lapses	166	85	. . . . .
Funds Available	\$ 25,350	\$ 26,367	\$ 27,280
Expenditures	\$ - 24,665	\$ - 26,115	\$ - 27,275
Supplemental Appropriations . . . . .	. . . . .	- 212	. . . . .
Current Year Lapses . . . . .	. . . . .	10	. . . . .
Preliminary Balance	<u>\$ 685</u>	<u>\$ 50</u>	<u>\$ 5</u>
Transfer To Rainy Day Fund	- 171	- 12	- 1
Ending Balance	<u><u>\$ 514</u></u>	<u><u>\$ 38</u></u>	<u><u>\$ 4</u></u>



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National Growth in General Fund Budgets

Across all 50 states, twenty-six states enacted budgets that exceeded Pennsylvania's 5.8 percent rate of growth. The average spending increase for all states, compared to the prior year, is 7.0 percent this year.

All States Average 7.0%

Alaska	27.9%	New York	9.4%	Illinois	4.3%
South Carolina	20.1%	California	9.2%	Rhode Island	3.9%
Utah	17.0%	Nebraska	9.1%	Kentucky	3.7%
Wyoming	16.6%	Mississippi	8.7%	New Hampshire	2.3%
Hawaii	16.0%	Florida	7.9%	Michigan	2.1%
Virginia	15.4%	Kansas	7.3%	Connecticut	2.0%
Maryland	14.4%	Arkansas	6.1%	Indiana	1.9%
Nevada	14.3%	North Dakota	6.0%	Maine	1.6%
Delaware	12.2%	Tennessee	5.9%	South Dakota	1.6%
Arizona	11.8%	Pennsylvania	5.8%	Vermont	1.5%
New Jersey	11.7%	Idaho	5.7%	Washington	0.4%
North Carolina	10.6%	Iowa	5.2%	Minnesota	0.0%
Alabama	10.2%	Wisconsin	5.2%	Texas	-1.4%
West Virginia	10.1%	Colorado	5.1%	New Mexico	-3.9%
Oklahoma	9.5%	Ohio	4.9%	Louisiana	-5.4%
Massachusetts	9.4%	Montana	4.8%	Oregon	-8.8%
Missouri	9.4%	Georgia	4.5%		

Source: National Association of State Budget Officers



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Factors Influencing the 2007-08 Budget



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Factors Influencing the 2007-08 Budget

Federal Funding



Federal Government Continues to Cut State Funding in 2007-08

*Pennsylvania faces constant pressure from federal funding cuts. **Since 2002-03, the federal government has cut more than \$2 billion in funding for Pennsylvania, forcing the state to make up for federal cuts with state funds.** The alternative would have been to make deep cuts in funding for specific human service programs like nursing home care. Reductions in federal funding in 2007-08 include the continuing phase-out of Inter-governmental Transfer Funds, a reduction in Pennsylvania’s Federal Medical Assistance Percentage (FMAP), and lower levels of funding for education, corrections and child support programs. **It is estimated that federal cutbacks will cost the commonwealth an additional \$717.7 million in 2007-08.***

2007-08 Federal Changes	2002-03 through 2006-07	2007-08 Additional Impact
Reductions in Program Funding	- \$ 57.7	- \$ 17.9
Unfunded/Under-funded Mandates	- \$335.5	- \$ 525.4
Federal “Clawback”	- \$338.5	
Other Losses/Revenue Reductions	- \$1,295.0	- \$ 174.4
Total	- \$2,026.7	- \$ 717.7



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Factors Influencing the 2007-08 Budget

Changes to

Business Taxes



2007-08 Business Tax Cuts

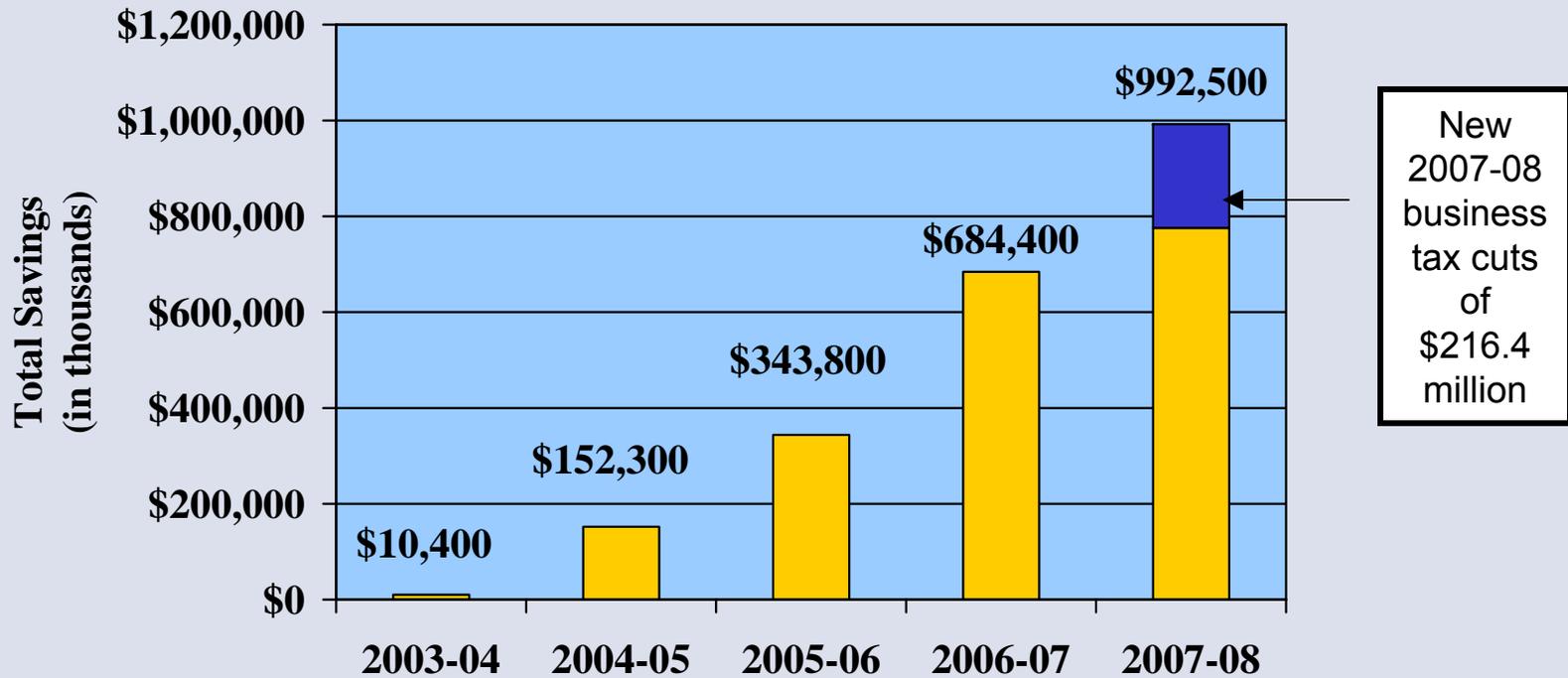
Business taxes will be cut more than \$216 million in 2007-08. There has been a cumulative total of \$2.2 billion in business tax cuts from 2003-04 to 2007-08. The additional 2007-08 cuts include:

- **Capital Stock and Franchise Tax** – continuation of the phase-out by one mill to lower the rate to 3.89 mills, saving businesses a total of \$215 million in 2007-08. In 2007-08, businesses will save more than \$710 million due to the cumulative reductions in the CSFT implemented since 2003.
- **Education Improvement Tax Credit** – \$1.4 million

Cumulative Business Tax Cuts 2003-04 through 2007-08

The 2007-08 budget includes \$216.4 million in new business tax cuts, including \$215 million from the scheduled one mill reduction in the Capital Stock and Franchise Tax (CSFT) and \$1.4 million from the expansion of the Earned Income Tax Credit. Since 2003, the administration has reduced business taxes by \$2.2 billion, including more than \$1.5 billion in savings from the Capital Stock and Franchise Tax.

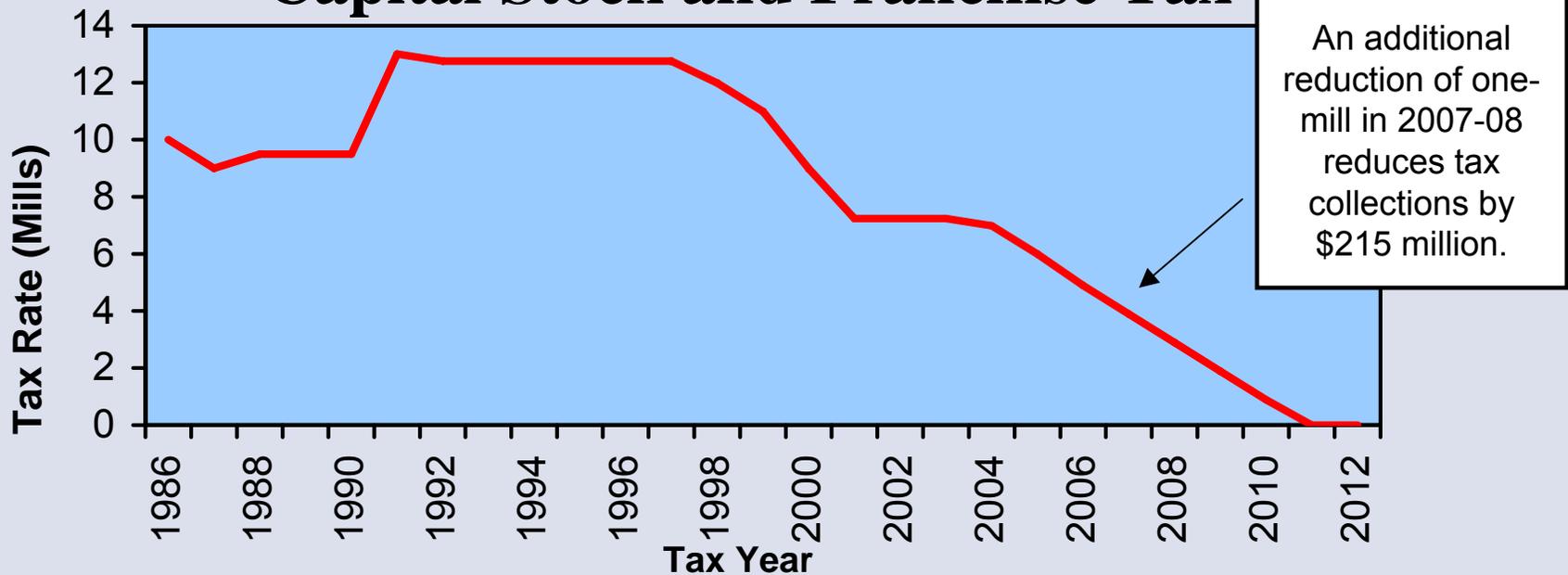
Cumulative Business Tax Cuts



CSFT reductions are based on revisions to the rate versus a 7.24 mill base.



Continuing 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 lowered the rate from 5.99 mills in 2005 to 4.89 mills (a \$240.6 million reduction) in 2006. The rate will decline by another one mill in 2007, resulting in a \$215 million savings to businesses in 2007-08.
- Cumulative business tax reductions from major tax savings initiatives for 2003-04 through 2007-08 total nearly \$2.2 billion, including more than \$1.5 billion in cumulative savings from the Capital Stock and Franchise Tax phase-out and acceleration.



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Factors Influencing the 2007-08 Budget

Making Government

Work Smarter

Continuing to Cut the
Cost of Government



No Stone Left Unturned to Control Costs and Improve Tax Fairness

The 2007-08 budget continues and builds upon the Rendell Administration's efforts to reduce costs wherever this can be done without denying vitally needed services to Pennsylvania's citizens, and to ensure that all taxpayers are treated equally in complying with the Commonwealth's tax laws.

**Examples of Additional Efficiency/Fairness Initiatives
 included in the 2007-08 Budget**

amounts in millions

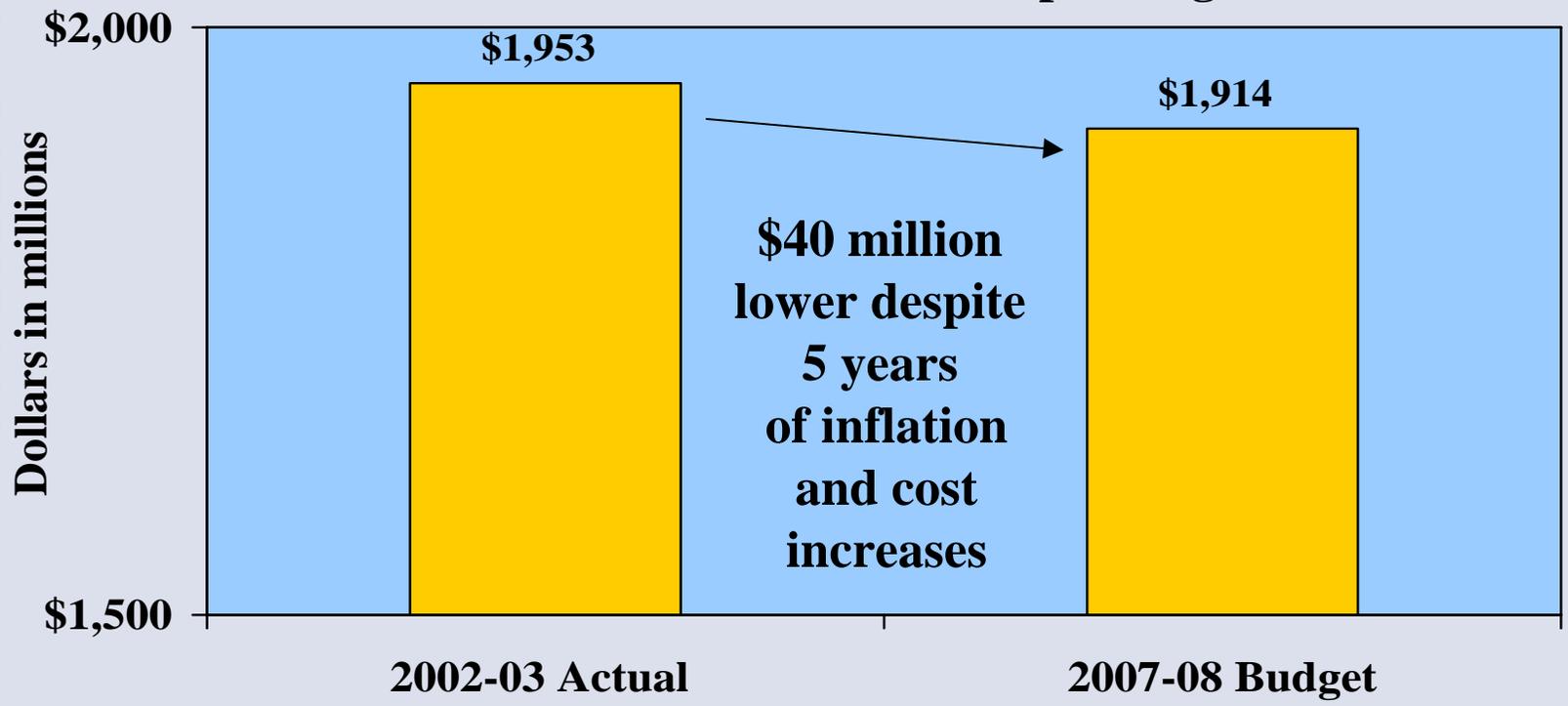
Additional DPW Cost Containment (on top of \$337.6M in cost containment that continues to be realized from 2005-06 and 2006-07 cost containment initiatives)	\$194.5
Elimination of 708 positions (for a net decrease of 2,811 positions since January 2003 – all via attrition – no layoffs, furloughs or cutbacks in services)	\$15.8
Tax Compliance Initiatives (additional revenue by insuring all taxpayers pay their fair share)	\$40.0
Total	\$250.3



Pennsylvania Has Cut Administrative Spending

The Rendell administration is committed to making needed investments in education, economic development and human services. One way this is being accomplished is by reducing administrative spending to the maximum extent possible so more state resources can go to vital programs that Pennsylvanians rely on. Despite inflationary increases in health benefit costs, fuel costs and numerous other costs, administrative spending is still 2 percent lower in 2007-08 than in 2002-03.

State Administrative Spending

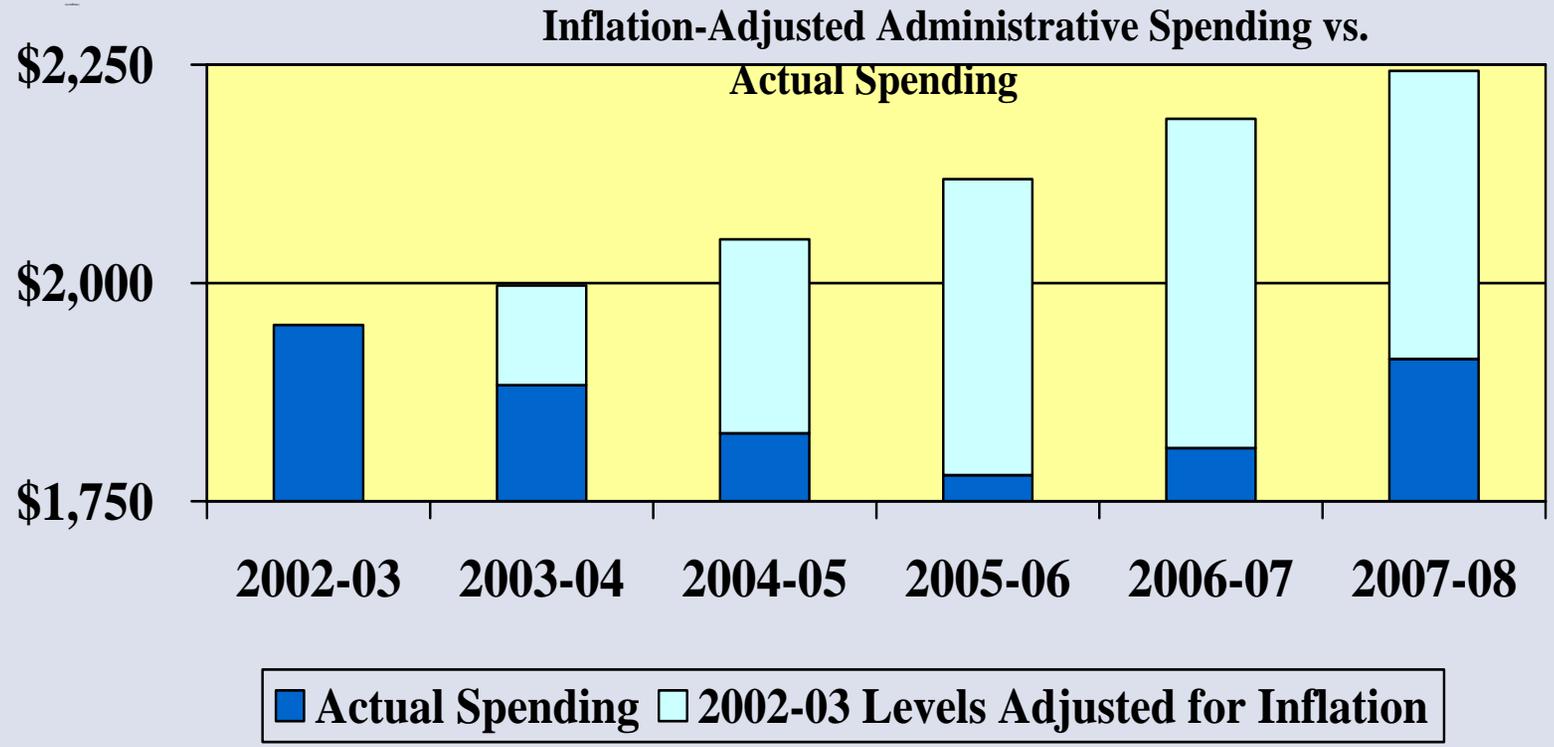




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Holding the Line on Administrative Spending

*The initiatives implemented in conjunction with the Office of Management and Productivity have enabled the Commonwealth to hold the line on state administrative spending. Even after five years, the cost to operate state government is 2 percent lower than it was in 2002-03 – in real dollars. If state administrative spending had been allowed to grow with the rate of inflation, **the cost of operating state government would be \$330 million higher in 2007-08.***

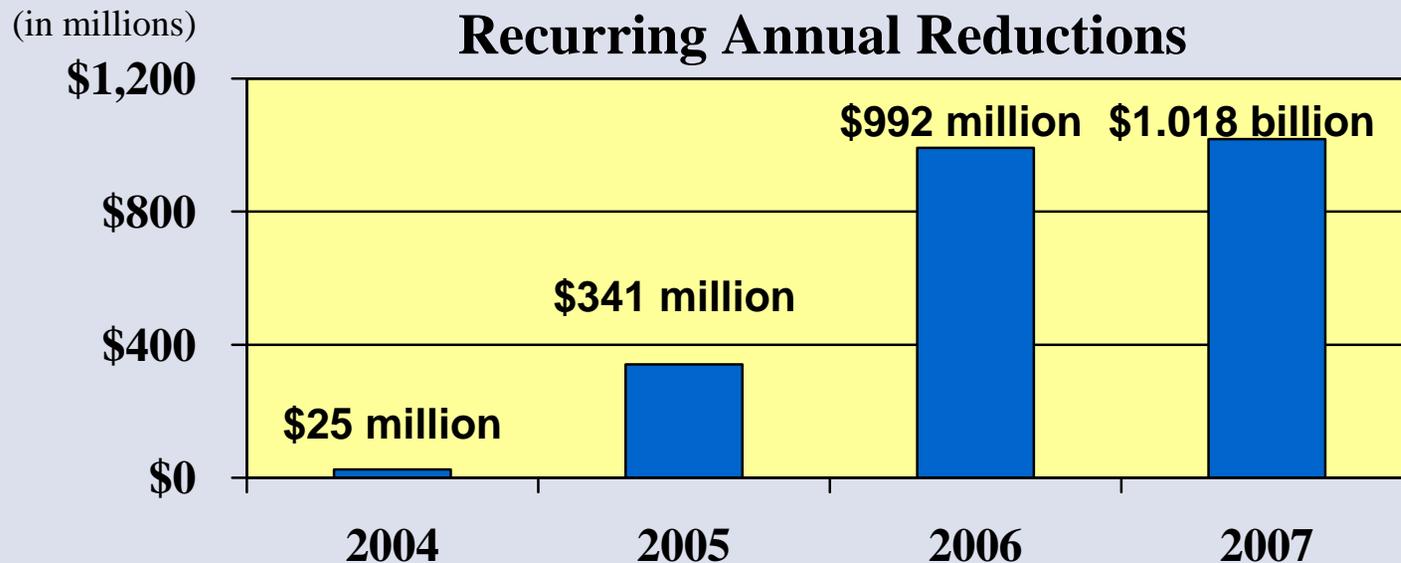


Note: 2007 inflation estimated to be 2.5%



Pennsylvania Achieves \$1 Billion in Annual Cost-Cutting Management & Productivity Improvements

Governor Rendell pledged to cut the cost of government and improve the way the commonwealth works. In four years, by developing new business practices and focusing on innovation and efficiency throughout the government, this administration implemented 147 savings initiatives and reduced expenditures by more than \$1 billion, with more initiatives planned.





Examples of Making Government Work Smarter

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

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



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Factors Influencing the 2007-08 Budget

Collective Bargaining



Summary of Major Provisions of the Commonwealth's Collective Bargaining Agreements

2007-08 to 2010-11

While the collective bargaining agreement recently reached with the commonwealth's largest bargaining units increases General Fund costs by more than \$1 billion over the next four years, if this agreement had followed the same pattern as was negotiated during the previous administration, the General Fund cost of this agreement would have been \$190 million higher. By requiring a one-time, lump sum payment of \$1,250 per employee in July 2007, the commonwealth reduced the General Fund cost of the contract by nearly \$160 million.

Pay Increases

	<u>General Salary Pay Increases:</u>	<u>Annual Service Increments:</u>
▪ FY 2007-08	\$1,250 lump sum payment	One Step effective Jan 2008
▪ FY 2008-09	3% (July 2008)	One Step effective Jan 2009
▪ FY 2009-10	3% (July 2009)	One Step effective Jan 2010
▪ FY 2010-11	4% (effective October 2010)	One Step effective Jan 2011

Health Benefits

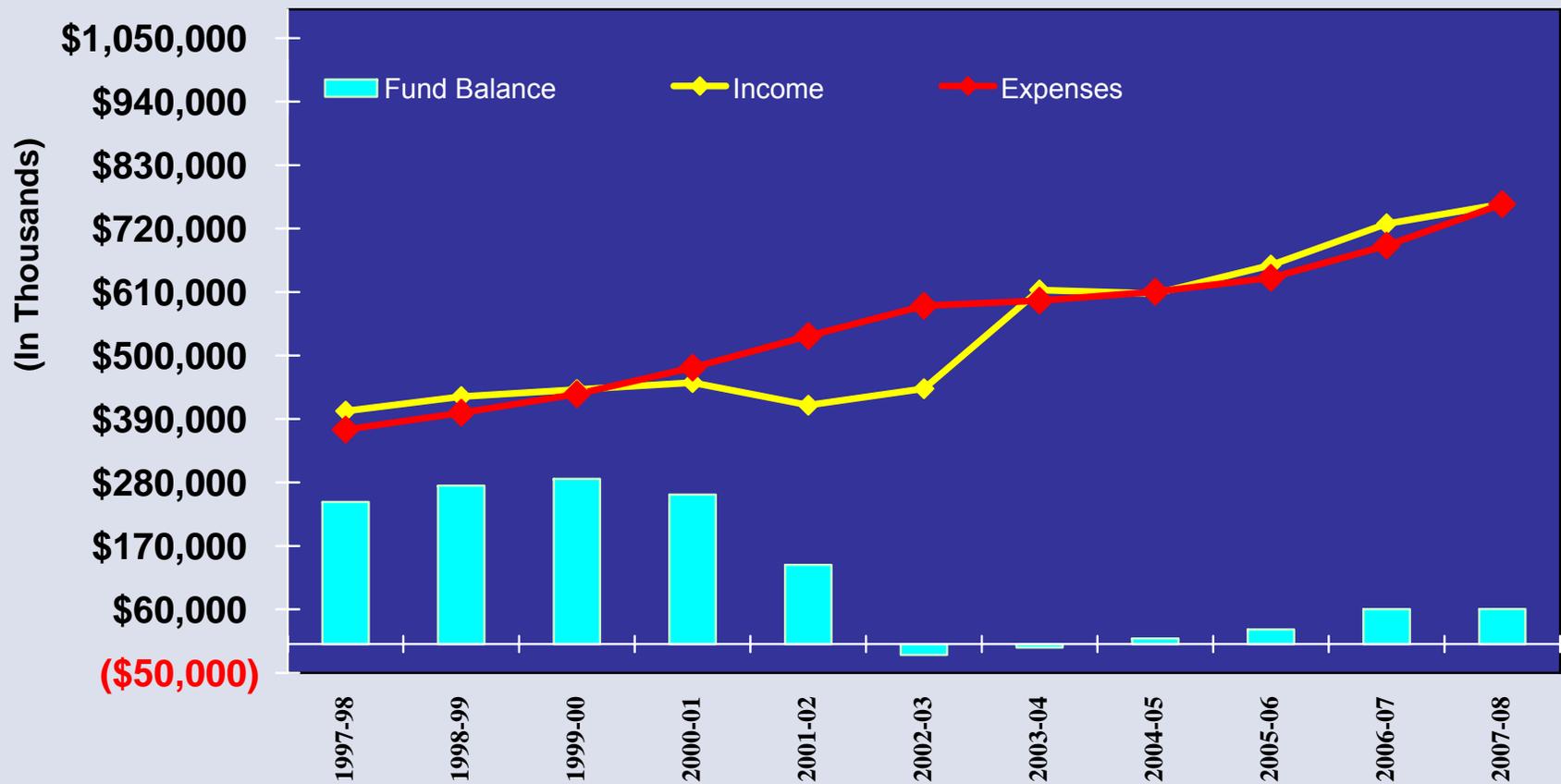
- Increase in financial contributions by the Commonwealth for employee pay period to:
 - FY 2007-08 \$330
 - FY 2008-09 \$365
 - FY 2009-10 \$400
 - FY 2010-11 \$440



Pennsylvania Employees Benefit Trust Fund

Active Employee Health Program After Corrective Action

The Pennsylvania Employees Benefit Trust Fund (PEBTF) has been stabilized through plan redesign, the Get Healthy Initiative and increased commonwealth contributions.





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Factors Influencing the 2007-08 Budget

Economic Outlook



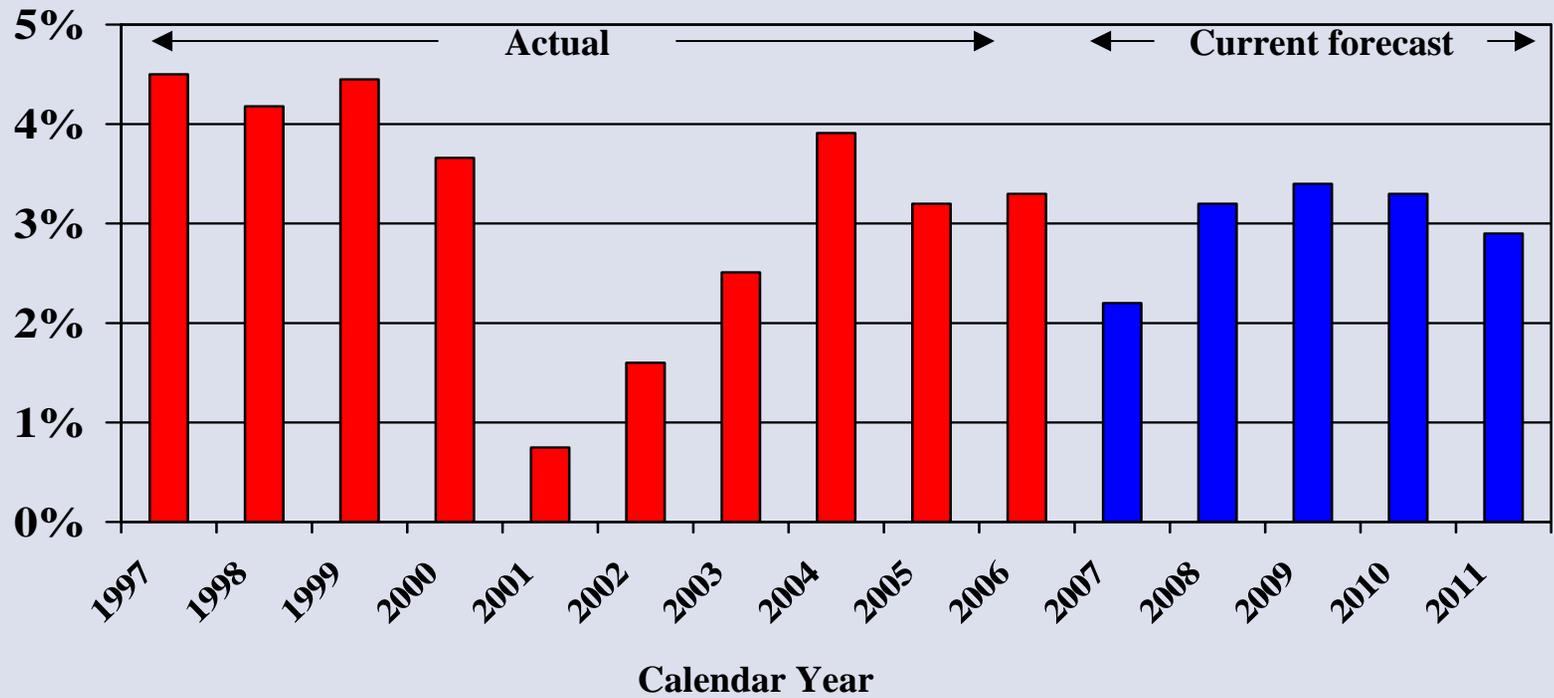
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Real U.S. Gross Domestic Product

Annual Growth

The post-recession recovery peaked in 2004. Gross Domestic Product (GDP) growth dropped to 3.2 percent in calendar year 2005 and is projected to increase slightly to 3.3 percent in 2006. The GDP is projected to drop further in 2007 - to 2.2 percent - before recovering, but even that recovery is not projected to reach 2004 levels. Reasons for this slower rate of growth include a sharp downturn in the housing market and more cautious consumer spending.





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Housing Slumps Nationally and in Pennsylvania

While Pennsylvania's housing market is faring better than housing markets in states like New York, Florida and California, it is still slowing, as evidenced by a 12 percent decline in the number of sales of existing housing units between the third quarter of 2005 and the third quarter of 2006. The housing slump impacts the commonwealth's collections of the Realty Transfer Tax and Sales and Use Tax, which collectively lag official estimates by a total of \$51 million through January 2007.

	Q3 2005 Actual	Q3 2006 Projected	Q1 2007 Projected
Total Housing Starts (thousands)	49.8	42.9	41.1
New Median Price (\$)	\$157,768	\$168,980	\$177,326
Unit Sales Existing (in thousands)	256.7	226.8	215.6
Existing Median Price (\$)	\$150,437	\$155,855	\$154,545

Source: *U.S. Markets State Economies, Northeast*, Summer 2006, Global Insight



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Factors Influencing the 2007-08 Budget

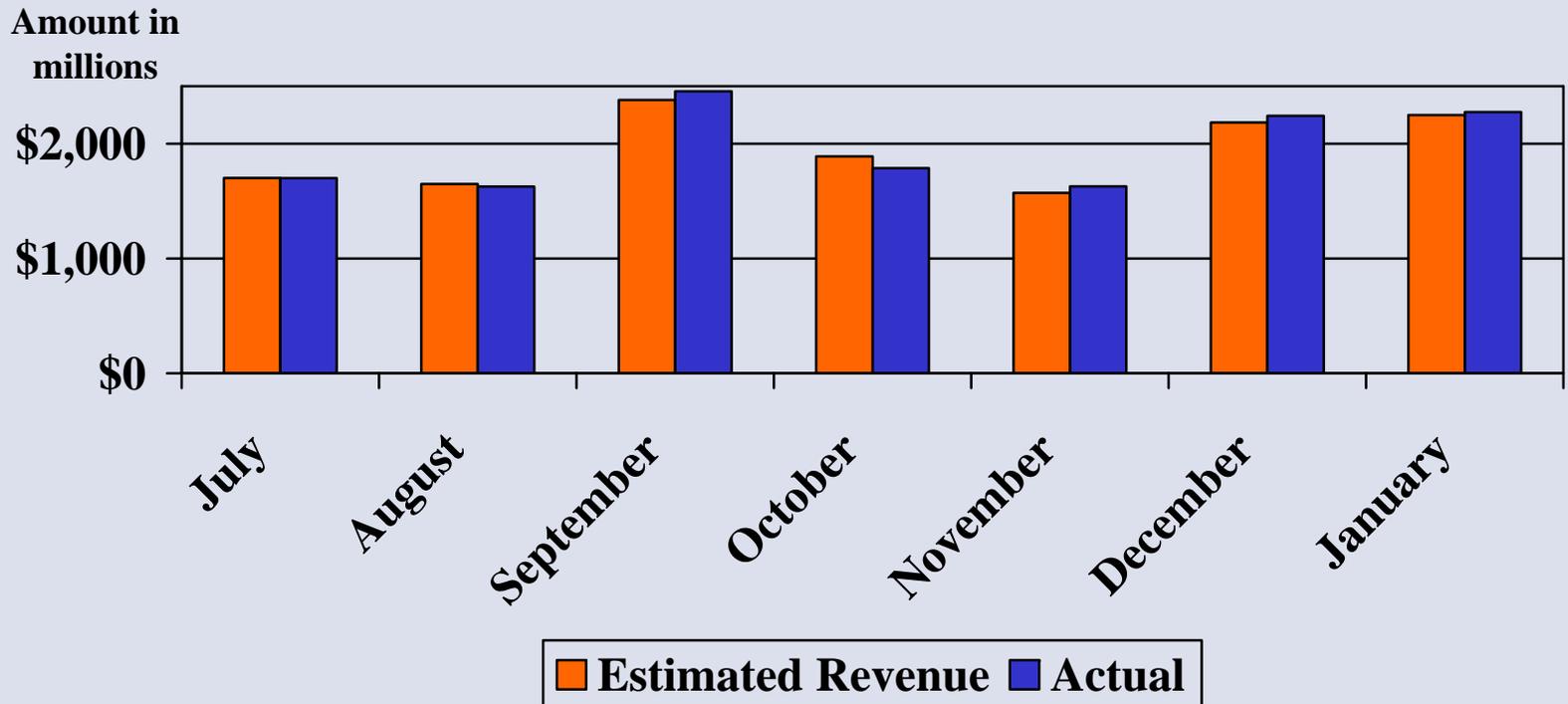
General Fund

2006-07 Revenues

General Fund Revenues

Estimated versus Actual Revenue Collections

Revenue collections in 2006-07 are closely tracking estimate, particularly when compared to last fiscal year. In January 2007, monthly collections were \$28 million higher than projected, causing year-to-date collections to rise to \$95 million, or 0.7 percent, above estimate. At this time last year, collections were \$307 million, or 2.4 percent, above estimate. Year-to-date collections for 2006-07 were boosted in November largely due to a one-time, unanticipated corporation tax settlement of \$42 million. Without this unanticipated collection, year-to-date revenues would be only \$53 million, or 0.4 percent, above estimate.



Year-to-Date General Fund Revenues

While total commonwealth revenues were \$95 million, or 0.7 percent, above official estimates through January, several categories of revenues lagged official estimates by more than \$144 million, including Sales Tax, the Inheritance Tax and the Real Estate Transfer Tax. Revenue shortfalls in these categories have been offset by higher-than-estimated collections in Treasury Earnings, Business/Corporate Taxes and the Personal Income Tax.

Year-to-Date - General Fund Revenues

	YTD Est.	YTD Actual	\$ Diff	% Diff	as % of Full Yr. Est.
All Other Taxes & Revenues	159,500	116,365	(43,135)	-27.0%	26.87%
Sales Tax - Non-Motor Vehicles	4,484,400	4,454,875	(29,525)	-0.7%	60.58%
Inheritance Tax	449,400	429,751	(19,649)	-4.4%	60.88%
Real Estate Transfer Tax	374,000	352,827	(21,173)	-5.7%	65.42%
Licenses & Fees	117,700	133,422	15,722	13.4%	102.88%
Escheats	(27,600)	(40,050)	(12,450)	45.1%	-55.20%
Sales Tax - Motor Vehicle Sales	682,600	669,605	(12,995)	-1.9%	59.68%
Treasury Earnings	87,000	147,910	60,910	70.0%	54.38%
Business/Corporate Taxes	1,605,700	1,694,379	88,679	5.5%	30.38%
Personal Income Tax	5,235,700	5,309,177	73,477	1.4%	52.20%
Cigarette Tax	<u>448,100</u>	<u>443,202</u>	<u>(4,898)</u>	-1.1%	57.60%
TOTAL	13,616,500	13,711,463	94,963	0.7%	



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Factors Influencing the 2007-08 Budget

General Fund

2006-07

Supplemental

Appropriations



Anticipated 2006-07 Supplemental Appropriations

(Dollar Amounts in Thousands)
 2006-07 Proposed

Conservation and Natural Resources – <i>Forest Pest Management</i>	\$	2,434
Education	\$	4,521
<i>Early Intervention ~ \$4.5 million to serve 800 more children</i>		
Environmental Protection – <i>Additional Black Fly Spraying</i>	\$	2,918
Military and Veterans Affairs		
<i>Merchant Marine World War II Veterans Bonus</i>		
	\$	111
Public Welfare	\$	201,084
<i>Outpatient, Medical Assistance ~ \$10.8 million</i>		
<i>Inpatient, Medical Assistance ~ \$32.6 million</i>		
<i>Capitation, Medical Assistance ~ \$146.3 million</i>		
<i>Long-Term Care Facilities ~ \$29.6 million</i>		
<i>Mental Health Services ~ \$4.5 million</i>		
<i>Youth Development Institutions ~ \$2.5 million</i>		
<i>Other ~ \$ - 25.2 million</i>		
Emergency Management Agency – <i>April 2005 Storm Disaster</i>	\$	<u>500</u>
Total Supplemental Appropriations.	\$	<u><u>211,568</u></u>



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2007-08 Budget Overview

Property Tax Relief

Property Tax/ Rent Rebate Program

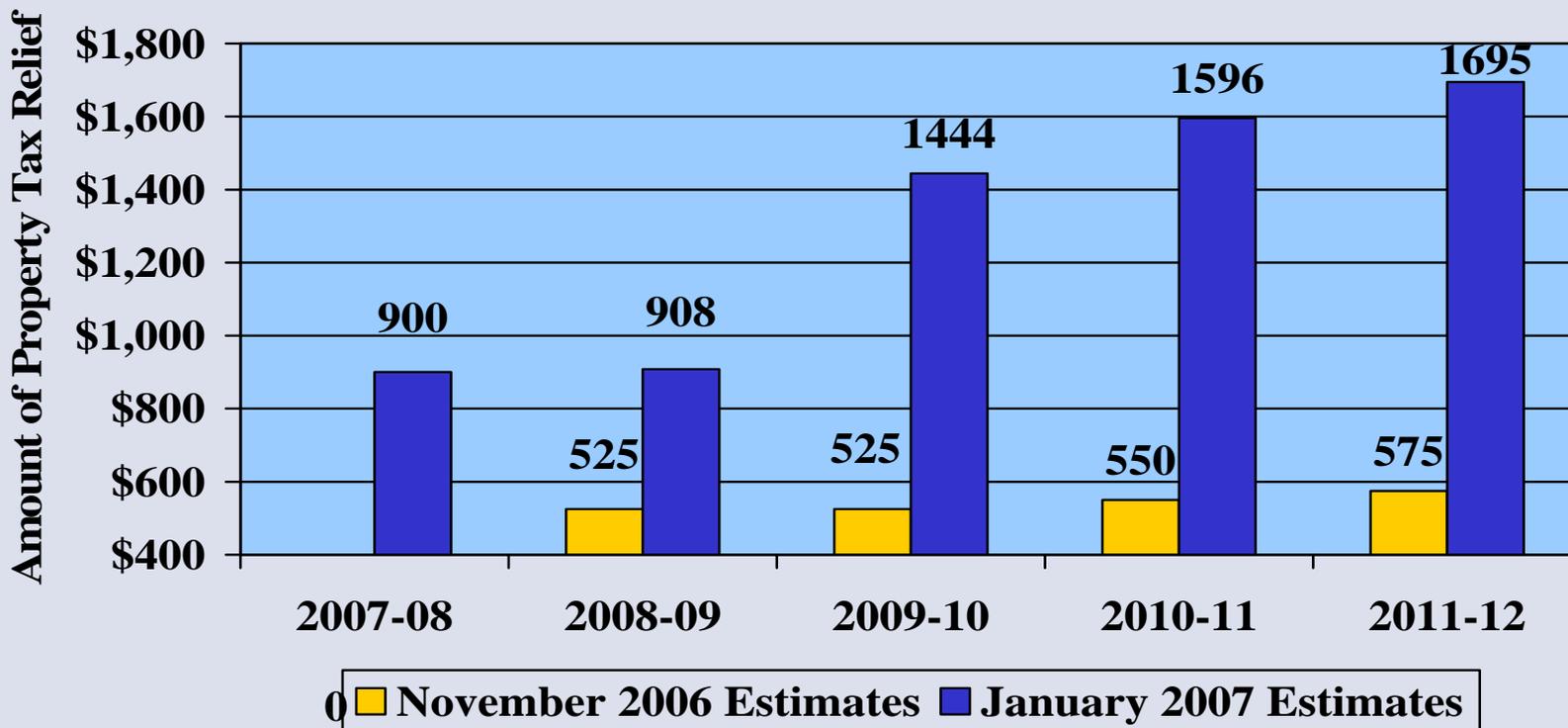


Property Tax Relief

In 2007-08, Pennsylvanians will receive \$900 million in long-awaited property tax relief – one year sooner than expected because a portion of the Sales and Use Tax has been directed to the Property Tax Relief Fund and gaming revenues are more robust than previously estimated.

In 2007-08, \$420 million of Sales and Use Tax revenues will be directed to property tax relief.

amounts in millions





Property Tax – Rent Rebate Program

Expanding Eligibility for Senior Citizens

The 2006 Taxpayer Relief Act – also known as Special Session Act 1 – put in place a delivery system for property tax relief. It also expanded the Property Tax – Rent Rebate program to include an additional 422,000 senior citizens who are eligible for the program.

Tax Year 2006	Old PTRR	Additional Claimants	Total New PTRR
Homeowners	169,808	409,179	578,987
Renters	167,309	10,745	178,054
Total	337,117	419,924	757,041
Tax Year 2007	Old PTRR	Additional Claimants	Total New PTRR
Homeowners	169,393	411,558	580,951
Renters	169,563	10,504	180,067
Total	338,956	422,062	761,018



Estimated Property Tax Relief

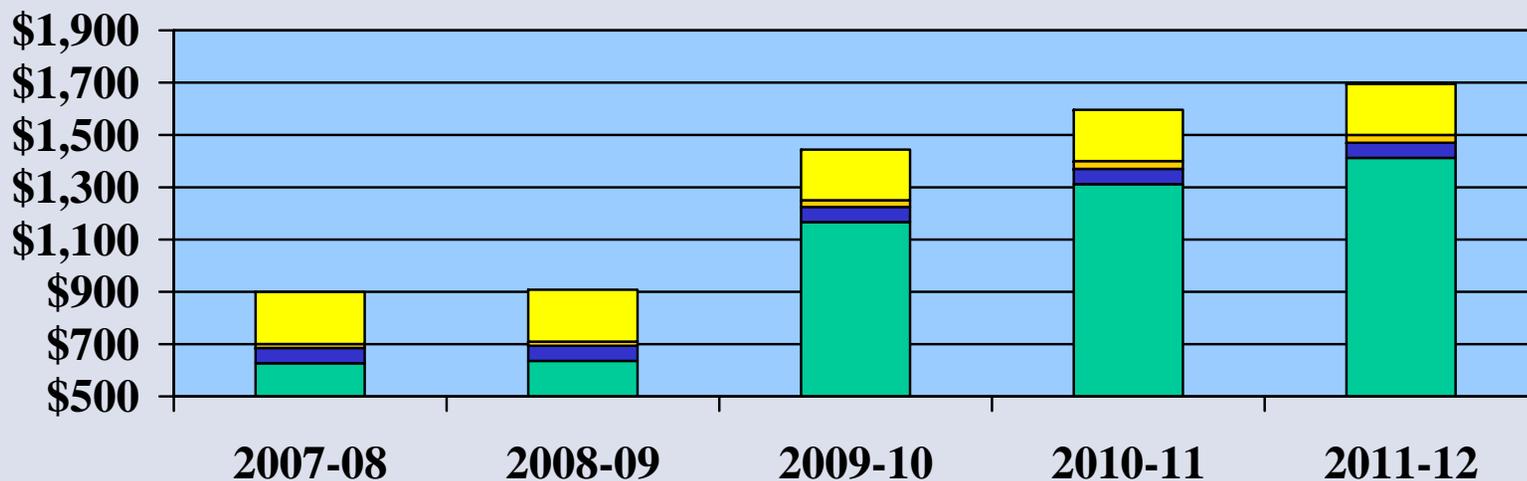
The 2007-08 budget moves tax relief up one year and provides \$900 million in property tax relief starting this summer. Property tax cuts will average close to \$170 for every Pennsylvania household. In two years, property tax relief will reach \$1.4 billion reducing statewide property taxes by as much as 12 percent.

Type of Tax Relief	Tax Relief in 2007-08	Tax Relief in 2008-09	Tax Relief in 2009-10
Relief for all Homeowners from gaming revenue and the new sales tax shift (wage tax relief in Philadelphia)	\$643 M	\$652 M	\$1,192 M
Enhanced property tax rebates of up to \$650 for senior citizens earning up to \$35,000 per year	\$199 M	\$198 M	\$194 M
Higher rebates for senior citizens with a high tax burden or those living in cities with a high tax burden	\$58 M	\$58 M	\$58 M
TOTAL	\$900 M	\$908 M	\$1,444 M



Property Tax Relief

In 2007-08, Pennsylvanians will receive \$900 million in long-awaited property tax relief – one year sooner than expected. Of that amount, \$627 million will go towards general property tax relief, \$58 million to specified cities and high-burden individuals, \$16 million in Sterling Act payments and \$199 million for the Enhanced Property Tax/Rent Rebate program.



- Enhanced Property Tax/Rent Rebate
- Sterling Act
- Cities and High-Burden
- General Property Tax Relief



Property Tax Relief

The Cost of Inaction

- Long-awaited property tax relief will be delayed even further.
- Pennsylvanians will continue to pay higher property taxes than necessary.



2007-08 Budget Overview

Education



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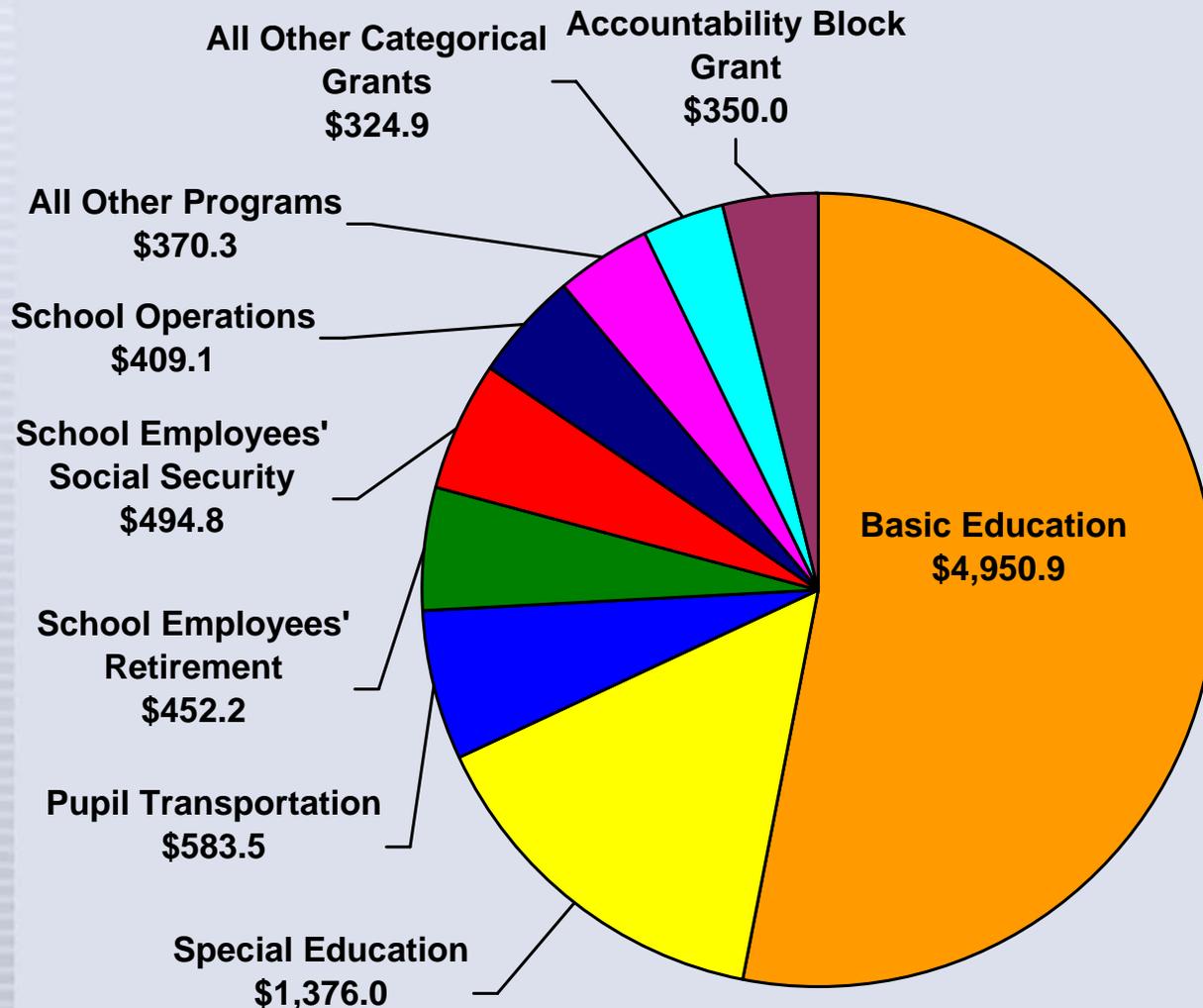
Investing In Pennsylvania's Future

The 2007-08 budget increases total education funding by \$544.3 million.

- **\$166.7 million increase (3.5 percent) in Basic Education Funding** - \$4.95 billion to continue a Foundation Funding approach to assist school districts to reach a research-based adequate funding level.
- **\$29.4 million increase (3 percent) in Special Education Funding** - \$1 billion in total.
- **\$350 million, a \$100 million increase**, for the third year of the **Accountability Block Grants** - \$75 million for the new **Pennsylvania Pre-K Counts** program and \$25 million for school districts to invest in full-day kindergarten programs.
- **\$40 million** in state funding for **Head Start** pre-kindergarten classrooms, to serve 5,790 children.
- **\$66 million** for **tutoring** in the most academically challenged school districts (*Job Ready PA*).
- **\$9.2 million increase** for **community colleges** (*Job Ready PA*).

2007-08 Funding for PreK-12 Education

(amounts in millions)



Since 2002-03, the Rendell administration has boosted investments in education by \$2.3 billion, or nearly 34 percent, to a total of \$9.3 billion.

**Total:
\$9.3 Billion**



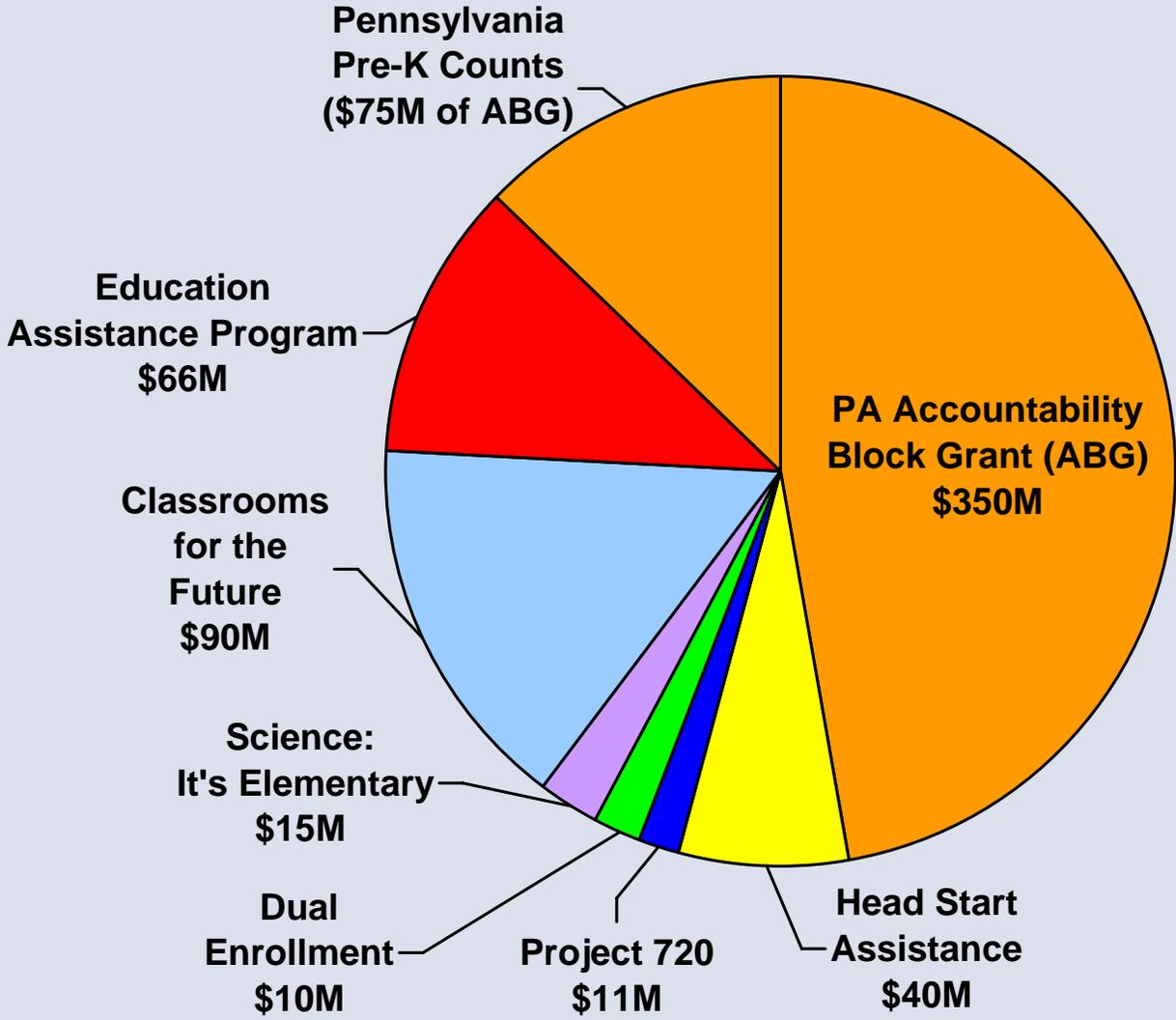
Transforming Pennsylvania's High Schools

The 2007-08 budget provides more than \$27.2 million in additional funding to increase the rigor of high school curricula.

- **Job Ready PA: \$10 million** for **dual enrollment** programs that let high school students earn college credit while they complete their graduation requirements.
- **Job Ready PA: \$11 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**.
- **Quality Leadership: \$2 million** to make school-leader accountability a reality through the **Pennsylvania Inspired Leadership System**.
- **Quality Teaching: \$1.2 million** to help 500 Pennsylvania teachers earn **National Board certification**.



2007-08 Targeted Education Investments



More than \$582 million in new targeted education investments designed to improve student achievement is part of the 2007-08 budget.

**Total:
\$582 Million**



Commonwealth of
Pennsylvania
February 2007

Investing In Pennsylvania's Future

The 2007-08 budget continues to build on Pennsylvania's accomplishments over the last four years by increasing three 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.

- **\$15 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. Nearly 50,000 students in 85 new school districts will benefit.
- **\$90 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. More than 350 schools will benefit.
- **\$7 million for technology professional development** for Pennsylvania teachers and school leaders.



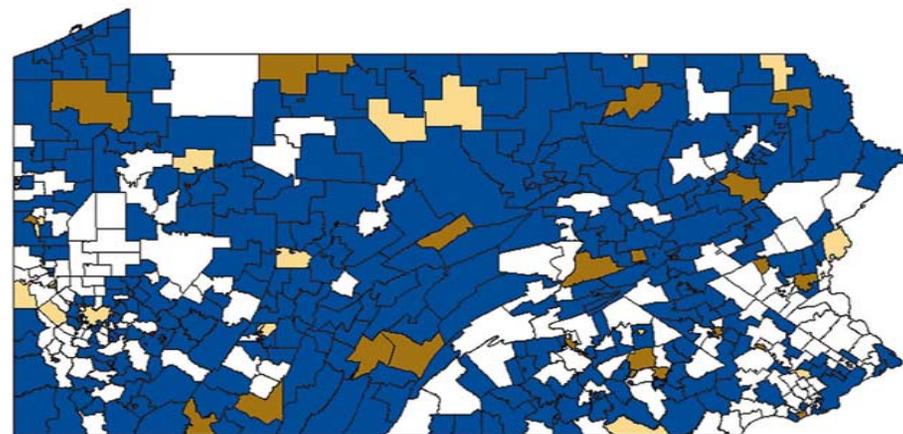
Investing In Pennsylvania's Future

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 2007-08 – highlighted by a 33 percent increase in funding for Head Start expansion so that this proven program can serve nearly 5,750 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.



Accountability Block Grant
Early Childhood Education

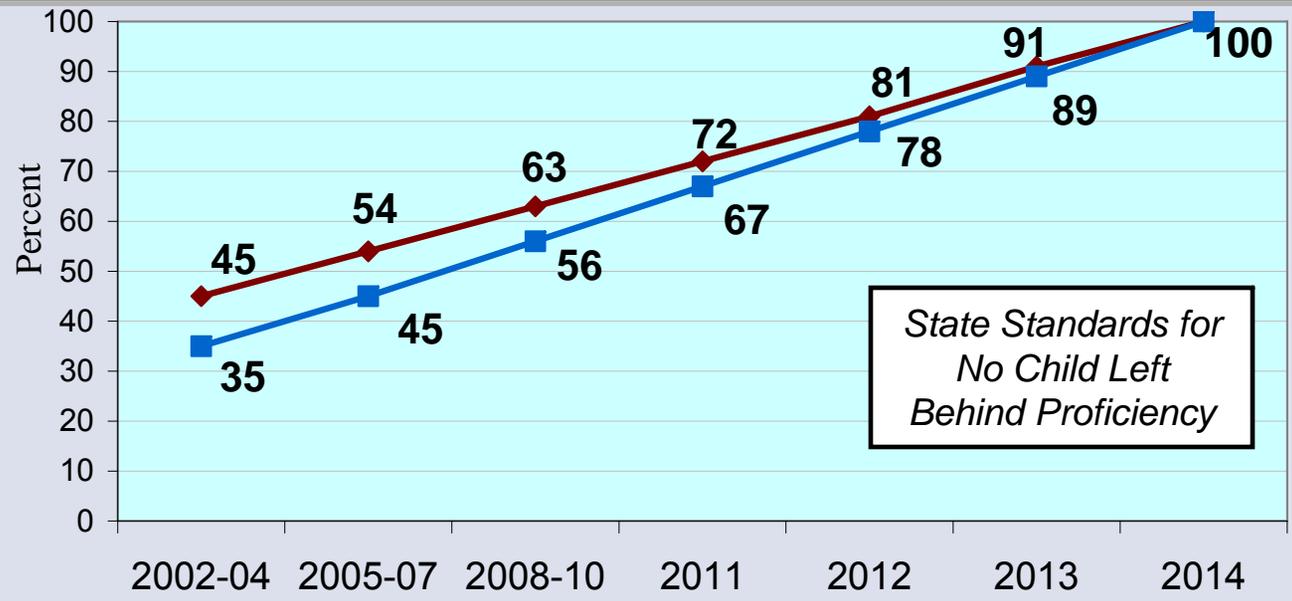
- PreK and Full-Day K
- Full-Day Kindergarten
- Pre-Kindergarten



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 increased from 53 percent of our students in 2002 to 69 percent in 2004-05, while the number of fifth-graders meeting standards in reading rose 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.



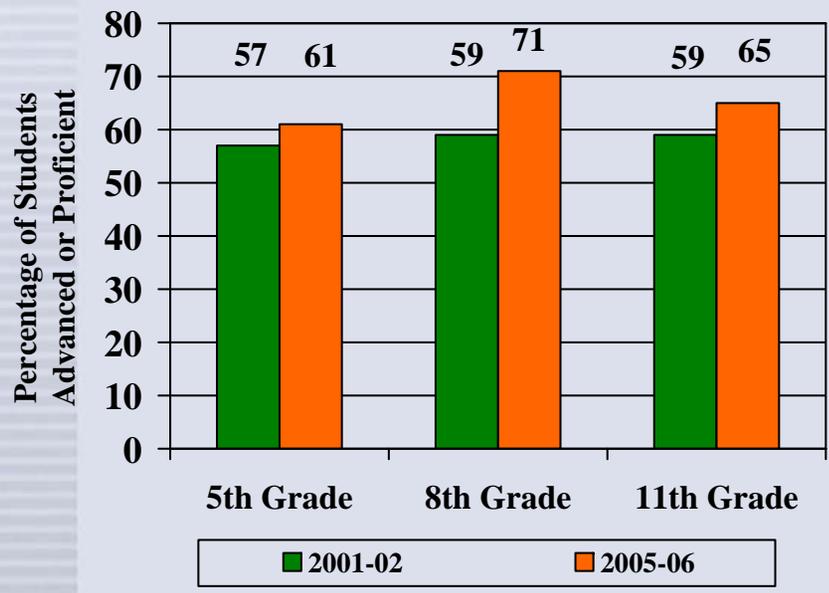
◆ % Proficient - Reading ■ % Proficient - Math



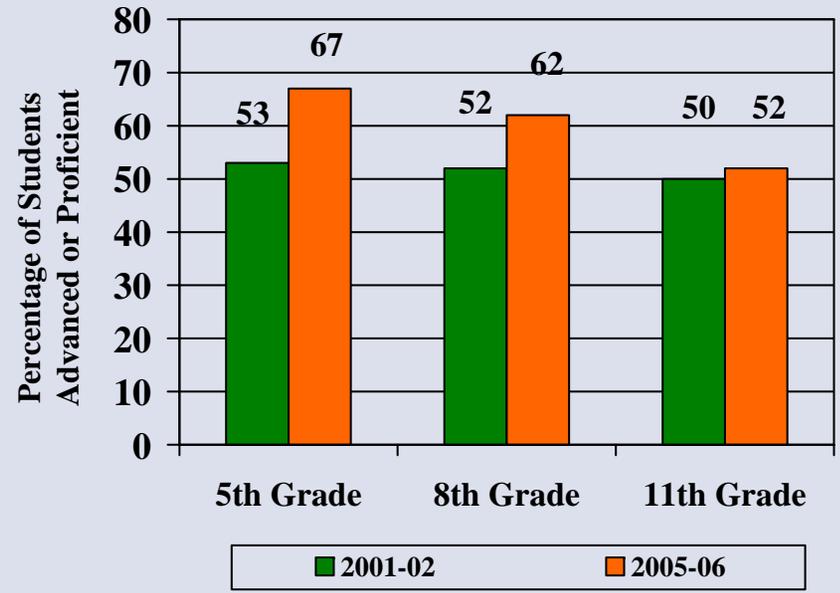
Student Achievement

Since 2002 students across Pennsylvania have made significant progress in achievement. There has been an increase in performance results across every grade level in both reading and math.

**Reading PSSA Results
 2001-02 vs. 2005-06**



**Math PSSA Results
 2001-02 vs. 2005-06**



PSSA: Pennsylvania System of School Assessment



2005-06 Adequate Yearly Progress (AYP) 2005-06 PA System of School Assessment (PSSA)

The latest AYP and PSSA results show that Pennsylvania is on track to move all students to proficiency by 2014 as required by the federal No Child Left Behind Act of 2002. Schools and school districts across the commonwealth have reaped the benefits of targeted investments in proven practices to ensure that ALL children have an opportunity to achieve at high levels. Pennsylvania's efforts have already paid dividends. This year's testing results confirm that last year's unprecedented gains are real and are being sustained.

- ✓ 90 percent of Pennsylvania School Districts met Adequate Yearly Progress in 2006.
- ✓ Students in the lowest-performing school districts have made significant progress in reading and mathematic proficiency since the 2001–2002 school year.
 - ✓ Fifth graders improved by 21.3 percentage points in mathematics and 9.3 percentage points in reading
 - ✓ Eighth graders improved by 16.9 percentage points in mathematics and 17.4 percentage points in reading
 - ✓ Eleventh graders improved by 5.6 percentage points in mathematics and 9.4 percentage points in reading



Commonwealth of
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Higher Education in the 2007-08 Budget

Pennsylvania is making significant investments in higher education funding in the 2007-08 budget.

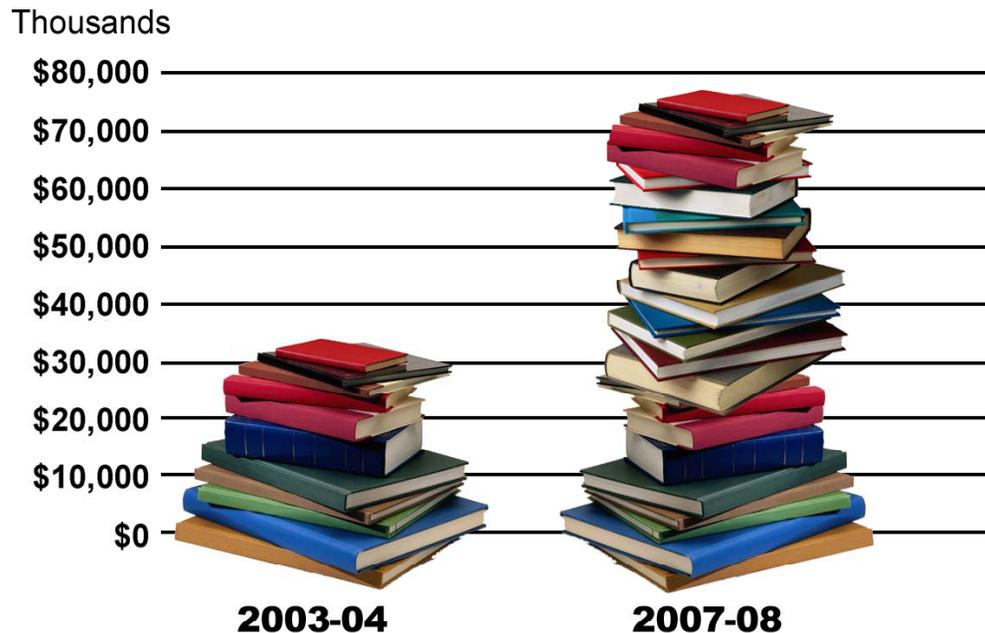
Higher education funding includes:

3.5% increase in total funding for the Community Colleges . . .	\$ 275.9 M
3.5% operating increase for State System of Higher Education	\$ 504.2 M
2.0% operating increases for the State-Related Universities	
Penn State University	\$ 332.9 M
University of Pittsburgh	167.9 M
Temple University	172.9 M
Lincoln University	13.8 M
Total – State-Related Universities	\$ 687.5 M
Non-State Related Universities	\$ 89.4M



Historic Level of Support for Public Libraries in the 2007-08 Budget

Support for Public Libraries



Building a knowledge society demands a strong investment in our public libraries. This budget continues to increase library funding, bringing the state subsidy for local libraries to \$75.8 million. This increase reaffirms Pennsylvania's current standing as a national leader in state funding for libraries.



*Commonwealth of
Pennsylvania
February 2007*

2007-08 Budget Overview

Prescription for Pennsylvania

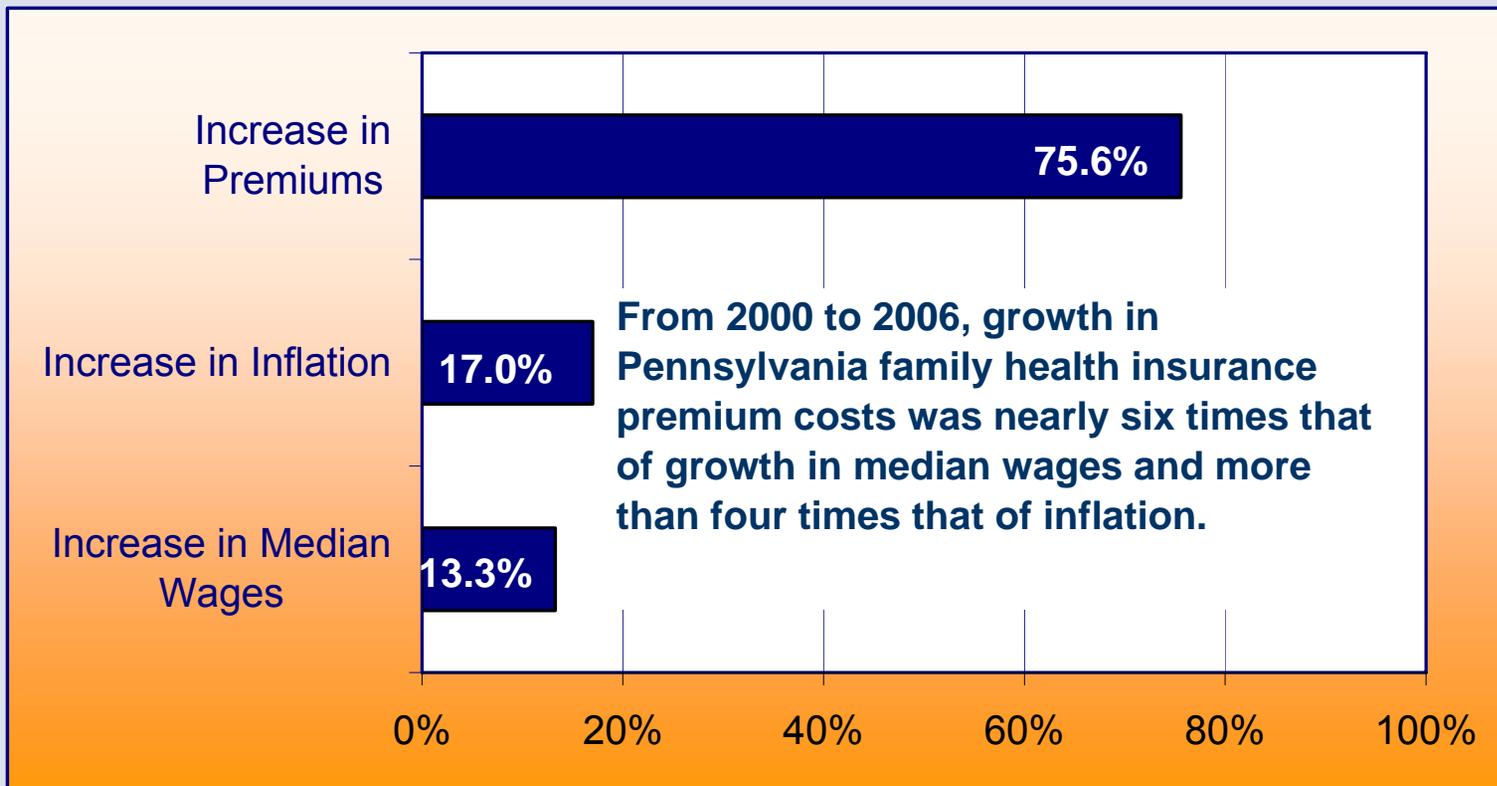


Commonwealth of
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Prescription for Pennsylvania

The Need for Action

Pennsylvania businesses suffer a competitive disadvantage when they compete in the global marketplace against companies from countries where health care costs less and is universally available. Pennsylvania spends 11 percent more per person on health care than the U.S. average, and our health care costs are increasing twice as fast as average wages.





Commonwealth of
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February 2007

Prescription for Pennsylvania: The Basics

Governor Rendell recently unveiled a bold, sweeping “Prescription for Pennsylvania” that will increase access to affordable health care coverage for all Pennsylvanians, improve the quality of care delivered throughout the commonwealth and help bring health care costs under control for employers and employees. This budget recommends a total of \$255.3 million in state and federal funds to implement Prescription for Pennsylvania in 2007-08.

Prescription for Pennsylvania will:

- ✓ Ensure that all eligible uninsured adults have access to affordable health care coverage through the new Cover All Pennsylvanians (CAP) program;
- ✓ Reduce incentives for employers to drop health care coverage by assessing businesses that do not provide health insurance a percentage of their payroll to help pay for CAP;
- ✓ Expand access to cost-effective health care and health care professionals;
- ✓ Remove unnecessary restrictions that prevent licensed health care providers from practicing to the fullest extent of their education and training;
- ✓ Improve the quality of care of those suffering from chronic conditions to avoid unnecessary hospitalization;
- ✓ Make all Pennsylvania workplaces, restaurants and bars smoke free; and
- ✓ Reward consumers for healthy behavior and promote wellness education and sound nutrition in schools.



Commonwealth of
Pennsylvania
February 2007

Prescription for Pennsylvania Initiatives

Governor Rendell recently unveiled a bold, sweeping “Prescription for Pennsylvania” that will increase access to affordable health care coverage for all Pennsylvanians, improve the quality of care delivered throughout the commonwealth, and help bring health care costs under control for employers and employees. This budget recommends a total of \$255.3 million in state and federal funds to implement Prescription for Pennsylvania in 2007-08.

The Prescription for Pennsylvania initiatives are being paid for by levying a tax on other tobacco products. Every other state except Pennsylvania already taxes these products.

- **\$6.5 million** – to increase the availability of school breakfasts and other nutritious foods for students.
- **\$5.4 million** - to increase access to primary health care in underserved rural areas.
- **\$2.5 million** - to implement a comprehensive, evidence-based chronic care management model for persons with chronic disease.
- **\$2.3 million** - to develop standardized identification and reporting of hospital-acquired infections by hospitals and provide training on infection control best practices.
- **\$1.2 million** – to manage and coordinate Prescription for Pennsylvania implementation.



Prescription for Pennsylvania Initiatives (cont'd)

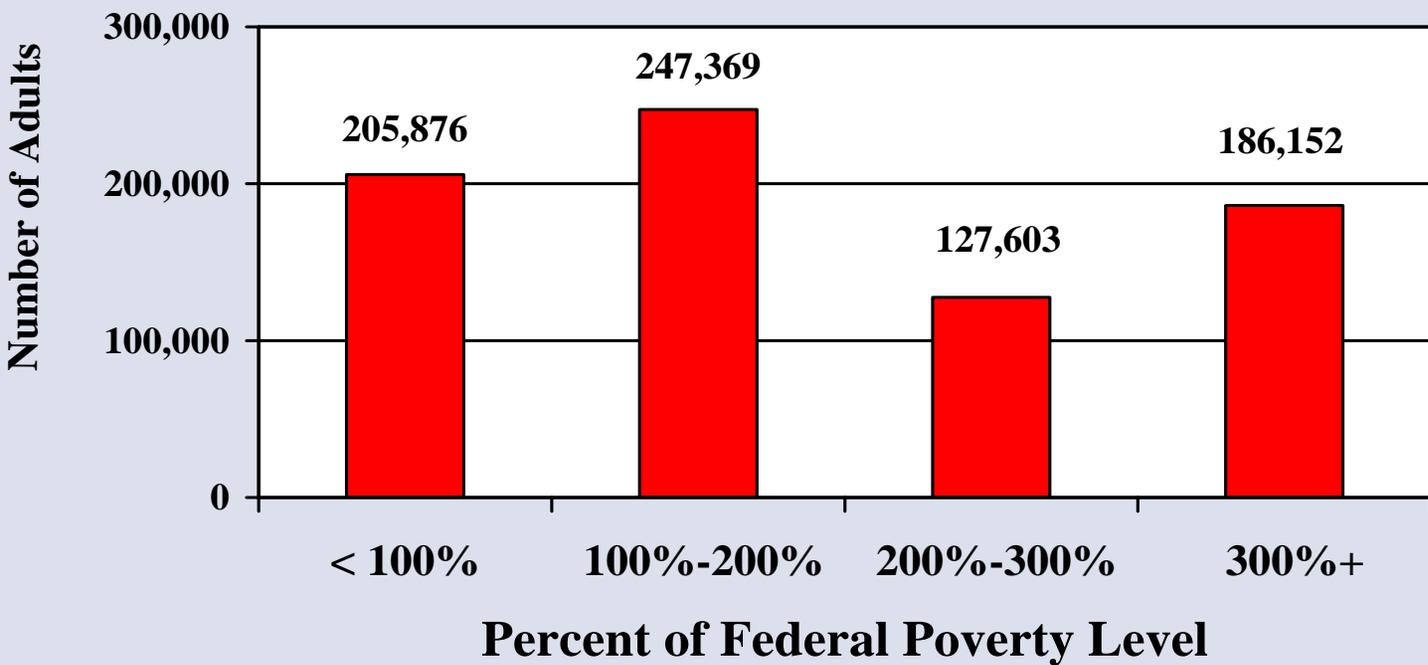
- **\$1.0 million** - to increase the number of health professionals equipped to address the needs of racial and ethnic minorities.
- **\$810,000** - to develop standardized policies for non-profit hospitals required to meet community benefit obligations.
- **\$719,000** - to enhance the delivery of health messages through an integrated and coordinated approach to health literacy.
- **\$510,000** - to develop and enforce standardized hospital admission criteria and fair billing and collection practices.
- **\$268,000** - to expand premium rate review authority to all insurers providing coverage in the small employer market.
- **\$120,000** - to develop recommendations and criteria for health system capital expenditures.
- **\$30,000** – to assist elementary school teachers with integrating healthy living concepts into lesson plans.



Pennsylvania's Uninsured Adults

Although 92 percent of Pennsylvanians have some type of health care coverage, a recent survey commissioned by the Insurance Department determined that 767,000 adults in Pennsylvania remain uninsured. Of the 767,000 uninsured adults, more than 71 percent are working. Of those working, nearly 62 percent are employed full-time and nearly 47 percent work for small employers. Overall, more than 75 percent of the 767,000 uninsured adults are below 300 percent of the federal poverty level (\$62,000 for a family of four).

Uninsured Adults





Commonwealth of
Pennsylvania
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Cover All Pennsylvanians: Who is Eligible?

Cover All Pennsylvanians (CAP), a component of Prescription for Pennsylvania, will offer an affordable basic health care plan for uninsured individuals and small businesses. Uninsured individuals earning up to 300 percent of the federal poverty level and low-wage small employers will be subsidized with state and federal funds. Uninsured adults who earn more than 300 percent of the poverty level will be able to purchase coverage through CAP at the same affordable premium rate that the commonwealth will pay.

Individuals with family income:

- less than 200 percent of the poverty level who have been uninsured for at least 90 days prior to enrollment; and,
- 200 percent of the poverty level or above who have been uninsured for at least 180 days prior to enrollment.

Small low-wage businesses with:

- 2-50 employees;
- an average salary for all workers less than the average salary of all Pennsylvania workers; and,
- no employee health insurance benefits for at least 180 days prior to enrollment.



Cover All Pennsylvanians: What Will It Cost?

Cover All Pennsylvanians (CAP), a component of Prescription for Pennsylvania, will offer an affordable basic health care plan for uninsured individuals and small businesses. Uninsured individuals earning up to 300 percent of the federal poverty level and low-wage small employers will be subsidized with state and federal funds. Uninsured adults who earn more than 300 percent of the poverty level will be able to purchase coverage through CAP at the same affordable premium rate that the commonwealth will pay.

Individuals with family income:

- less than 100 percent of the poverty level will pay \$10 a month.
- between 100 and 200 percent of the poverty level will pay \$40 a month.
- between 200 and 300 percent of the poverty level will pay \$60 a month.
- 300 percent of the poverty level or above may purchase at-cost for \$283 a month.

Small Businesses:

- Employers will pay \$129 a month for at least 75 percent of their employees.
- Employees will pay \$69 a month.
- Employees whose income is below 300 percent of the poverty level will pay monthly premiums at the individual enrollee rates, based on family incomes.

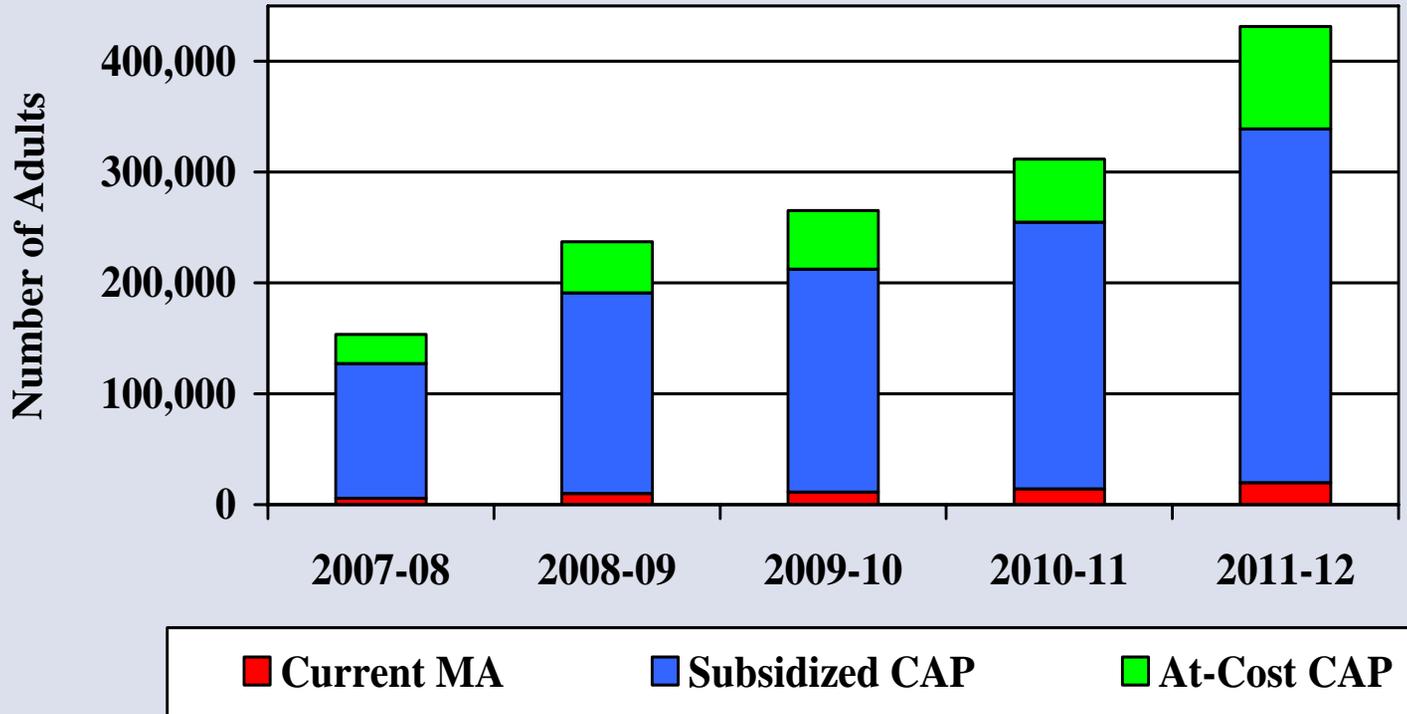
All enrollees will pay co-payments for selected services.



Cover All Pennsylvania: Projected Program Growth

Through extensive outreach efforts, Cover All Pennsylvanians (CAP) expects to enroll 153,600 adults in 2007-08, the initial year of the program, growing to an enrollment of 431,300 in 2011-12. While the majority of the uninsured are projected to enroll in the subsidized component of CAP, including those transferring from the existing adultBasic program, some will be eligible instead for the commonwealth's existing Medical Assistance program. Others will purchase health care coverage through CAP at the same affordable premium rate that the commonwealth will pay.

Enrolled Adults





Cover All Pennsylvanians: Funding Source

The health care premiums and the administration costs of Cover All Pennsylvanians will total approximately \$302.2 million in 2007-08. These costs will be covered by a variety of revenues sources, including existing funds currently used for the adultBasic program, federal Medicaid matching funds, and enrollee and small employers cost-sharing.

Cover All Pennsylvanians will also be supported by a three percent Fair Share Assessment levied on the payrolls of businesses that do not offer health care coverage to their employees.

Funding Sources	
Existing State Funds - Tobacco Settlement Fund	\$31.3 million
Existing State Funds - Community Health Reinvestment	\$52.2 million
Federal Funds – Medicaid	\$104.0 million
Cost Sharing – Small Employers	\$0.7 million
Cost Sharing – Enrollees	\$68.0 million
New Revenue - Fair Share Assessment	\$60.4 million
Total Revenue	\$316.6 million



Cover All Pennsylvanians: Projected Expenditures

Through extensive outreach efforts, Cover All Pennsylvanians expects to enroll 153,600 adults in 2007-08, the initial year of the program, growing to an enrollment of 431,300 in 2011-12. While the majority of the uninsured will enroll are projected to enroll in the subsidized component of Cover All Pennsylvanians, including those transferring from the exiting Adult Basic program some will be eligible instead for the commonwealth's existing Medical Assistance program. Others will purchase health care coverage through Cover All Pennsylvanians at the same affordable premium rate that the commonwealth pays.

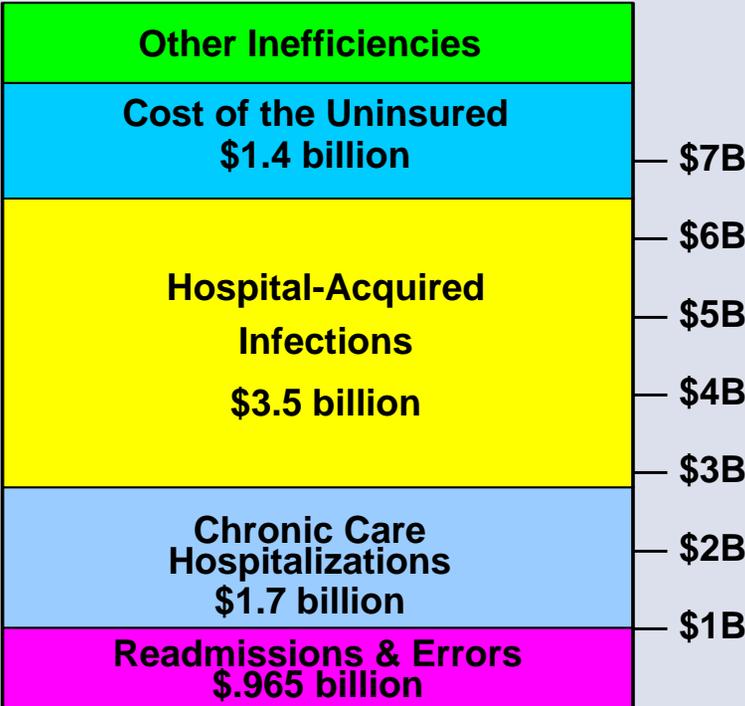
Projected Expenditures	
Medical Assistance Benefits for Currently Eligible Adults	\$10.1 million
Subsidized Premiums – Cover All Pennsylvanians	\$206.3 million
At-Cost Premiums – Cover All Pennsylvanians	\$44.9 million
Plan Administration	\$40.9 million
Total Expenditures	\$302.2 million



Prescription for Pennsylvania

The Cost of Inaction

Pennsylvania's businesses, consumers and taxpayers pay at least \$7.6 billion a year for unnecessary and avoidable health care costs. Inaction would not only continue these unnecessary and avoidable costs, it would jeopardize the health and safety of our residents and perhaps even weaken the commonwealth's economic competitiveness.





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2007-08 Budget Overview

Caring for Pennsylvanians in Need



*Commonwealth of
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The Rendell Administration's Guiding Principles for Preserving and Reforming the Safety Net

- **No cuts will be made to health services and social services provided to children.**
- **No one currently receiving health care services from the commonwealth will lose eligibility.**
- **Pennsylvania will be able to meet increases in demand for services to low-income children, children at risk due to neglect and abuse, chronically ill adults, uninsured working families, disabled individuals, the infirm elderly and other Pennsylvanians in need.**



Commonwealth of
 Pennsylvania
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The Commonwealth Provides Vital Services to More than 3 Million People

PROGRAM	People Served 2006-07	People Served 2007-08
Medical Assistance	1,905,529	1,969,770
Cash Assistance (TANF, General Assistance and State Blind Pension)	264,407	259,205
Child Welfare System	286,847	290,625
Child Care	221,186	221,585
Mental Retardation and Autism Services	45,965	49,485
Children's Health Insurance Program	158,711	174,531
Uninsured Adults*	52,406	147,939
PACE Plus Medicare (avg. enrollments)	325,735	357,725

*2006-07 AdultBasic; 2007-08 includes Cover All Pennsylvanians



Commonwealth of
 Pennsylvania
 February 2007

Caring for All Pennsylvanians

Changes in People Served in 2007-08 (estimated)

Medical Assistance	64,241
<i>Disabled People</i>	8,315
<i>Elderly People</i>	7,410
<i>Children</i>	56,777
<i>Chronically Ill Adults</i>	709
<i>Other Adults</i>	- 8,970
Abused and Neglected Children	3,778
Children in Child Care	398
Mental Retardation and Autism Programs	3,520
Children's Health Insurance Program (CHIP)*	15,820
<i>(Including Cover All Kids)</i>	
Uninsured Adults <i>(Including Cover All Pennsylvanians)</i> . .	95,533
PACE Plus Medicare	31,990

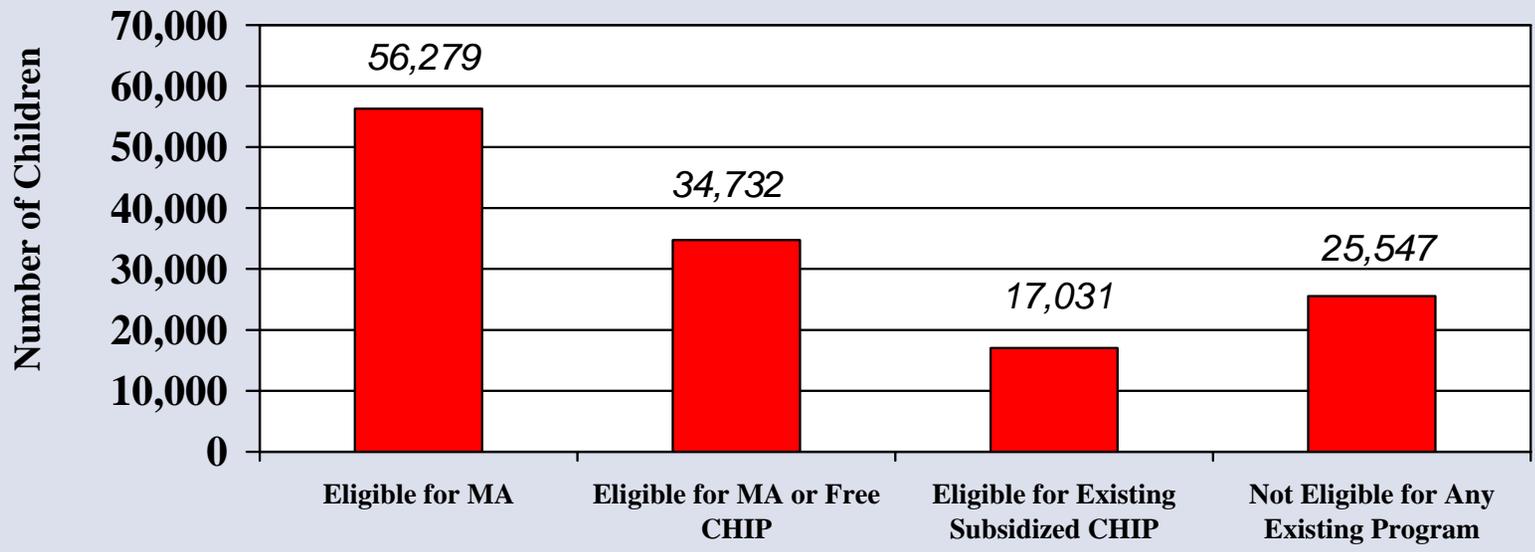
* Beginning in 2007-08, an additional 10 cent per pack increase in the cigarette tax will support the CHIP program.



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), but their parents may not know that. Others are children of working parents caught between public programs they are not eligible for because their incomes are too high and private health insurance they cannot afford.

Pennsylvania's Uninsured Children



Current Eligibility Category



Commonwealth of
Pennsylvania
February 2007

Cover All Kids: The Basics

Cover All Kids will guarantee access to affordable, comprehensive health care coverage for all uninsured children in Pennsylvania. In 2007-08 Cover All Kids will insure more than 21,000 children at a cost of \$32.7 million in state and federal funds.

Cover All Kids will:

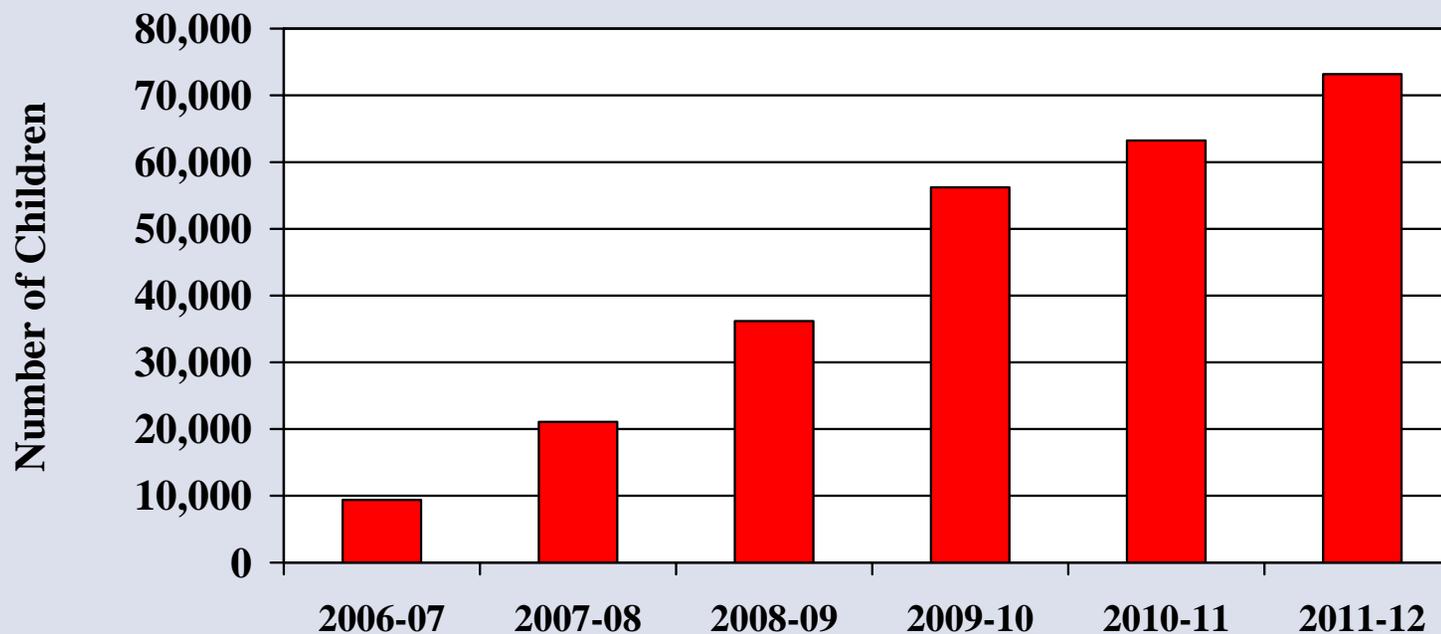
- Provide comprehensive health care coverage, including visits to doctors, hospitalization, prescription drugs, mental health and substance abuse services, vision, dental and home health care.
- Subsidize coverage for children in families whose annual income does not exceed 300 percent of the federal poverty level (\$62,000 for a family of four). Family premiums will range, on average, between \$38 and \$60 per month per child.
- Offer at-cost coverage for children in families whose income exceeds 300 percent of poverty (on average, \$150 per month per child).



Cover All Kids: Projected Program Growth

Cover All Kids will enroll more than 21,000 uninsured children in 2007-08, growing to more than 73,000 uninsured children in 2011-12. 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.

Cover All Kids Additional Insured Children





TANF Work Participation Trends

Adults Receiving Cash Assistance

*Pennsylvania provides cash assistance, job training and child care for low-income adults transitioning to work, using federal funds provided under the Temporary Assistance for Needy Families (TANF) program. The federal Deficit Reduction Act of 2005 requires state to meet a 50 percent work participation rate for TANF recipients in federal fiscal year 2007. **Record numbers of low-income Pennsylvanians are meeting federal work requirements, helping Pennsylvania to achieve a 49 percent work participation rate in November.** More than 10,000 individuals receiving cash assistance are working each month while others engage in job preparation and job search, vocational educational training and work experience programs. The 2007-08 budget includes \$38 million for continued child care and support services to assist clients in meeting the work requirements.*

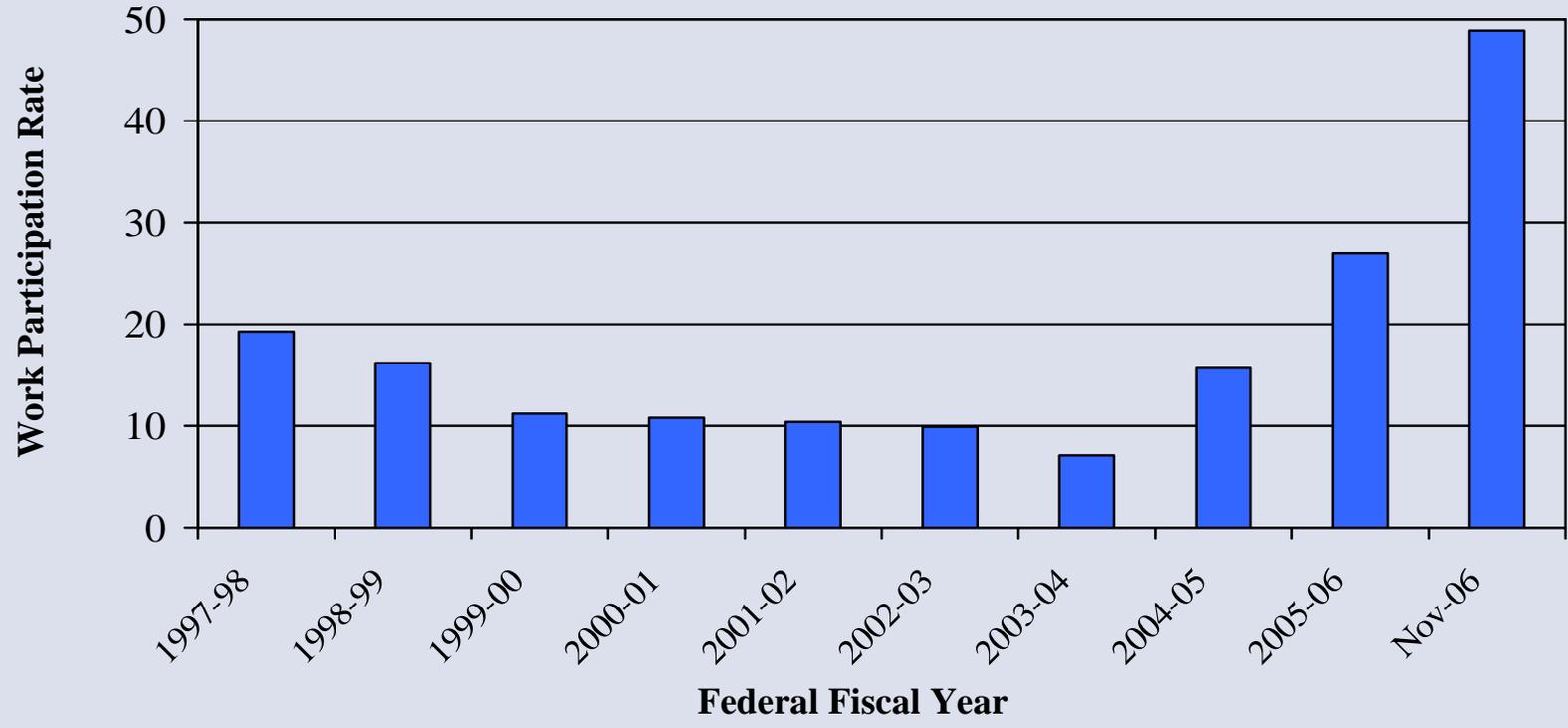
2006	Families Required to Participate	Families Fully Participating	Federal Work Participation Rate
January	64,733	9,900	15%
April	61,809	13,157	21%
July	39,206	12,552	32%
November	33,156	16,218	49%



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TANF Work Participation Rates Climb

Low-income Pennsylvania families receiving cash assistance are experiencing unprecedented success moving from welfare to work, helping Pennsylvania achieve a 49 percent work participation rate in November 2006. This result marked Pennsylvania's highest participation level since the federal Temporary Assistance to Needy Families (TANF) program was enacted in 1996 and was more than triple the rate achieved in fiscal year 2004-05. When combined with a federal "caseload reduction credit" that Pennsylvania will receive for reducing the cash assistance caseload, the state's TANF work participation rate will exceed the federally required 50 percent.

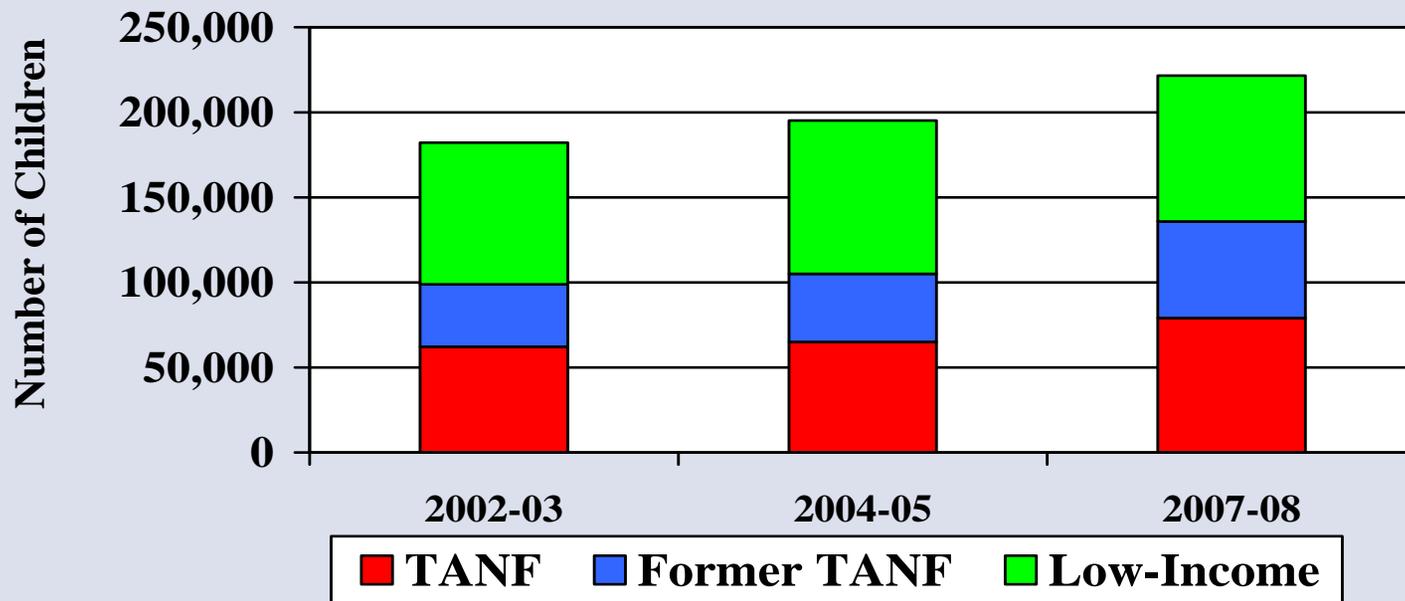




Subsidized Child Care Services

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 182,102 to 221,585 – an increase of 22 percent - and the quality of child care has increased significantly through the Keystone STARS program. This budget includes an increase of \$29.8 million to ensure that quality school-readiness services continue to be available through the child care system in 2007-08.

Pennsylvania Children in Subsidized Child Care



TANF = Temporary Assistance for Needy Families



Caring for All Pennsylvanians

The 2007-08 budget includes \$114.7 million to increase services for children, adults and families in need. This is in addition to the significant increases recommended to provide health insurance for Pennsylvania's uninsured children and adults.

- \$45.4 million to provide **early intervention services** for 4,300 additional children from birth through age five and to maintain existing services for 72,000 children – a total state investment of \$292.8 million.
- \$29.3 million to provide home and community-based services to 3,428 additional people with **mental retardation** and to address new federal requirements – a total state investment of \$868.1 million.
- \$23.6 million to increase child care provider rates to ensure access to quality care and to provide **subsidized child care services** to 400 additional children – a total state investment of \$341 million.



Caring for All Pennsylvanians (cont'd)

- \$7.6 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 \$88.1 million.
- \$6 million to continue providing **quality early learning experiences** to 176,000 children through the Keystone STARS program – a total investment of \$19.3 million.
- \$2.3 million to provide home and community-based services for 100 adults with **autism** and to continue developing a statewide model of excellence – a total state investment of \$5.3 million.
- \$500,000 to provide **respite care services** for 2,000 children with emotional disturbances and their families.



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2007-08 Budget Overview

Medical Assistance



Commonwealth of
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Medical Assistance in Pennsylvania

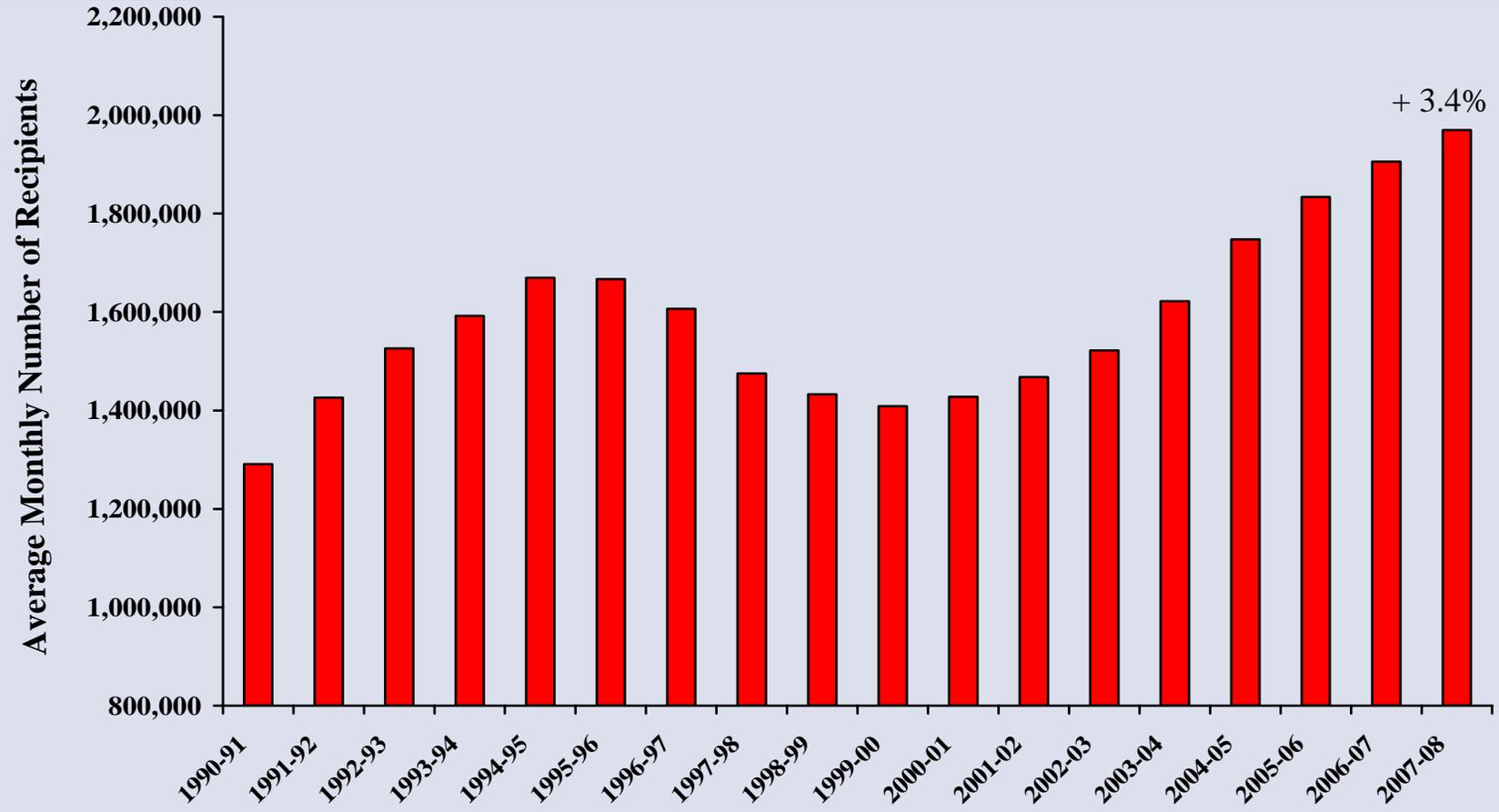
- Provides medical care for low-income individuals
 - Children, pregnant women, the elderly and people with disabilities
 - Currently serves more than 1.9 million people
- Comprehensive benefits package
 - inpatient and outpatient services
 - long-term care
 - prescription drugs
 - limited cost sharing
- Provider network includes 68,000 providers
- Total annual expenditures are \$14.6 billion
- State-administered but jointly funded with federal and state funds
- State funding from the General Fund, Lottery Fund and Tobacco Settlement Fund



Commonwealth of
 Pennsylvania
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MA in PA - Serving More People in Need

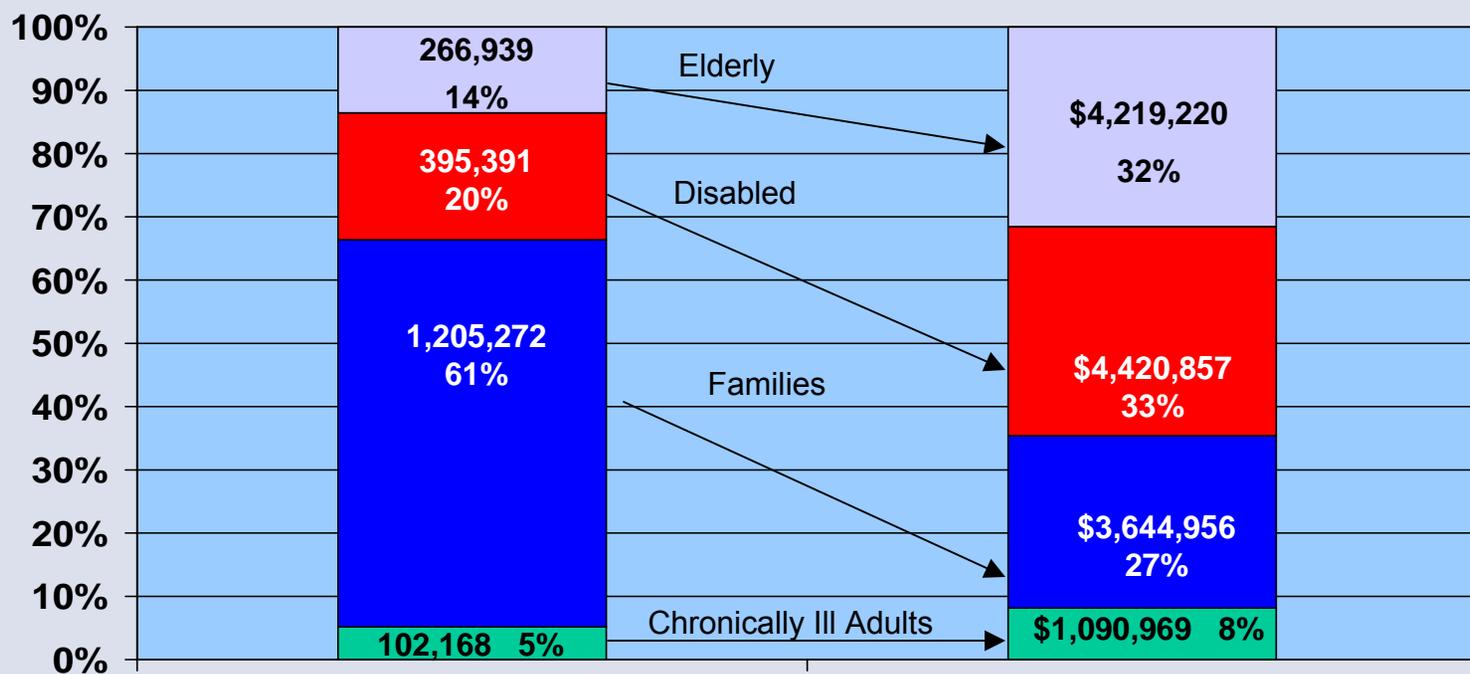
The Medical Assistance (MA) program is projected to provide services to an additional 64,000 clients during 2007-08; however, the number of adults enrolled in the program will decrease by nearly 9,000. All the growth in the MA caseload results from serving additional elderly people, persons with disabilities, chronically ill adults and children.





Seniors and People with Disabilities Use the Greatest Share of Medical Assistance Resources

Medical Assistance Recipients by Category and Cost
2007-08



Number and Percent of People per Category

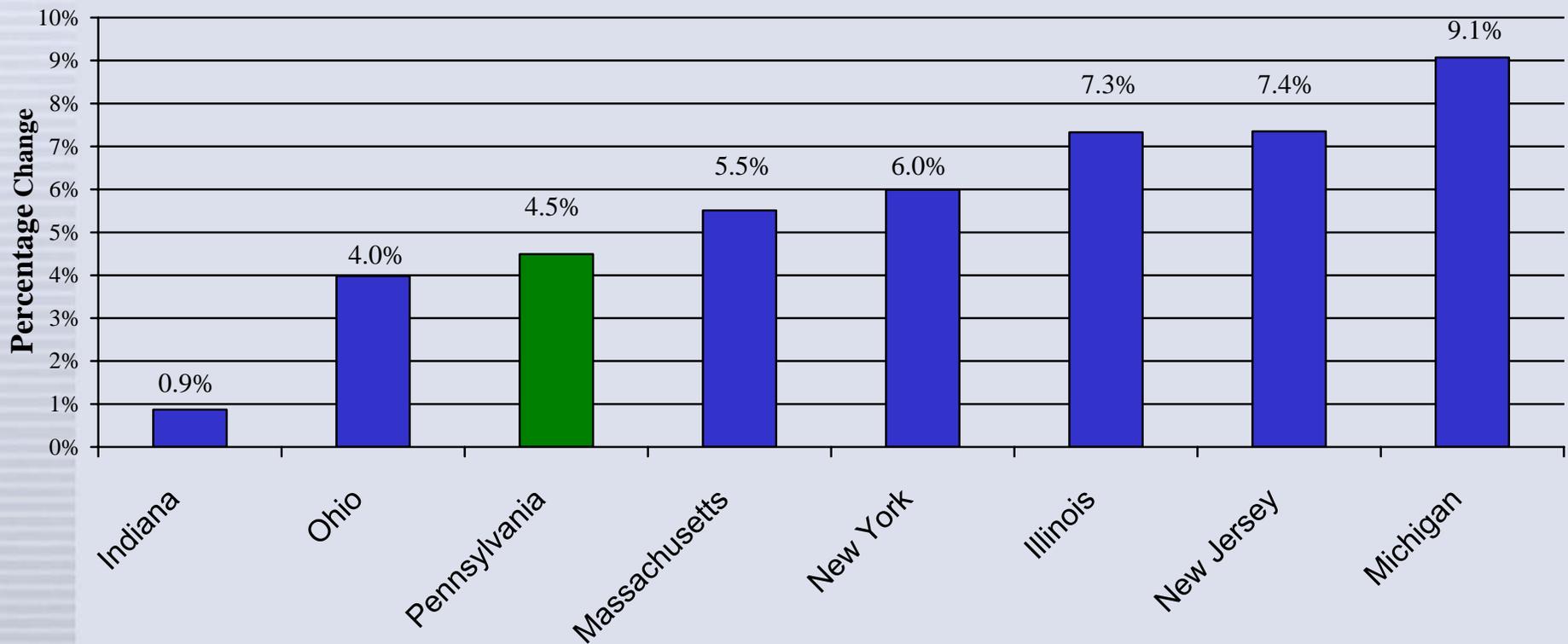
Amount Spent per Category
(Dollar Amounts in Thousands)



Medicaid Enrollment Trends

Pennsylvania versus Other Large Industrial States (2004 to 2005)

From 2004 to 2005, most of the large industrial states experienced higher rates of growth in Medicaid enrollments than Pennsylvania, with Michigan seeing an increase of more than 9 percent. Pennsylvania's increase was 4.5 percent, less than growth in Massachusetts, New York, Illinois and New Jersey.



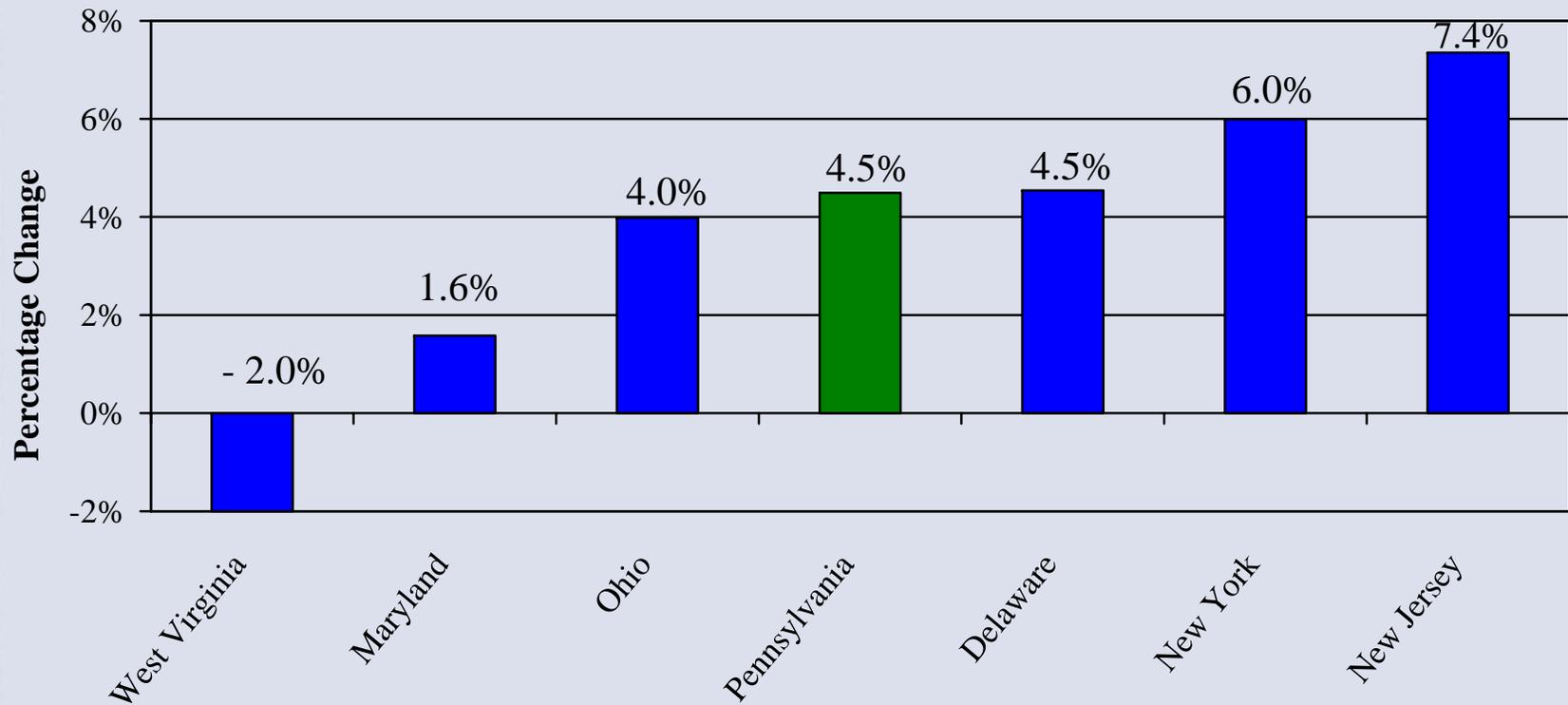
Source: Centers for Medicare and Medicaid Services, Medicaid and Managed Care Enrollment Tables.



Medicaid Enrollment Trends

Pennsylvania versus Surrounding States (2004 to 2005)

From 2004 to 2005, Pennsylvania's Medicaid enrollment growth was in the middle of the pack compared to neighboring states. Three neighboring states had higher growth rates, and three states had lower growth rates than the commonwealth.



Source: Centers for Medicare and Medicaid Services Medicaid and Managed Care Enrollment Tables.



2007-08 MA Cost Containment Initiatives

Building upon prior-year initiatives that saved \$337.6 million by reforming the commonwealth's safety net and increasing the efficiency and integrity of the Medical Assistance program, the 2007-08 budget proposes cost containment measures estimated to save an additional \$194.5 million in state funds, freeing up these funds to continue vital programs that serve Pennsylvanians in need.

Total cost containment from 2005-06 through 2007-08 is projected to be \$532.1 million.

Initiatives	In Millions
Consolidate Medical Assistance pharmacy (annual savings \$94 Million)	\$ 45.2
Implement managed care performance incentives	\$ 38.6
Implement quarterly resident assessments in nursing homes	\$ 30.0
Redirect voluntary managed care clients to managed fee-for-service system	\$ 23.2
Enhance third-party liability initiatives	\$ 23.1
Deficit Reduction Act pharmacy savings	\$ 16.1
Reduce lump-sum pass-through payments to hospitals	\$ 15.6
Eliminate payment for readmission with same diagnosis within 30 days	\$ 2.7
Total	\$194.5



MA Redesign and Cost Containment Initiatives

Building upon the reforms to the commonwealth's safety net initiated in the 2005-06 budget, the 2006-07 budget includes additional measures to increase the efficiency and integrity of the Medical Assistance program. Combined, these initiatives are estimated to result in savings of \$337.6million in 2006-07, freeing up these funds to continue programs that serve Pennsylvanians in need.

Dollars in millions

Selected Initiatives	2005-06		2006-07	
	Original	Actual	Original	Revised
Reduce administrative cost and enhance efficiency	\$ 88.8	\$ 111.2	\$ 92.7	\$ 111.2
Increase third-party liability collections and decrease fraud and abuse	\$ 20.5	\$ 36.4	\$ 31.8	\$ 31.5
Implement preferred drug list/other pharmaceutical efficiencies	\$ 82.1	\$ 82.1	\$ 94.1	\$ 85.6
Redesign fee-for-service benefit package	\$ 24.2	\$ 24.2	\$ 26.9	\$ 24.2



MA Redesign and Cost Containment Initiatives (cont'd)

Dollars in millions

Selected Initiatives	2005-06		2006-07	
	Original	Actual	Original	Revised
Implement other initiatives (academic medical centers, unpaid medical expense deduction and MATP efficiencies)	\$51.5	\$ 50.6	\$ 63.4	\$50.6
Implement selective contracting	NA	NA	\$ 16.8	\$ 3.0
Improve oversight of hospital utilization	NA	NA	\$ 13.0	\$ 13.0
Seek federal payments for veterans in nursing facilities	NA	NA	\$ 5.1	\$ 0
Expand federal reimbursements for county long-term care costs	NA	NA	\$ 10.0	\$ 10.0

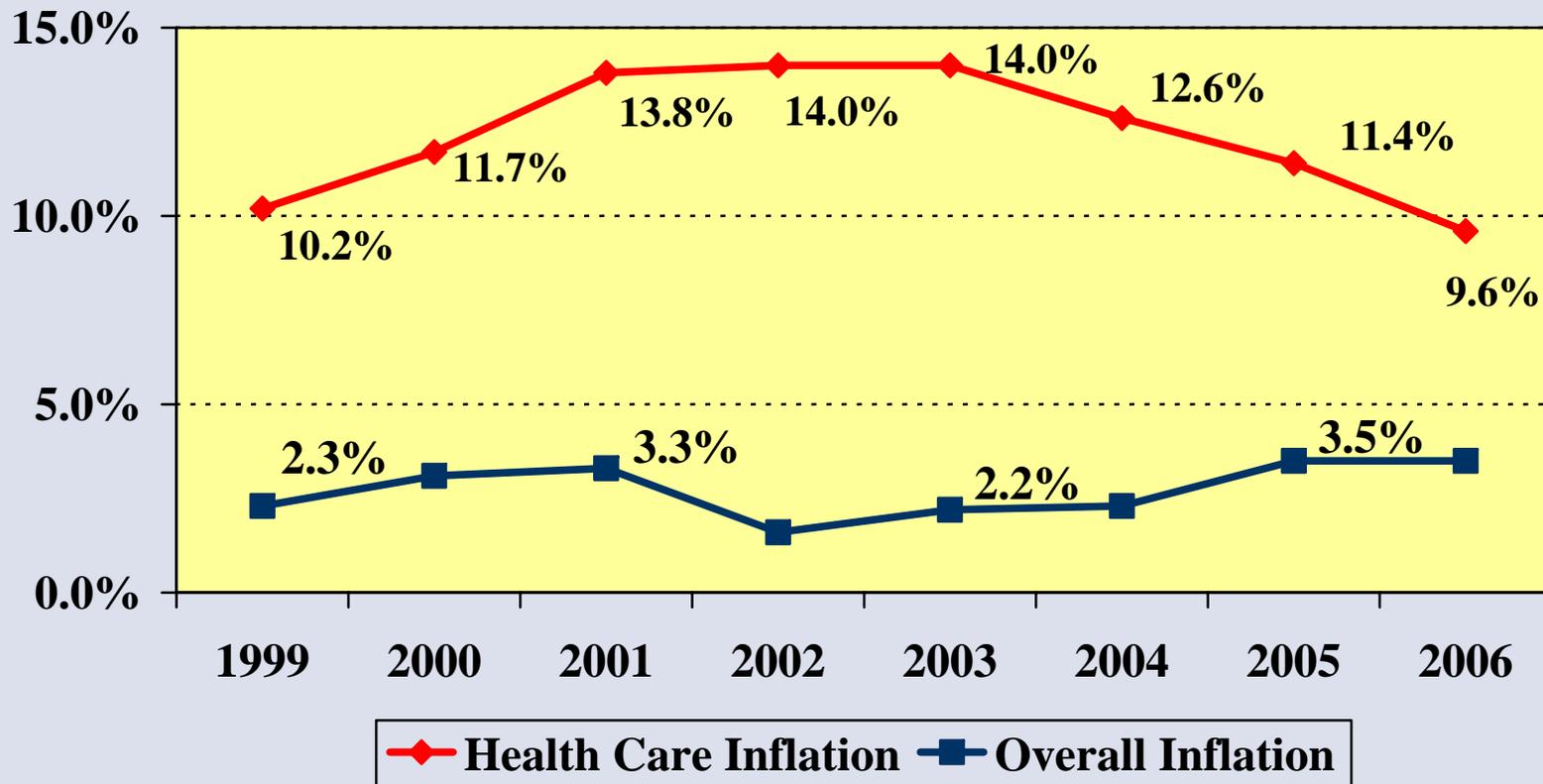


Managing Medicaid is a National Problem

- 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 states are doing a better job of managing their Medicaid health care costs than the private health care market.
- But even at slower rates of growth in caseloads and cost, Medicaid growth still exceeds state revenue growth.
- Cost containment and strong management of the commonwealth's Medicaid program remain a necessity.

Health Care Inflation Is Growing Faster than the Overall Rate of Inflation

Health care inflation has exceeded overall inflation by a significant margin.

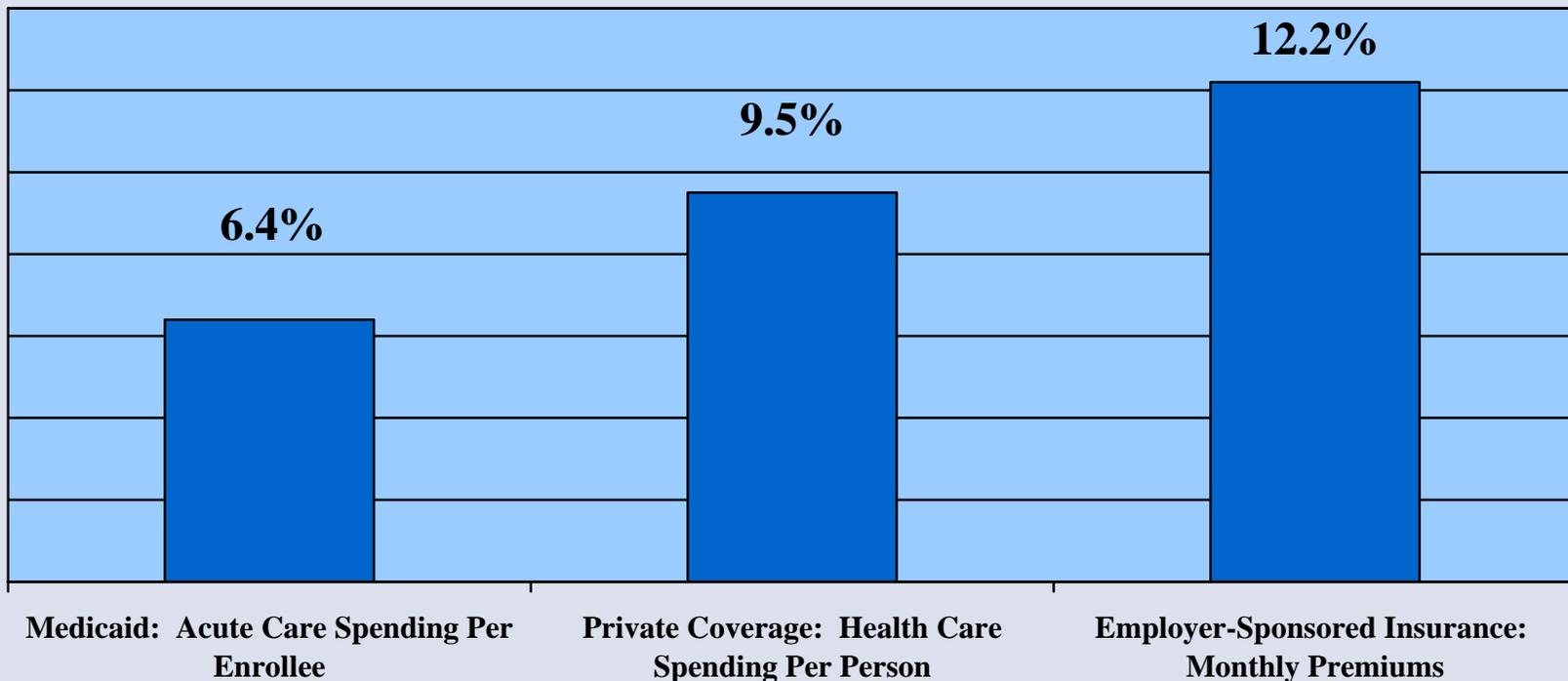


Health care composite inflation rates developed from data provided by Buck Consultants.



States Are Managing MA Costs But Growth is Still High

Per Capita Medicaid Spending Growth in the U.S. Compares Favorably to Growth in Private Health Care Spending 2000 - 2004

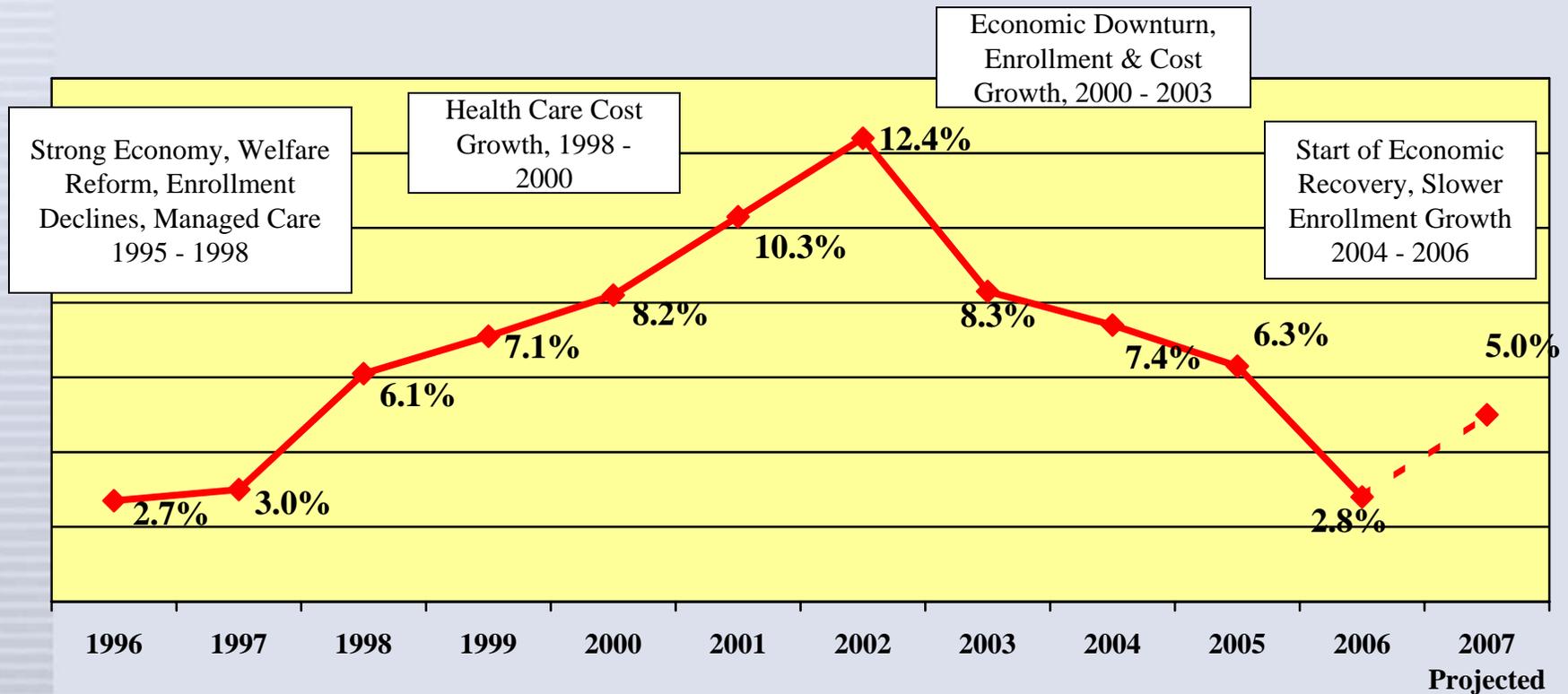


SOURCE: Kaiser Commission on Medicaid and the Uninsured. "Results from a 50-State Medicaid Budget Survey, State Fiscal Years 2006 and 2007" October 2006.



National Medicaid Spending Growth

MA Spending Growth is Down from 2002 Peak but Costs are Still Rising
 1996 – 2007



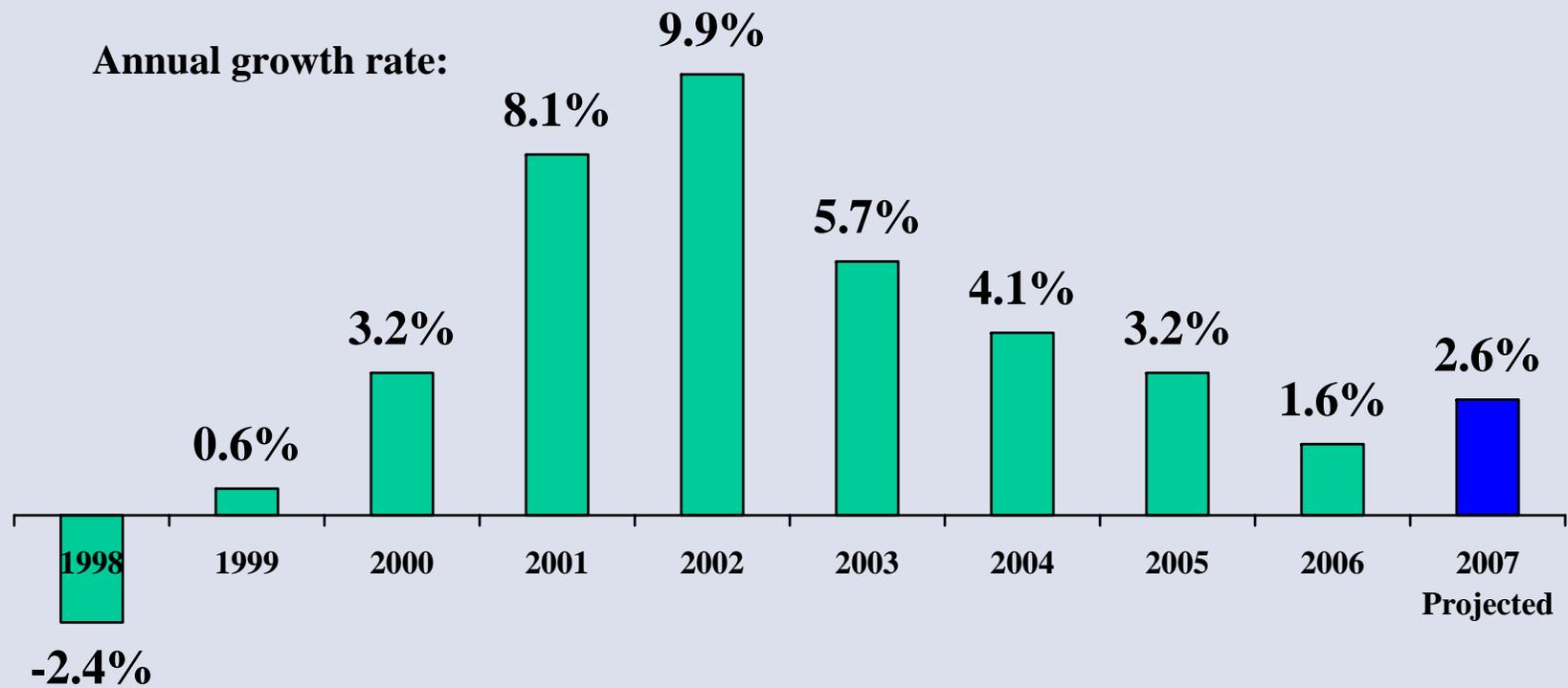
Note: Estimates in State Fiscal Year. Preliminary estimate for 2007.

SOURCE: Kaiser Commission on Medicaid and the Uninsured. "Results from a 50-State Medicaid Budget Survey, State Fiscal Years 2006 and 2007" October 2006.



Percent Change in U.S. Medicaid Enrollment

Enrollment Growth Down from 2002 Peak But Rolls Are Still Growing



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

SOURCE: Kaiser Commission on Medicaid and the Uninsured. "Results from a 50-State Medicaid Budget Survey, State Fiscal Years 2006 and 2007," October 2006.



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2007-08 Budget Overview

PACE Plus Medicare

Comprehensive Prescription Drug Coverage for Older Pennsylvanians



PACE Plus Medicare Prescription Drug Program

Integrating PACE/PACENET Benefits with Medicare Part D

The new PACE Plus Medicare program “wraps around” the federal program and fills the gaps in coverage, including when PACE/PACENET participants reach the so-called “doughnut hole” in the Medicare Part D coverage.

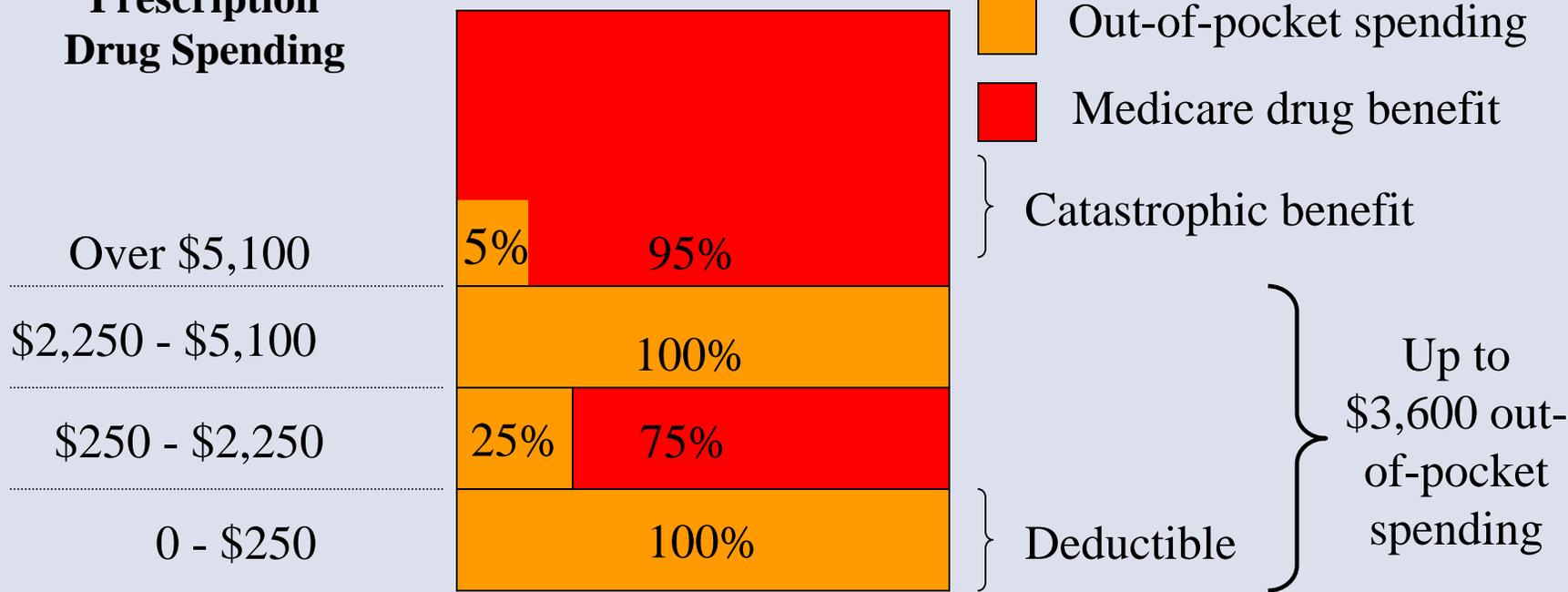
- ✓ In July 2006, the Pennsylvania General Assembly passed and Governor Rendell signed legislation establishing PACE Plus Medicare, which enhances the commonwealth’s PACE and PACENET programs to provide seamless pharmaceutical coverage with the new Medicare Part D prescription benefit.
- ✓ To assist in coordinating benefits, PACE/PACENET acts as the authorized representative for its cardholders to assess eligibility and apply for low-income subsidies, to select and enroll in Part D plans that best match cardholders’ prescription and pharmacy profiles, and to undertake appeals from Part D plans’ denials of coverage or determination of non-preferred status for particular drugs.
- ✓ PACE Plus Medicare began automatic enrollment on September 1, 2006, for PACE/PACENET cardholders in Medicare Part D. As of January 2007, 76 percent (239,179) of the PACE/PACENET cardholders were enrolled in a Part D plan.
- ✓ In 2007, seniors will have the option of selecting from 11 plans offered by nine companies.



Medicare Part D Prescription Drug Program

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

Annual Prescription Drug Spending



Medicare Part D plans may offer alternative options as long as they are actuarially equivalent.



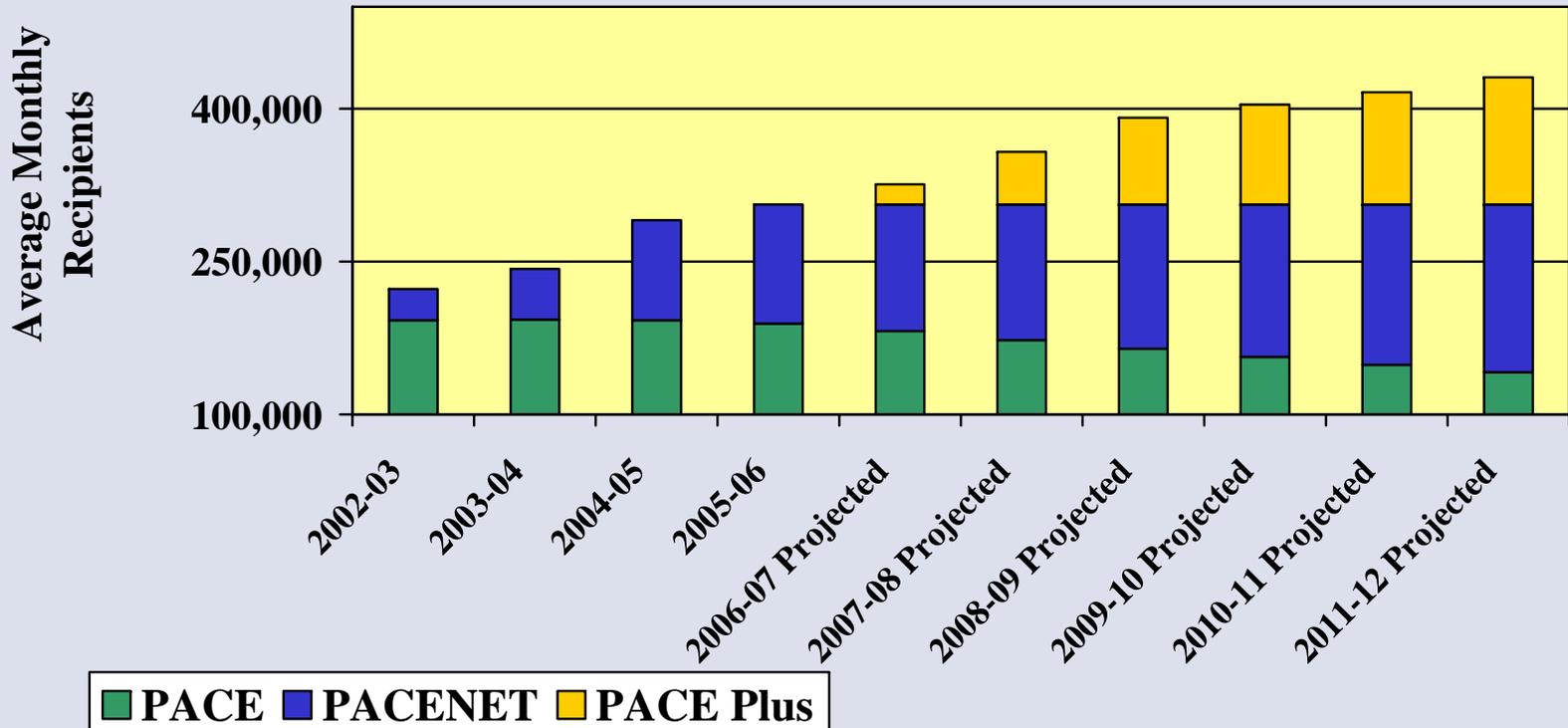
PACE Plus Medicare Wraps Seamlessly Around the Medicare Part D Benefit

Costs	PACE	PACENET
	<i>The state:</i>	<i>The state:</i>
Premiums	Pays the cost of the monthly premium.	Eliminates the \$40 per month PACENET deductible. Consumers will pay the premium of the Medicare Part D plan in which they are enrolled.
Deductibles	Pays for deductibles except program co-pays.	Pays for deductibles except program co-pays.
Drug Coverage	Pays for drugs excluded under federal law and those not covered under a plan's formulary.	Pays for drugs excluded under federal law and those not covered under a plan's formulary.
Co-payments	Pays co-pay and co-insurance differentials in excess of the PACE co-pays (\$6 for generics and \$9 for brands).	Pays co-pay and co-insurance differentials in excess of the PACENET co-pays (\$8 for generics and \$15 for brands).
Gap Coverage	Covers the gap.	Covers the gap.
Catastrophic Coverage	Pays for drugs excluded under federal law and those not covered under a plan's formulary when the drug costs exceed \$5,100.	Pays for drugs excluded under federal law and those not covered under a plan's formulary when the drug costs exceed \$5,100.



PACE Plus Medicare Pharmaceutical Assistance Program Enrollment

*PACE Plus Medicare provides seamless pharmaceutical benefits to PACE/PACENET enrollees in coordination with the federal Medicare prescription drug program. The 2007-08 budget provides funding to extend PACE/PACENET coverage to an additional 31,990 seniors who are currently eligible for, but not enrolled in, PACE/PACENET, assisting them with coverage gaps in the federal Medicare prescription drug program. **This is a significant increase in enrollment since the end of 2002 when 218,900 Pennsylvania seniors were being served.***





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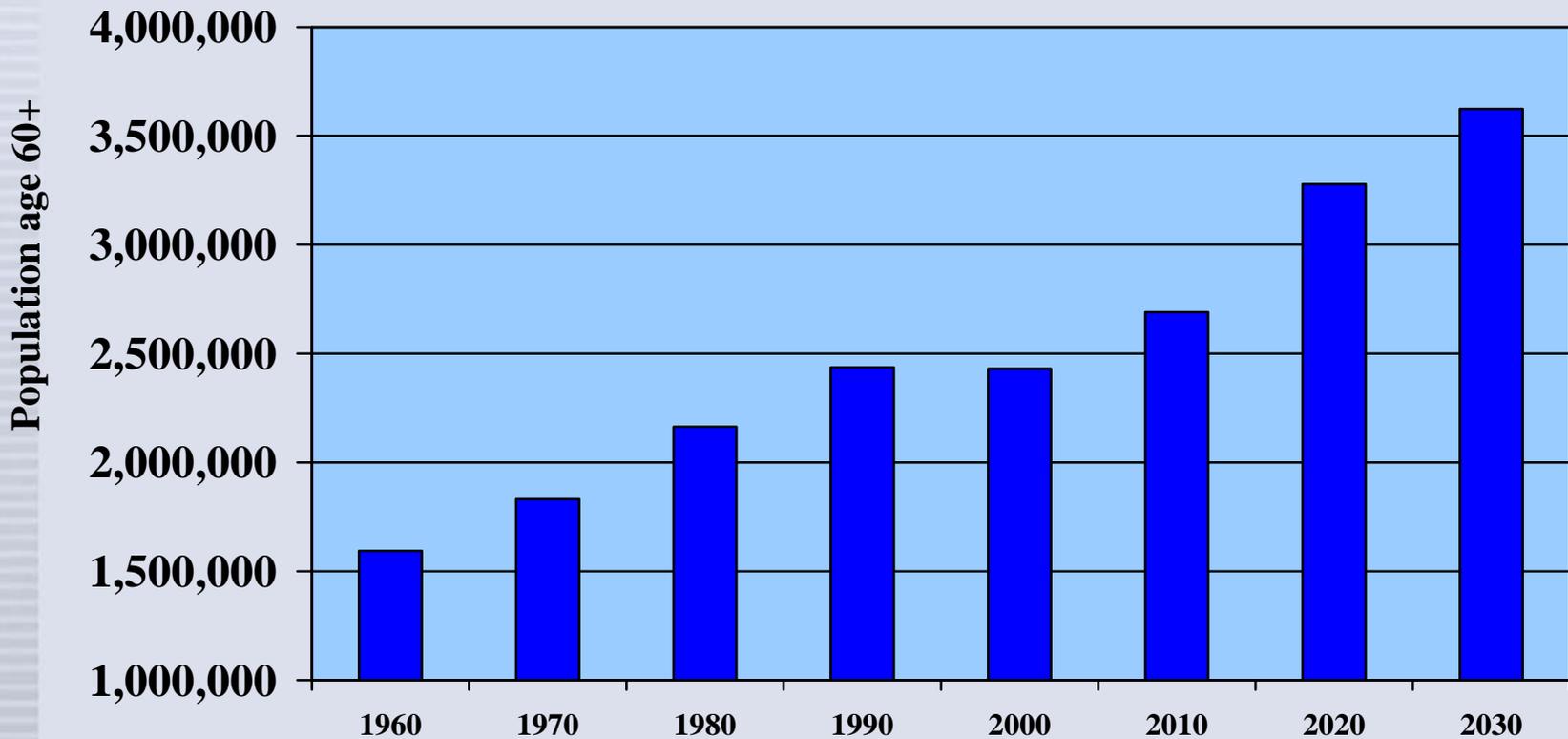
2007-08 Budget Overview

Long-Term Living



Expected Growth of 60+ Population: 10-year changes from 1960 to 2030

The "Baby Boomer" generation begins to turn age 60 this year. By the year 2020, one in every four Pennsylvanians will be age 60 or older. Providing services for the rapidly growing number of seniors, especially those 85 and older, will present a major challenge for the commonwealth in the coming years.





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The Commonwealth's Plan for Long-Term Living

The Long-Term Living Council, established by Governor Rendell in 2005, has developed a plan 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 living system. The proposed 2007-08 budget provides \$17.2 million in additional state funds to implement this plan.

This budget provides funding to:

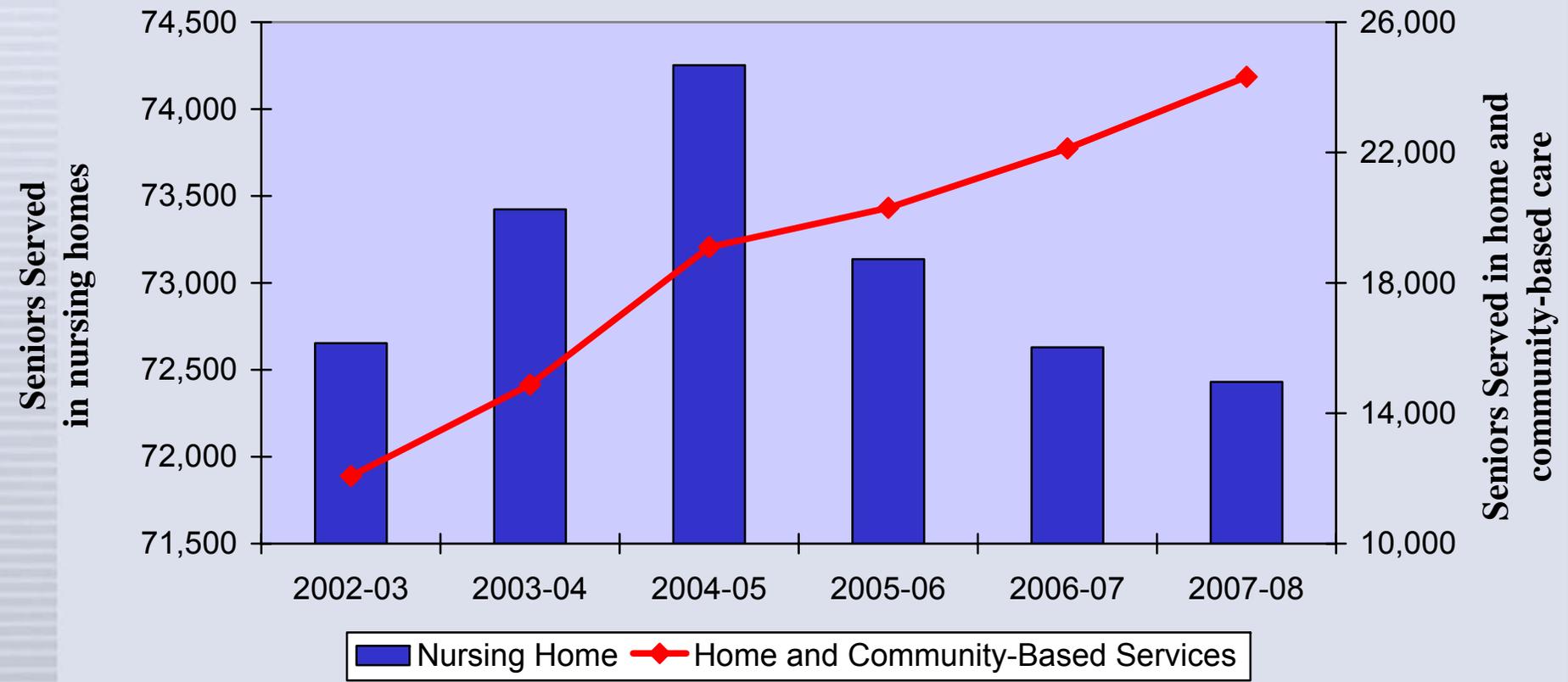
- Increase the number of people who can use home and community-based services instead of nursing homes, including 2,200 more people age 60 and above and 1,000 more people under age 60. These increases move the commonwealth closer to the goal of achieving a balance of 50 percent institutional care to 50 percent home and community-based care over the next five years.
- Expand efforts to assist nursing home residents who wish to return to their homes.
- Implement a public education campaign to help Pennsylvanians make informed choices about their long-term living options.
- Expand the number and types of community-based service options.
- Encourage appropriate distribution of nursing home beds.
- Continue building quality, efficiency and integrity in the long-term living system.
- Expand availability of the Links – the pilot program providing “one-stop” long-term living information and guidance.



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Expanding Long-Term Living Choices for Seniors

The 2007-08 budget provides funds to expand the number of seniors using home and community-based services by 2,200 to 24,320 – an increase of 102 percent since 2002-03.





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Long-Term Living

The Cost of Inaction

- If Pennsylvania does not reform its long-term living system, consumers will have fewer options available to them and could be forced to choose nursing homes over their preference of receiving services in their homes.
- If Pennsylvania does not implement aggressive long-term living system reforms, the Long Term Living Council projects that by 2011, the cost to taxpayers will grow by 25 percent, an increase of \$445 million over current state fund spending.



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2007-08 Budget Overview Tobacco Settlement Fund/ Community Health Reinvestment

2007-08 Health Investment Plan



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Tobacco Settlement Fund/ Community Health Reinvestment 2007-08 Health Investment Plan

The Tobacco Settlement Fund receives revenue from the Master Settlement Agreement with the five major tobacco companies and from the Community Health Reinvestment Agreement with Pennsylvania's four Blue Cross/Blue Shield plans. These funds provide health care for the uninsured, home and community-based services for seniors, tobacco use prevention and cessation, broad-based health research, medical care for workers with disabilities, hospital uncompensated care and an endowment account to preserve a portion of the receipts for future uses. This budget recommends a total of \$485.7 million to be used consistent with the 2006-07 allocations except for the following four changes.

Adult Health Insurance	\$187.5 million	Pharmaceutical Benefits for the Elderly	\$13.4 million
Long-Term Living	\$122.8 million	Biotechnology Commercialization	\$6.7 million
Health Research (includes Jonas Salk)	\$63.6 million	Health Venture Investment	\$6.7 million
Tobacco Prevention and Cessation	\$30.1 million	Life Sciences Greenhouses	\$3.0 million
Hospital Uncompensated Care	\$25.1 million	Endowment Account	\$26.8 million



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2007-08 Budget Overview

Promoting Economic Growth, Job Creation and Business Competitiveness



Pennsylvania's Business Tax Climate

22nd Most Competitive in the Nation

In its 2007 State Business Tax Climate Index, the non-partisan, business-funded Tax Foundation ranked Pennsylvania's tax structure 22nd best among the 50 states for the second straight year – and higher than its 28th position ranking in 2003. In the 2007 rankings, the Tax Foundation praised the commonwealth for its individual income and property taxing systems and cited Pennsylvania as one of the states likely to raise its ranking steadily over the next few years – making the commonwealth even more appealing to businesses.

In particular, the Tax Foundation:

- ✓ Ranked Pennsylvania's taxing system for Personal Income Tax among the best in the nation, an important factor for the increasing number of businesses that report income through the individual income tax code.
- ✓ Highlighted Pennsylvania as one of the states making positive changes to its tax structure, which will continue to improve its business tax climate in the future.
- ✓ Noted that the Capital Stock and Franchise Tax is on schedule to be phased out completely by 2011 with yearly decreases of 1 mill per year.



Pennsylvania's Business Tax Climate

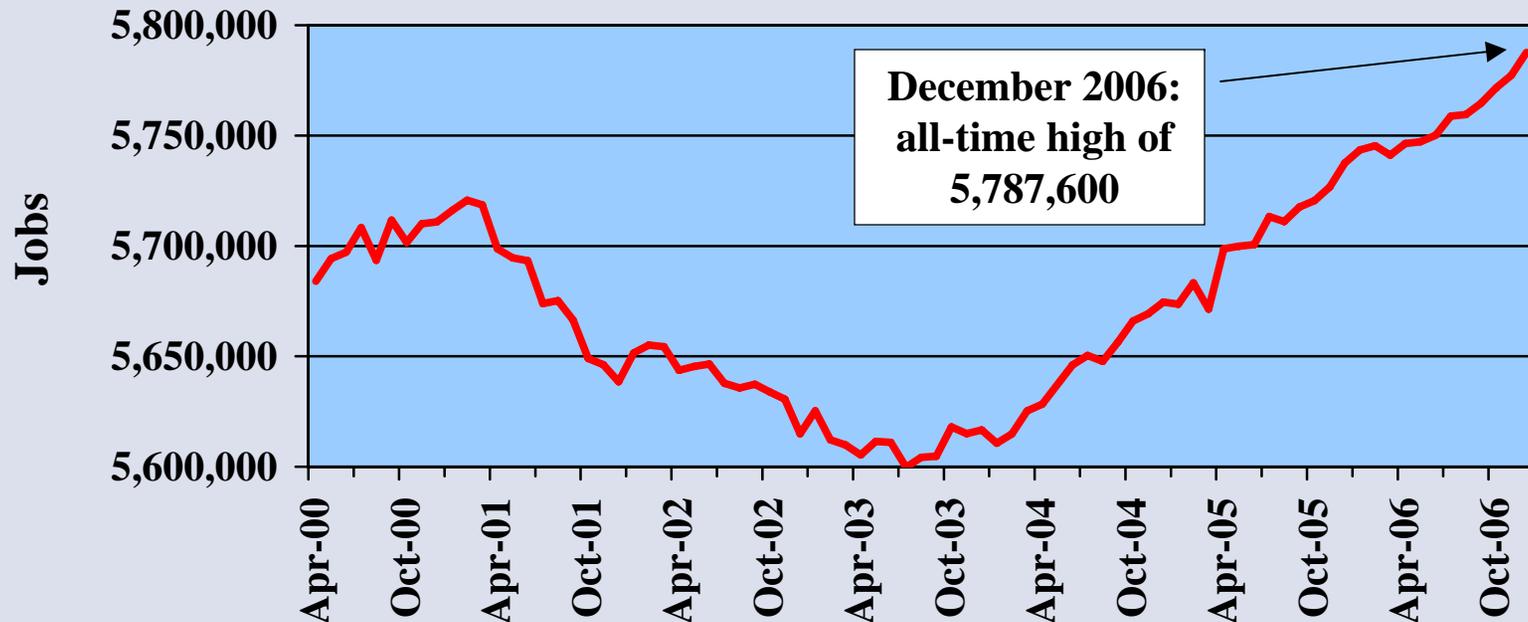
In addition to the non-partisan Tax Foundation, other organizations and publications are giving Pennsylvania accolades about its competitive business environment.

- A 2006 study by IBM Business Consulting Services – Plant Location International recognized Pennsylvania as the number one destination for new projects in 2005 and the top location for manufacturing projects in all of the U.S. and Canada.
- Industrial Diversity – Pennsylvania's business sector achieved an above average level of vitality and is ranked 4th for industrial diversity.
- Growing New Firms – Pennsylvania ranks 5th in change in new companies.
- Innovation Assets – Pennsylvania rated an above average grade in innovation assets (B).
- Pennsylvania ranks 6th in the nation for new and expanded corporate facilities, according to Site Selection magazine.
- Pennsylvania ranks 4th in the nation for new manufacturing facilities, also according to Site Selection magazine. The number of Pennsylvania projects nearly tripled from 2002 to 2005.

Pennsylvania Job Growth

The brightest spot in the economic outlook for Pennsylvania is job growth. In December 2006, Pennsylvania reached a historic high in the number of non-farm jobs, seasonally adjusted. The state's monthly unemployment rate in December was 4.6 percent, 1.1 percentage points below January 2003 when the rate was 5.7 percent. Since January 2003, the Pennsylvania economy has generated a net increase of nearly 162,000 jobs. State investments, including the Economic Stimulus program, have been a major factor behind the turnaround.

Steady Rise in Pennsylvania Jobs (non-farm)

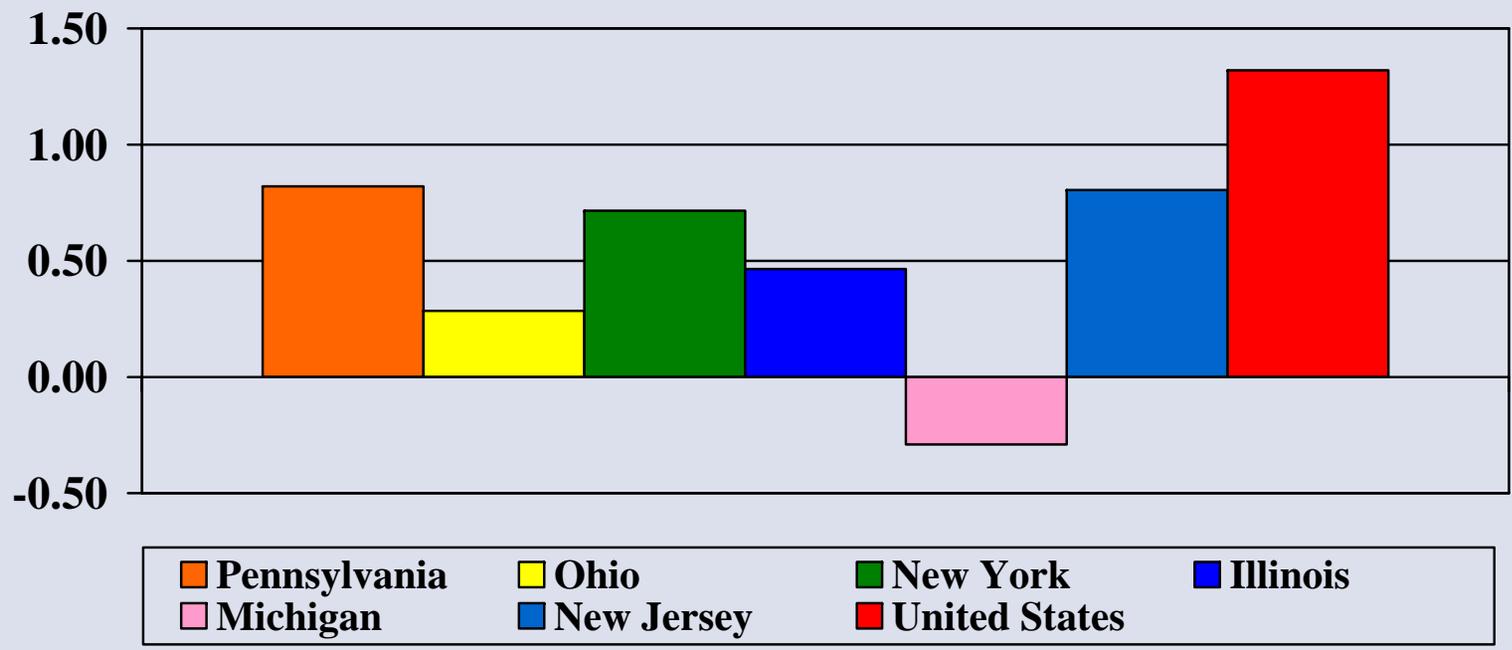




PA Job Growth Outperforms Similar States

For Pennsylvania, the general slowing of the U.S. economy has been offset, in part, by strong post-recession job growth. Pennsylvania's job growth has routinely outperformed similar states. In 2004 and 2005, Pennsylvania had a higher average job growth rate than Ohio, New York, Illinois, Michigan and New Jersey.

Percent Growth Two Year (2004-2005) Average Annual Job Growth Rate





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2007-08 Budget Overview

Economic Stimulus

Update

Update on the Economic Stimulus Program

(dollar amounts in thousands)

Program	Projects Funded	Funds Committed	Program	Projects Funded	Funds Committed
Infrastructure Projects:			Community Revitalization:		
Business in Our Sites	109	\$300,000	Homeownership Choice	52	\$63,752
PennWorks	53	\$172,500	Hometown Streets	271	\$176,100
Tax Increment Financing	2	\$10,000	Business and Other Private-Sector Investments:		
Infrastructure Facilities Improvement Program	9	\$5,900	First Industries Fund (Agriculture/Tourism)	307	\$58,400
Redevelopment Assistance Capital Program	380	\$1,111,000	Second Stage Loan Program	5	\$2,500
Community Revitalization:			Venture Capital Investment Fund	12	\$38,600
Main Street Downtown Business Renewal	235	\$23,100	Building PA	9	\$47,000
Elm Street Downtown Residential Renewal	111	\$20,600	KIZ	25	\$8,700
Enterprise Zones	114	\$19,100	Core Industries	17	\$20,100
Housing and Redevelopment Assistance	318	\$95,100	Base Realignment and Closures	Multiple Sites	\$6,000
			TOTAL	2,029	\$2,178,452



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Pennsylvania's Economic Stimulus Program is Creating Jobs

Program	Jobs Pledged
Infrastructure Projects:	
Business in Our Sites	117,880
PennWorks	87,005
Tax Increment Financing	1,500
Infrastructure Facilities Improvement Program	4,495
Community Revitalization:	
Main Street Downtown Business Renewal	461
Enterprise Zones	1,125
Housing and Redevelopment Assistance	142

Program	Jobs Pledged
Business and Other Private-Sector Investments:	
First Industries Fund (Agriculture/Tourism)	2,084
Second Stage Loan Program	34
Core Industries	2,257
Keystone Innovation Zones	1,291
TOTAL	218,274



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2007-08 Budget Overview

The Jonas Salk

Legacy Fund:

*Accelerating Medical Research to
Create Jobs and Save Lives*



The Jonas Salk Legacy Fund: Accelerating Medical Research in Pennsylvania

The 2007-08 budget provides accelerated funding up to \$500 million for biosciences research, as well as providing additional resources for biotechnology commercialization and investment capital in early stage. Fully funded by a portion of Pennsylvania's Tobacco Settlement Fund revenues, this investment will solidify Pennsylvania's life sciences future. This approach allows the commonwealth to dramatically accelerate the pace of new investment without adversely affecting the commonwealth's General Fund.

- **Starter Kits** – Provide grants to renovate, furnish and equip research facilities, including the acquisition of equipment, to assist in attracting highly-rated research faculty to Pennsylvania. These Starter Kits are modest but flexible grants that create an incentive for world-class researchers to relocate to the Commonwealth's leading colleges, universities and academic medical centers.
- **Bricks & Mortar Grant Financing** – Covers activities designed to expand, remodel, renovate, alter, or construct biomedical research facilities including but not limited to wet, dry, and special function laboratories.



The Jonas Salk Legacy Fund

The Cost of Inaction

- Pennsylvania's national ranking for state NIH funding has already slipped from fourth in the nation to fifth (in 2005). Pennsylvania's ranking could continue to decline without implementation of this program.
- Pennsylvania could lose ground to competitor states in attracting and growing businesses in the biosciences/life sciences sector.
- The IBM Global Competitiveness study identified life sciences sector as one of the opportunity sectors to focus on. Consider this:
 - There is an indirect multiplier effect of 4.48 jobs for each direct job in the life sciences industry (source: PABIO).
 - In PA, it has been observed that there are significantly higher wages for bioscience workers versus their counterparts in the private sector--\$69,474 compared with \$38,055, respectively. Bioscience workers are earning nearly twice what other private sector workers earn, on average. (source: PABIO)



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2007-08 Budget Overview

**Additional Initiatives to
Support the Life Sciences
and Biotech in PA**



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Supporting Emerging Life Science Companies

In addition to the benefits provided by the Jonas Salk Legacy Fund, the 2007-08 budget also redirects \$13.4 million of tobacco funds pharmaceutical benefits for the elderly to support emerging life science companies. This funding will be used to provide opportunities to turn research and development into viable companies and high-wage jobs.

- \$6.7 million for **Biotechnology Commercialization** which will provide additional capital for investment in private venture firms that extend financial resources to early stage start-ups and emerging life sciences companies.
- \$6.7 million for **Health Venture Investment** which will expand capacity for the three Life Sciences Greenhouses to invest in companies focused on the research, development and commercialization of cutting-edge therapies and medical technologies.



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2007-08 Budget Overview

**The Energy
Independence Fund**



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Energy Independence Initiative

Bringing New Clean Energy Companies and Investment to Pennsylvania

The Energy Independence Initiative provides \$850 million to bring new clean energy companies and investment to Pennsylvania – creating new jobs and making the commonwealth more environmentally sustainable.

- Save consumers \$10 billion in energy costs over the next ten years.
- Reduce Pennsylvania's reliance on foreign fuels and increase Pennsylvania's clean energy production capacity.
- Expand Pennsylvania's energy production and energy technology sectors to create more jobs.



Energy Independence Fund

Bringing New Clean Energy Companies and Investment to Pennsylvania

The 2007-08 budget proposes the creation of the Energy Independence Fund with \$850 million in bond funds. The Energy Independence Fund will support early stage financing, project financing and energy conservation initiatives to encourage clean energy projects, create new jobs and make the commonwealth more environmentally sustainable. The cost of the bond issue would be paid from a Systems Benefit Charge of 1/20th cent per kilowatt-hour of electricity consumption.

For a cost of \$0.45 per month for the average household, Pennsylvania will raise \$75 million to invest in a “green” economic future. The Energy Independence Initiative is expected to save consumers nearly 15 times more than the cost of the nominal fee.

Early Stage Financing:

- **Clean Energy Greenhouse (\$56 million):** Will transform clean energy research and development into products that reach the marketplace. Includes research funding, incubator support services and an entrepreneur-in-residence program.
- **Clean Energy Venture Capital Fund (\$50 million):** Venture capital turns companies with clean energy concepts into viable employers. This program will help fill the void in PA of available early-stage venture capital for energy projects.



Energy Independence Fund

Bringing New Clean Energy Companies and Investment to Pennsylvania

The Energy Independence Fund will also provide project financing to bring clean energy concepts to reality.

- **Pennsylvania Energy Development Authority (PEDA) (\$300 million):** Governor Rendell re-established PEDA in 2004. PEDA will offer low-interest Clean Energy Loans up to \$25 million and Clean Energy Grants to stimulate the development of clean energy projects and companies.
- **Energy Site Preparation (\$150 million):** Grants and low interest loans to stimulate the development of highly efficient, advanced energy business sites. As a result, businesses, local governments and economic development organizations will be able to undertake clean energy projects.
- **Energy Capital Assistance Program (ECAP) (\$50 million):** Venture capital turns companies with clean energy concepts into viable employers. This program will help fill the void in PA of available early-stage venture capital for energy projects.



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Energy Independence Fund

Bringing New Clean Energy Companies and Investment to Pennsylvania

The Energy Independence Fund will also encourage energy conservation and the expanded use of solar power.

- **Air Conditioner/Refrigerator (AC/R) Swap (\$44 million).** Provides rebates to retailers so that residential and small business customers can replace inefficient room air conditioners and refrigerators with new, high efficiency units at a low cost. This “swap” will reduce the demand for electricity at peak times-which will help lower electricity prices for Pennsylvania residents and businesses.
- **Pennsylvania Sunshine (\$200 million):** Provides incentives to jumpstart the solar market in Pennsylvania by investing in both supply and demand through production grants to manufacturers and rebates to residential and small business customers who use solar systems with a capacity of up to 20 kilowatts.



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Energy Independence Fund

The Cost of Inaction

- Electricity rates in Pennsylvania could soar by fifty to seventy percent, as has happened in Maryland, Delaware and even in Pike County, when generation rate caps end across most of Pennsylvania by the end of 2010. Without this initiative, consumers will forgo \$10 billion in energy savings over the next 10 years.
- Pennsylvanians will continue to send \$30 billion a year out of the state to buy fuel instead of keeping those dollars at home.
- Pennsylvanians will continue to rely on foreign fuels.
- Pennsylvania will lose the 35,000 jobs and \$3.5 billion in investments the initiative is estimated to bring over the next 10 years.
- An additional 24,682,000 tons of carbon dioxide, 190,200 tons of sulfur dioxide, 54,200 tons of oxides of nitrogen, and 2,048 pounds of mercury will be released into the air on an annual basis after fifteen years.



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2007-08 Budget Overview

Environmental Programs



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Growing Greener II

Growing Greener II represents one of the largest investments ever (\$625 million) in improving Pennsylvania's environment. It has already provided critical funding for 236 land and environmental improvement projects, including \$41 million for 63 community park, recreation, state park and forest projects, \$26 million to preserve over 13,000 acres of open space and \$10.3 million for abandoned mine reclamation, acid mine drainage abatement and innovative treatment projects.

The 2007-08 budget proposes a \$0.50 per ton fee increase on the disposal of municipal solid waste. The resulting revenue will help pay for the debt service costs of the \$625 million Growing Greener II environmental bond issue.

- **\$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 of advanced energy projects.
- **\$217.5 million** to the **Department of Conservation and Natural Resources** to preserve open spaces, improve parks and enhance local recreational needs.
- **\$80 million** to the **Department of Agriculture** to protect farms.
- **\$50 million** to the **Department of Community and Economic Development** to revitalize communities with investments in housing and 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.

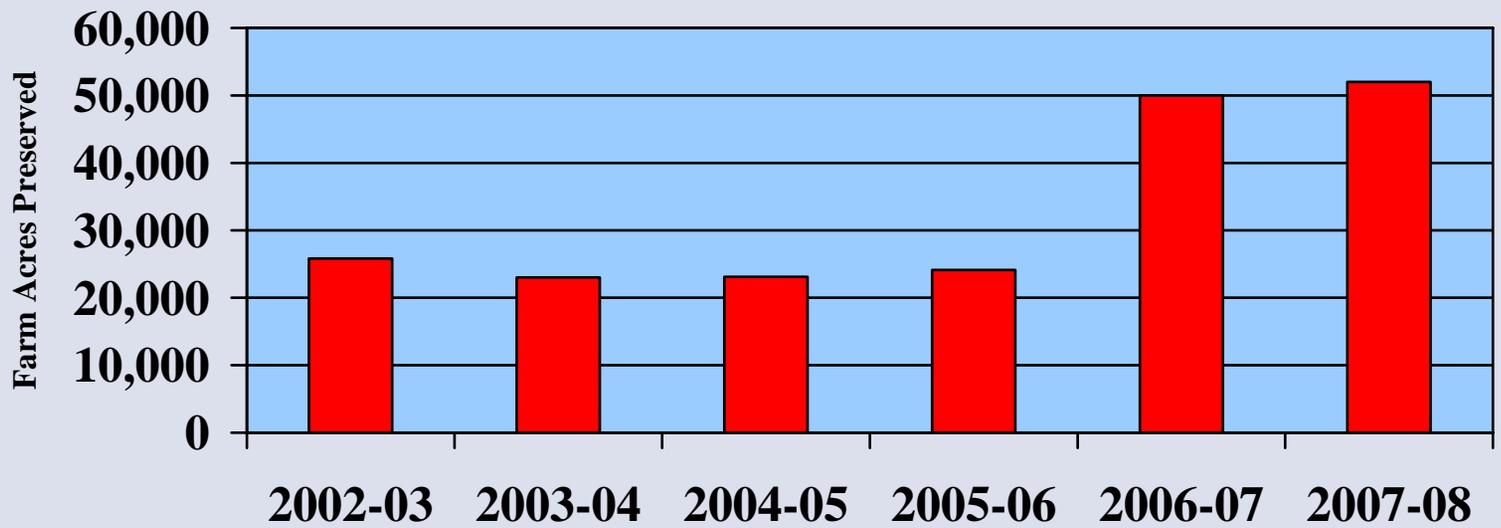


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Growing Greener II - Showing Results for a Better Pennsylvania Environment

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 52,000 acres of farmland will be preserved in 2007-08, an increase of 100 percent since 2002-03. Pennsylvania's efforts in preserving its farmland earned it the top ranking in 2006 from the National Association of State Departments of Agriculture in the number of acres of farmland preserved.

Preserving Pennsylvania's Farmland

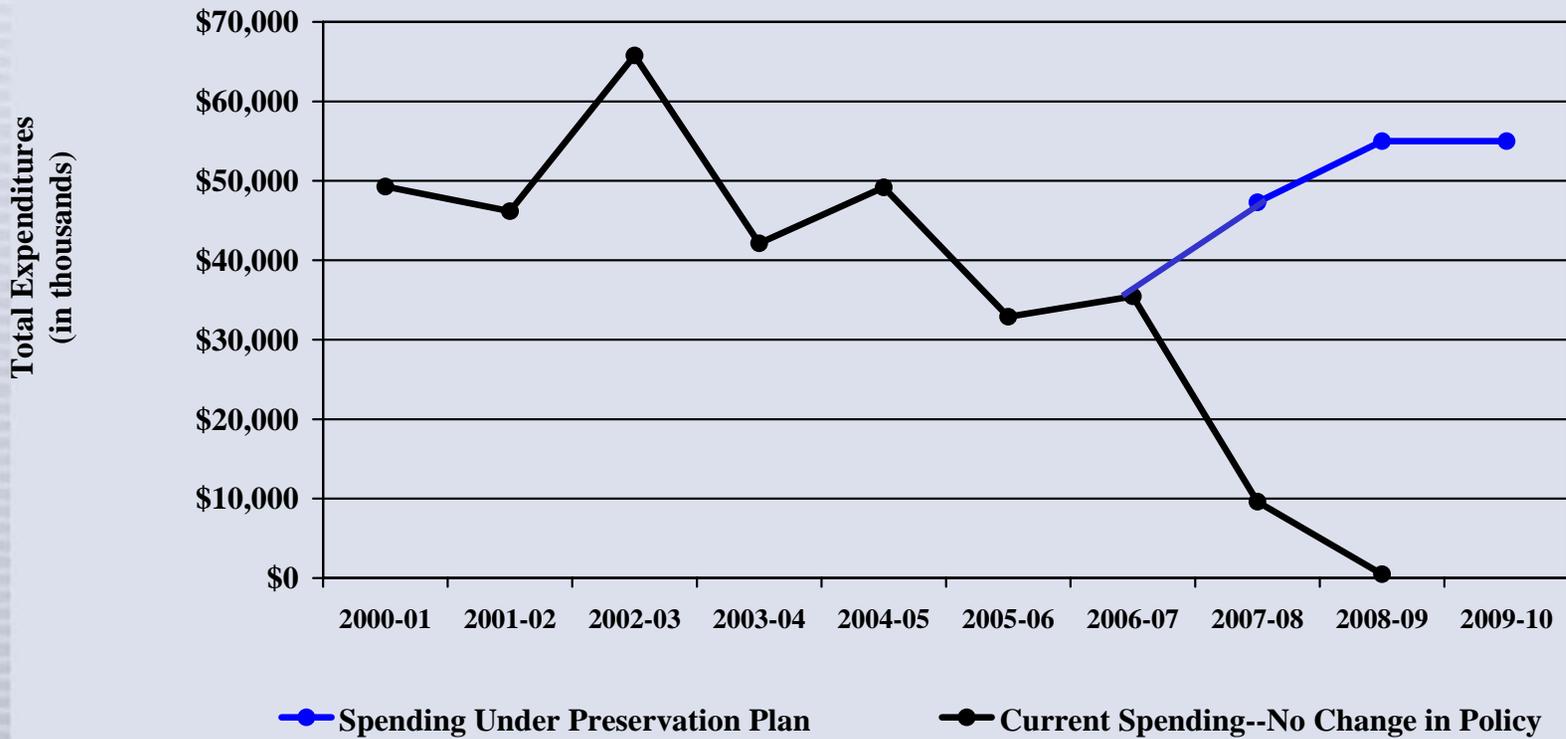




Hazardous Site Cleanups Will Stop Without New Revenue

The Hazardous Sites Cleanup Fund will exhaust all available revenues by Summer 2007 and will go bankrupt without additional revenue.

The budget proposes to use a \$2.25 per ton tipping fee to provide a stable, reliable funding source for this valuable program.





Municipal Waste Disposal Fees

The Cost of Inaction

The 2007-08 budget proposes a \$2.25 per ton fee increase on the disposal of municipal solid waste to preserve the Hazardous Sites Cleanup Fund and an additional \$0.50 per ton increase to pay debt service costs of the \$625 million Growing Greener II bond issue through the Environmental Stewardship Fund. It is estimated that these fee increases will cost the average Pennsylvania household \$6.13 per year.

Without new revenue:

- The Hazardous Sites Cleanup program will be bankrupt by the end of September 2007. The completion of 25 hazardous site cleanup projects and at least \$22 million in annual cleanup activities would be lost. Approximately 228 hazardous waste site investigations per year would no longer be initiated. The Department of Environmental Protection would no longer be able to respond to immediate emergencies related to the release of hazardous waste.
- The Environmental Stewardship Fund would only have \$45 million to use on Growing Greener I projects by 2010-11, a 49 percent reduction from the 2006-07 level of \$88 million.



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2007-08 Budget Overview

Public Safety and Security



Pennsylvania's Safety and Security – A Commonwealth Priority

The 2007-08 budget provides additional investments to continue the administration's efforts to increase the security and safety of Pennsylvania's residents and businesses.

- ✓ \$150.0 million in federal funds for **domestic preparedness**
- ✓ \$32.2 million in state funds to **reopen SCI Pittsburgh**
- ✓ \$25.0 million in state gaming funds for **volunteer company grants**
- ✓ \$21.3 million in total funds for **hazard mitigation**
- ✓ \$14.0 million in federal funds for **pandemic influenza preparedness**
- ✓ \$11.7 million in state funds for **capacity increases at Community Corrections Centers**
- ✓ \$4.0 million in state funds for **Pennsylvania Map**
- ✓ \$2.5 million in state funds for **flood mitigation, flood control and flood-plain management plans**

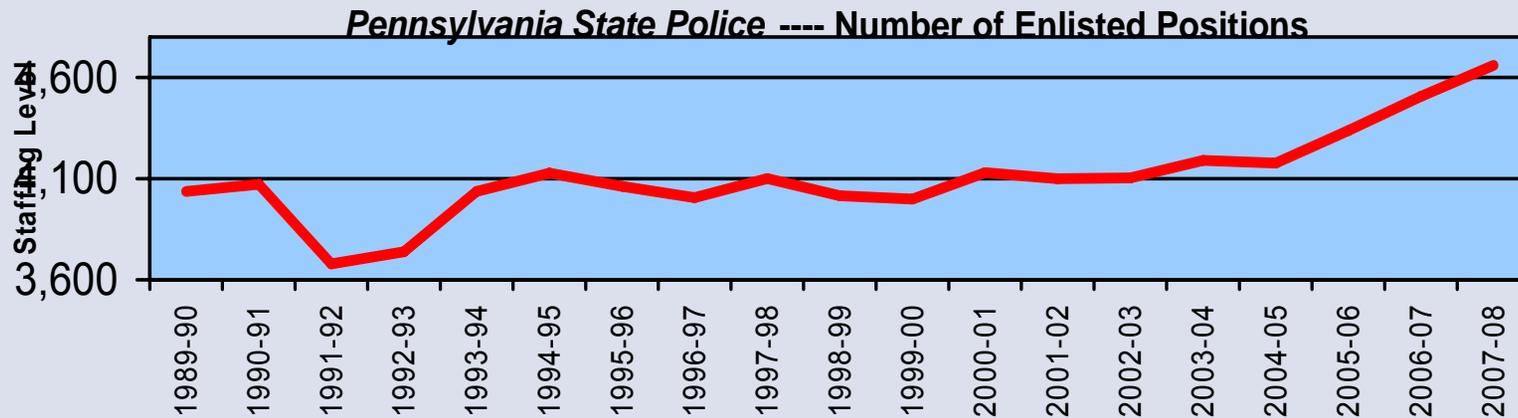


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Pennsylvania State Police

Recognizing the critical role of the State Police in ensuring public safety in the future, the 2007-08 budget includes funding to raise the trooper level to an all-time high of 4,660 by September 2008. The budget also contains \$10 million for the second year of the Police On Patrol program, which provides funding to twenty cities and municipalities throughout Pennsylvania to hire approximately 200 additional police officers to fight crime.

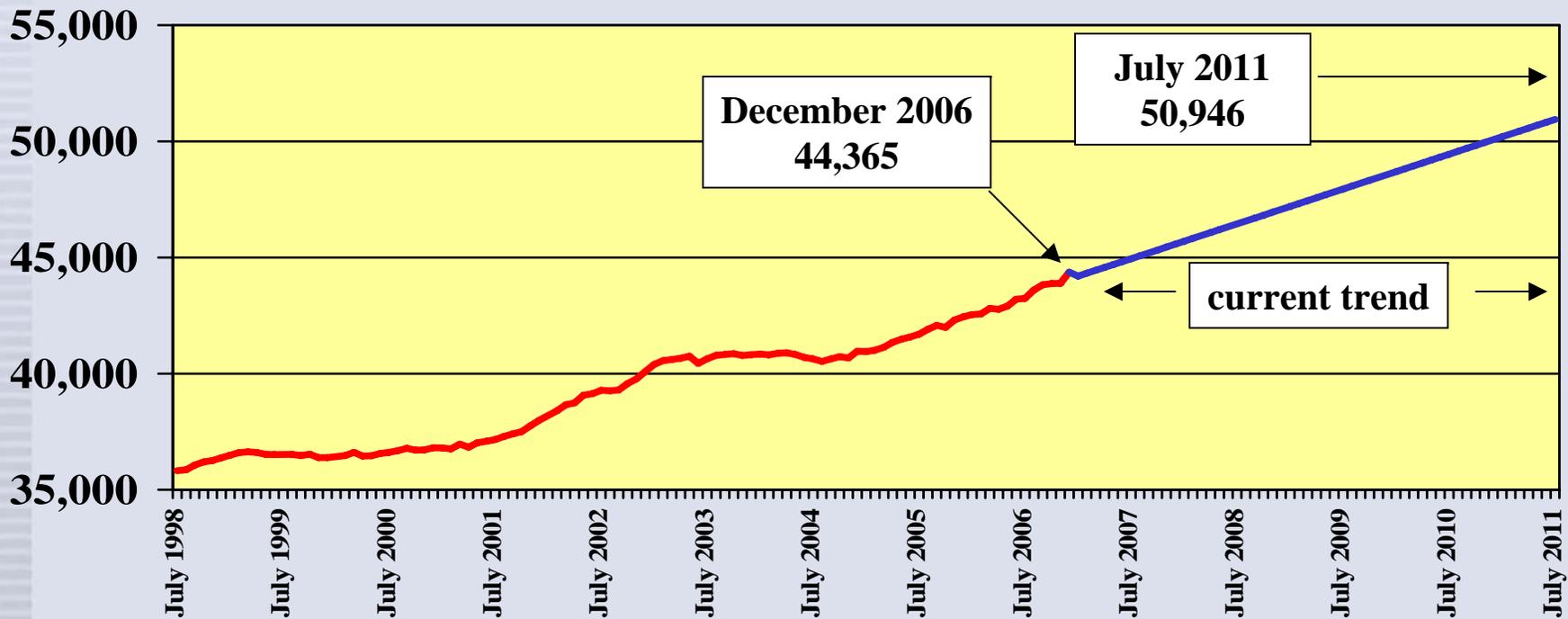
The 2007-08 budget increases gun check fees to ensure the self-sufficiency of this program.





Department of Corrections Inmate Population

The number of offenders incarcerated in State Correctional Institutions could increase from 44,365 inmates in December 2006 to nearly 51,000 inmates by July 2011, an increase of 15 percent, based on current trends.





Reducing Prison Re-Entry Rates

The 2007-08 budget provides additional investments to continue the administration's efforts to increase the security and safety of Pennsylvania's residents while saving taxpayer money by reducing recidivism.

- ✓ \$4 million for additional **parole agents, transitional planning coordinators and referral specialists to work with offenders.**
- ✓ \$3.2 million to increase **eligible participants in the State Intermediate Punishment program for intensive drug or alcohol treatment.**
- ✓ \$2.2 million in additional funding for the **Drug and Alcohol Restrictive Intermediate Punishment program.**
- ✓ \$792,000 for the Department of Corrections to **provide addictions counseling, cognitive behavior therapy and psychological assessments to inmates.**
- ✓ \$785,000 for the Department of Corrections for **additional vocational education teachers.**



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2007-08 Budget Overview

The Transportation Funding Crisis



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Key Findings of the Transportation Funding and Reform Commission

In February 2005, Governor Rendell issued Executive Order 2005-01, creating the Transportation Funding and Reform Commission. Between February 2005 and November 2006, the commission studied Pennsylvania's transit system, reviewed transit system audits, solicited public input and identified options for reforming the system. The major findings of the commission are listed below.

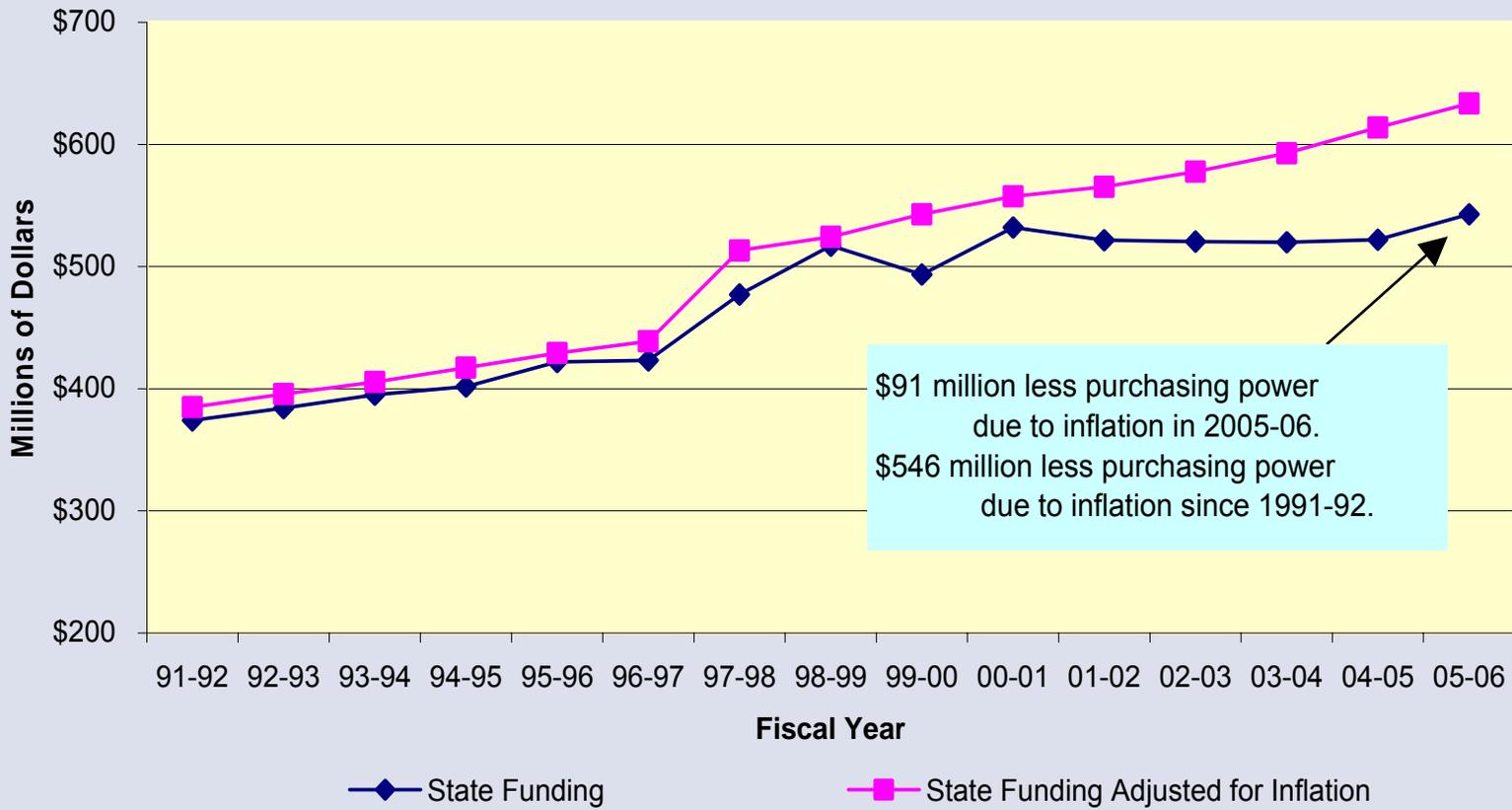
- Need for more revenue is real
- Opportunities exist for reform
- Guiding principles drive recommendations
- No new revenue without reforms



Support of Public Transportation

State Support Has Not Kept Pace With Inflation

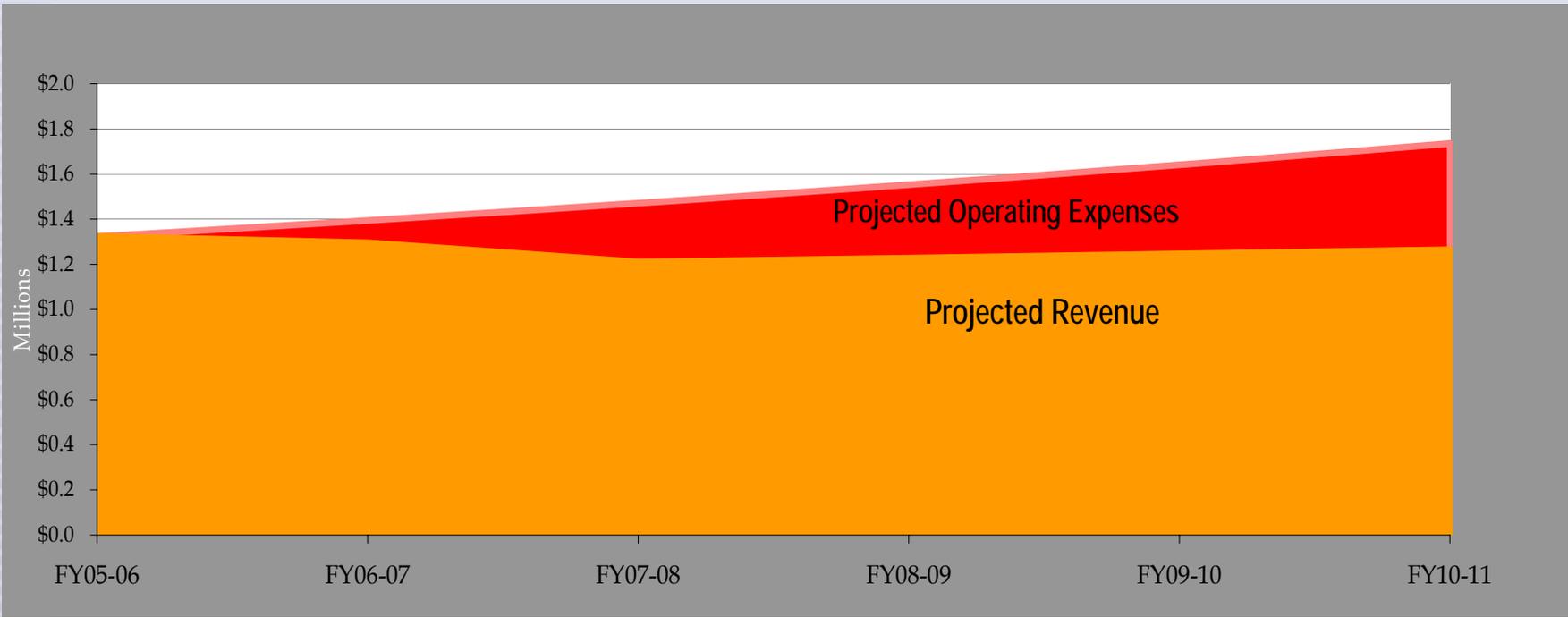
Pennsylvania has not established a predictable, growing source of financing for its public transportation systems. Because of the lack of a dedicated, adequate, predictable funding source and years of relatively modest growth in General Fund Mass Transportation Assistance transit funding, Pennsylvania funding for public transit has not kept pace with inflation.





Expense Growth vs. Revenues

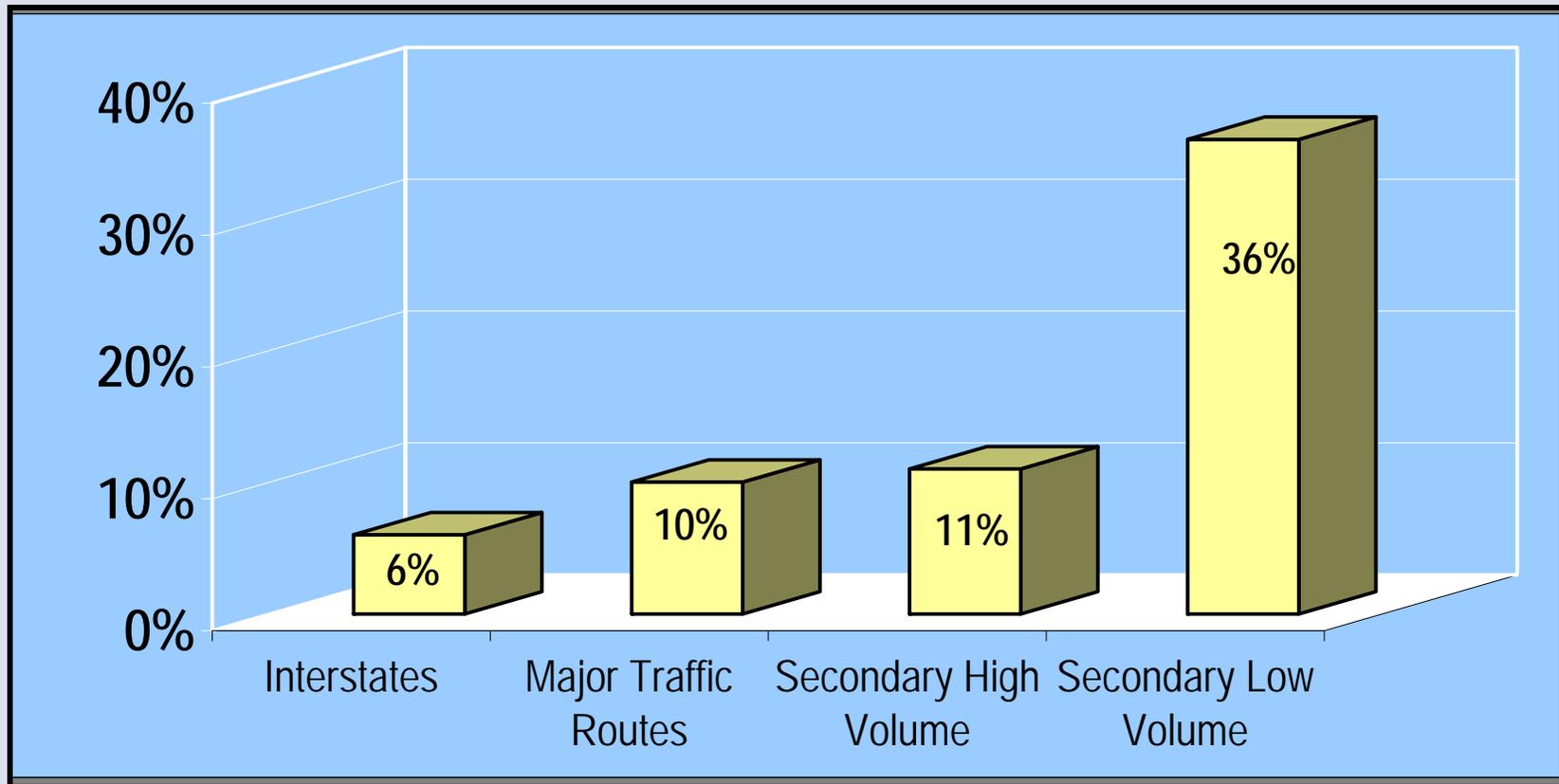
Funding for public transportation is currently inadequate as a result of the almost complete elimination of federal operating funds, the poor performance of a major state revenue source and the freezing for several years of the state's General Fund operating subsidy. Without any changes to available revenues or service interruptions, the commonwealth's transit agency expenditures are projected to exceed revenues by \$500 million, or 37 percent, by 2010-11.





Poor Pavement Conditions

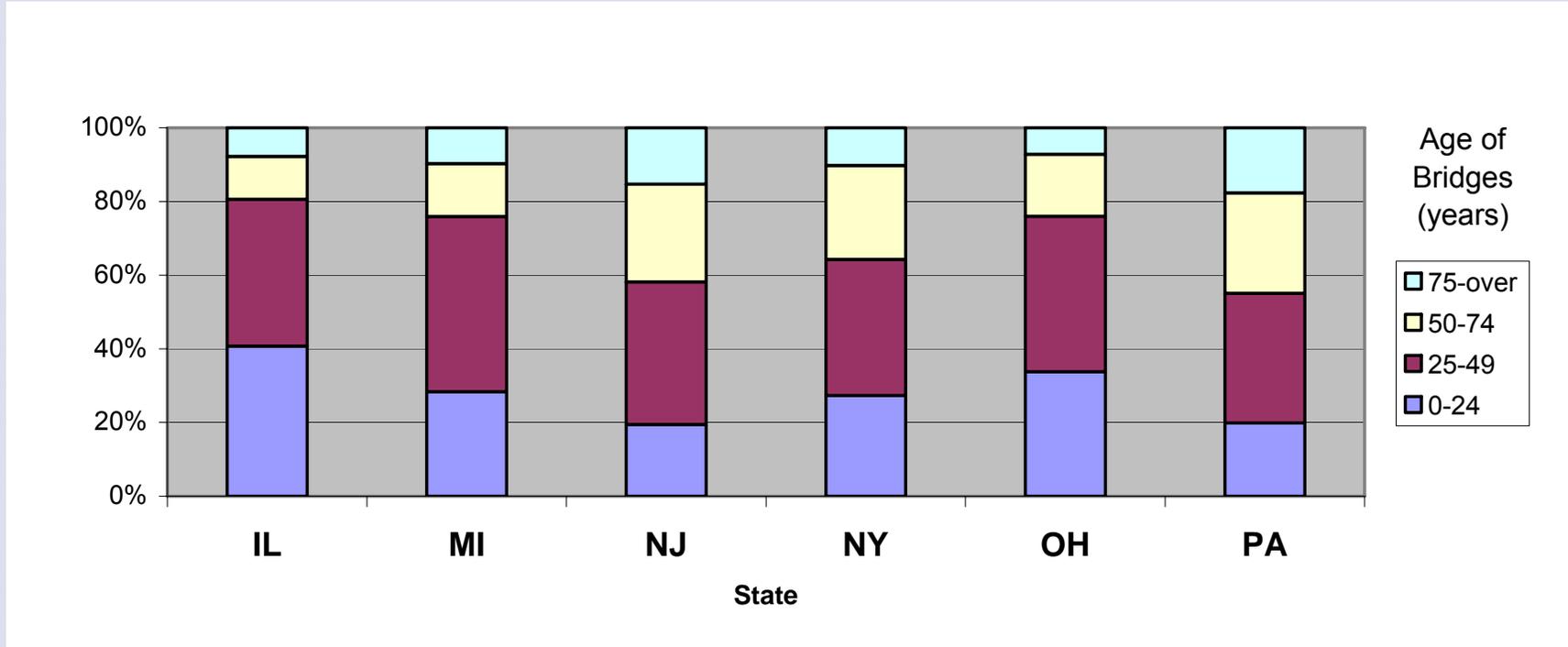
More than one-third of the 21,000 miles of state-owned secondary roads are rated "poor."





Pennsylvania's Bridges Are in Need of Repair

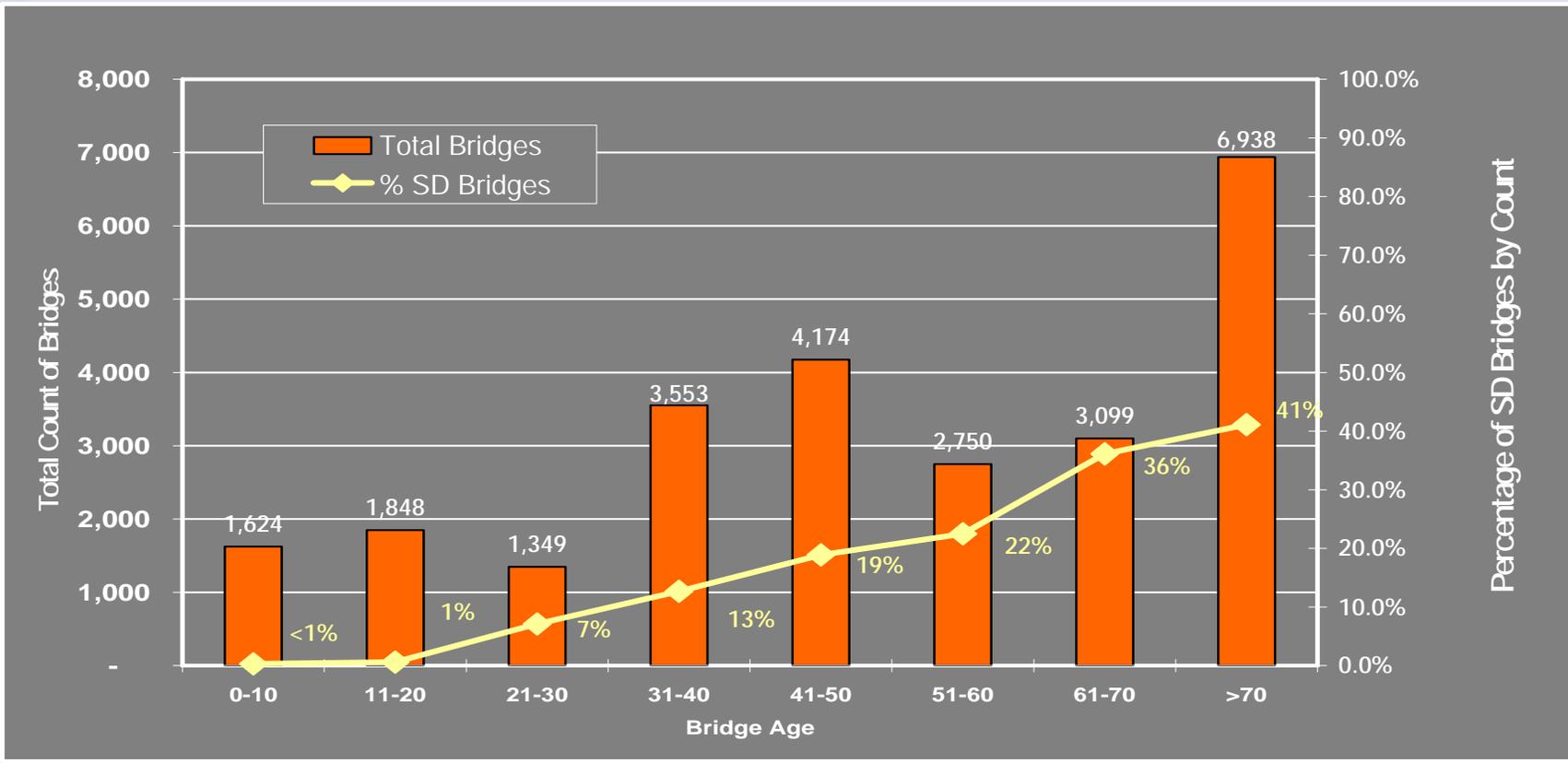
The commonwealth maintains a system of 25,000 bridges – the third largest bridge system in the nation. Compared to similar states, Pennsylvania has relatively older bridges. Last year, the state closed 64 bridges and posted weight restrictions on another 735 bridges, eliminating or limiting the mobility of people, goods and public safety vehicles in the affected communities.





Structurally Deficient Bridges by Bridge Age - 2006

The commonwealth has more than twice the percentage of structurally deficient (SD) bridges than the national average. Nearly 6,000, or 23 percent, of all the commonwealth's bridges are structurally deficient. The percentage of structurally deficient bridges increases for older bridges – 41 percent of bridges 70 years or older are in need of major repairs.





Transportation Funding and Reform Commission Recommendations

To address the highway, bridge and public transportation funding crisis, the commission recommended \$1.7 billion in additional revenue that would add approximately \$7 per month to the average driver's costs and \$5 per month to the average homebuyer. The commission suggested that the \$1.7 billion in additional revenue could be reduced if the commonwealth entered into a public-private partnership for some of its assets.

State Highways and Bridges - \$900 Million Increase

- \$750 Million: increase the Oil Company Franchise Tax to 11.5 cents per gallon
- \$150 Million: increase various registration and licensing fees

Local Highways and Bridges - \$65 Million Increase

- 20 percent increase in state payment for county and municipal highways and bridges
~ one cent per gallon

Public Transportation - \$760 Million Increase

- \$576 Million increase in state funds – increase the Realty Transfer Tax
- \$184 Million increase in local funds
- Revenue neutral swap of \$589 Million in existing public transportation revenues for either sales or personal income tax revenues



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Options to Resolve the Transportation Funding Crisis



Option 1: Adopt Commission Recommendations

Highways and Bridges

- Oil Company Franchise Tax
(equivalent to 12.5 cents per gallon) \$815 million
 - License and Registration Fees
(23 percent increase) \$150 million
- \$965 million

Transit

- Realty Transfer Tax @ 0.9 percent \$576 million
 - Local Contribution @ 25 percent \$184 million
- \$760 million

Total \$1,725 million



Option 2: Leverage PA Turnpike

Highways and Bridges

- Monetize the PA Turnpike* \$965 million

Transit

- Realty Transfer Tax @ 0.5 percent \$965 million
- New Sales Tax \$286 million
- PennDOT Titling, Inspection, ID and Info Fees \$190 million
(73 percent increase) \$100 million
- Local Contribution @ 25 percent \$184 million

\$760 million

Total \$1,725 million

*Revenue based on assumed lease price of \$11 billion, invested at 8.75 percent annual interest rate.



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Option 3: Leverage PA Turnpike, New Tolls

Highways and Bridges

- Monetize the PA Turnpike \$965 million
- \$965 million

Transit

- Interstate Tolls* \$300 million
- Realty Transfer Tax @ 0.5 percent \$286 million
- PennDOT Titling, Inspection, ID and Info Fees \$174 million
- (125 percent increase) \$760 million

Total \$1,725 million

*Assumes total of 14 barriers erected on Interstate Highways 78, 79, 80, 81 and 95. Toll revenue frees up funds for other transportation uses.



Option 4: Leverage PA Turnpike, New Oil Company Profits Tax

Highways and Bridges

- Monetize the PA Turnpike \$965 million
- \$965 million

Transit

- Oil Company Gross Profits Tax \$760 million
- @ 6.17 percent* \$760 million

Total \$1,725 million

*Companies subject to gross profits tax would be exempt from 9.99 percent Corporate Net Income Tax.



Benefits of New Transportation Program

Option 4 generates the amounts required to meet the commonwealth's transportation investment needs with the lowest impact on Pennsylvania residents. Pennsylvanians can expect to see dramatic results if this critical initiative is implemented. Millions of dollars in new funding will be allocated for preservation, capacity expansion and operations and safety on Pennsylvania's highways and bridges.

- Transit agencies provide 135 million additional rides
- Keystone Corridor serves 452,000 more passengers
- Non-interstate highways in poor condition reduced by two-thirds
- Number of bridges repaired or replaced up by 37 percent
- 906 more miles of state-maintained highways resurfaced and 163 more miles restored



Transportation Funding Crisis

The Cost of Inaction

After years of not investing in public transportation and investing too little in bridge and highway infrastructure, Pennsylvania must establish adequate funding sources that will remain viable in the future. If the commonwealth fails to act, within five years transit service across the state will be reduced by more than 25 percent, the percentage of structurally deficient bridges will remain above 20 percent, and the portion of the non-interstate highway system in poor condition will continue to stand at nearly 10 percent.

- Transit fares will increase 20 to 25 percent.
- The number of transit rides provided statewide will fall from 412 million to 304 million.
- Safety, health, economic competitiveness and the environment will be adversely affected.
- The number of structurally deficient bridges and secondary roads in poor condition will remain the same.



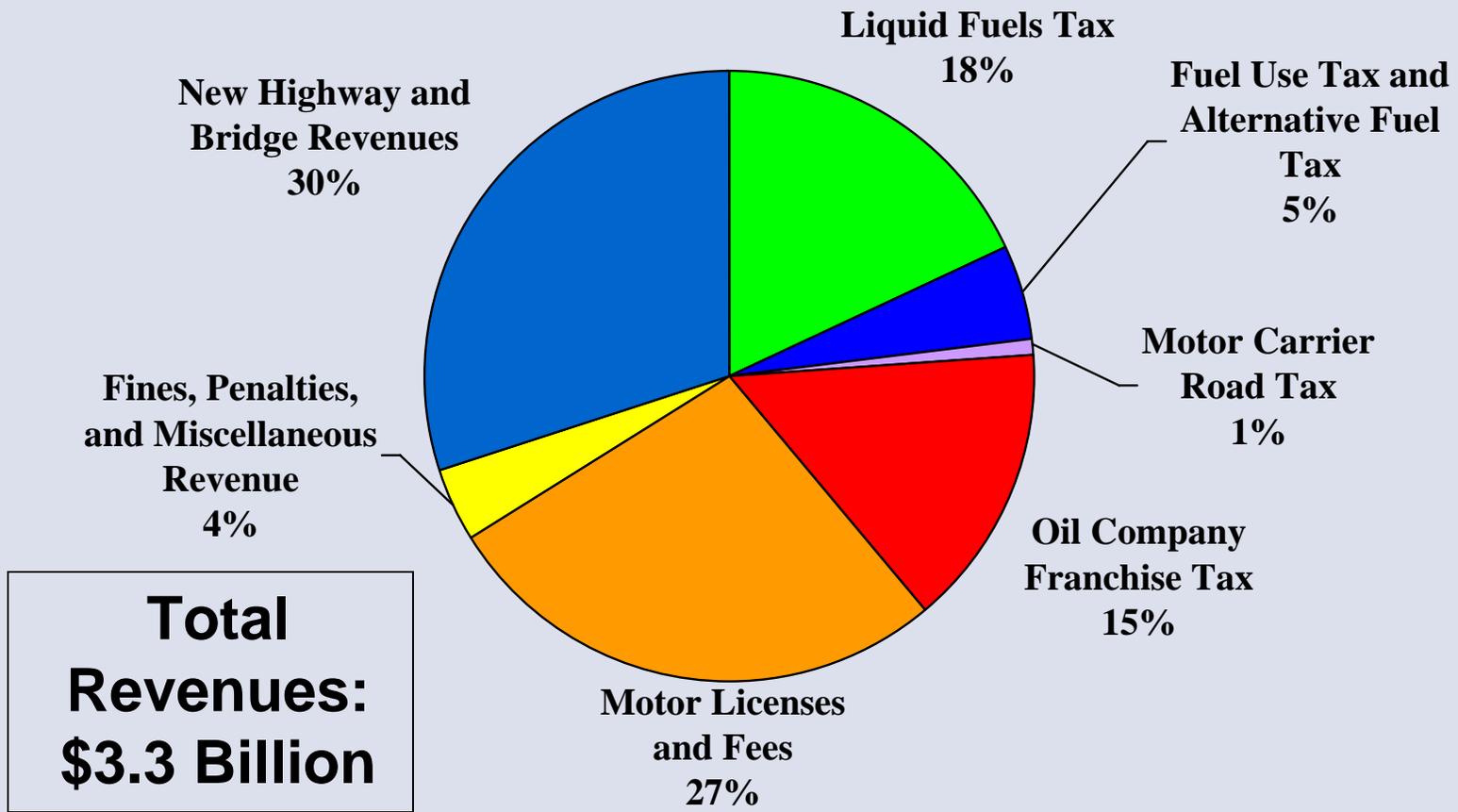
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Motor License Fund with New Bridge & Highway Program



2007-08 Motor License Fund Revenue Sources





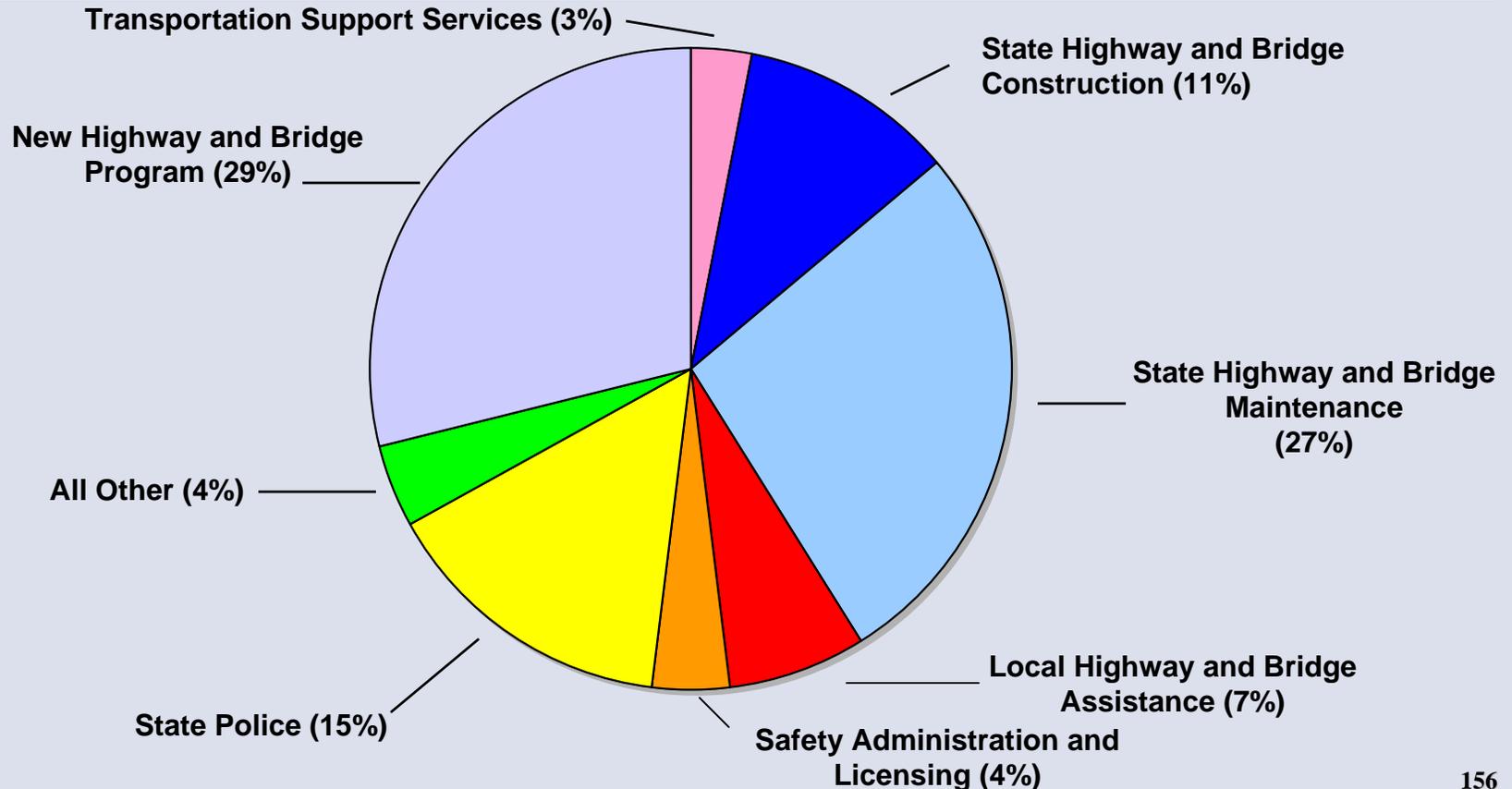
Motor License Fund Revenues

Fuel taxes and license fee revenues comprise 66 percent of Motor License Fund revenues. Interest, fines and other miscellaneous revenues comprise the remaining 4 percent of fund revenues. The remaining 30 percent is comprised of earnings from leveraging the value of the Pennsylvania Turnpike.

Major Revenue Sources	2007-08 (in thousands)
Liquid Fuels Taxes:	
Liquid Fuels Tax (\$0.12/gallon) (primarily gasoline)	\$ 593,970
Fuel Use Tax (\$0.12/gallon) (primarily diesel)	167,300
Alternative Fuel Tax	650
Motor Carriers Road Tax/International Fuel Tax Agreement (\$5 ID markers, \$0.12/gallon and OCFT element)	37,410
Oil Company Franchise Tax (\$0.195/gallon)	475,790
Total	\$1,275,120
Motor Licenses and Fees (\$36 registration, \$36 license renewal/ID)	\$893,030
Other	\$134,830
New Highway and Bridge Program	\$965,000
Total Motor License Fund	\$3,267,980

2007-08 Motor License Fund Expenditures

About 75 percent of all non-restricted Motor License Fund dollars will be 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. The \$965 million in new funding for highways and bridges is nearly one-third of Motor License Fund spending and will be used to make dramatic improvements to highways and bridges across the commonwealth.

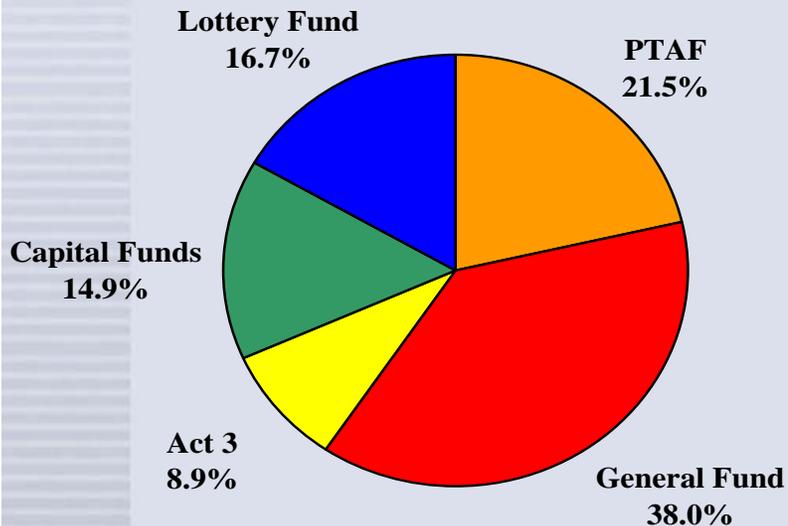




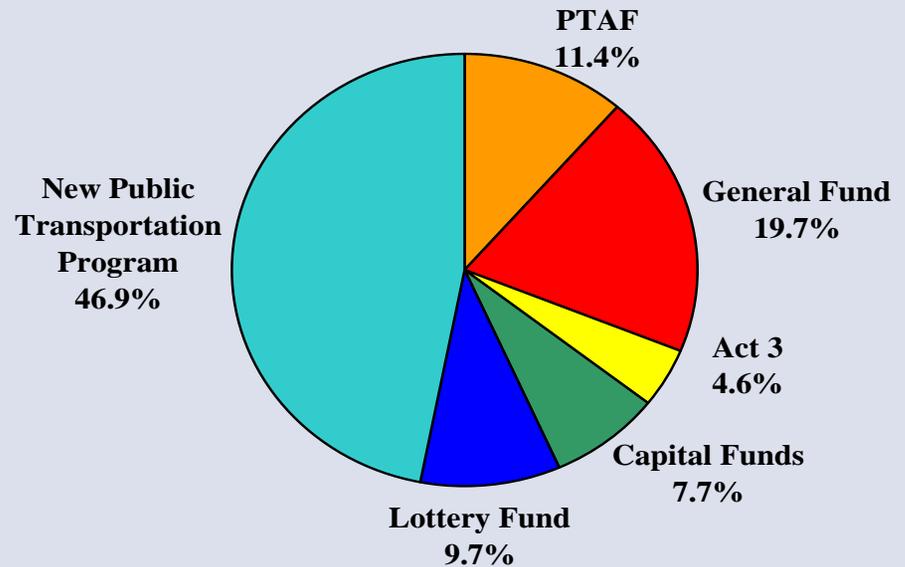
Pennsylvania Public Transit Funding

Pennsylvania currently invests more than \$840 million per year in capital and operating support for public transportation agencies throughout the state, leveraging an additional \$500 million in federal and local funding investment. The 2007-08 budget recommends \$760 million in new public transportation program funding to finally resolve Pennsylvania's public transit crisis.

2006-07: \$840 million



2007-08: \$1.6 billion





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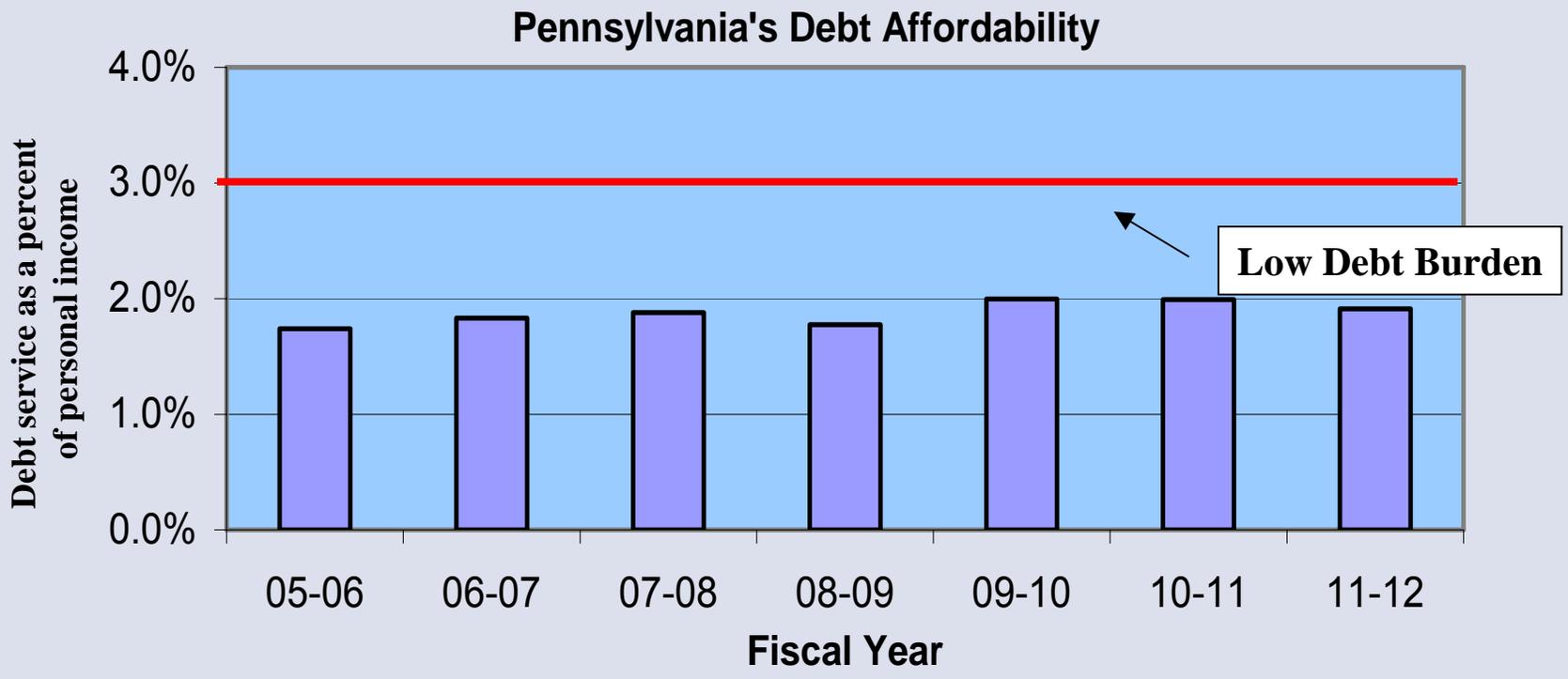
2007-08 Budget Overview

Debt Service



Pennsylvania's Debt Affordability

Growing personal income keeps the planned bond issuance affordable as General Fund debt service as a percent of personal income remains below the generally accepted criteria of 3 percent for issuers considered to have a "low debt burden."

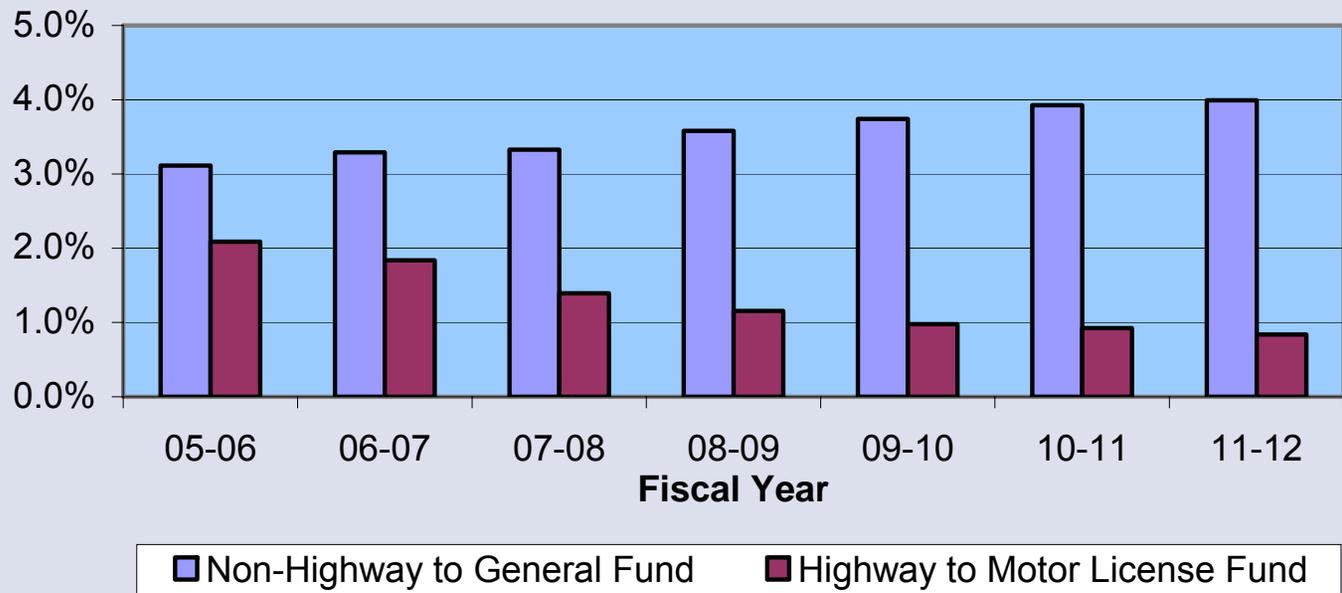




Pennsylvania's Debt Affordability

In 2006-07 the commonwealth will spend \$886 million, or 3 percent of its General Fund budget, on Debt Service. The commonwealth's General Fund debt service as a percent of revenues remains below the generally accepted criteria of 5 percent for issuers considered to have a "low debt burden." The commonwealth issues debt to pay for capital enhancements to state-owned facilities, environmental remediation and economic development projects.

**General Fund Supported Debt Service
 as a Percent of Revenues**





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2007-08 Budget Overview

The Rainy Day Fund



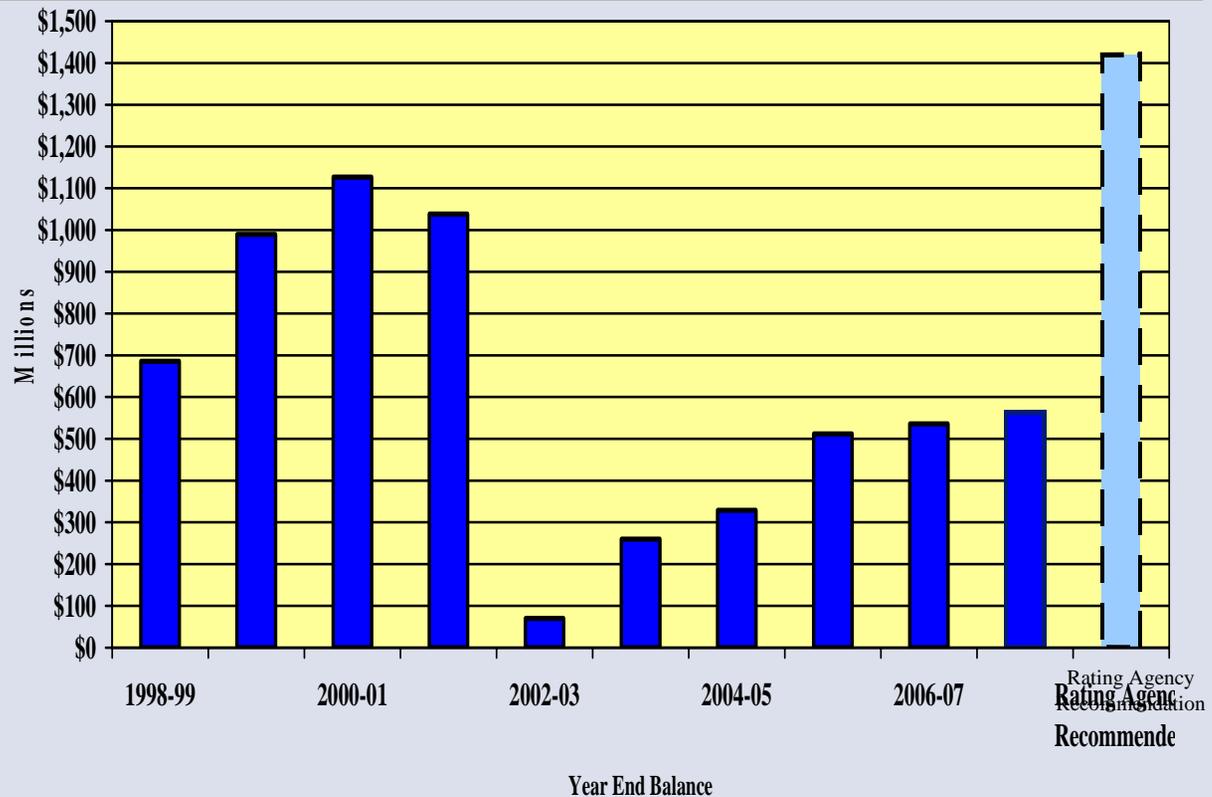
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Status of Pennsylvania's Rainy Day Fund

Pennsylvania's Rainy Day Fund balances were built up substantially during the late 1990s and peaked at more than \$1.1 billion in 2000-01. The fund was depleted in order to balance the 2001-02 and 2002-03 General Fund budgets. Through disciplined budget administration, the Rendell administration will be able to make annual year-end transfers of surplus, bringing the Rainy Day Fund balance to \$563 million by the end of 2007-08.

Rating agencies recommend that reserves of at least 5 percent of annual revenues be held in a Rainy Day Fund in case of an economic downturn.

To meet this criteria, Pennsylvania would have to increase the Rainy Day Fund balance to \$1.42 billion, an increase of \$883 million.





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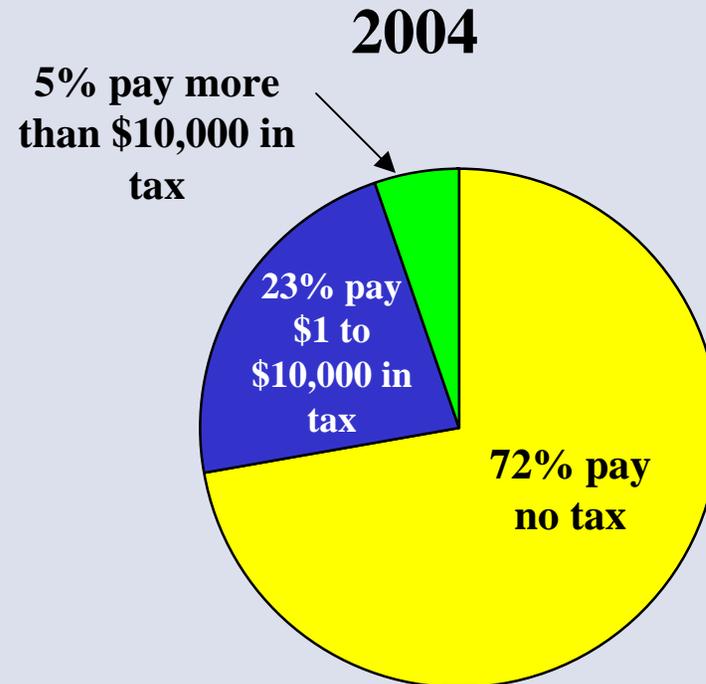
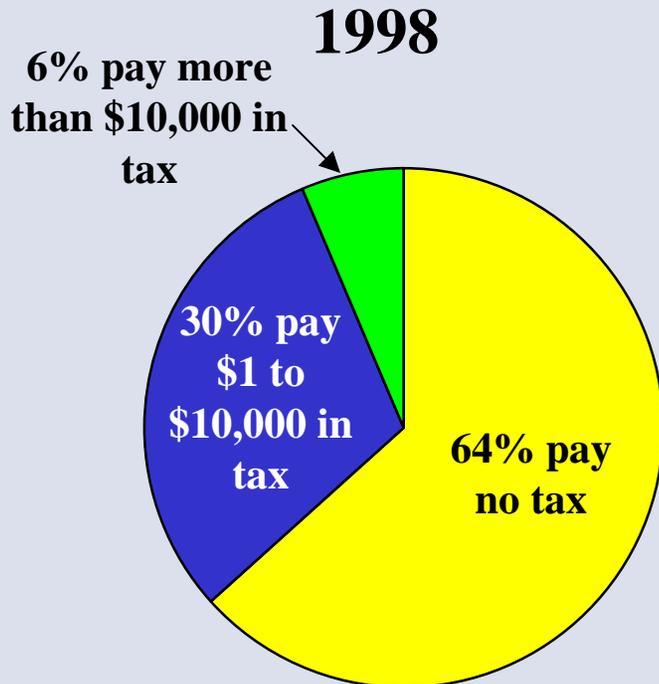
2007-08 Budget Overview

Pennsylvania Needs Business Tax Reform



Corporate Net Income Tax

The percentage of Corporate Net Income tax filers with no net income has been steadily increasing – from 64 percent of returns in 1998 to 72 percent of returns in 2004. Nearly 95 percent of all Corporate Net Income Tax filers paid \$10,000 or less in Corporate Net Income taxes during 2004.



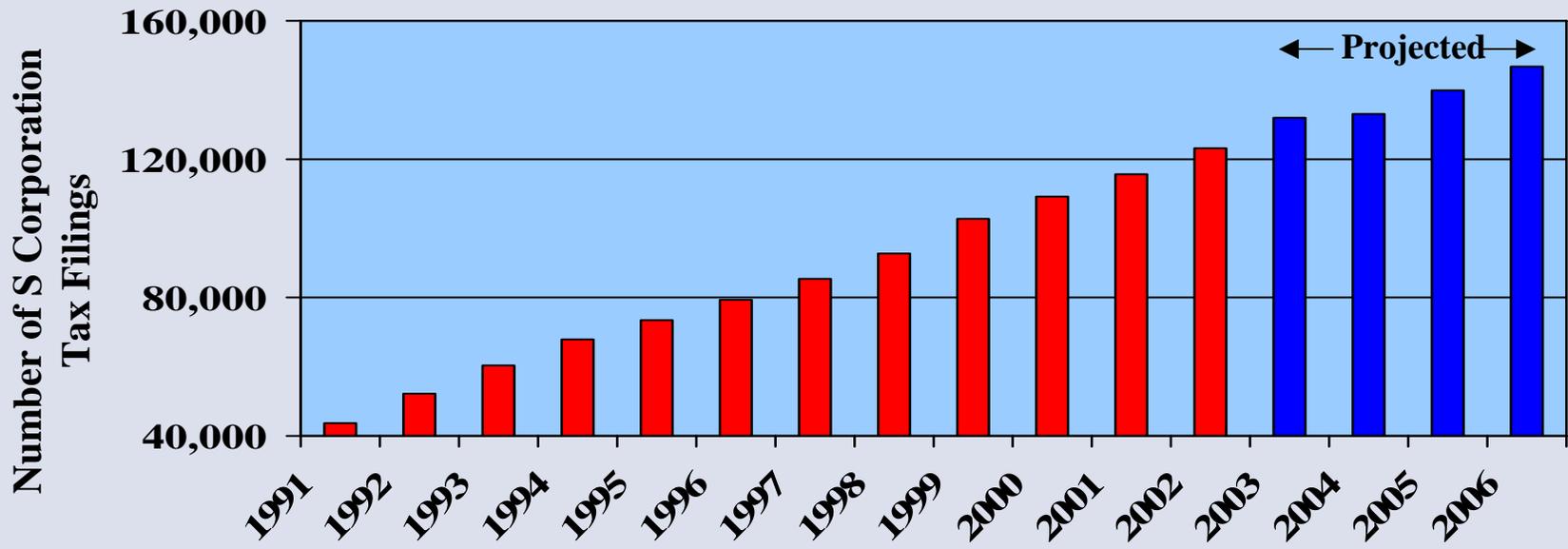
■ \$0 ■ \$1 - \$10,000 ■ > \$10,000

■ \$0 ■ \$1 - \$10,000 ■ > \$10,000



Pennsylvania S Corporation Tax Filings

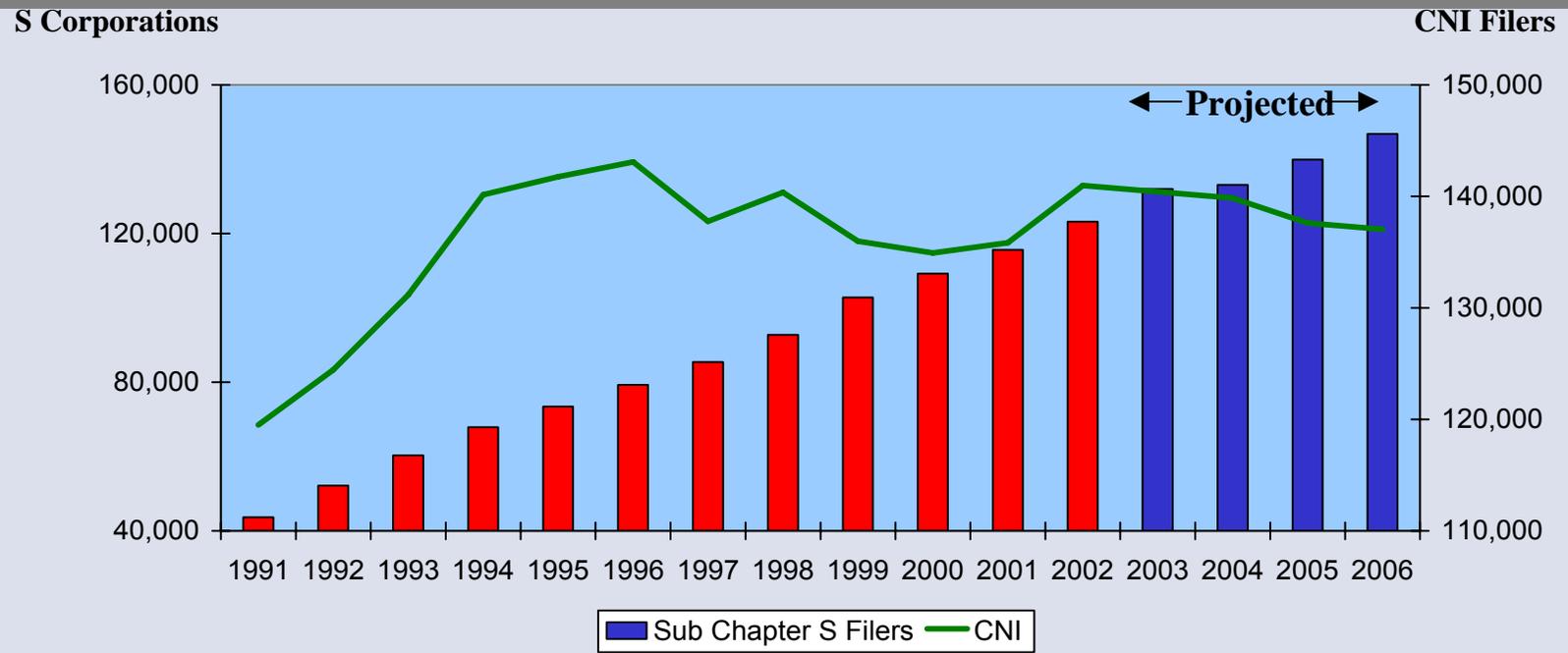
Corporations that elect Pennsylvania "S corporation" status are exempt from the Corporate Net Income Tax. Pennsylvania S corporation shareholders instead include their share of Pennsylvania S corporation income in their Pennsylvania Personal Income Tax filings. This effectively allows corporations to 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 2007-08, the Department of Revenue estimates that S corporations will pay nearly \$675.4 million less in taxes to Pennsylvania because of this allowance. From 1991 to 2004, the number of S corporations grew by 205 percent, an average annual growth rate of 9 percent.





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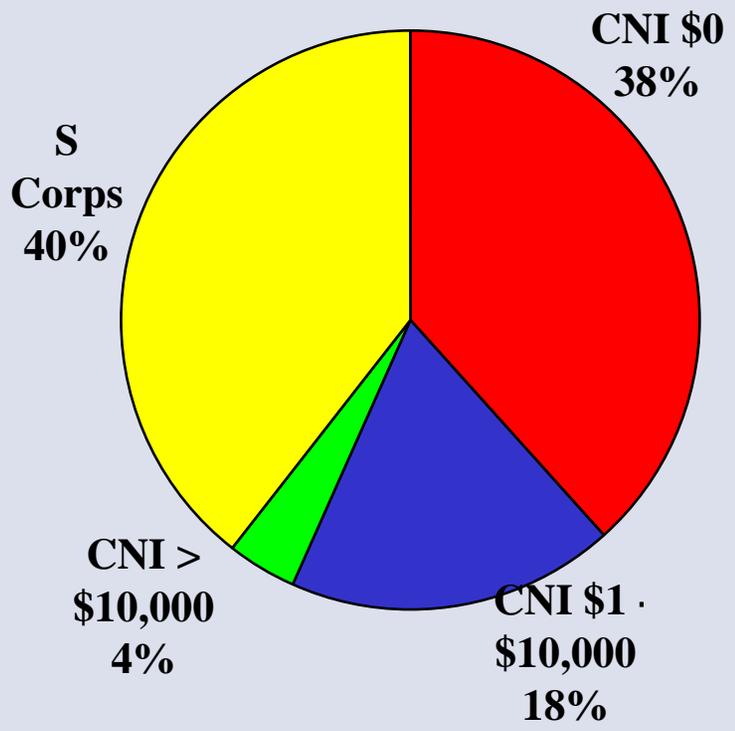




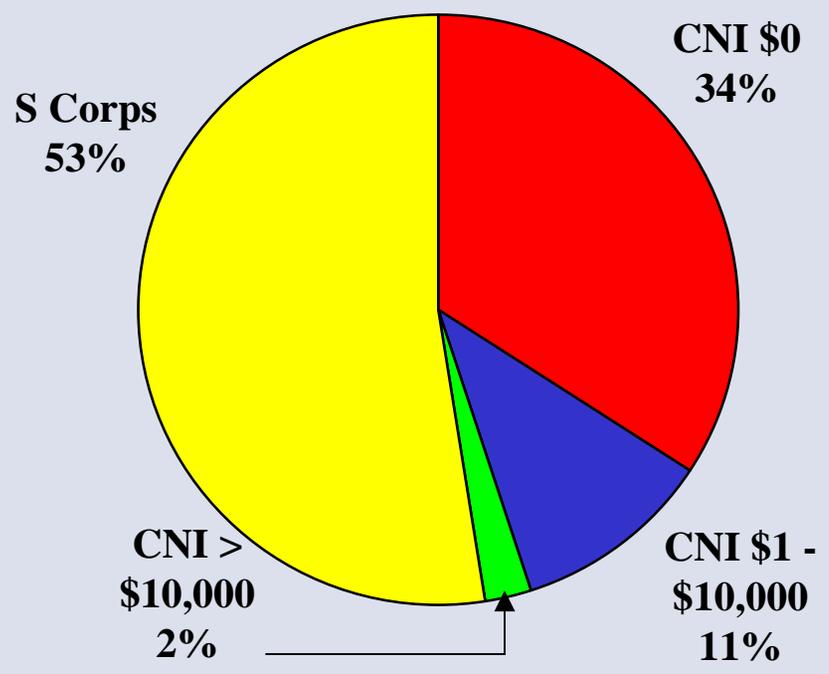
Total Business Tax Filers

An increasing percentage of the commonwealth's business taxpayers are paying their business taxes at the S Corporation rate of 3.07 percent or are paying less Corporate Net Income Tax.

1998



2004





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Governor's 2007-08 Budget Briefing

February 6, 2007

Edward G. Rendell
Governor

Michael J. Masch
Secretary of the Budget

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