

2010-11 Executive Budget

February 9, 2010

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

Commonwealth of Pennsylvania

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Secretary of the Budget

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“Initial indications are that states will face shortfalls as big as or bigger than they faced this year in the upcoming 2011 fiscal year. States will continue to struggle to find the revenue needed to support critical public services for a number of years.”

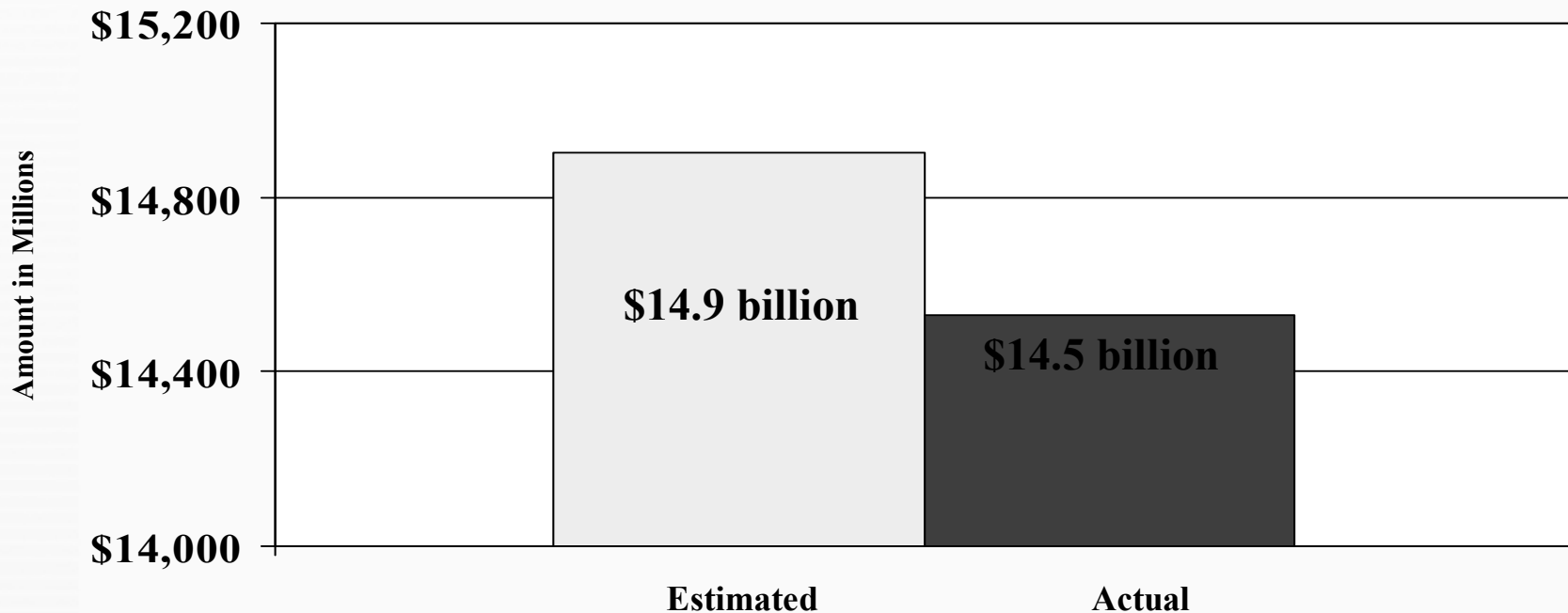
**Center on Budget and Policy Priorities
“*Recession Continues to Batter State Budgets*”
January 28, 2010**

Revenues

2009-10 General Fund Revenues

Estimated versus Actual Revenue Collections, July 2009 – January 2010

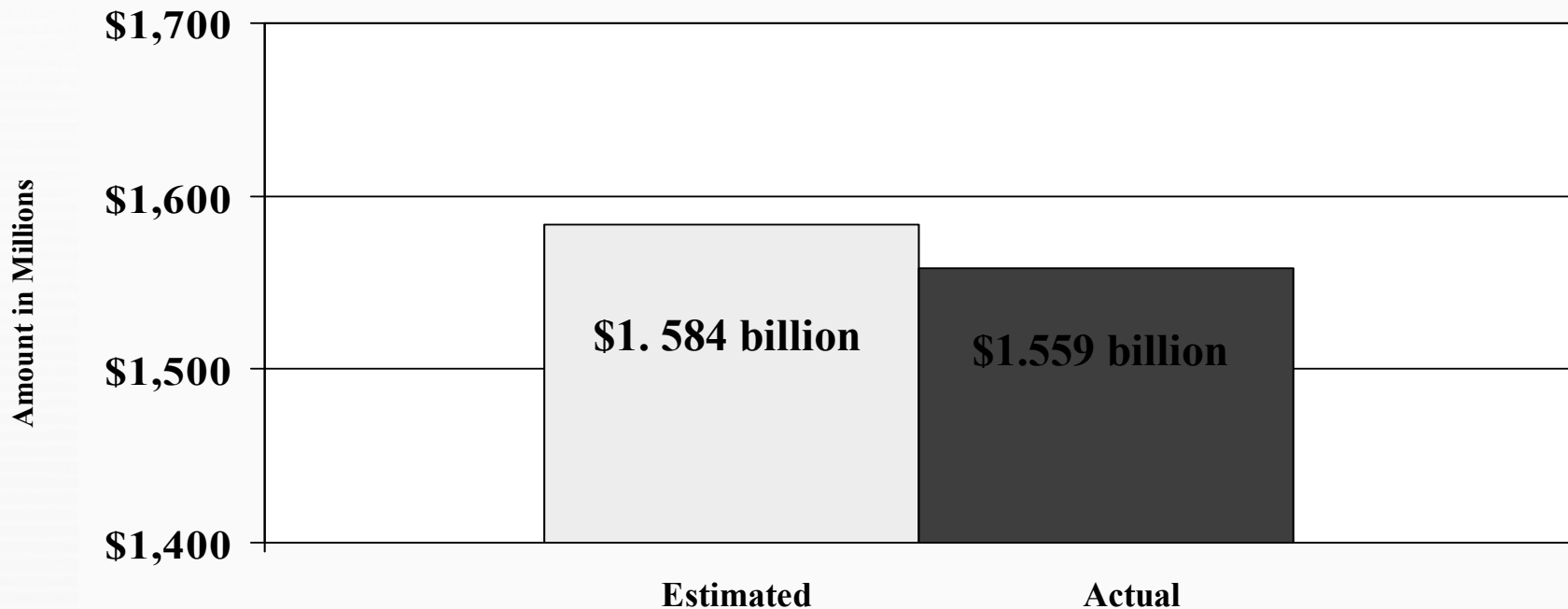
Despite a conservative, zero-growth projection, General Fund revenue collections in the first seven months of 2009-10 were \$374 million lower than estimated. The administration now projects a year-end revenue shortfall of \$525 million.



2009-10 Motor License Fund

Estimated versus Actual Revenue Collections, July 2009 – January 2010

Motor License Fund revenue collections in the first seven months of 2009-10 were \$24.8 million lower than estimated (down 1.6 percent) – another consequence of the weak economy. The administration now projects a year-end revenue shortfall of \$35.1 million, which is 1.3 percent of estimated total Motor License Fund revenues.



**Plan to Balance
Pennsylvania's 2009-10 Budget**

2009-10 Revised General Fund Budget

Impact of Revenue Shortfall

(Dollars in Millions)

	2009-10 <u>Enacted*</u>	2009-10 <u>Revised</u>
Beginning Balance	\$ (2,030)	\$ (2,030)
Revenue Estimate	27,569	27,574
Revenue Shortfall	0	(525)
Total Revenue	<u>\$ 27,569</u>	<u>\$ 27,049</u>
Prior-Year Lapses	0	60
Funds Available	<u>\$ 25,539</u>	<u>\$ 25,079</u>
Expenditures	\$ (27,800)	\$ (27,875)
Federal ARRA Appropriations	2,621	2,698
Current-Year Lapses	0	135
Total Expenditures	<u>\$ (25,179)</u>	<u>\$ (25,042)</u>
Ending Balance	<u>\$ 360</u>	<u>\$ 37</u>

* Based upon Official Revenue Estimate from January 7, 2010

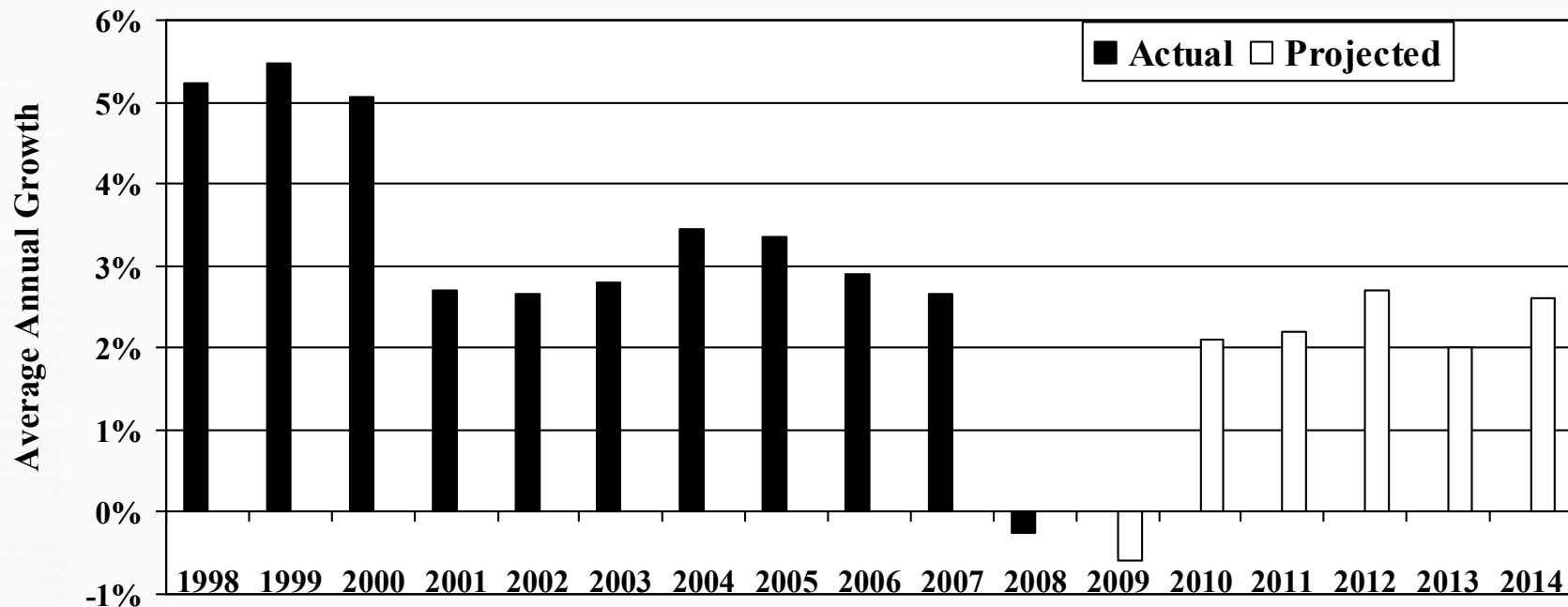
Economic and Revenue Update

- Highest growth in fourth quarter Gross Domestic Product since 2003.
- There has been a recent uptick in U.S. retail sales.
- The U.S. unemployment rate decreased from 10 percent to 9.7 percent in January.
- Personal Income Tax withholding revenues were slightly above projection (+ 0.34%) in January.

Modest Gains in Personal Consumption

Personal consumption declined dramatically in 2008 and contracted further through 2009. Personal Consumption Expenditures is the component of the Gross Domestic Product that includes all consumer spending on durable goods, non-durable goods and services. In the United States, personal consumption is a critical factor driving the economy. It accounts for about two-thirds of the nation's GDP.

U.S. Real Personal Consumption Expenditures

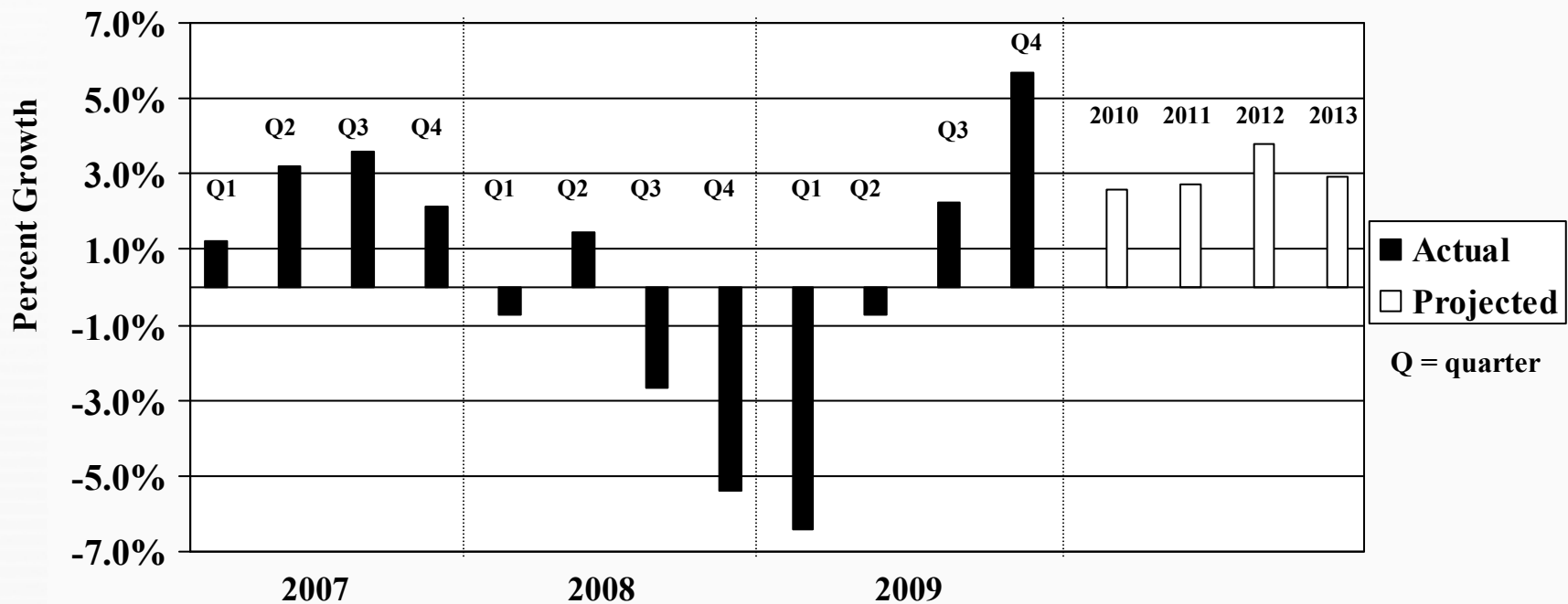


Source: *Global Insight*, January 2010

U.S. Real Gross Domestic Product Growth

After four quarters of negative growth, the GDP began to grow at the end of 2009. At 5.7 percent, growth in the final quarter of 2009 was more robust than many economists had predicted. The GDP is expected to grow between 2 percent and 4 percent annually over the next three years.

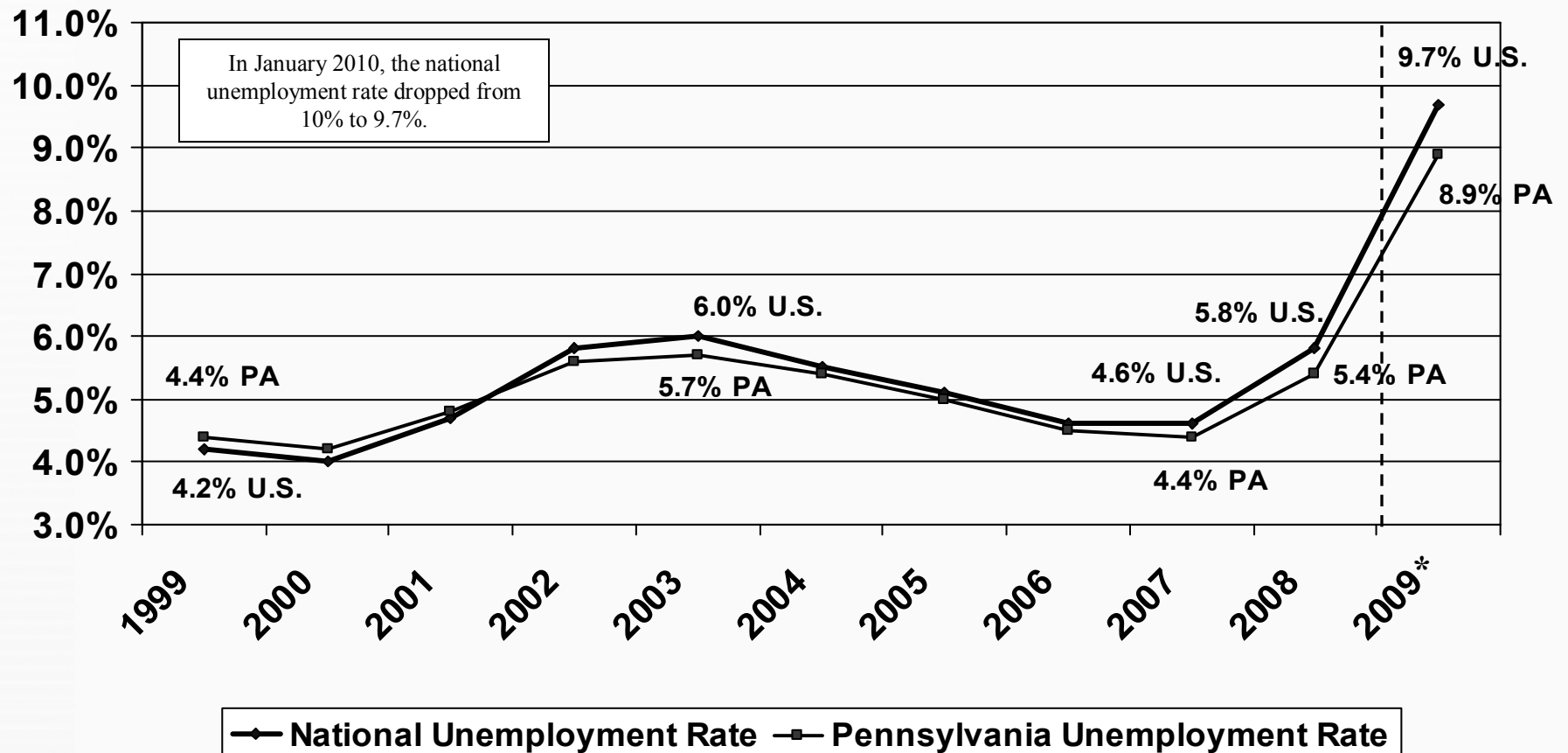
U.S. Real Gross Domestic Product



Source: IHS Global Insight, January 2010

National and State Jobless Rates, 1999-2009

Pennsylvania's Unemployment Rate Has Remained Below the National Rate Since the Recession Began in Late 2007



* U.S. rate reflects January 2010 Data - PA rate reflects December 2009 data (January rate not yet released).

Managing in Tough Times

Pennsylvania Retains Double-A Bond Rating

Before Pennsylvania's December 2009 General Obligation bond sale, the top Wall Street credit rating agencies – Moody's, Standard & Poor's and Fitch – all reaffirmed the commonwealth's double-A credit rating.

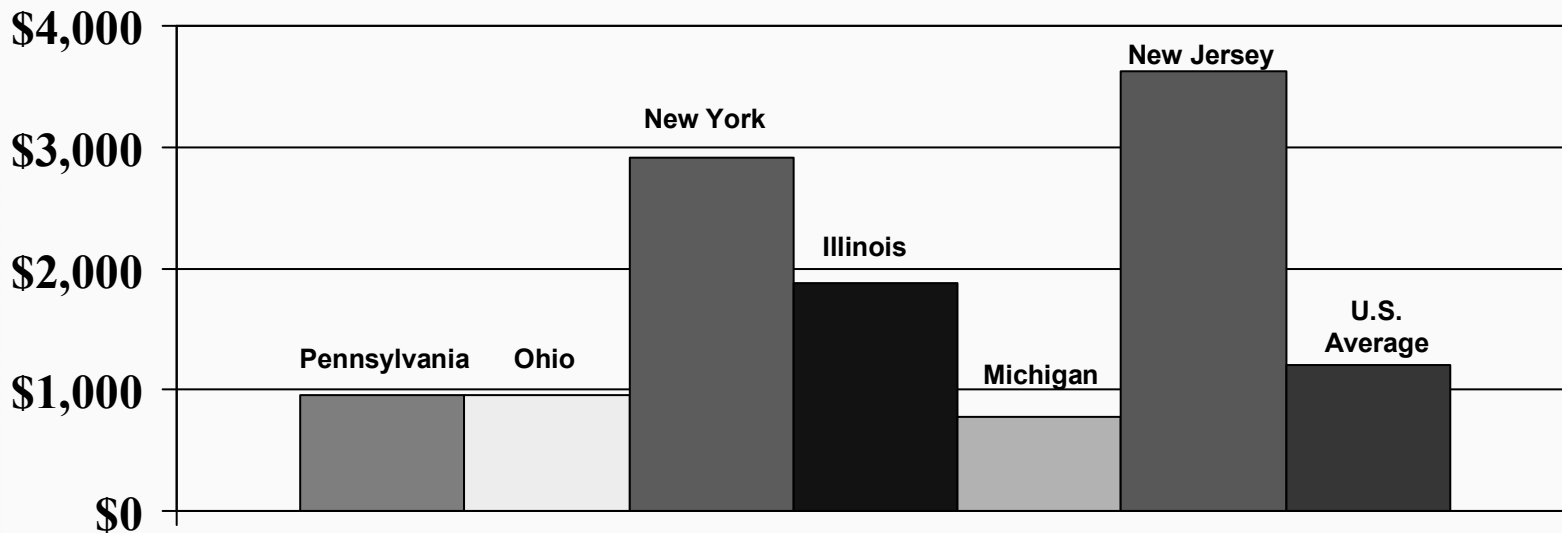
According to Moody's, the commonwealth's credit strengths include:

- An established record of good financial management, reflected in strong actions to preserve budget balance in recent years.
- A state debt position that is moderate and well-controlled, with tax-supported debt ratios close to the national average and a well-funded state pension system.
- Per capita wealth levels that are close to the national average.

On January 13, 2010, the commonwealth sold the largest competitively bid Build America Bonds deal in the nation to date. After accounting for the interest rate subsidy, the commonwealth received its lowest interest rate ever on its General Obligation Bonds.

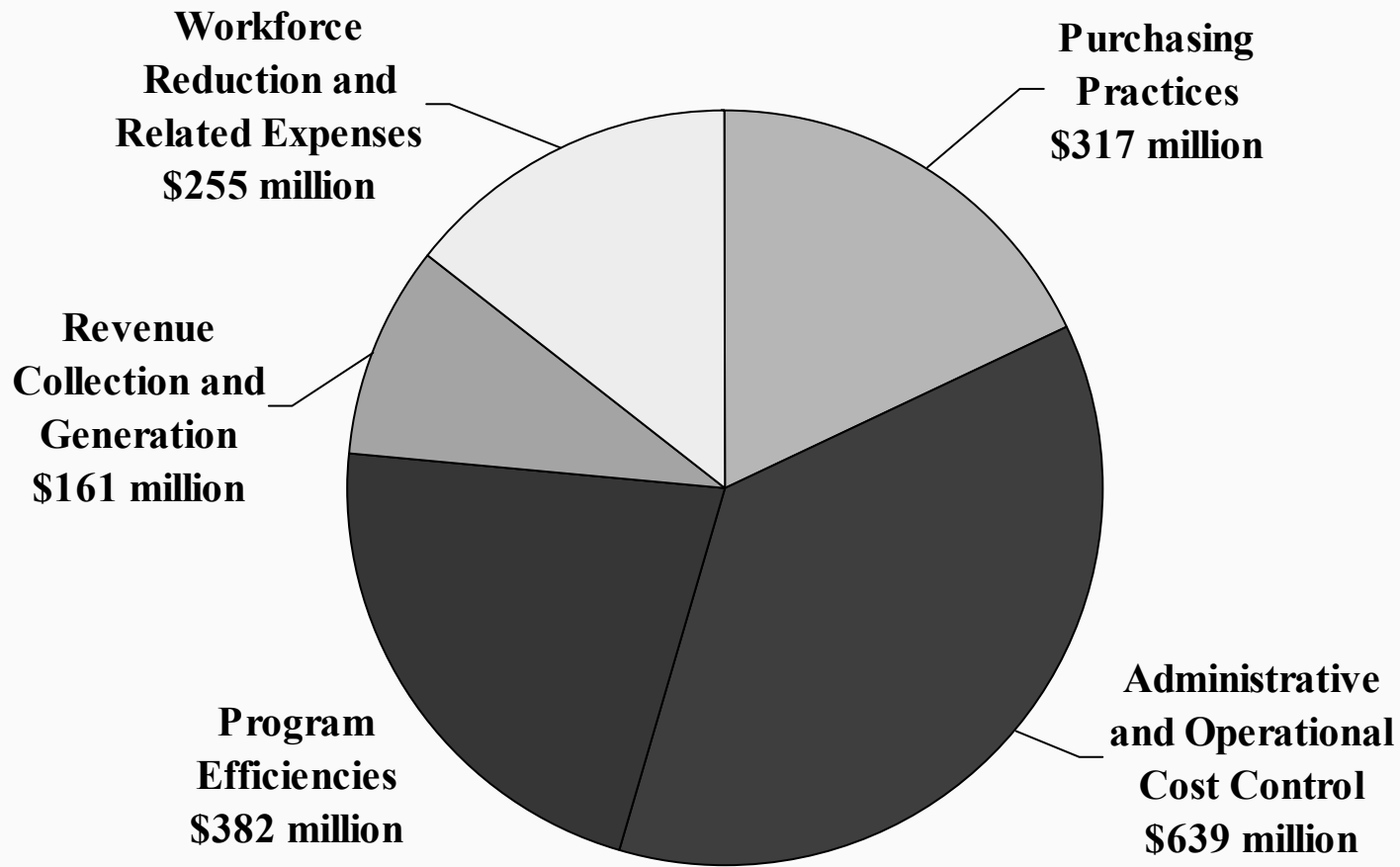
Net Tax-Supported Debt Per Capita

Pennsylvania's debt per capita of \$950 places it in the middle of the pack among the states – well below the neighboring states of New York and New Jersey and below the U.S. average.



Source: Moody's Investors Service, "2009 State Debt Medians," July 2009

Components of the \$1.75 Billion in Management and Productivity Savings



Ongoing Cost Containment

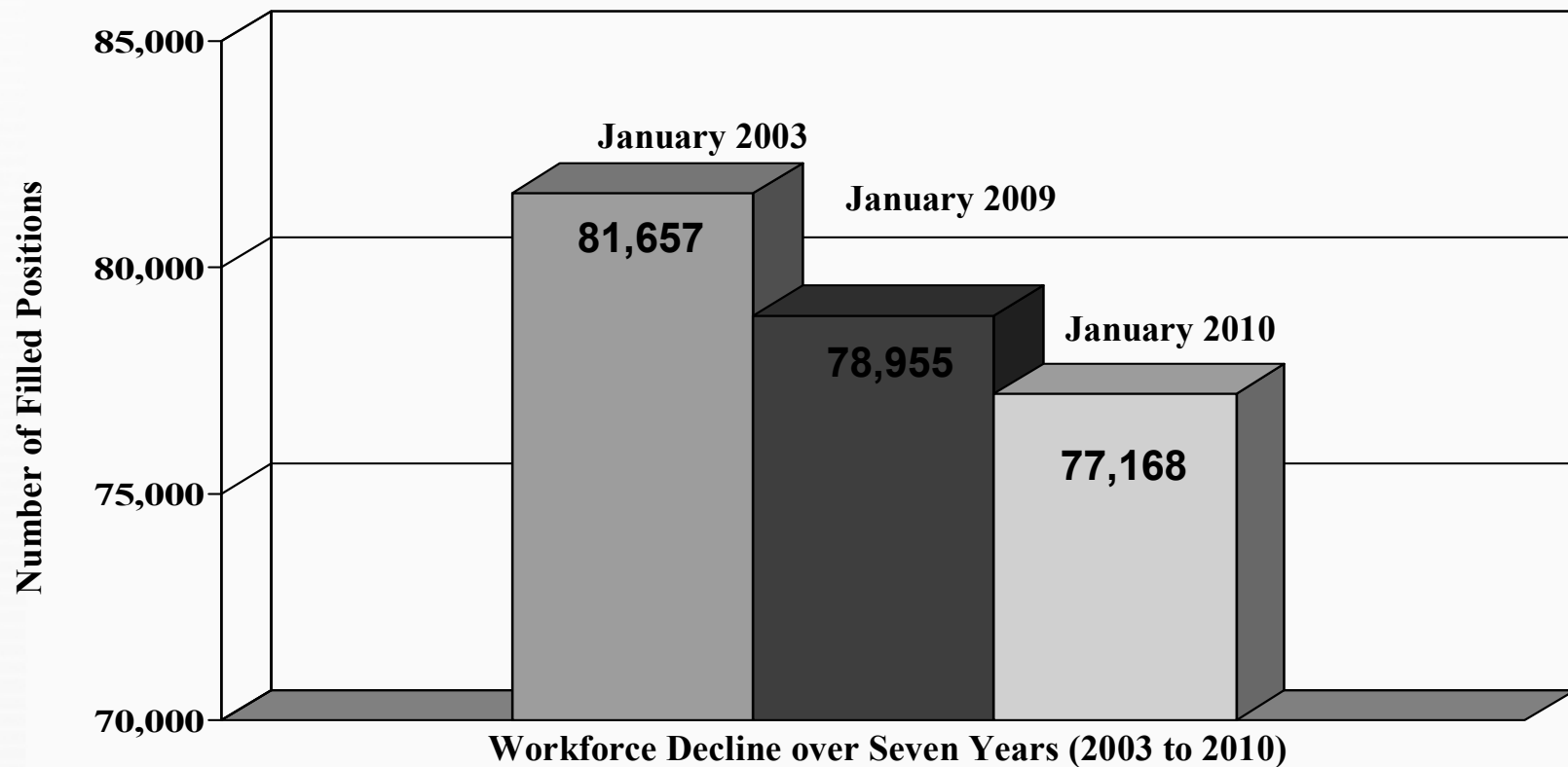
In addition to directing agencies to contain their spending growth, Governor Rendell has taken decisive action to reduce administrative spending. These initiatives were put into place in the fall of 2008 and remain in effect today.

- **A general hiring freeze, followed by employee layoffs in August and December of 2009.**
 - These actions, along with other actions taken before 2008-09, reduced the workforce by 5.5 percent between January 2003 and January 2010.
 - As of December 2009, there have been 721 layoffs in 2009-10.
- **Out-of-state travel restrictions: Trips must be pre-approved by the Governor's Office.**
 - Reducing out-of-state travel saved the commonwealth \$14.1 million since the restriction on out-of-state travel was put into place – a 27 percent reduction in out-of-state travel costs in one year.
- **A ban on the purchase of new vehicles. Today there are 500 fewer vehicles in the commonwealth's fleet than last year.**
- **A freeze on cabinet and non-union employees' salaries, saving a total of \$87.3 million from January 2009 to June 2010.**

Reduction in Filled Staffing Levels

2002-03 versus 2009-10

Between January 2003 and January 2010, the size of the workforce declined by 5.5 percent – or nearly 4,500 positions.

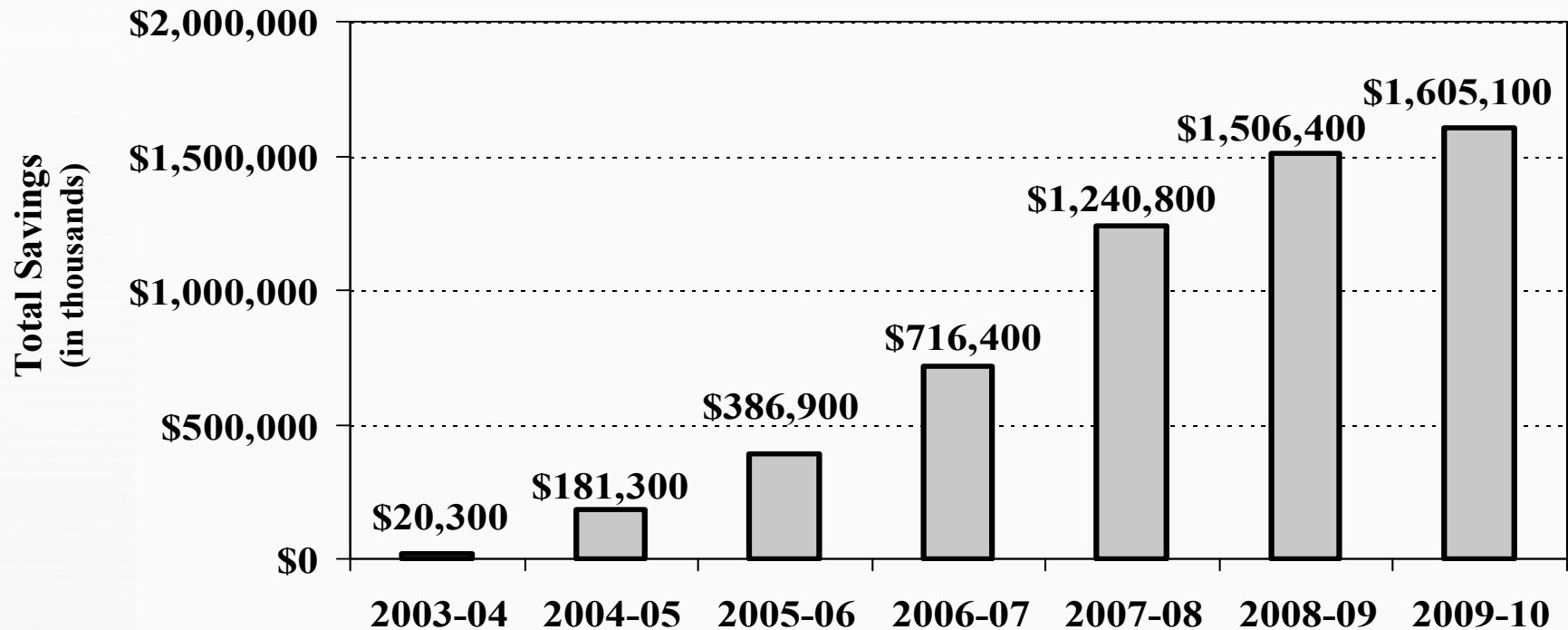


Business Tax Cuts

2003-04 through 2009-10

Tax savings to Pennsylvania's businesses have increased in each year of this administration. Since 2003, the administration has reduced business taxes by \$5.7 billion.

Business Tax Cuts



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

2010-11 – A Budget That Works to:

- ✓ **Invest in our children’s education;**
- ✓ **Meet our health and safety responsibilities;**
- ✓ **Keep the cost of state government down; and**
- ✓ **Prepare for our future challenges.**

2010-11 Budget Highlights

The 2010-11 budget is a balanced plan in a time of hard choices. This budget makes additional key investments in education and public safety programs, while maintaining funding to protect the social safety net for Pennsylvania's vulnerable citizens.

- The total General Fund budget is \$29 billion, a 4.1 percent increase from 2009-10. The 2010-11 state General Fund budget is \$26.3 billion after accounting for the use of federal fiscal relief.
- This budget assumes a three-quarter extension of ARRA Enhanced FMAP.
- This budget does not rely on a broad-based tax increase.
- Administrative spending in the 2010-11 budget is 4 percent lower than it was in 2002-03.
- In the 2010-11 General Fund budget, \$12.3 billion, or 42 percent, is for education programs.
- The 2010-11 General Fund budget reduces spending by 1 percent in all areas other than Education, Public Welfare, Aging & Long Term Living, debt service, Corrections, and Probation and Parole.

2010-11 General Fund Budget

	(Dollars in Millions)	
	<u>2009-10 Revised</u>	<u>2010-11 Budget</u>
Beginning Balance	\$ (2,030)	\$ 37
Revenue Estimate	\$ 27,049	\$ 26,240
Prior-Year Lapses	60	0
Funds Available	<u>\$ 25,079</u>	<u>\$ 26,277</u>
Total Expenditures	\$ (27,875)	\$ (29,029)
Federal ARRA Appropriations	2,698	2,756
Current-Year Lapses	135	0
Total State Expenditures	<u>\$ (25,042)</u>	<u>\$ (26,273)</u>
Ending Balance	<u>\$ 37</u>	<u>\$ 4</u>

2010-11 ARRA Budgetary Relief

The 2010-11 budget includes \$2.8 billion in federal ARRA funds: \$1.8 billion in Enhanced Federal Medical Assistance Percentage (FMAP) and \$921 million in State Fiscal Stabilization Funds.

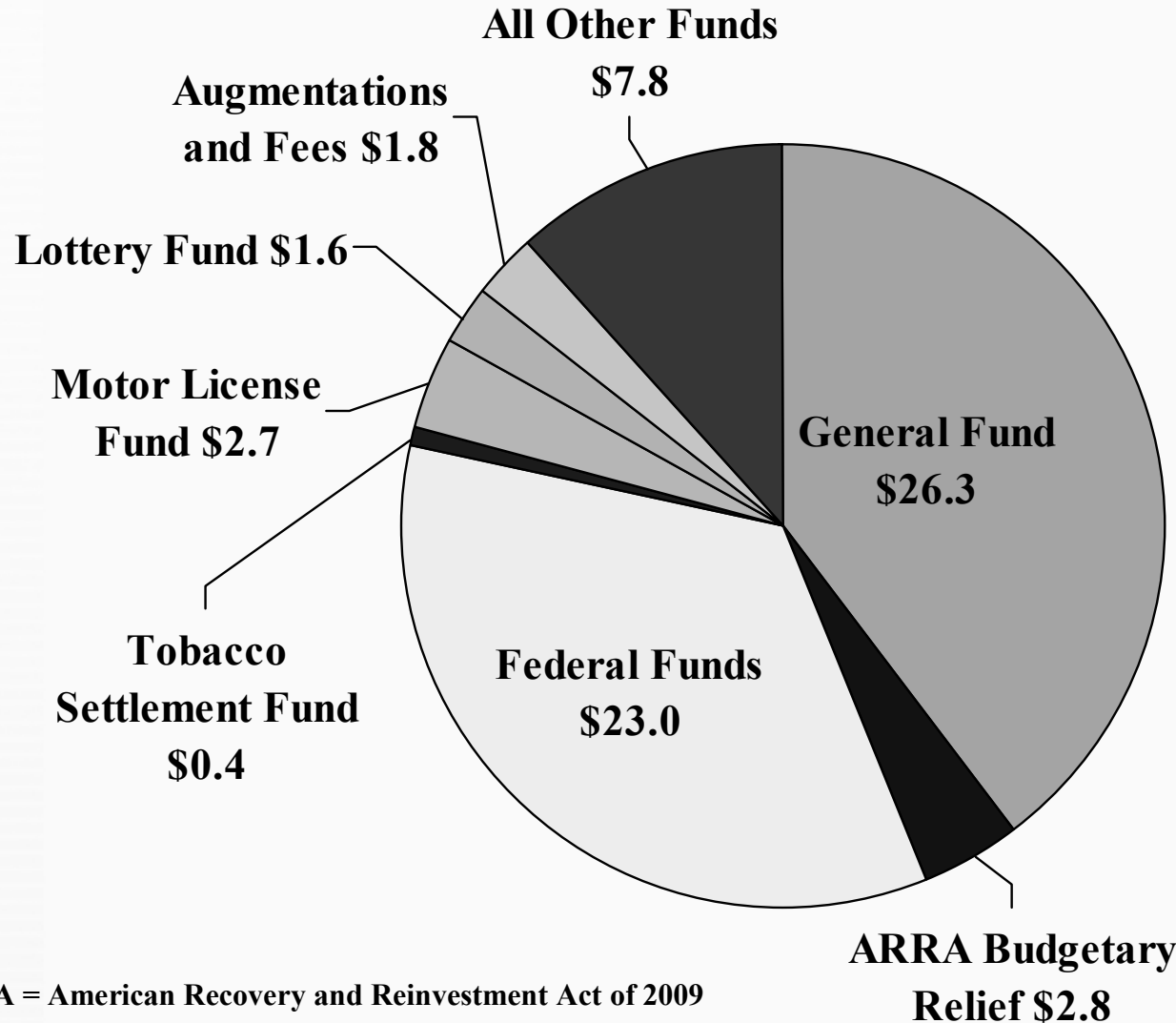
Enhanced Federal Medical Assistance Percentage (FMAP)

	(Amounts in millions)
Medical Assistance programs	\$ 1,568
Other Department of Public Welfare programs	267
Total Enhanced FMAP	\$ 1,835

State Fiscal Stabilization Fund

	(Amounts in millions)
Basic Education Funding	\$ 655
Higher Education	93
Corrections	173
ARRA Oversight	0.5
Total State Fiscal Stabilization Fund	\$ 921
Total ARRA Budgetary Relief	\$ 2,756

2010-11 Total Operating Budget



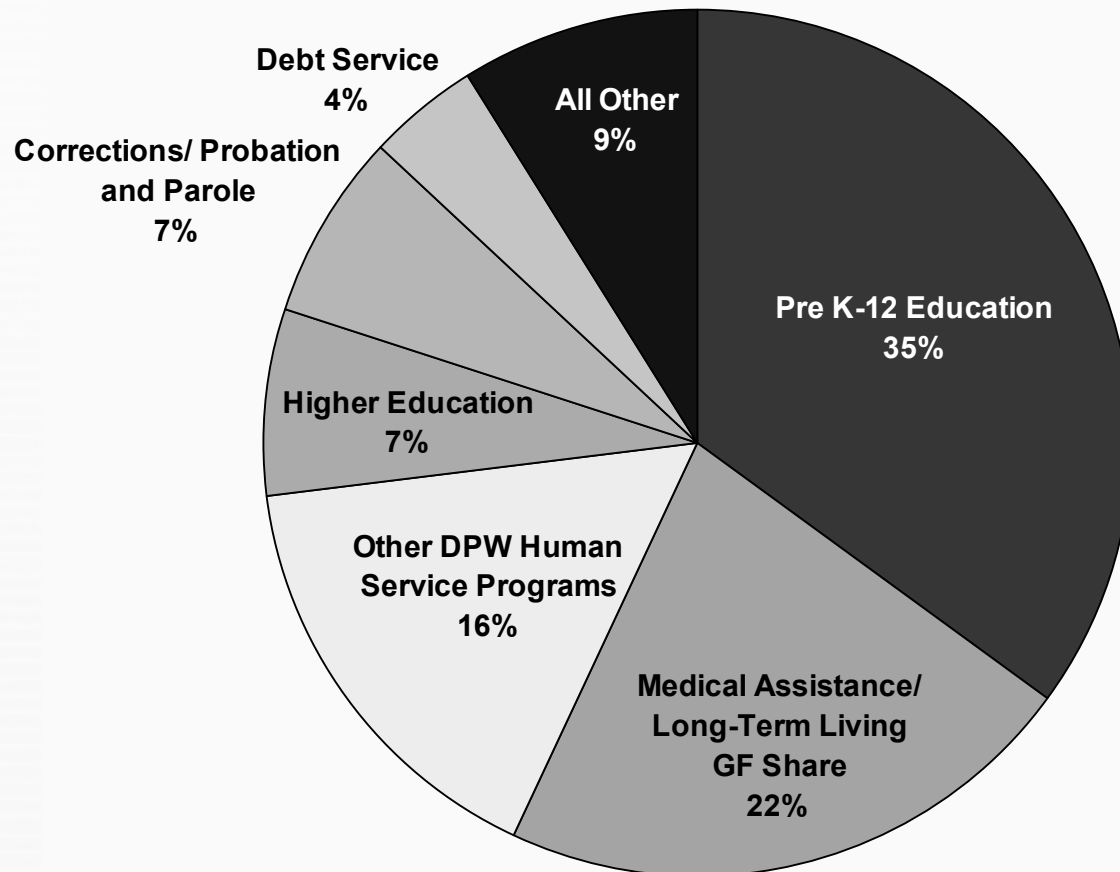
The total 2010-11 operating budget, including all commonwealth funds, is \$66.4 billion. Including ARRA Budgetary Relief, the General Fund represents 44 percent of this amount.

**Total:
\$66.4 Billion**

ARRA = American Recovery and Reinvestment Act of 2009

2010-11 State General Fund Expenditures

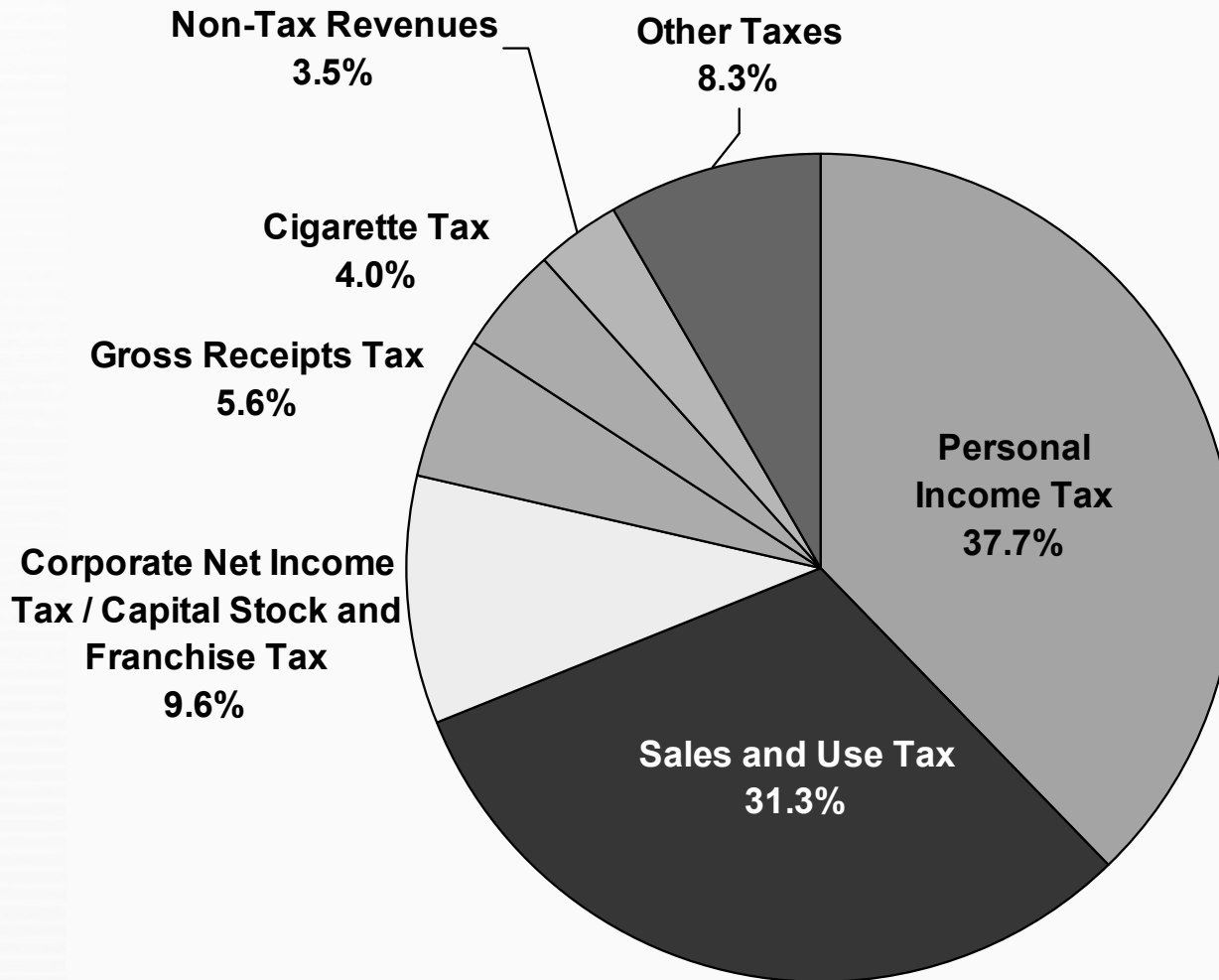
The 2010-11 General Fund budget is \$29 billion, an increase of 4.1 percent over 2009-10, after accounting for the use of \$2.8 billion in federal ARRA funds in 2010-11.



Spending on Education, Medical Assistance / Long-Term Living, other Human Service programs, Corrections and debt service comprises nearly 91 percent of total General Fund obligations.

Total General Fund Expenditures:
\$26.27 Billion State
\$ 2.76 Billion ARRA
\$29.03 Billion Total

2010-11 General Fund Revenue Sources



More than two-thirds (69 percent) of General Fund revenues are derived from the Personal Income Tax and the Sales and Use Tax.

2010-11 Budget Overview

**Education and
Property Tax Relief**

Investing in Pennsylvania's Future

- **Basic Education Subsidy** – A \$354.8 million increase in 2010-11, for total funding of \$5.9 billion, to support PreK-12 education by continuing to phase in a research-based funding approach to assist districts to advance student achievement.
- **Accountability Block Grant** – \$271.4 million in state funding for proven educational programs.
- **Pennsylvania Pre-K Counts** – \$85.9 million for pre-kindergarten.
- **Education Assistance Program** – \$55.3 million in state funding for struggling students in 175 school districts.
- **Special Education** – \$1.03 billion in state funding.
- **Science: It's Elementary** – \$13.5 million to help 72,000 students become active science explorers.
- **Project 720** – \$3.7 million to transform Pennsylvania high schools by increasing the rigor of academic programs. More than 160 high schools are already participating.
- **Dual Enrollment** – \$8 million to help students earn college credit. High school students are taking 24,000 college courses in 2009-10 as a result of our current investment of \$8 million.
- **Head Start** – \$38.7 million in state funding to serve 5,743 children.

Higher Education in the 2010-11 Budget

Higher education funding in the 2010-11 budget is nearly \$2 billion, including more than \$90 million in federal ARRA Fiscal Stabilization funding.

	(Total Funding)
Community Colleges (ARRA funding = \$21.5M).	\$ 282.1M
State System of Higher Education (ARRA funding = \$38.2M).	\$ 503.4M
State-Related Universities	
Pennsylvania State University (ARRA funding = \$15.8M).	\$ 333.9M
University of Pittsburgh (ARRA funding = \$7.5M)	168.0M
Temple University (ARRA funding = \$7.8M)	172.7M
Lincoln University (ARRA funding = \$159,000)	13.8M
Total State-Related Universities	\$ 688.4M
Non-State-Related Universities	\$ 30.5M
Pennsylvania Higher Education Assistance Agency	\$ 455.2M

Property Tax Relief

The 2010-11 budget continues sustainable property tax relief for all Pennsylvania homeowners. The Taxpayer Relief Act of 2006 uses revenue from expanded gaming to fund property tax cuts in two ways:

✓ To provide \$156 million in Property Tax / Rent Rebates to older Pennsylvanians who have the most urgent need.

✓ To reduce broad-based property taxes by \$614 million for all Pennsylvania homeowners.

Type of Tax Relief	Tax Relief in 2010-11
Relief for all homeowners from gaming revenue (wage tax relief in Philadelphia)	\$613.7 M
Enhanced property tax rebates of up to \$650 for older Pennsylvanians earning up to \$35,000 per year	\$129.1 M
Higher rebates for older Pennsylvanians with a high tax burden or those living in cities with a high tax burden	\$26.9 M
TOTAL	\$769.7 M

2010-11 Budget Overview

Infrastructure Initiatives

Rebuilding PA Infrastructure Initiative

- **Ramping Up Repair: More than 1,000 bridges rebuilt by 2010-11.** This budget contains a third year of \$200 million in bond funds to accelerate the repair of structurally deficient bridges. This is in addition to more than \$1.4 billion in 2010-11 base Motor License Fund highway and bridge program funding allocated to the design and construction of bridge projects.
- **Pennsylvania's Rail Freight Economic Development program:** Critical projects that were begun in 2009-10 will continue and be supported by additional funding in 2010-11. Those are the Crescent Corridor (Norfolk Southern) and National Gateway (CSX) projects.

Interstate 80 Tolling

Act 44 of 2007 provides dedicated and predictable highway funding by transferring control of Interstate 80 from the Department of Transportation to the Pennsylvania Turnpike Commission. The commission would then operate I-80 as a toll road. The 2010-11 budget assumes that the joint Transportation-Turnpike Commission re-application to the Federal Highway Administration for approval to convert I-80 to a toll road will be approved, generating an additional \$472 million.

Transportation program funding, without I-80 toll revenue:

- \$250 million for local transit funded through the Public Transportation Trust Fund
- \$200 million for the Expanded Highway and Bridge program

Transportation program funding, including I-80 toll revenue:

- \$410 million for local transit funded through the Public Transportation Trust Fund
- \$512.5 million for the Expanded Highway and Bridge program

2010-11 Budget Overview

Economic Development Initiatives

Continued Investment in Key Economic Development Programs

The Governor's 2010-11 budget includes funding increases for several critical economic development programs that help businesses grow and create jobs. Job growth is a critical component of the recovery from the global economic recession.

- **\$25 million for Opportunity Grants – a \$6.7 million increase**
Grants to businesses to secure job-creating and job-retaining economic development
- **\$11 million for Customized Job Training – a \$2 million increase**
Grants to businesses, labor organizations and industry consortia for employee training programs
- **\$19 million for Infrastructure Development – a \$4 million increase**
Grants and loans to businesses locating or expanding in the commonwealth for developing and improving sites, including the restoration of blighted areas
- **\$30 million for Infrastructure and Facilities Improvement Grants – a \$2 million increase**
Grants to authorities which issue debt for Tax Increment Financing projects, including redevelopment authorities, convention center authorities, and the Pennsylvania Economic Development Financing Authority

2010-11 Budget Overview

Preserving the Safety Net

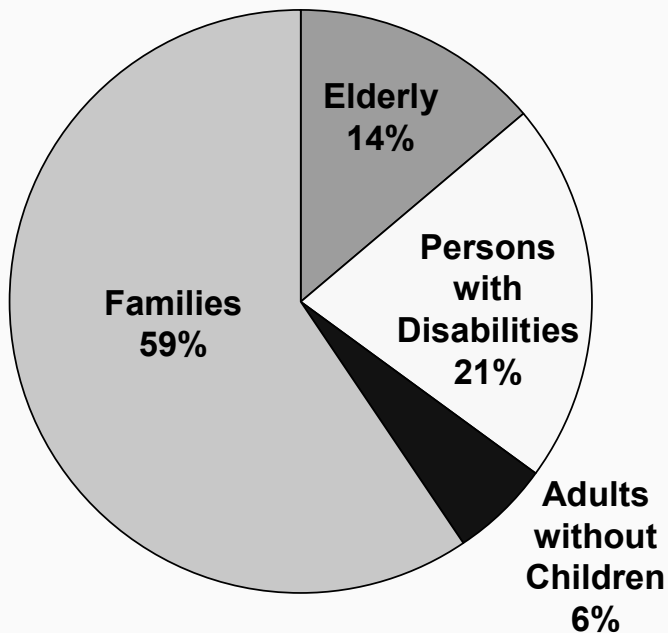
Providing Vital Services to Children, Older Pennsylvanians and Others in Need

	People Served 2009-10*	People Served 2010-11* (projected)
Medical Assistance – Health Care for Low-Income Elderly, People with Disabilities, Children, Adults and Chronically Ill Adults	2,068,699	2,130,785
Pharmaceutical Assistance Contract for the Elderly (PACE)/PACENET	360,011	364,400
Protection for Children at Risk Due to Abuse, Neglect and Delinquency	285,077	288,480
Cash Assistance (TANF, General Assistance and State Blind Pension)	244,371	257,615
Child Care for Low-Income Families	231,085	242,665
Children’s Health Insurance Program	198,240	208,555
Community Behavioral Health Services	195,465	196,105
Community Mental Retardation and Autism Services	49,921	50,336
adultBasic	50,000	50,000

* Eligible individuals may receive services in more than one category.

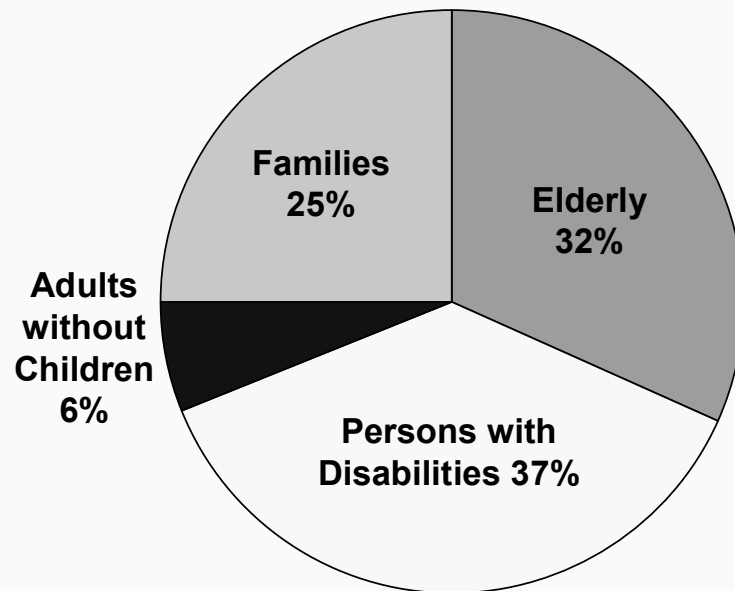
Seniors and Persons with Disabilities Use the Greatest Share of Medical Assistance Resources

Older Pennsylvanians and people with disabilities are 35 percent of the total Medical Assistance population, but they account for 69 percent of the Medical Assistance expenditures. Families comprise 59 percent of the Medical Assistance population but account for just 25 percent of spending.



Number of People

2.1 Million



Total Expenditures

\$15.4 Billion

The Commonwealth's Plan for Long-Term Living

The 2010-11 budget proposes to consolidate long-term living programs into a new Department of Aging and Long Term Living. Consolidating these programs into a single department will improve the efficiency of service delivery and the coordination of services for the long-term living system.

- The 2010-11 budget proposes \$843 million in state funds for the Department of Aging and Long Term Living – an increase of \$36.5 million from 2009-10 funding, including:
 - \$6.2 million to provide home and community-based services to **1,692 additional older Pennsylvanians.**
 - \$11.1 million to provide home and community-based services to **1,524 additional individuals with disabilities.**

Cover All Kids

Cover All Kids was implemented in March 2007 and guarantees access to affordable, comprehensive health care coverage for all uninsured children in Pennsylvania. As a result, the number of children in Pennsylvania's Children's Health Insurance Program has risen by 58 percent – from 125,983 in January 2003 to 197,276 in January 2010.

In 2010-11 Cover All Kids will:

- Provide \$437 million in state, federal and other funds to serve 208,555 children – an increase of more than 10,300 children above 2009-10.
- Provide comprehensive health care coverage – including visits to doctors, hospitalization, prescription drugs, mental health and substance abuse services, vision and dental services and home health care.
- Subsidize coverage for children in families whose annual income is up to 300 percent of the federal poverty level (\$66,150 for a family of four). Family premiums range, on average, between \$43 and \$68 per month per child.
- Offer at-cost coverage for children in families whose income is at or above 300 percent of poverty level (\$221 per month per child, on average).

adultBasic Program

The adultBasic program began providing basic health care coverage for uninsured adults in July 2002 with a portion of the Tobacco Settlement Fund revenue, as stipulated in Act 77 of 2001. In 2005, the commonwealth and Pennsylvania's Blue Cross/Blue Shield plans entered into the Community Health Reinvestment agreement, under which the plans agreed to provide funding for the adultBasic program through December 2010. This budget assumes the continuation of the Community Health Reinvestment contributions, which will enable 50,000 uninsured adults to maintain coverage in 2010-11. The adultBasic waiting list grew to nearly 370,000 in January 2010, more than double the number in January 2009.

In 2010-11 adultBasic will:

- Provide \$199 million in Tobacco Settlement and Community Health Reinvestment funds to maintain basic health care coverage for 50,000 uninsured adults.
- Subsidize coverage for uninsured adults with incomes under 200 percent of the federal poverty level (\$44,100 for a family of four). Subsidized enrollees pay a monthly premium of \$36 per person.
- Offer coverage for eligible adults on the waiting list at an average cost of \$600 per month per person.

PACE/PACENET Prescription Drug Program

The PACE/PACENET program will serve an estimated 364,400 people in 2010-11 – an increase of 100,000 people since 2002-03.

- The 2010-11 budget proposes to save \$19.8 million with two initiatives that reduce pharmaceutical costs:
 - \$14.9 million in savings from seeking approval to include the PACE/PACENET program in the National Pharmaceutical Pooling agreement to receive additional pharmaceutical rebates.
 - \$4.9 million in savings from anticipating federal reforms to the Medicare Part D program to reduce the amount the PACE/PACENET program pays for donut-hole coverage for its participants.

More Than \$825 Million in Cost Savings Last Year

The 2010-11 proposed budget continues efforts to control costs and increase fiscal oversight for the Medical Assistance program through third-party liability collections and improving contracting processes.

Medical Assistance fraud, abuse and efficiency efforts	\$656M cost avoided
Medical Assistance Third Party Payer collections	\$110M collected
Improvements to contract negotiation processes	\$50M cost avoided (over the life of the contract)
Improvements to auditing processes	\$10M cost avoided (over the life of the contract)

2010-11 Medical Assistance Cost Containment

The 2010-11 proposed budget continues efforts to control costs and increase fiscal oversight for the Medical Assistance program through third-party liability collections and improving contracting processes. These cost-containment measures are estimated to save an additional \$111.5 million in state funds.

Cost Containment Initiatives	(Savings in Millions of Dollars)
Increase Pharmaceutical Rebates	\$ 102.5
Increase Pharmacy Efficiencies	4.6
Reduce Fraud and Abuse and Expand Third-Party Liability	4.4
Total Savings	\$ 111.5

2010-11 Budget Overview

**Public Safety
and
Security**

Pennsylvania's Safety and Security *A Commonwealth Priority*

The 2010-11 budget provides additional investments to provide for the security and safety of Pennsylvanians.

The 2010-11 budget also includes:

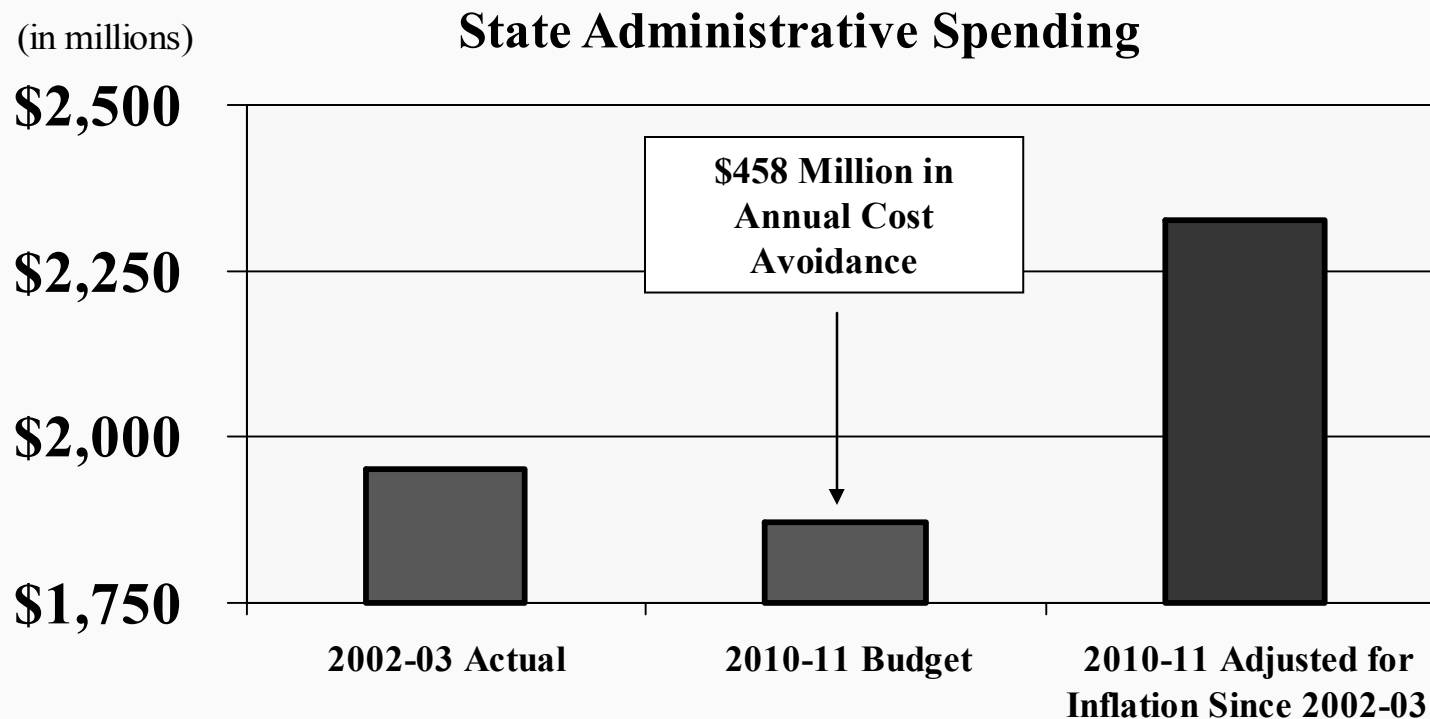
- \$1.9 billion, an increase of \$137 million or 7.7 percent, to fund the Department of Corrections – including \$13 million for new housing units at nine correctional institutions.
- \$2 million for additional parole agents to supervise offenders and increase case processing capabilities;
- \$5.1 million in the Pennsylvania State Police budget for a class of 100 cadets to maintain the trooper strength level; and
- 68 new positions at the Department of Environmental Protection to inspect gas drilling operations in the Marcellus Shale region. The Department of Conservation and Natural Resources will also expand oversight of gas drilling in state forest areas through the addition of 12 staff.

2010-11 Budget Overview

Administrative Spending

Holding the Line on Administrative Spending

If state administrative spending had been allowed to grow at the rate of inflation since 2002-03, commonwealth agencies would be spending \$458 million – or nearly 25 percent – more in this budget to operate state government.



Source on Inflation: U.S. Department of Labor, Bureau of Labor Statistics CPI Inflation Calculator.

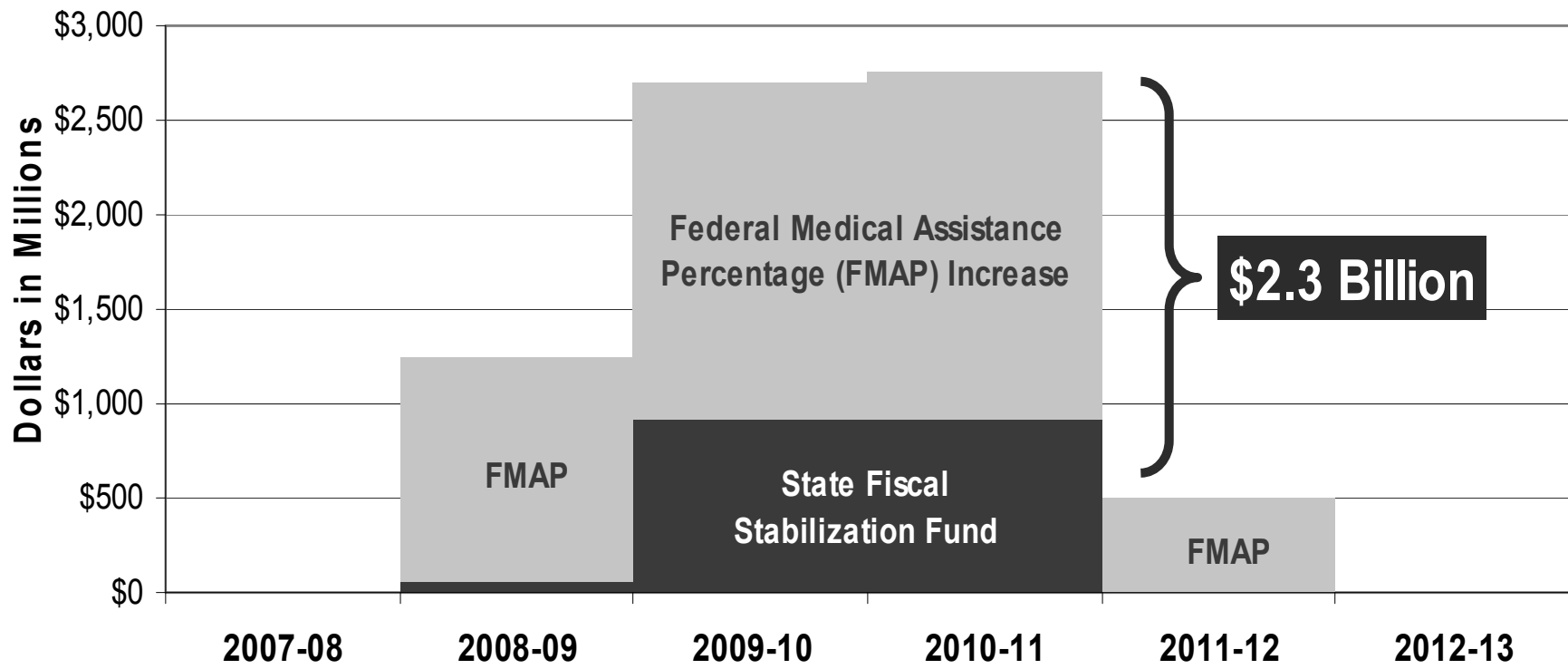
The Challenges Ahead

The Challenges Ahead

- **Federal Fiscal Relief Will End**
- **The Pension Spike in 2012-13**

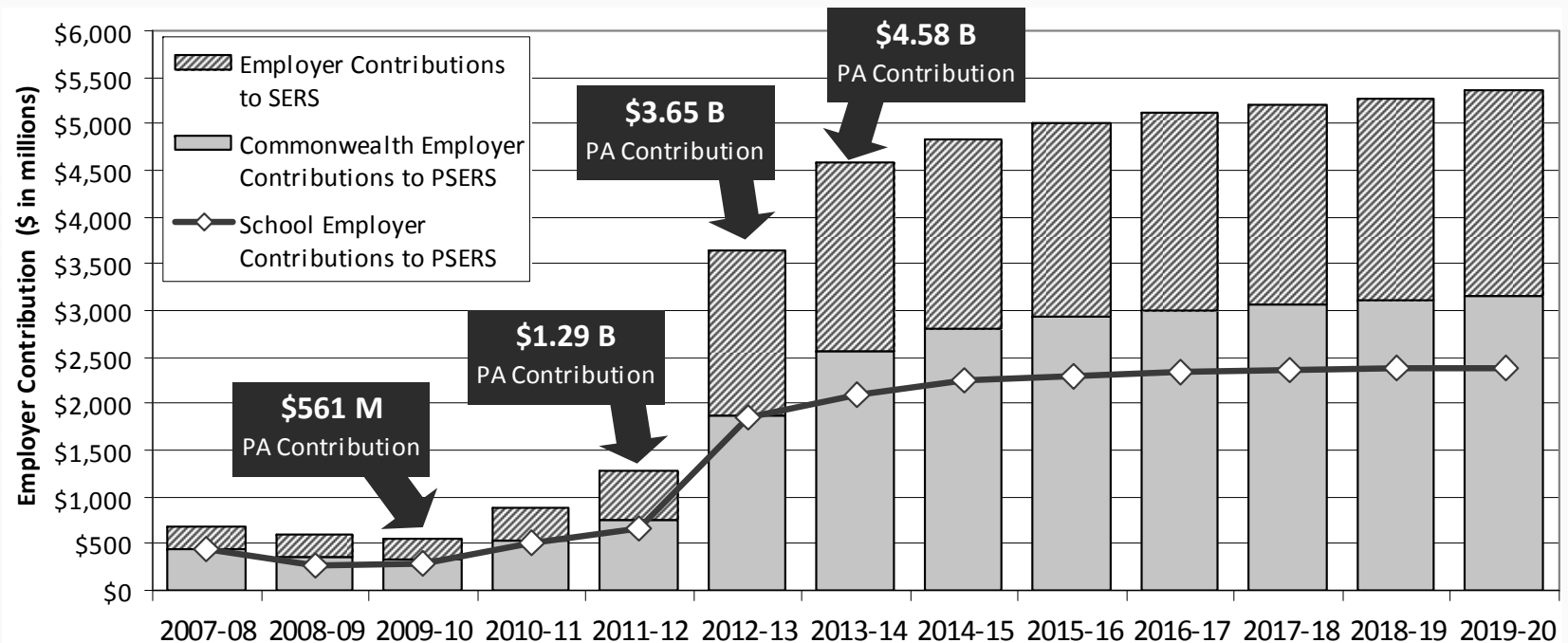
Federal Fiscal Relief Funds Will Expire in 2011

The commonwealth anticipates that state fiscal stabilization and enhanced FMAP funds will expire in 2011. The expiration of these funds creates a \$2.3 billion gap that will need to be closed through service efficiencies, program cuts and increased state revenue.



2012-13 Pension Spike

In 2012-13, the commonwealth budget and school district budgets will be hit by significant increases in pension contribution costs. Projections indicate that by 2012-13 the commonwealth's contribution to SERS and PSERS will reach \$3.7 billion – representing a \$2.4 billion single-year increase over 2011-12.



The Plan to Mitigate the 2012-13 Pension Spike

The 2010-11 budget proposes a pension funding change that provides a road map back to long-term actuarial soundness.

The objectives of this proposal are to:

- Take the first steps to returning the pension systems to actuarial soundness this year by supporting \$200 million in increases to employer contributions over 2009-10 levels and
- Deliver a funding schedule that makes contribution increases more incremental and predictable, allowing time to absorb the impact of changes in retirement costs.

The Plan to Mitigate the 2012-13 Pension Spike

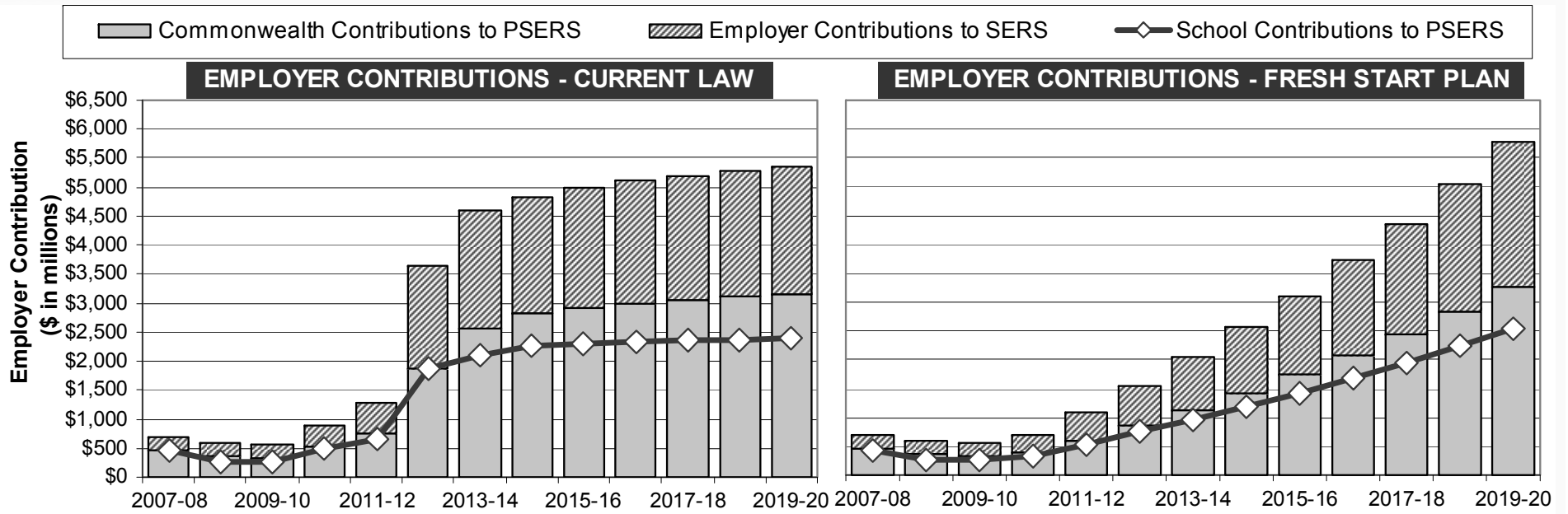
The pension funding plan consists of two interrelated components: A “fresh start” for the pension systems’ liabilities and an incremental phase-in to higher contributions.

- The retirement systems would reamortize their liabilities over 30 years.
- This reamortization (“fresh start”) helps to mitigate the rate spike, but still results in a substantial one-time increase in pension costs.
- Therefore, a series of incremental steps are added that would limit annual increases to sustainable amounts over a period of 10 to 11 years.
- In 2010-11, the commonwealth and school districts would begin to fund the incremental step-up in pension costs by increasing employer contribution rates to PSERS and SERS by 1 percent of payroll.
 - This represents an additional all-employer investment in our pension systems of \$200 million (24 percent) over 2009-10 levels.
- Thereafter, contribution amounts would be scheduled to increase annually by a maximum of 3 percent of payroll.

The Plan to Mitigate the 2012-13 Pension Spike

Contribution increases under the fresh start plan will be significant but incremental, allowing state and school district budgets to absorb the impact of increased pension costs over time.

Projected Employer Contributions to PSERS and SERS: Current Law versus Fresh Start Proposal



Addressing the Challenges

2011-12 General Fund Budget Projection

(Dollars in Millions)

	<u>2010-11 Budget</u>	<u>2011-12 Projected</u>
Beginning Balance	\$ 37	\$ 4
Revenue Estimate	26,240	27,340
Funds Available	<u>\$ 26,277</u>	<u>\$ 27,344</u>
Total Expenditures	\$ (29,029)	\$ (30,284)
Federal ARRA Appropriations	2,756	498
Total State Expenditures	<u>\$ (26,273)</u>	<u>\$ (29,786)</u>
Ending Balance	<u>\$ 4</u>	<u>\$ (2,442)</u>

**Addressing the Challenges
by Creating a Fairer Tax Structure**

Creating a Fairer Tax Structure

No new revenue is required to balance the 2010-11 budget. However, to address future budgetary challenges, this budget proposes the creation of the Stimulus Transition Reserve Fund. All new revenues generated during 2010-11 will be deposited into the new fund to help balance the 2011-12 budget.

The tax reform proposal includes:

- Lowering the Sales and Use Tax Rate from 6 percent to 4 percent and eliminating 74 exemptions (\$531.5 million)
- Eliminating the 1 percent Vendor Sales Tax Discount (\$73.6 million)
- Extending tobacco taxes to include cigars and smokeless tobacco (\$41.6 million)
- Instituting a new severance tax on natural gas extraction (\$160.7 million)

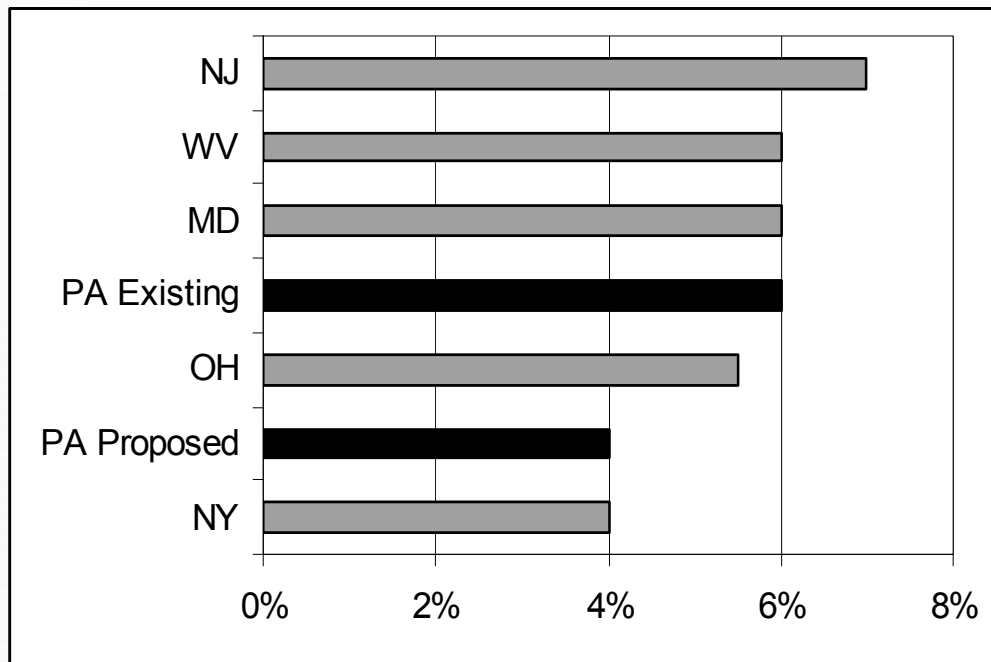
Other reforms will raise combined new revenue of \$66.6 million. They include:

- Reducing the Corporate Net Income Tax from 9.99 percent to 8.99 percent
- Adopting a single sales factor for the apportionment of income
- Removing the cap on net operating losses and retaining the cap of \$3 million, or 20 percent, of taxable income for prior years' losses

Cutting the Sales and Use Tax Rate From 6 Percent to 4 Percent

The 2010-11 budget proposes reducing the Sales and Use Tax rate from 6 percent to 4 percent and eliminating 74 categories of tax exemptions that have been added to the Tax Code over the last half century.

**Sales and Use Tax Rates in
Pennsylvania and Neighboring States**



➤ **Food, clothing and prescription medicine will continue to be exempt from the sales tax.**

➤ **This proposal preserves the original exemptions for manufacturers that cover processing, agriculture and machinery and equipment.**

➤ **This proposal will be effective September 1, 2010.**

Stimulus Transition Reserve Fund

To help meet future budgetary challenges, this budget proposes to create a new Stimulus Transition Reserve Fund. New revenue will be raised for deposit in this fund beginning in 2010-11 – to be used in 2011-12 and in future budgets.

**Projected General Fund Ending Balances
(Dollars in Millions)**

	2010-11	2011-12	2012-13	2013-14
Ending Balance	\$ 4	\$ - 2,442	\$ - 5,624	\$ - 9,129
Stimulus Transition Reserve Fund				
Revenue Collected in 2010-11	0	874	0	0
Severance Tax	161	260	320	396
Vendor Sales Tax Discount	74	76	79	82
Other Tobacco Products Tax	41	47	50	53
Sales and Use Tax	531	863	923	986
Combined Reporting	67	167	181	189
Stimulus Transition Reserve Fund	\$ 874	\$ 2,287	\$ 1,553	\$ 1,706
Revised Ending Balance		\$ - 155	\$ - 1,784	\$ - 3,583

2010-11 – A Budget That Works to:

- ✓ **Invest in our children’s education;**
- ✓ **Meet our health and safety responsibilities;**
- ✓ **Keep the cost of state government down; and**
- ✓ **Prepare for our future challenges.**

2010-11 Executive Budget

February 9, 2010

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

Commonwealth of Pennsylvania

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