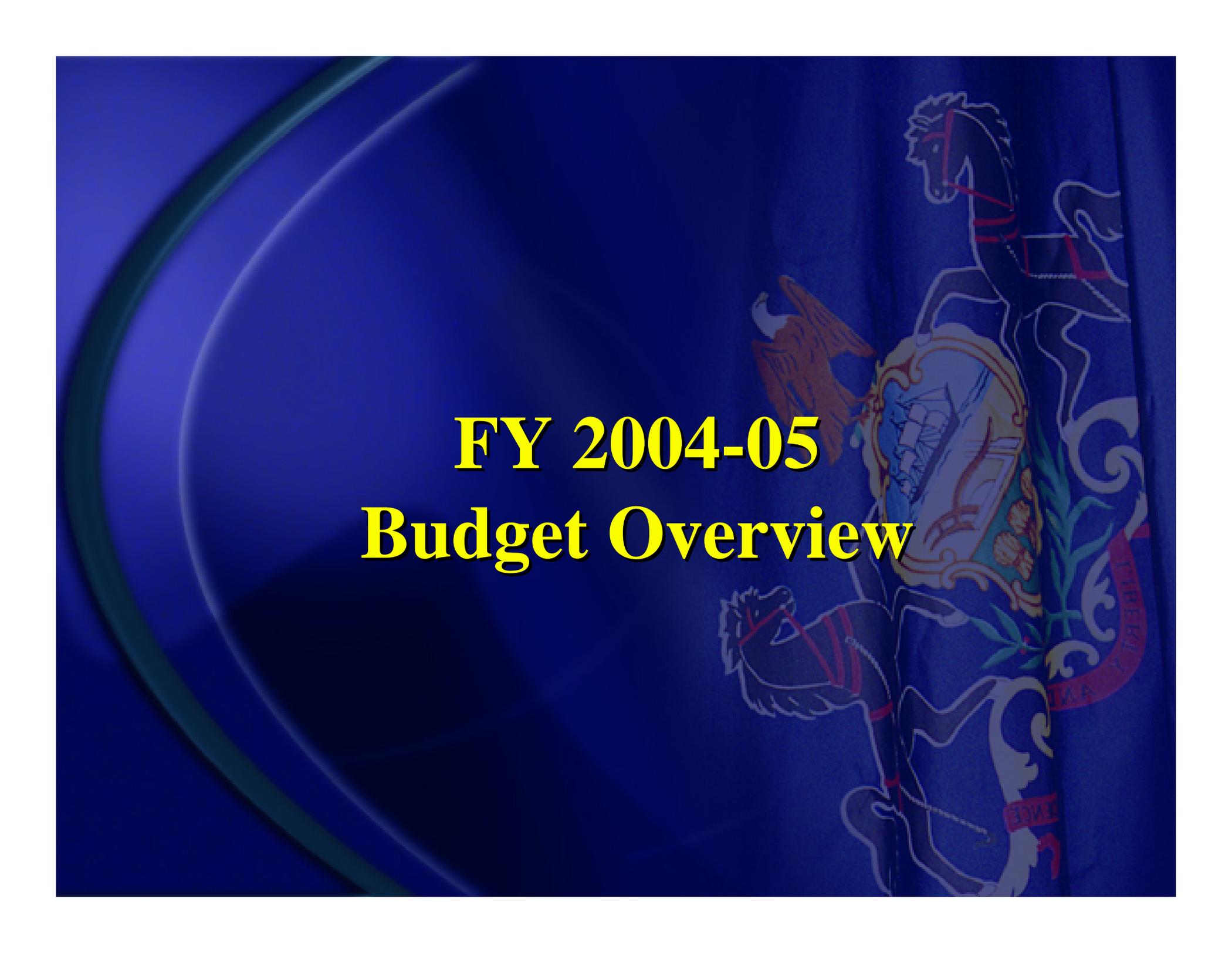


Commonwealth of Pennsylvania
Governor's Budget Office

**Governor's Mid-Year
Budget Briefing
for FY 2004-05**

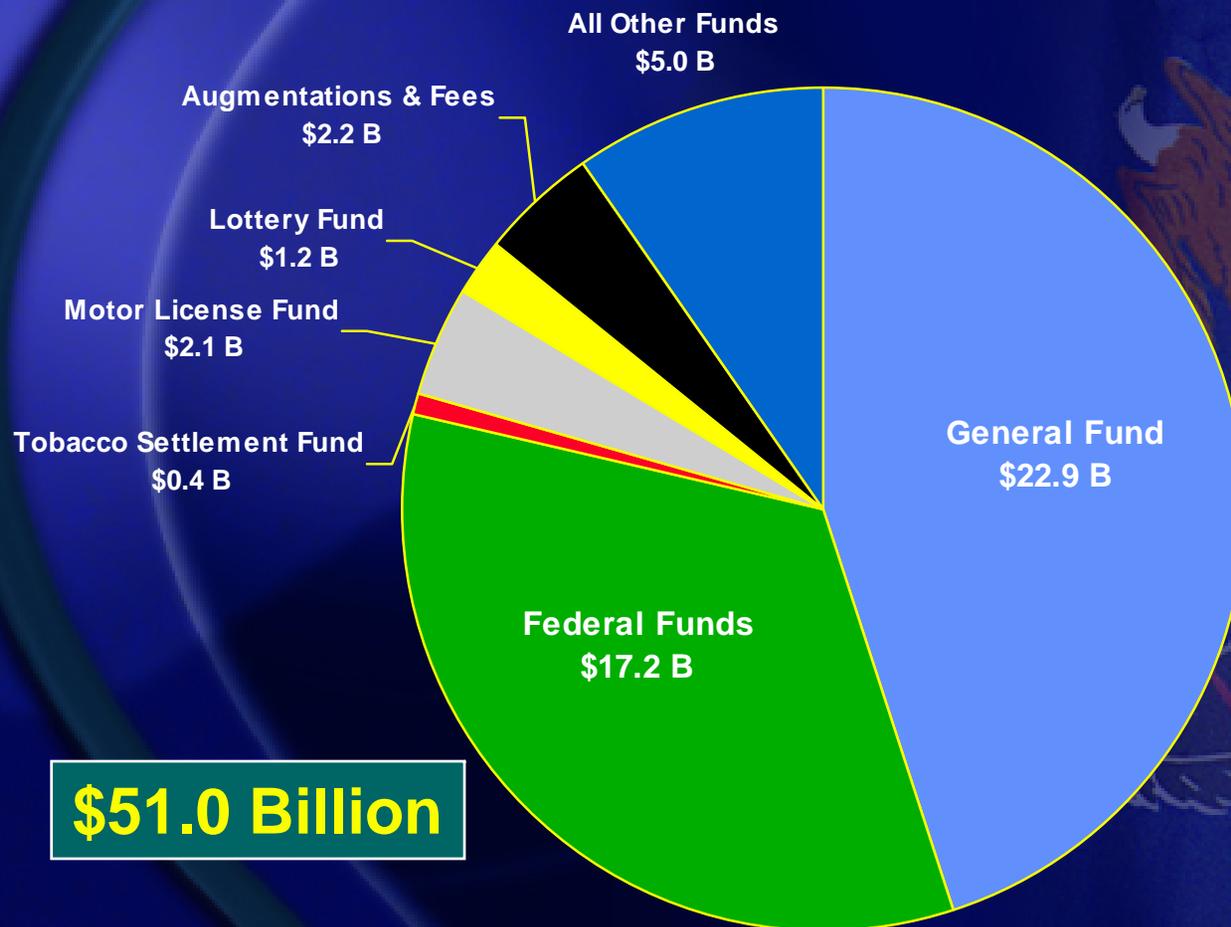
December 14, 2004

Edward G. Rendell
Governor

The background of the slide is a deep blue. On the left side, there is a stylized, semi-transparent globe with a dark green outline. On the right side, there is a faint, light-colored version of the Seal of the Commonwealth of Massachusetts, which depicts a Native American figure holding a bow and arrow, surrounded by a crest and a banner with the word 'LIBERTY'.

FY 2004-05 Budget Overview

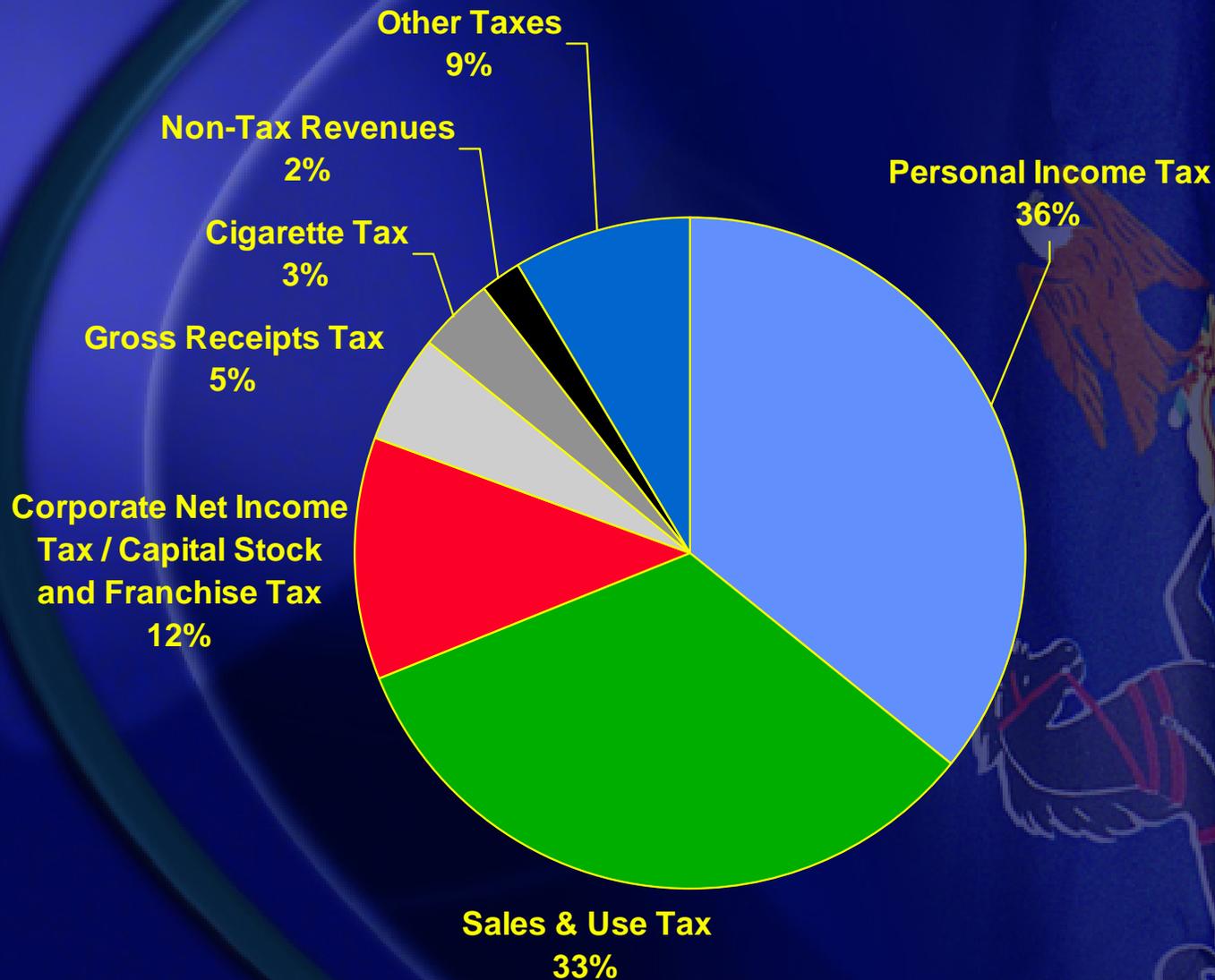
2004-05 Total Operating Budget



The total FY 2004-05 operating budget, including all Commonwealth funds, is \$51.0 billion. The General Fund represents nearly 45 percent of this amount.

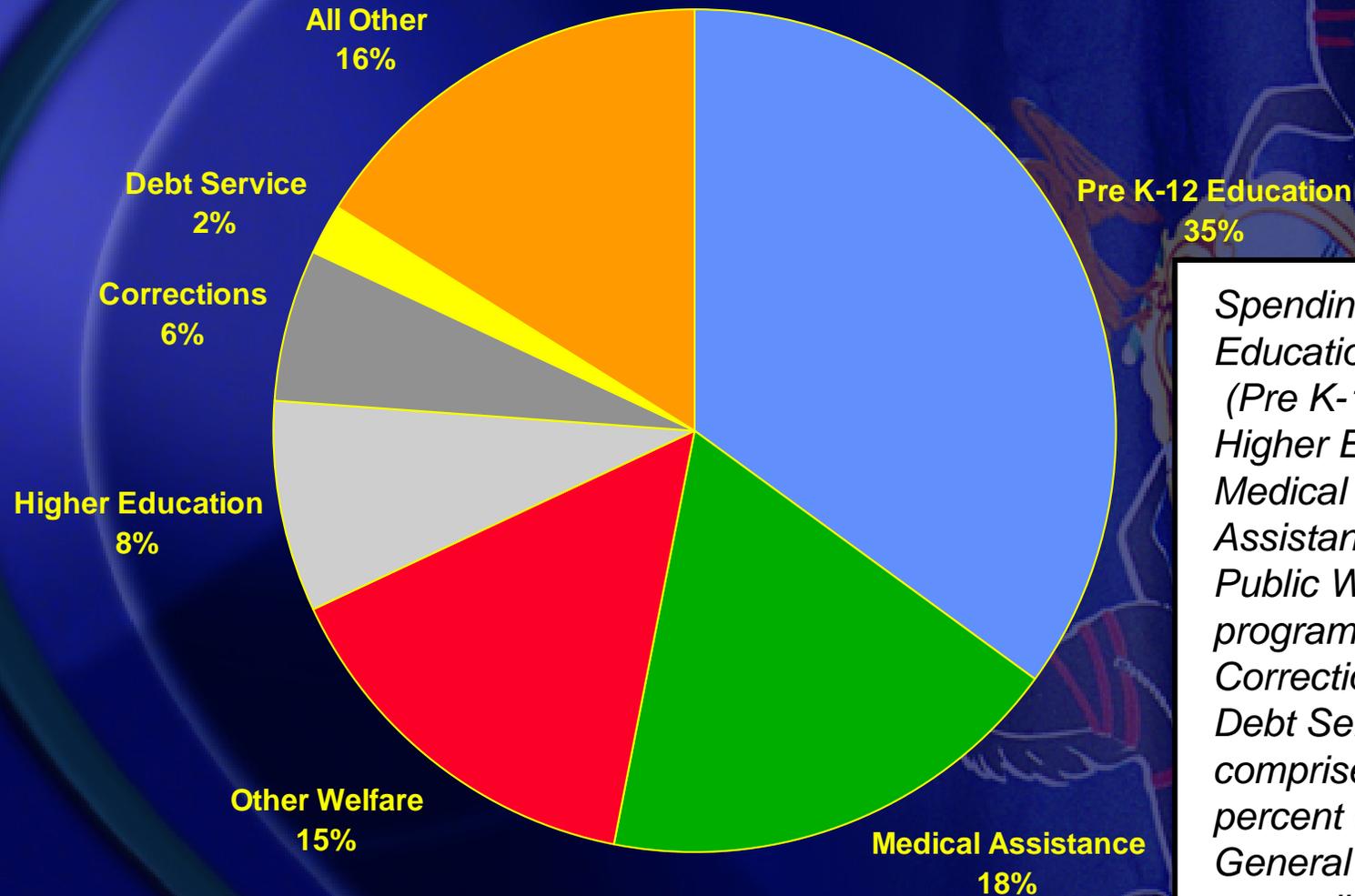
\$51.0 Billion

2004-05 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. Due to recent tax code changes, the Gross Receipts Tax and the Cigarette Tax are contributing larger portions to General Fund Revenues.

2004-05 General Fund Expenditures



Spending on Education (Pre K-12 and Higher Ed), Medical Assistance, other Public Welfare programs, Corrections, and Debt Service comprises 84 percent of total General Fund expenditures.

FY 2003-04 and FY 2004-05 Financial Statements

The FY 2004-05 General Fund Budget (and the FY 2003-04 Budget) would have been in deficit if not for one-time Federal aid.

	\$ in Millions	
	<u>2003-04</u>	<u>2004-05</u>
Beginning Balance	\$ 196	\$ 77
Receipts	21,956	22,806
Funds Available	\$ 22,152	\$ 22,883
Expenditures	- 22,394	- 23,254
Lapses	40
Balance	\$ - 202	\$ - 371
Non-recurring Federal Fiscal Relief.	469	378
Preliminary Balance	\$ 267	\$ 7
Transfer to Rainy Day Fund.	- 190	- 2
Ending Balance	\$ 77	\$ 5

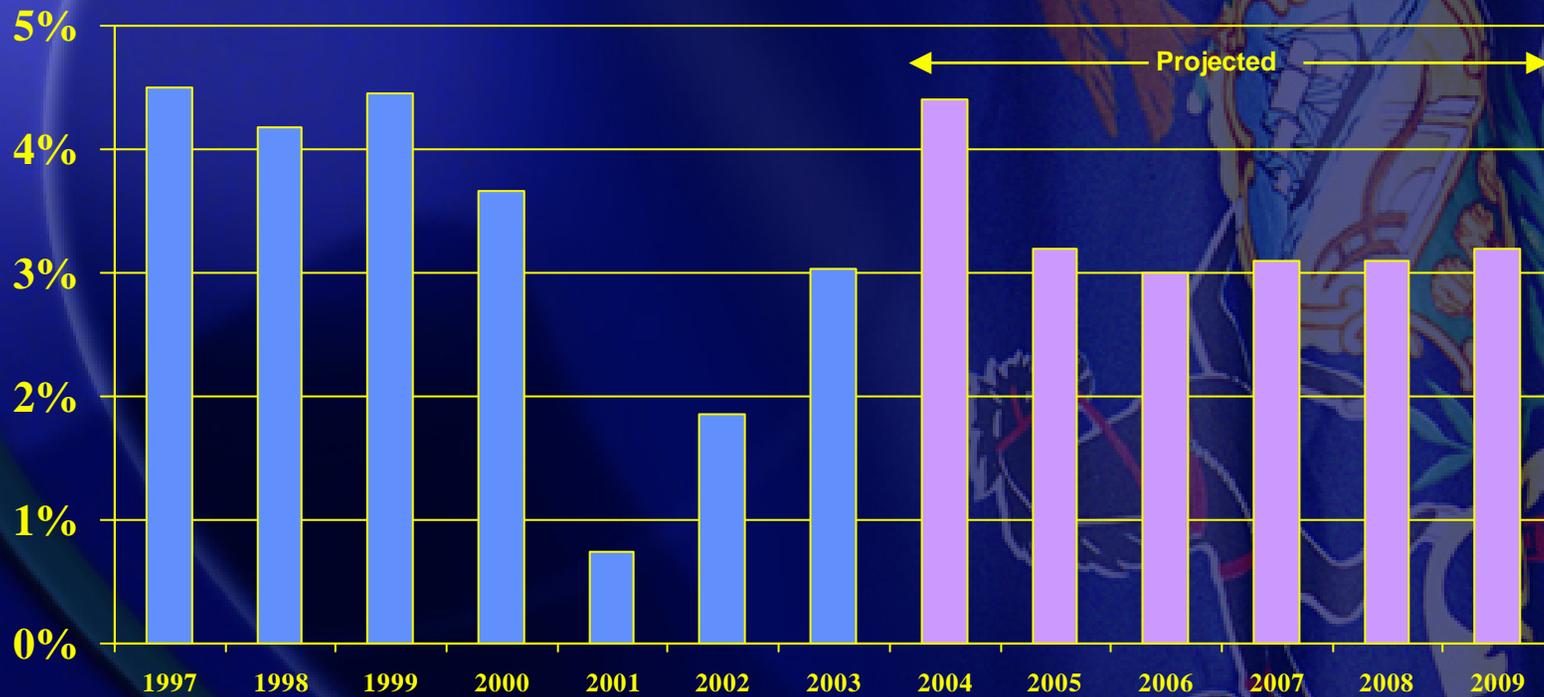
Economic Outlook



Real Gross Domestic Product

Annualized Rate

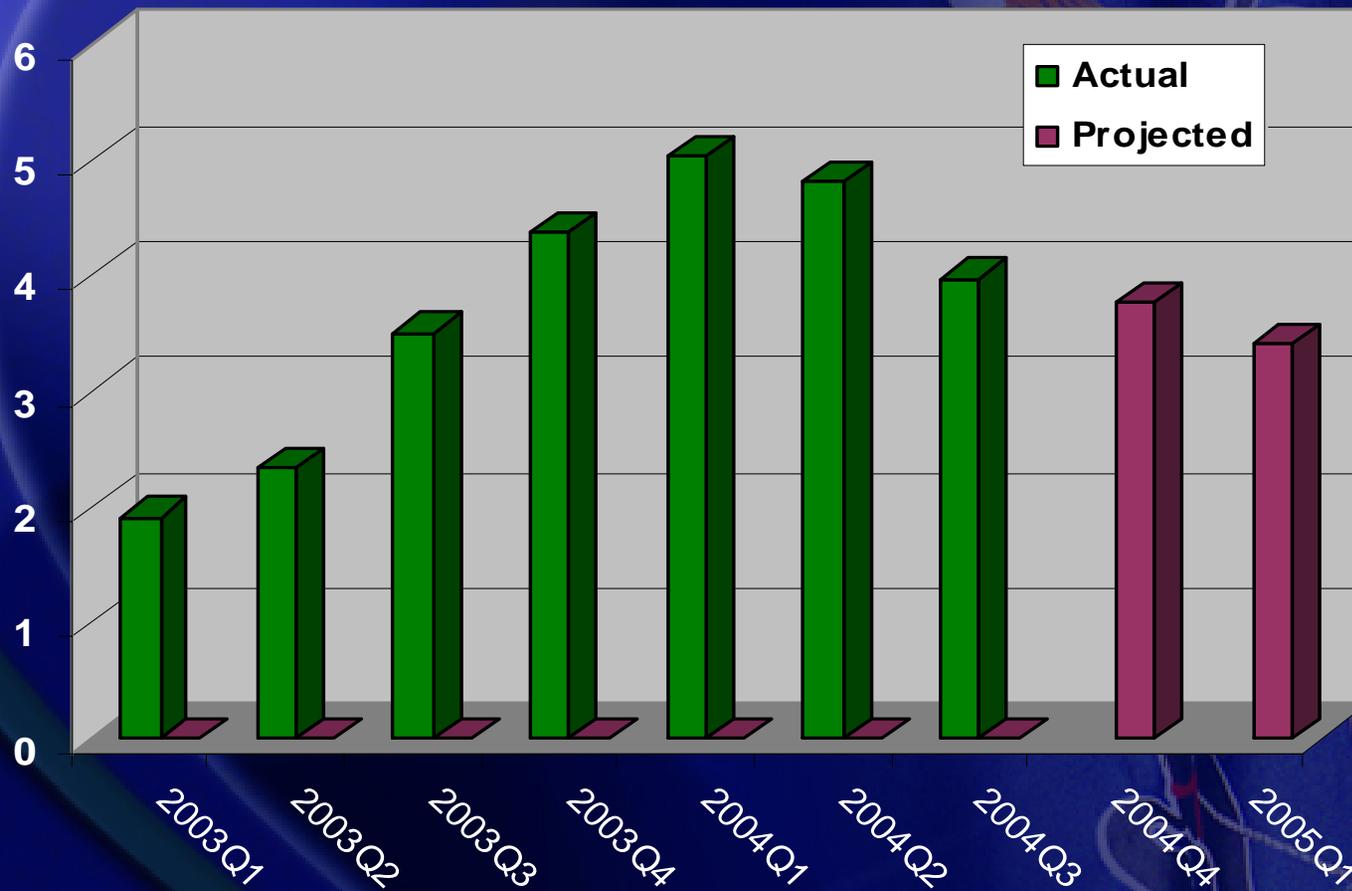
Real GDP has been growing since the end of the recession in 2001. Growth is projected to have peaked in 2004, and is expected to be more moderate in the next several years than in the mid-to-late 1990's.



Real Gross Domestic Product

Year over Year Rate

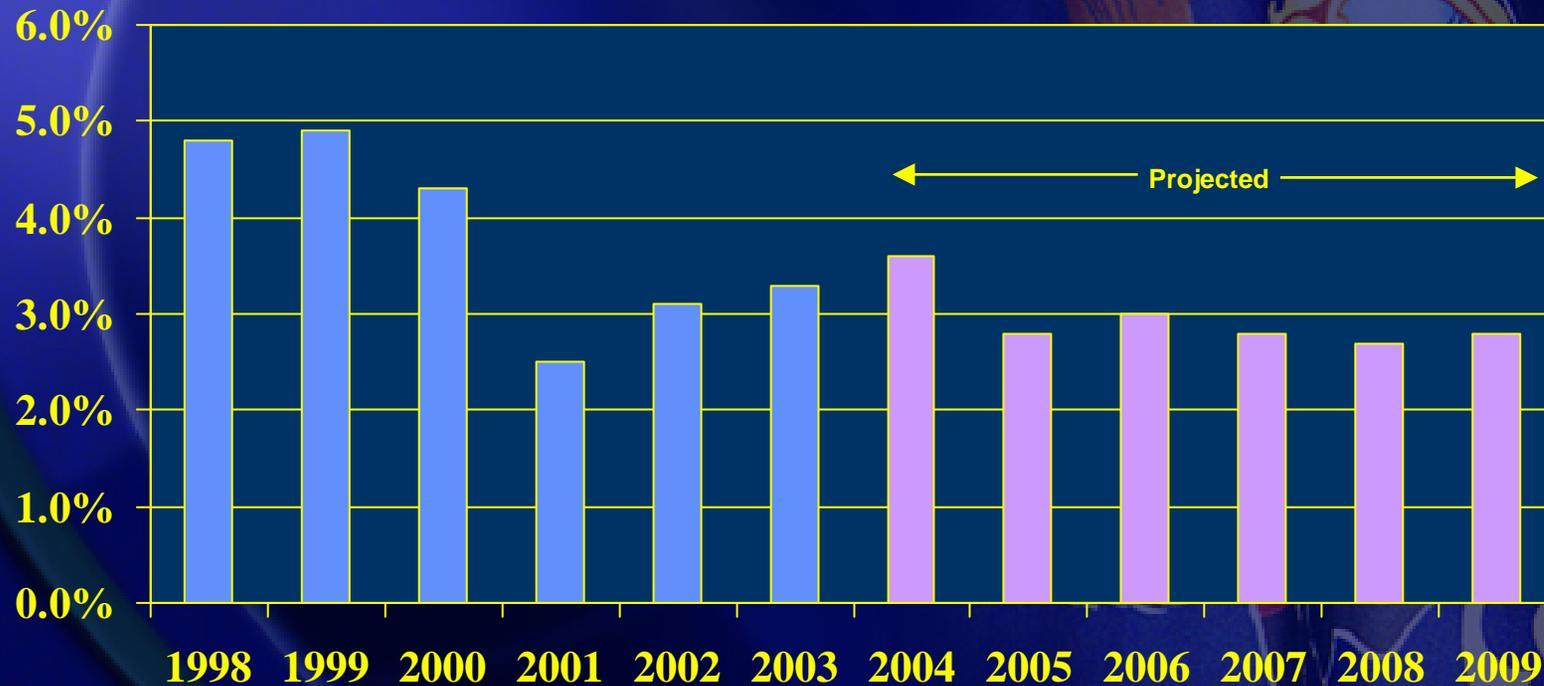
Average growth in real GDP (as measured on a year over year basis) is expected to slow in 2005.



Personal Consumption Expenditures

Annual Average Growth

Consumption growth is expected to moderate, returning to pre-2002 levels through 2009.



Economic Outlook

Causes for Concern

- **“Growth in third quarter Real GDP was disappointing as compared to expectations.”** *Global Insight, Nov 2004.*
- **“Growth forecasts for 2005 have been lowered...largely because of generally higher oil prices.”** *Global Insight, Nov 2004.*
- **“The dollar is falling again, largely because foreign investors are worried that a ballooning budget deficit will push the current account deficit far beyond current record levels.”** *Global Insight, Nov 2004.*
- **“Rising interest rates will pose the next challenge for the economy.”** *Economy.com Nov 2004.*
- **“A threat to the US economy is its increasingly unhealthy and inherently unstable relationship with China.”** *Economy.com Nov 2004.*

Economic Outlook

Challenges for Pennsylvania

“Like several other states with mature economies, Pennsylvania suffers from a persistent loss of younger workers, particularly in the 25–44 year-old age group”.

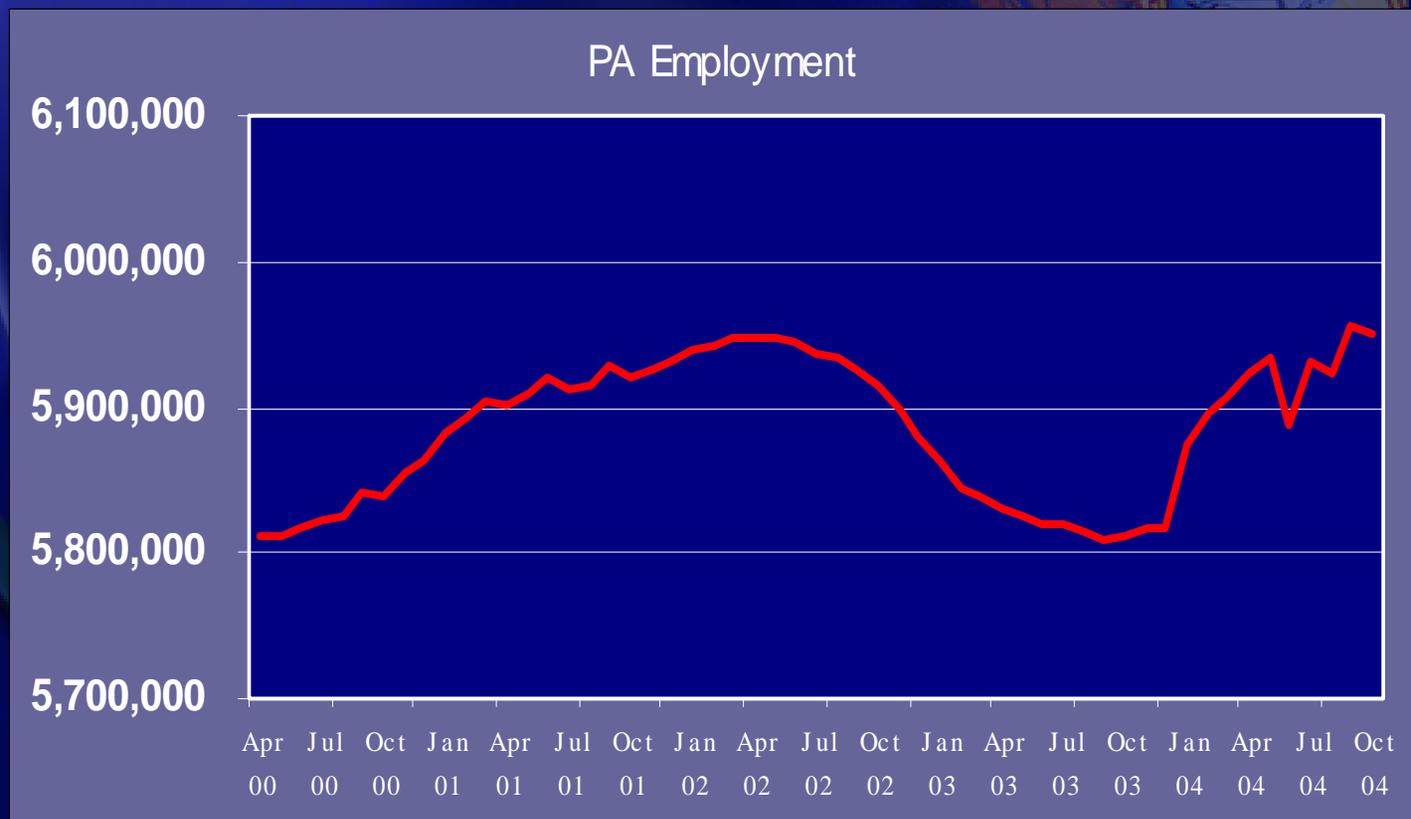
“This has potentially important implications for nearly every sector of the economy, particularly consumer goods and housing. The drain of youthful residents, especially those with advanced skills, hobbles hiring efforts by businesses, particularly those in the technology sector.

“High business costs, especially labor and energy, further limit job growth. While rising worker productivity can compensate for high costs, the area must improve public education and the quality of life to attract and retain highly skilled workers.”

Global Insight Dec 2004

Pennsylvania Employment

Above-average growth in PA employment during 2004 has compensated for the significant losses experienced during the 2001-2002 recession. Even with above-average growth, employment still has not yet grown beyond mid-2002 levels. Employment declined in October 2004 by 6,000 jobs and unemployment increased by 10,000. The PA unemployment rate increased slightly in October to 5.5%.



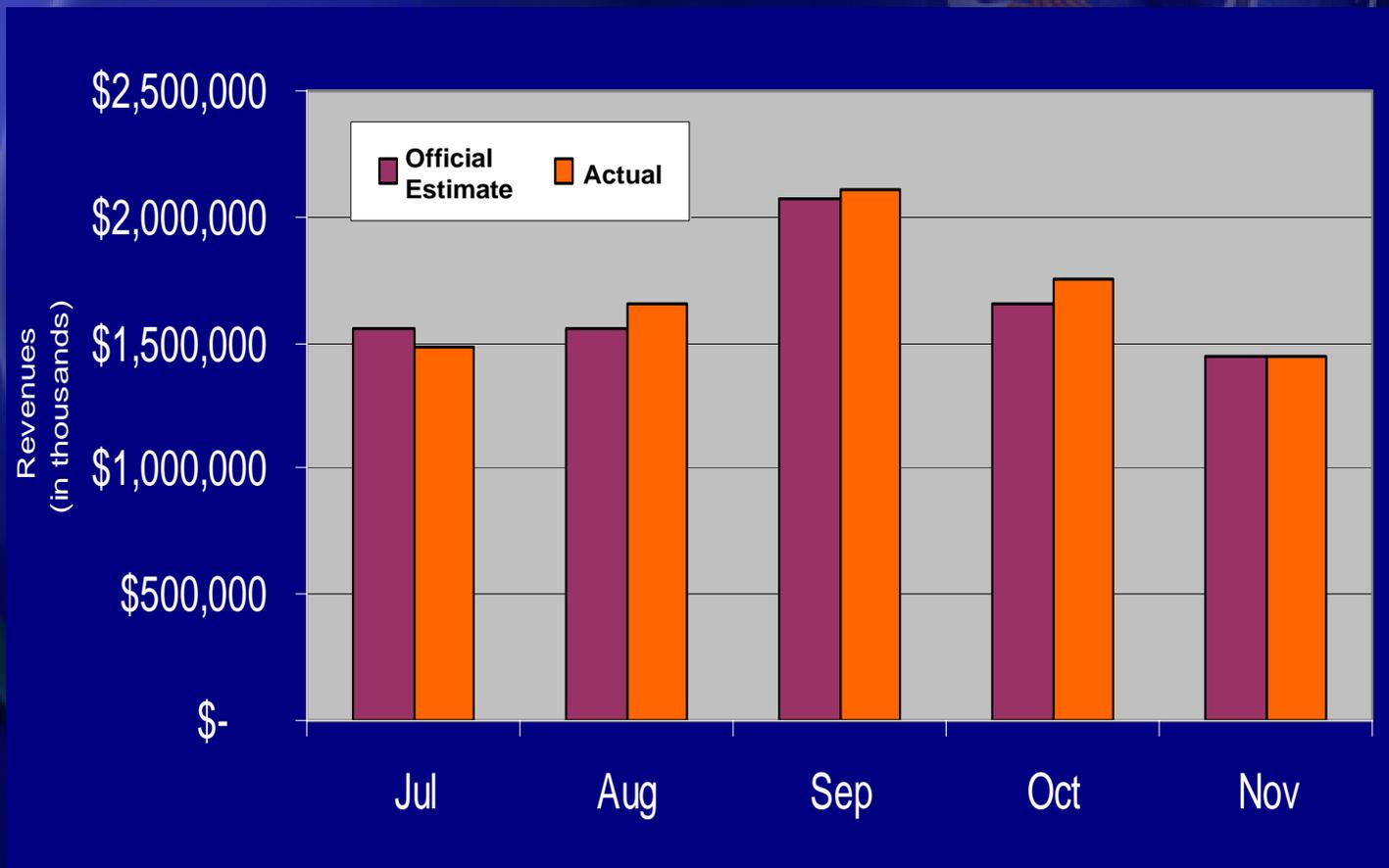
General Fund Revenues



General Fund Revenue

FY 2004-05 Forecast vs. Actual Collections

FY 2004-05 revenues are \$176 million above estimate through November 2004.

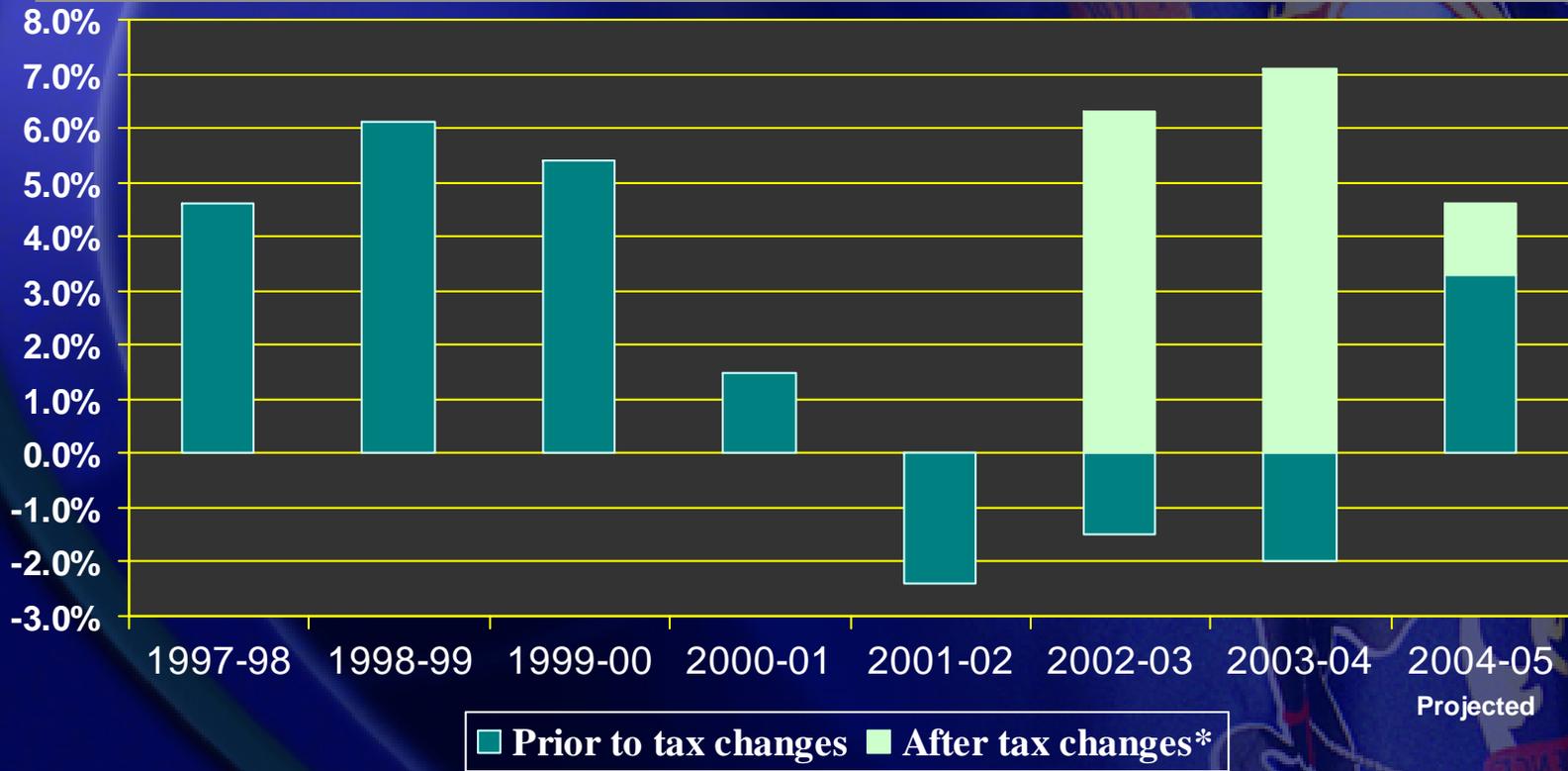


General Fund
FY04-05 Year-to-Date - Collections vs. Estimate

Revenue Source:	FY04-05 Cert YTD @ 5 Mos	FY04-05 Actual YTD @ 5 Mos	\$ Diff	% Diff	YTD Est. as % of Full Yr. Est.
Licenses & Fees	41,200	34,957	(6,243)	-15%	34%
Inheritance Tax	319,600	292,582	(27,018)	-8%	42%
Cigarette Tax	353,700	329,736	(23,964)	-7%	42%
Other Business/Corporate Taxes	50,800	48,974	(1,826)	-4%	3%
Capital Stock & Franchise Tax	274,100	269,342	(4,758)	-2%	29%
Sales Tax - Motor Vehicle Sales	538,500	536,954	(1,546)	-0.3%	43%
Sales Tax - All but Motor Vehicles	2,814,500	2,832,400	17,900	1%	42%
Personal Income Tax	3,030,600	3,078,016	47,416	2%	36%
Corporate Net Income Tax	475,400	533,560	58,160	12%	26%
All Other Taxes	179,400	201,390	21,990	12%	42%
Real Estate Transfer Tax	178,500	210,562	32,062	18%	46%
Escheats	13,600	77,356	63,756		9%
TOTAL	8,269,900	8,445,828	175,928	2.1%	

General Fund Revenue Year over Year Growth Rates

Year over year growth in General Fund base revenues (excluding enacted tax and revenue increases) were negative from FY 2000-01 through FY2003-04. Revenue enhancements enacted during the prior two fiscal years enabled the Commonwealth to avoid massive budget cuts.



* Includes tax base plus tax and revenue increases enacted with the FY 2002-03 and 2003-04 budgets.

2004-05 Non-recurring Revenues and Increased Expenditure Requirements

- **The \$176 million in revenues in excess of projection through the month of November is largely made up of nonrecurring items which do not change the base projection:**
 - **\$19 million in unanticipated non-tax revenues.**
 - **\$35 million in prior year corporation tax settlements.**
 - **\$64 million in delayed revenues resulting from 2002 and 2003 escheats changes collected in 2004.**
- **The General Fund faces potential supplemental needs of \$126 million for Public Welfare programs and \$38 million in state share for September flooding damage.**

September Flooding Disasters

- **Total statewide damages are estimated to be \$264 million.**
- **The Administration has proposed that Pennsylvania provide the full 25 percent non-Federal match required for Federal disaster assistance.**
- **Total funding needed to match Federal disaster assistance is \$38 million, of which \$2.9 million has already been reallocated for payment to disaster victims.**

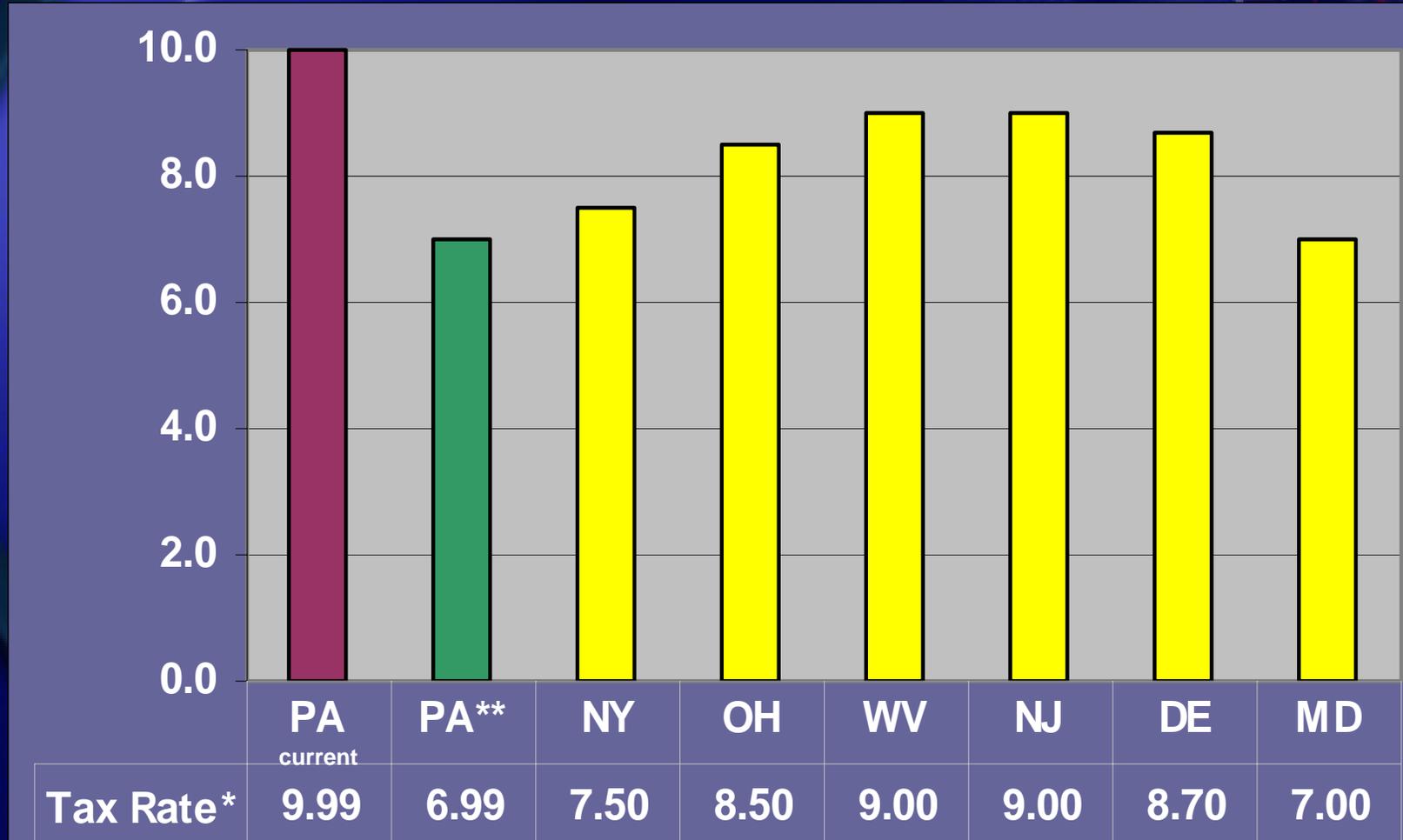
Recommendations

Business Tax Reform Commission

- **Reduce the Corporate Net Income Tax by 30 percent to 6.99 percent, a lower rate than any surrounding state.**
- **Eliminate the \$2 million annual cap on Net Operating Losses to encourage economic development.**
- **Change the weighting of the sales factor in the CNI Tax apportionment formula from the present 60 percent to 100 percent to encourage employers to locate or expand in Pennsylvania.**
- **Shift to market-based sourcing in the CNI Tax apportionment formula for the sale of services to encourage growth in service-related industries.**
- **Continue the phase-out of the Capital Stock and Franchise Tax.**
- **Reform Pennsylvania's tax appeals process.**
- **Increase taxation on "pass through" businesses which currently are taxed at the 3.07 percent personal income tax rate.**

Comparison of Corporate Income Tax Rates

PA versus Neighboring States That Impose a Corporate Income Tax



*Based on comparison of top tax rate per state.

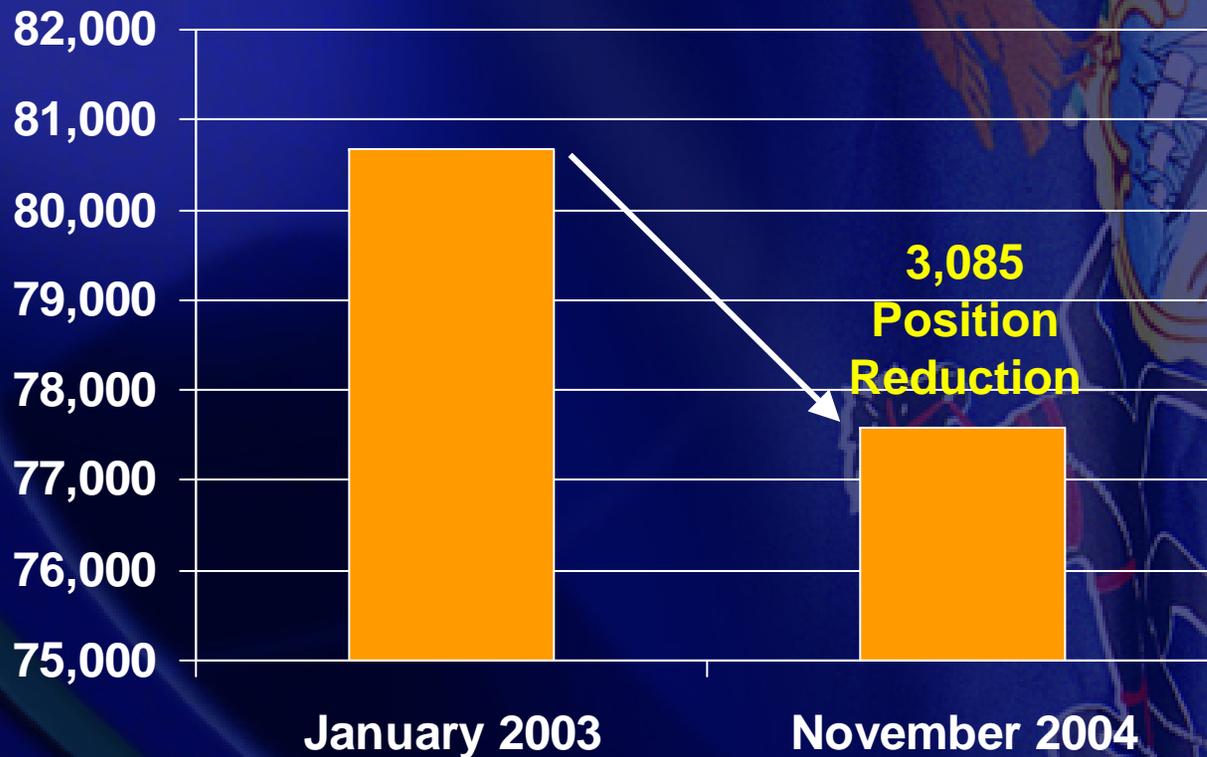
**Reflects Business Tax Commission recommendation.



Management & Productivity Initiatives

Filled Salaried Complement

Since the beginning of the administration, the number of filled positions has decreased from 80,673 to 77,588.



Examples of Cost Savings Strategies & Management Improvement Efforts (estimated savings for FY 2004-05, in millions)

Since January 2003, the Rendell Administration has implemented a series of initiatives designed to reduce costs or increase revenues while maintaining or improving services. These initiatives have enabled agencies to minimize program reductions by reducing operating appropriation levels by 8 percent below FY 2002-03 levels. The cost of employee salary and benefits alone has increased \$262 million since FY 2003-04.

Enterprise Management & Efficiency

- **Budgetary Reserve Levels and Efficiency Projects (\$250M)**
- **Staff Attrition (\$143M)**
- **Strategic Sourcing (\$118.7M)**
- **Fleet Reductions/Practices (\$23M)**
- **IT Contractor Replacement (\$6.2M)**
- **DPW IT Contract Renegotiations (\$5.2M)**
- **Close DOR District Offices (\$3.8M)**
- **Warehouse Consolidation (\$4M)**
- **Telecommunications (\$4.3M)**

Agency Program Improvements

- **In-Source SSI Check Writing (\$11.8M)**
- **HHS Call Center (\$2.4M)**
- **DOT Call Center Renegotiation (\$1.45M)**
- **Health Fulfillment Operations (\$0.5M)**
- **DPW Electronic Benefits Transfer Contract (\$0.5M)**

Information Technology Initiatives

- **IT Governance Board & Communities of Practice**
- **Electronic Pay Statements (\$0.5M)**
- **Electronic Communications**

General Government
Change in General Fund Appropriations
FY2004-05 over FY2002-03

	2002-03 Available	2004-05 Available	\$ Change
General Govt (not including Gaming appropriations)	\$2,687,964	\$2,609,870	(\$78,094)
<i>Less Other Elected:</i>			
Attorney General	\$74,908	\$73,692	(\$1,216)
Auditor General	\$47,360	\$48,179	\$819
Treasury	\$45,796	\$49,157	\$3,361
Legislature	\$258,100	\$316,132	\$58,032
Judiciary	\$201,287	\$228,033	\$26,746
Subtotal	\$627,451	\$715,193	\$87,742
General Govt Under the Governor	\$2,060,513	\$1,894,677	(\$165,836)

Benefits & Wages - Projected Increase in General Fund C
FY2004-05 over FY2003-04

\$141.95M

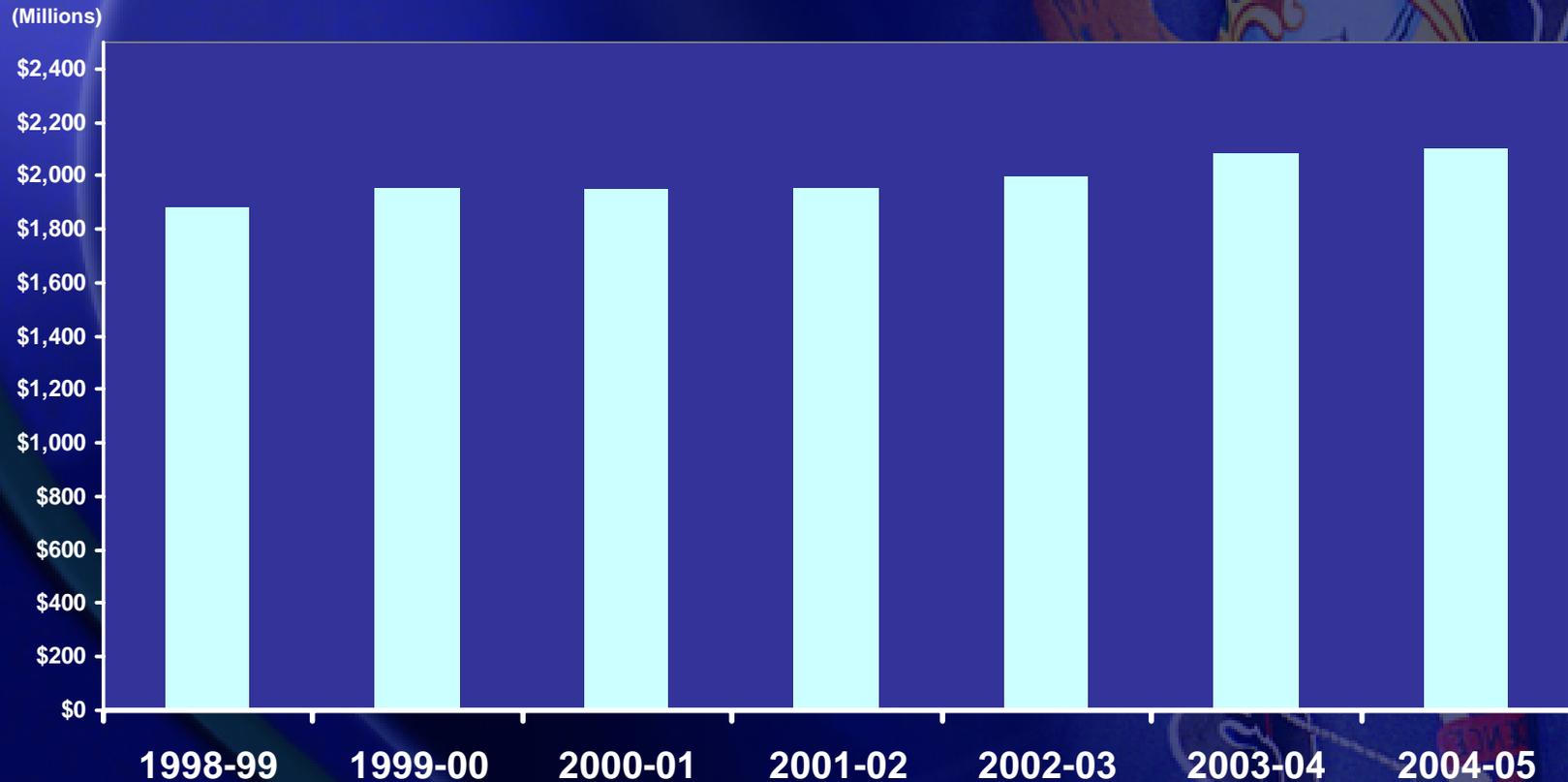
Motor License Fund



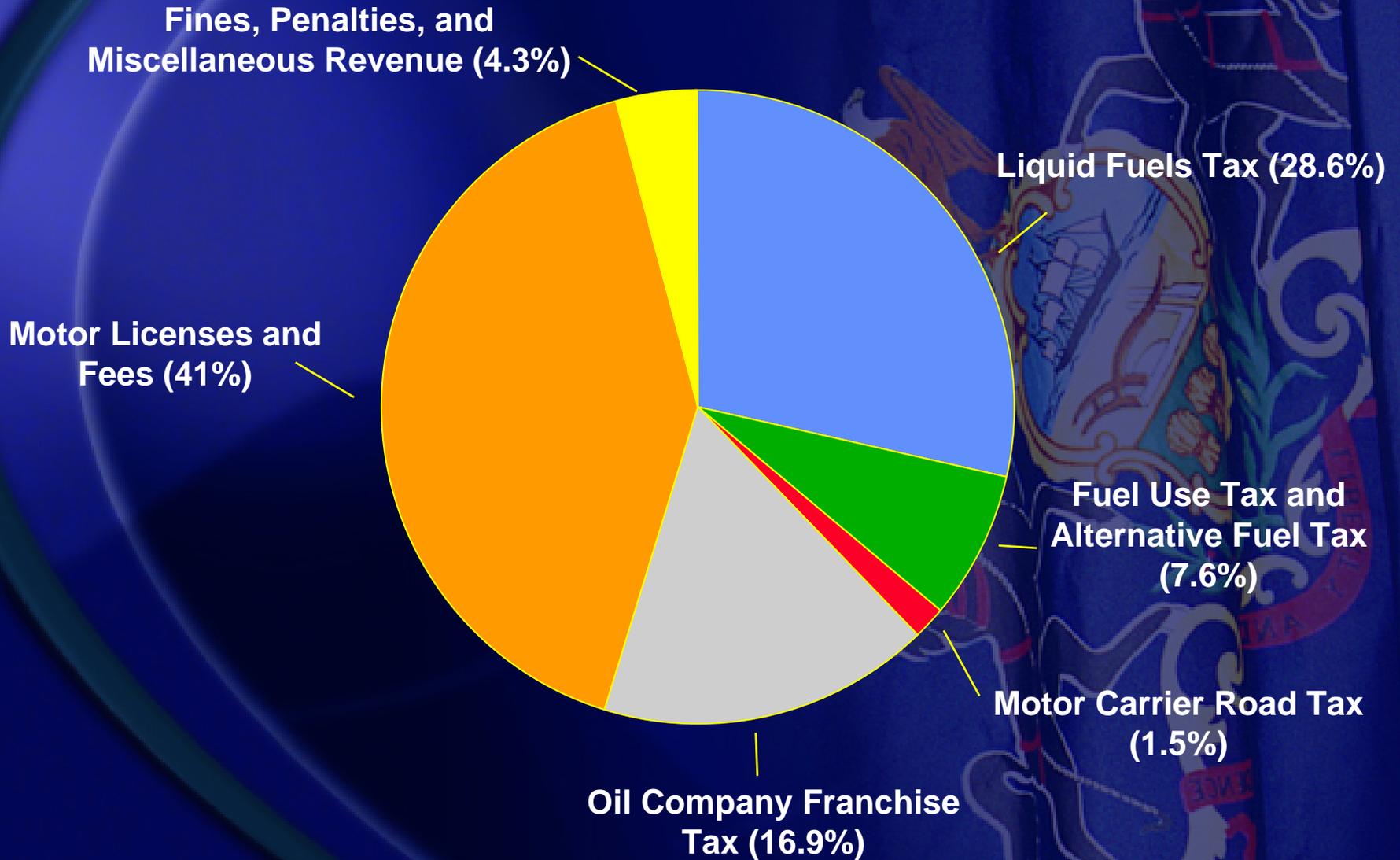
Motor License Fund Revenues are Basically Stagnant

*Motor License Fund revenues come mainly from liquid fuels taxes.
Fund revenues have been stagnant for several years.*

*The 2004-05 Official Revenue Estimate for the Motor License Fund
accounted for an increase in the Oil Company Franchise Tax.*

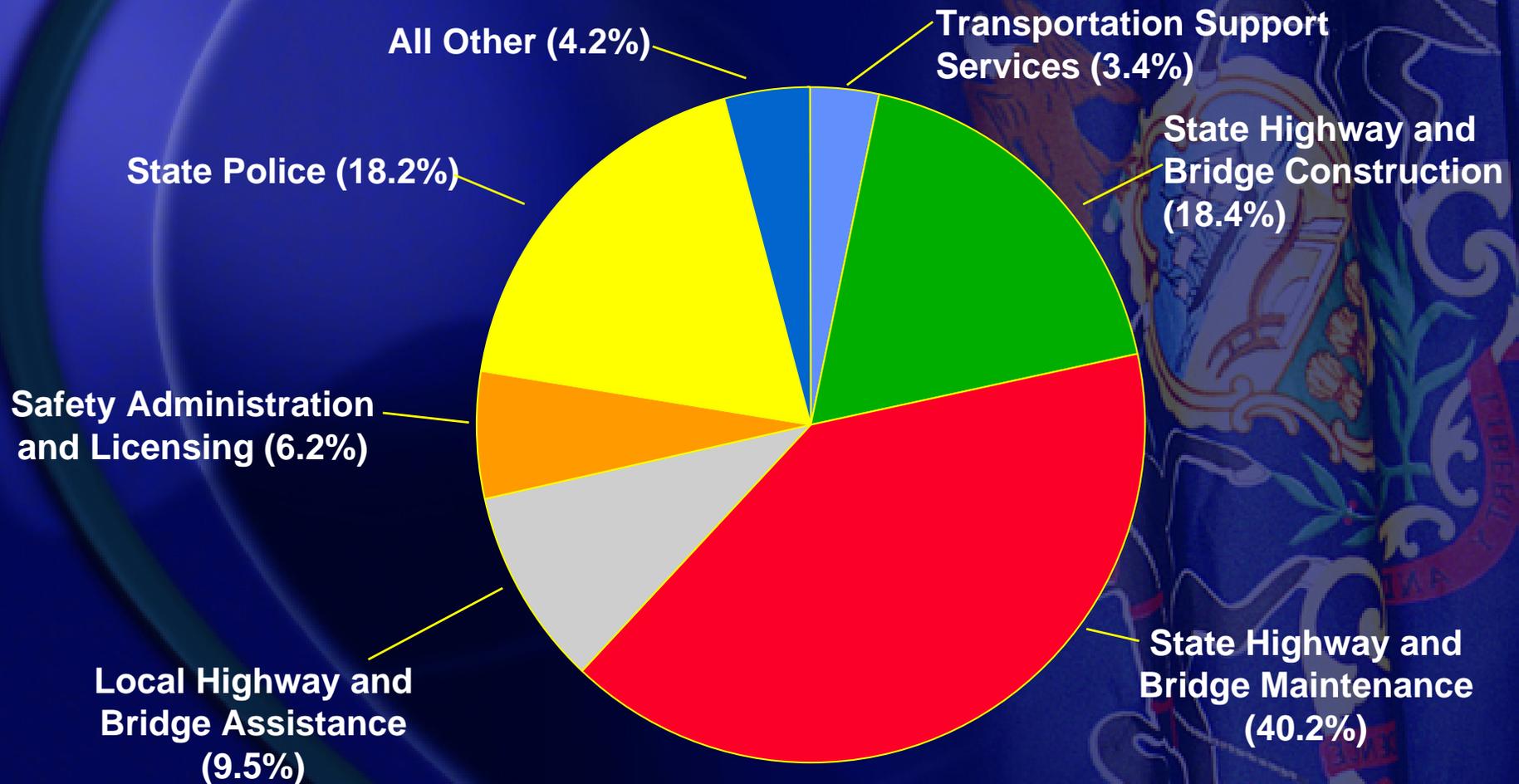


2004-05 Motor License Fund Revenue Sources



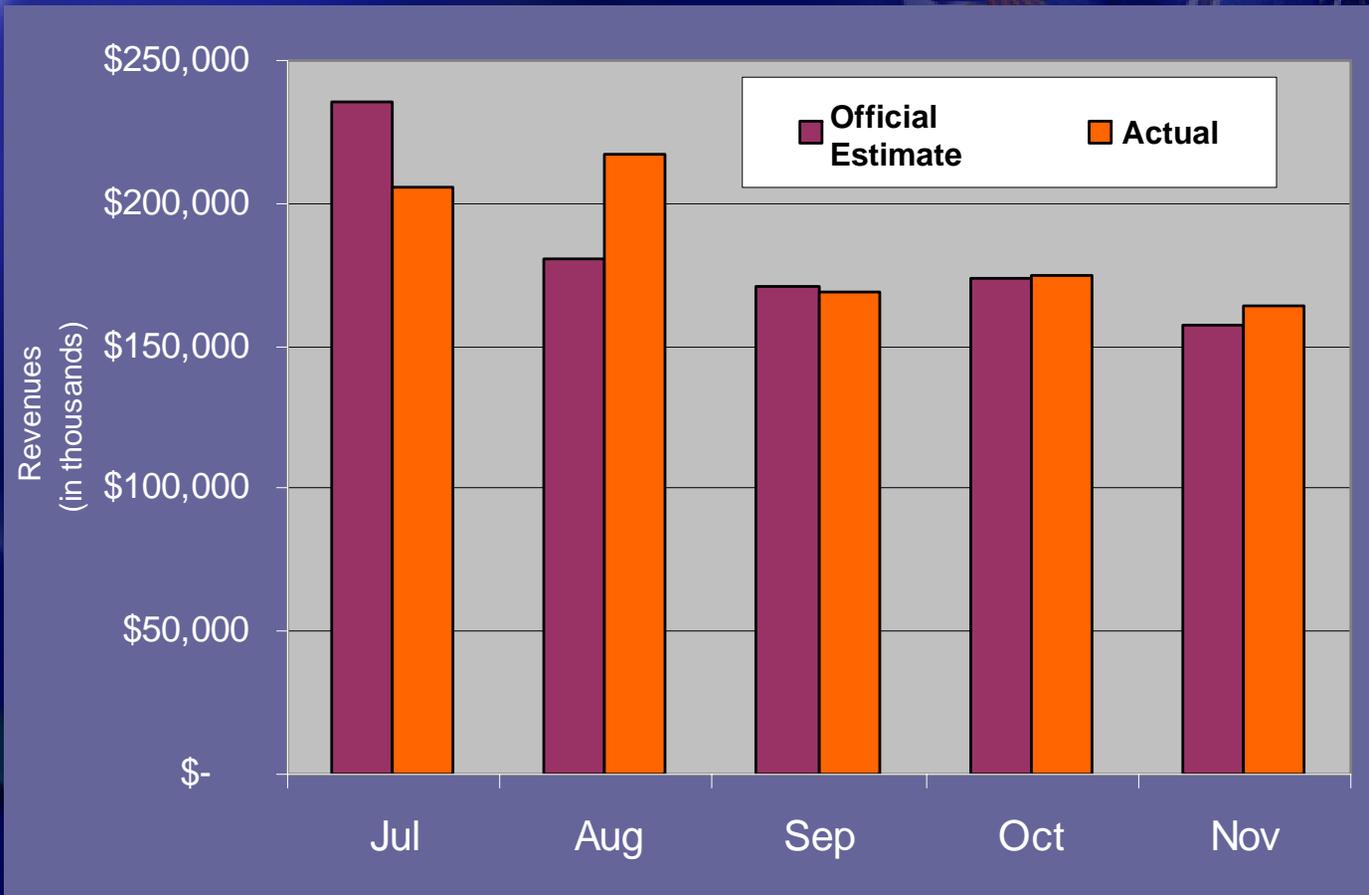
2004-05 Motor License Fund Expenditures

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



2004-05 Motor License Fund Forecast vs. Actual Collections

FY 2004-05 Motor License Fund revenues are \$13.4 million above estimate through November.



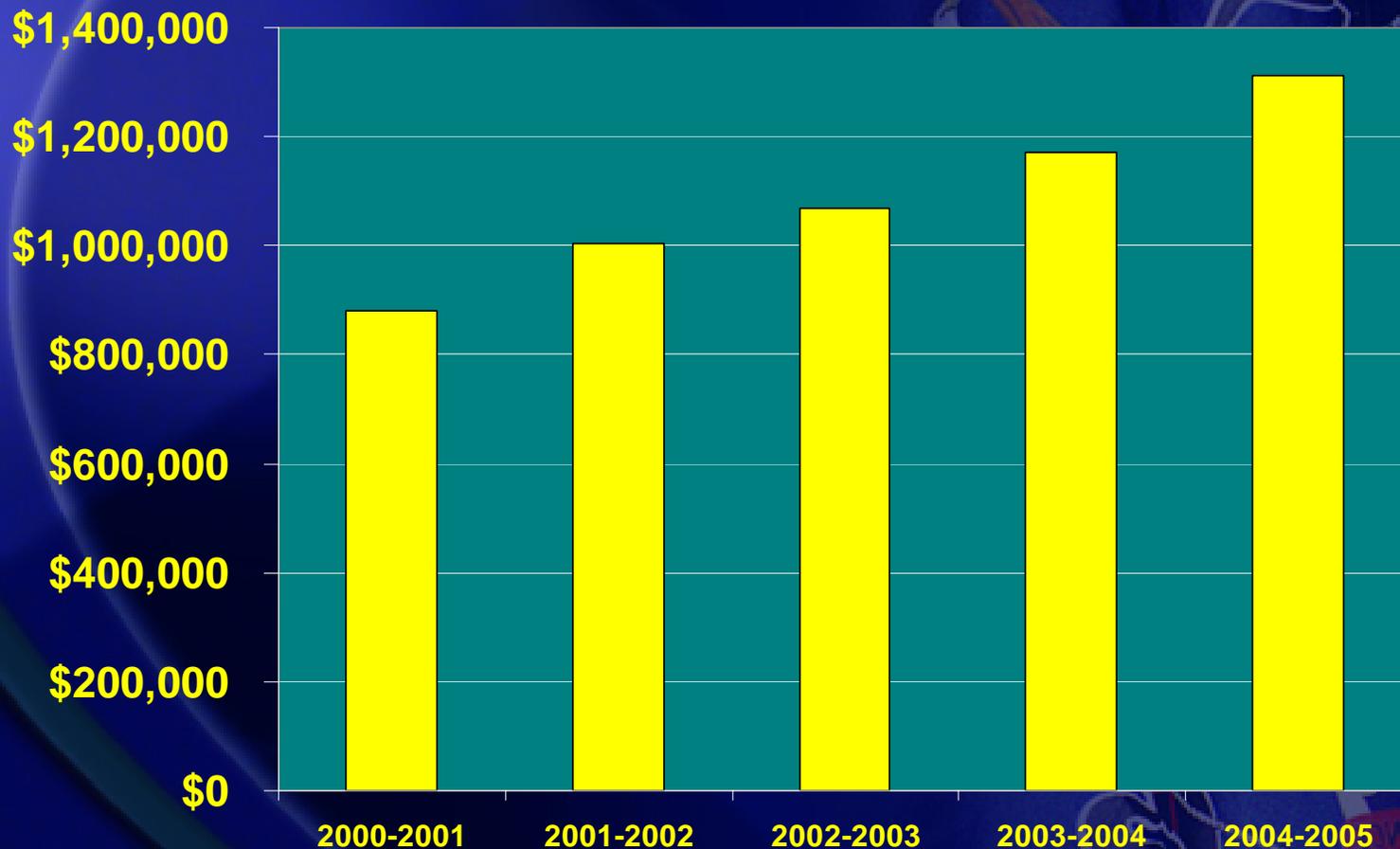
Lottery Fund



Lottery Fund Revenue Growth

Lottery Fund revenues are projected to increase 12 percent in FY 2004-05 over FY 2003-04.

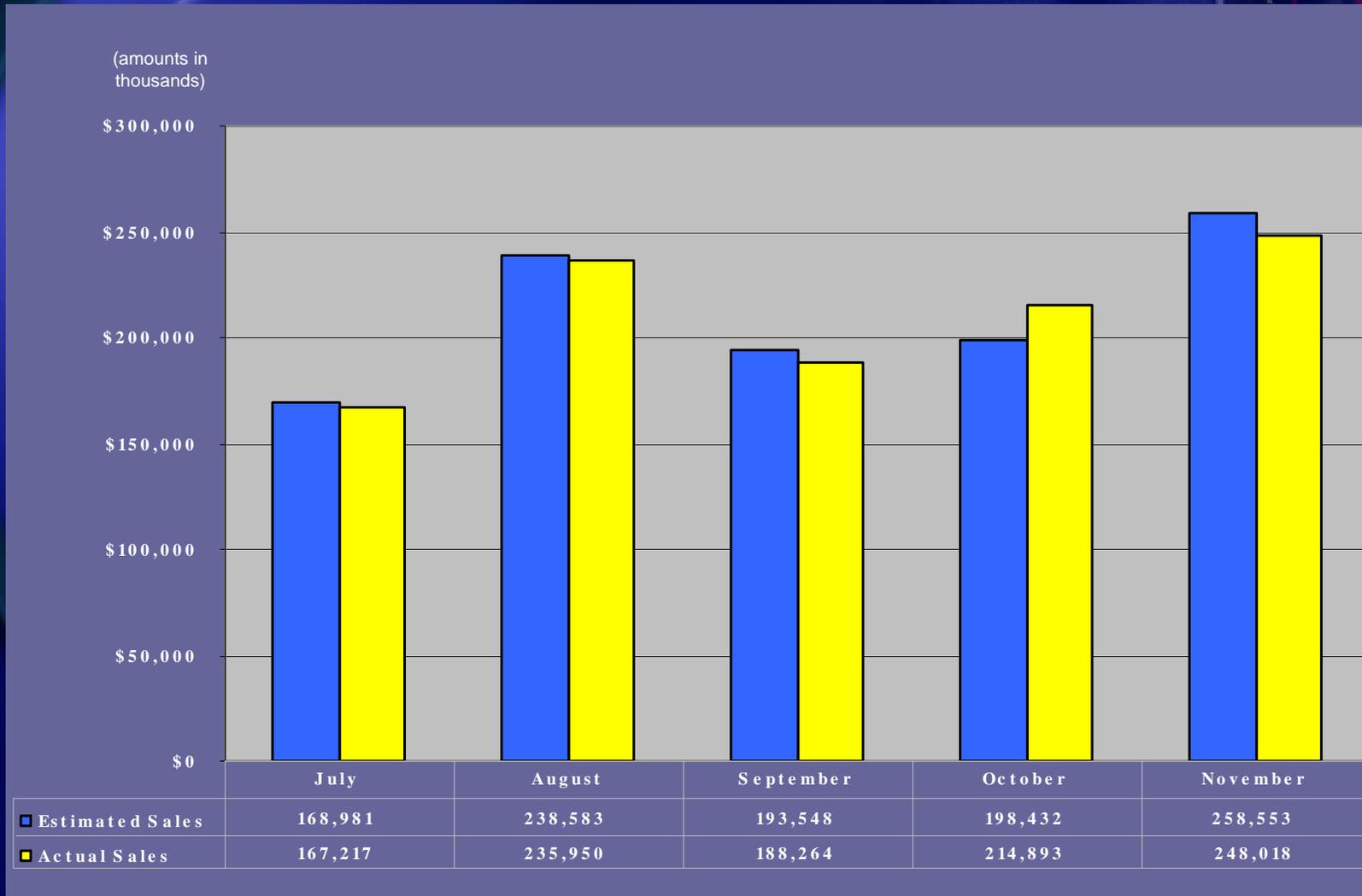
(amounts in thousands)



Lottery Gross Ticket Sales By Month

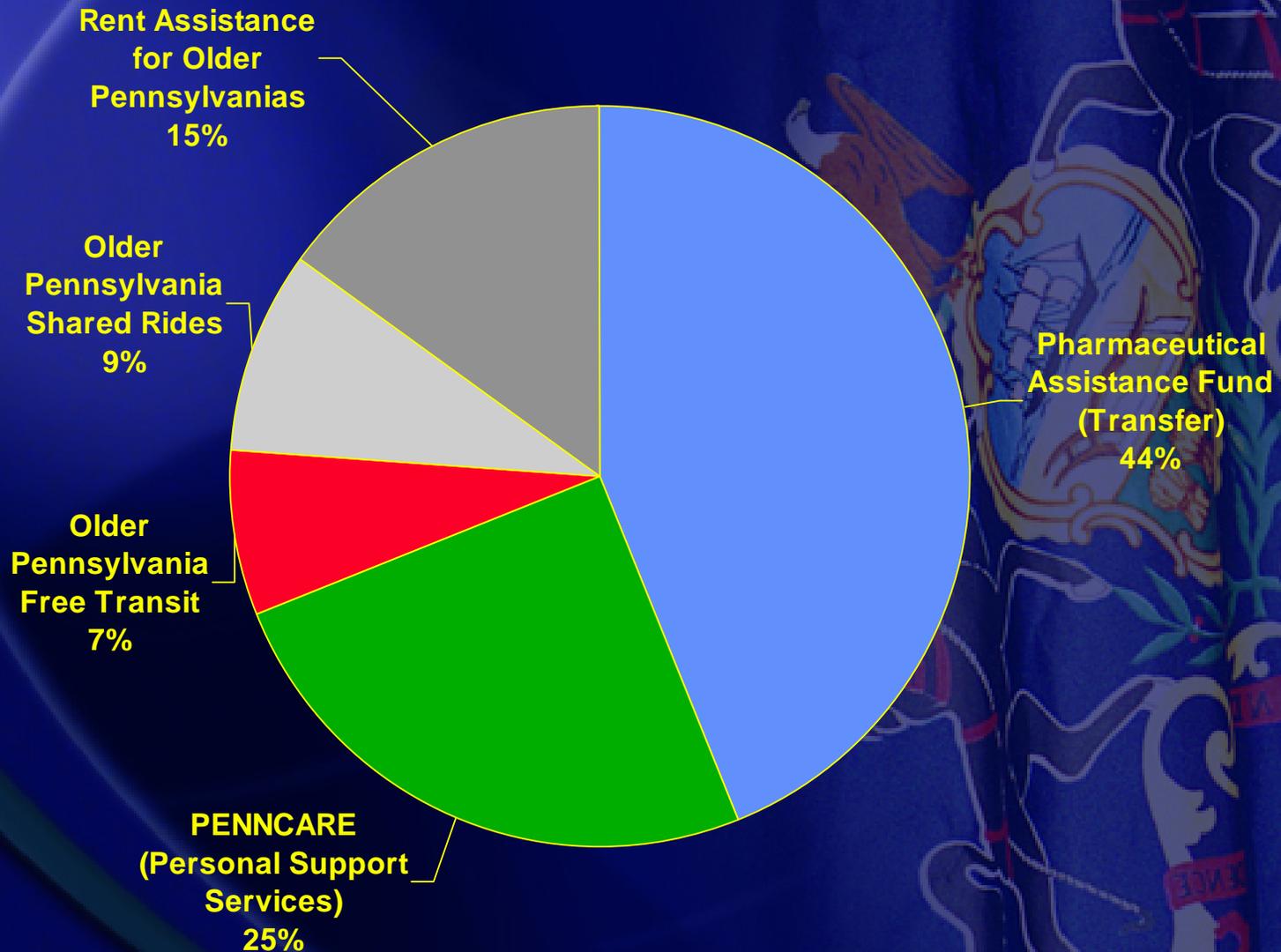
Estimated vs. Actual

Lottery ticket sales are still strong but slightly below estimate through November.



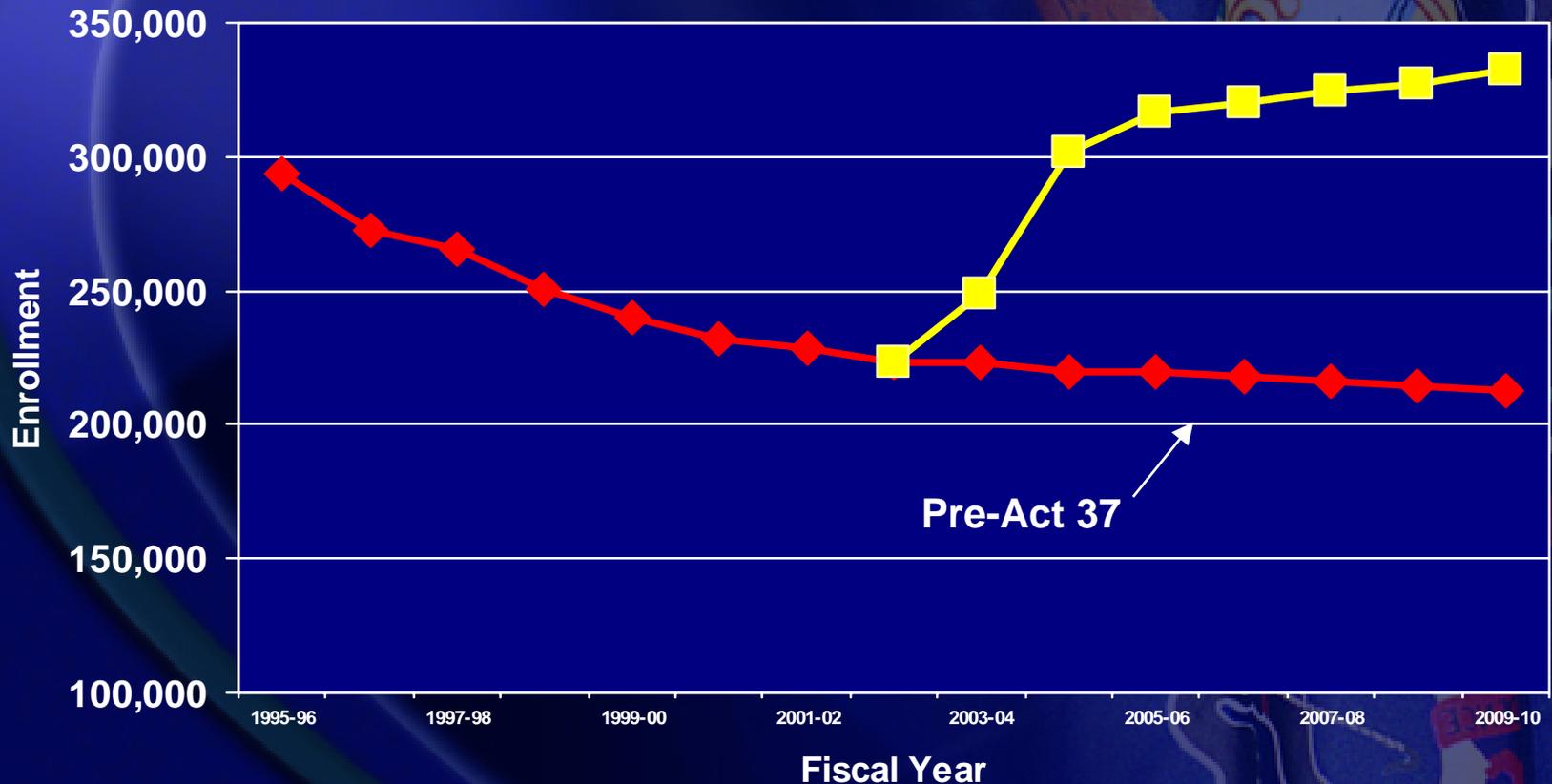
2004-05 Lottery Fund Expenditures

44 percent of Lottery Fund proceeds are used to assist older Pennsylvanians purchase pharmaceuticals.



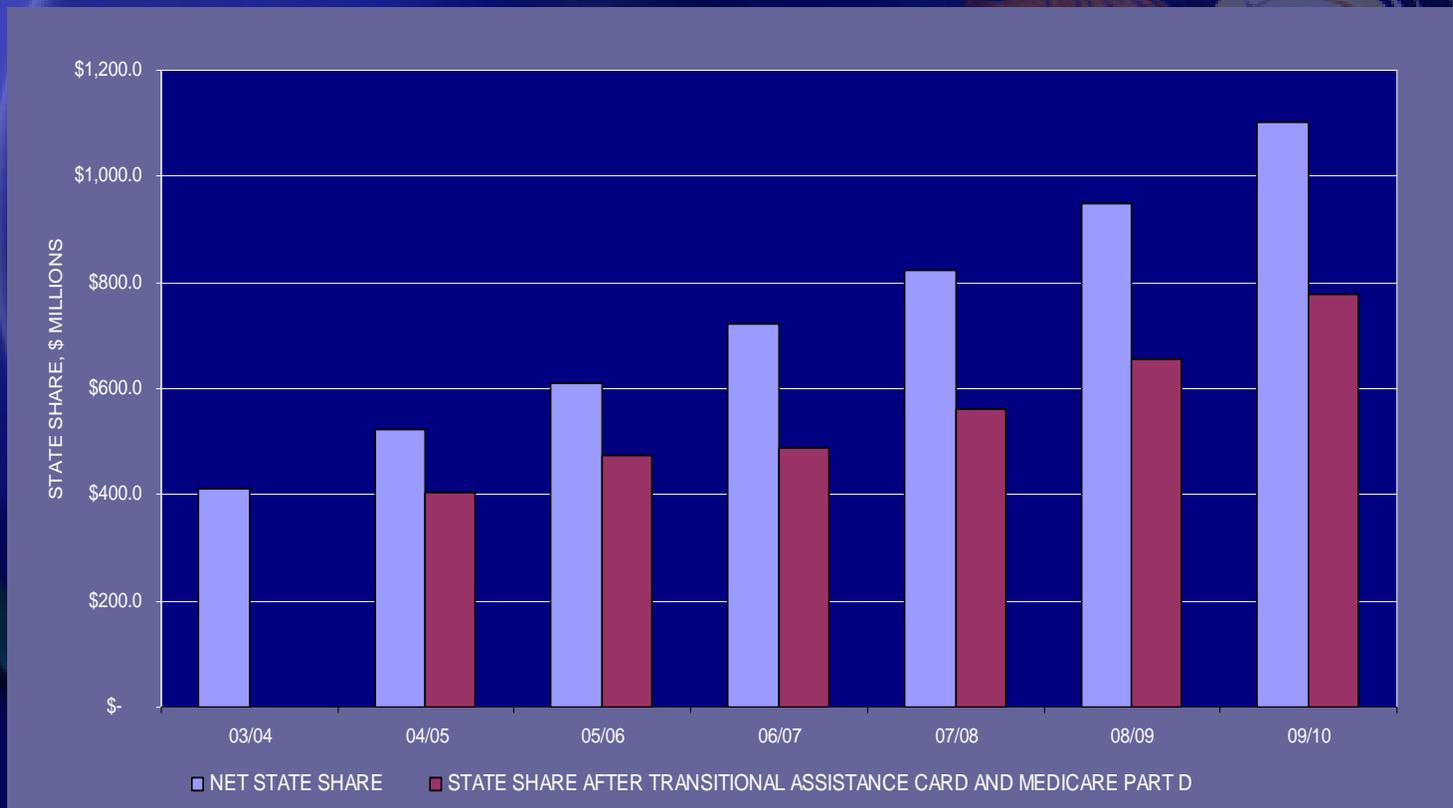
PACE / PACENET Enrollment

Act 37 of 2003 increased income eligibility limits while implementing cost-saving initiatives in the PACE/PACENET Program. Act 37 will enable 100,000 additional older Pennsylvanians to receive financial assistance to help ease the burden of pharmaceutical costs.



Potential Impact of Medicare Part D on the PACE/PACENET Program

The Federal Transitional Assistance Card will be used from July 2004 through December 2005. The Federal Medicare Part D benefit becomes effective January 1, 2006.



These preliminary projections are based on the latest information available on the Medicare Part D benefit. Federal regulations are not yet final and these projections are subject to change.

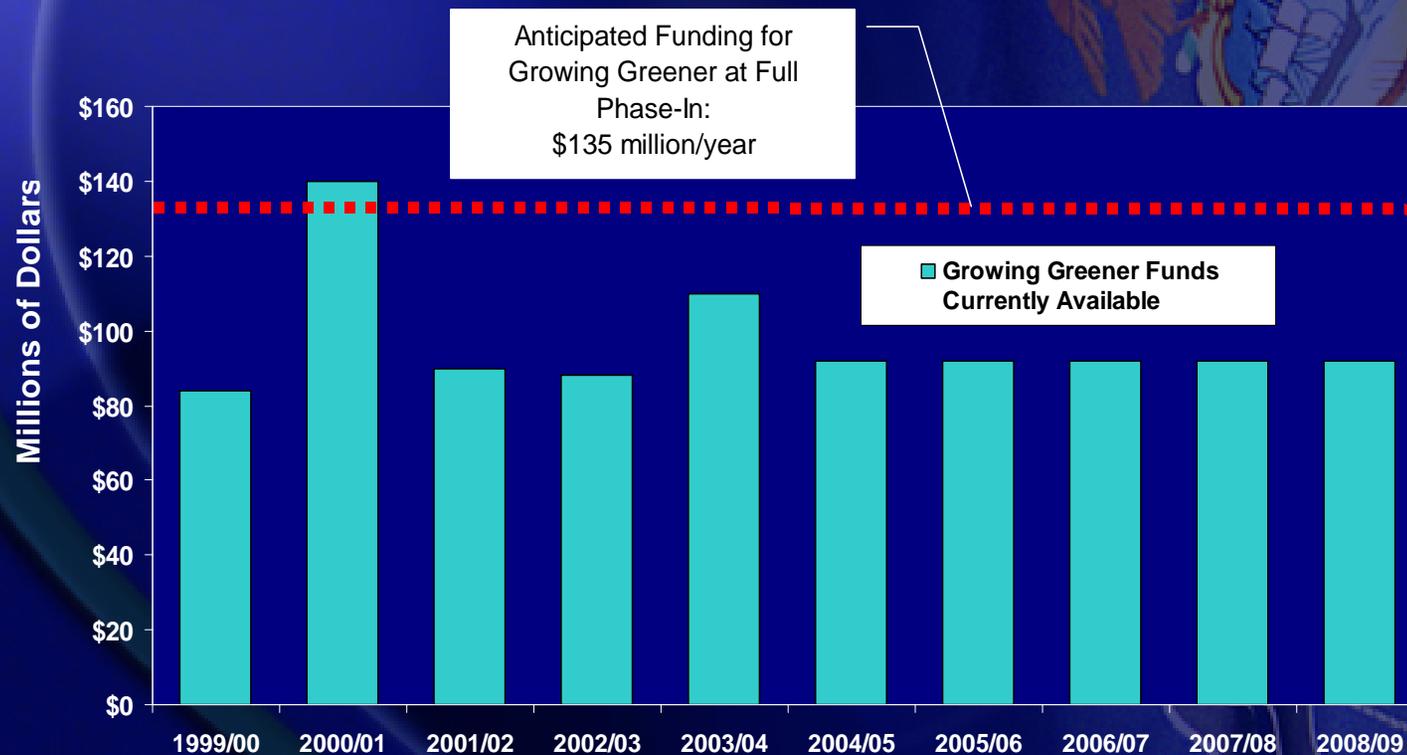
Growing Greener



Environmental Stewardship Fund ("Growing Greener")

Projected Funding Levels Prior to Corrective Action

The Environmental Stewardship Fund was created in 1999. Recurring funding sources are insufficient to support the Fund's annual targeted expenditure level.



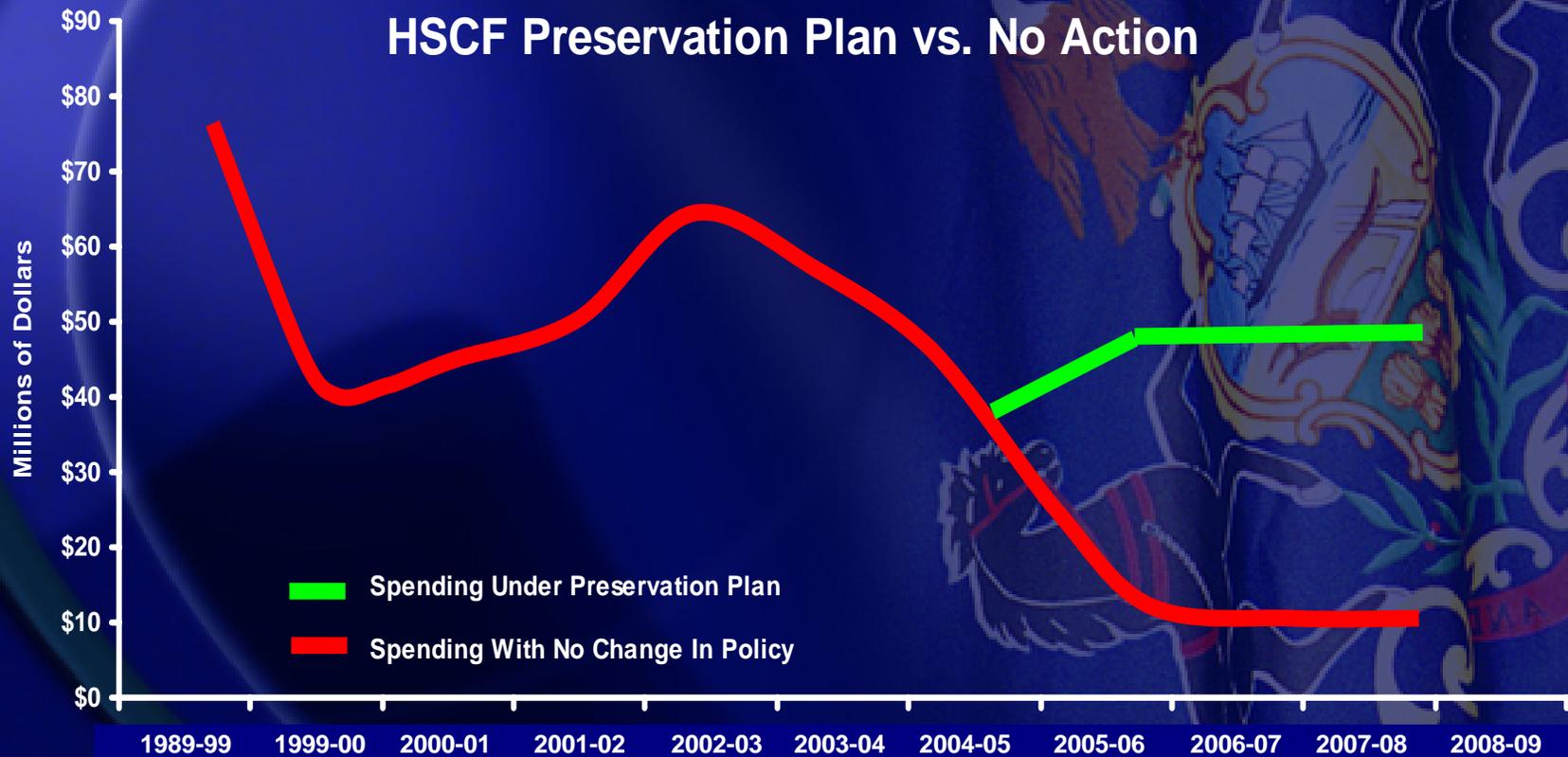
Environmental Stewardship Fund

(Current “Growing Greener” Program)

(in thousands)

	2003-04 <u>Actual</u>	2004-05 <u>Available</u>	2005-06 <u>Estimate</u>
Begining Balance	2,136	5,427	1,447
Fees	90,078	89,000	89,000
Transfers (Recycling and Haz. Sites)	16,786	0	0
Interest/Lapses	4,999	2,918	1,810
Total Receipts	111,863	91,918	90,810
Total Available	\$113,999	\$97,345	\$92,257
Expenditures			
DEP	40,055	34,697	40,316
DCNR	26,378	22,549	26,201
AG	16,199	16,500	0
PennVEST	25,940	22,152	25,740
Total Expenditures	\$108,572	\$95,898	\$92,257
Ending Balance	\$5,427	\$1,447	\$0

Hazardous Site Cleanup Will Stop Without New Revenue



Failure to find a new revenue source for the Hazardous Sites Cleanup Fund will mean:

- The completion of 25 hazardous site cleanup projects and \$22 million in cleanup activities would be lost on an annual basis.
- 228 hazardous waste site investigations per year would no longer be initiated.
- DEP would no longer be able to respond to immediate emergencies related to the release of hazardous waste.
- DEP would no longer be able to complete 1 to 2 new water line projects annually for communities with contaminated well water supplies.
- Land recycling and brownfields redevelopment programs would be severely curtailed.

Pre K-12 Education



Investing In Pennsylvania's Future

The FY 2004-05 budget increased PreK-12 education funding by 8.6 percent -- representing the largest single year increase in General Fund education allocations in at least two decades.

Highlights:

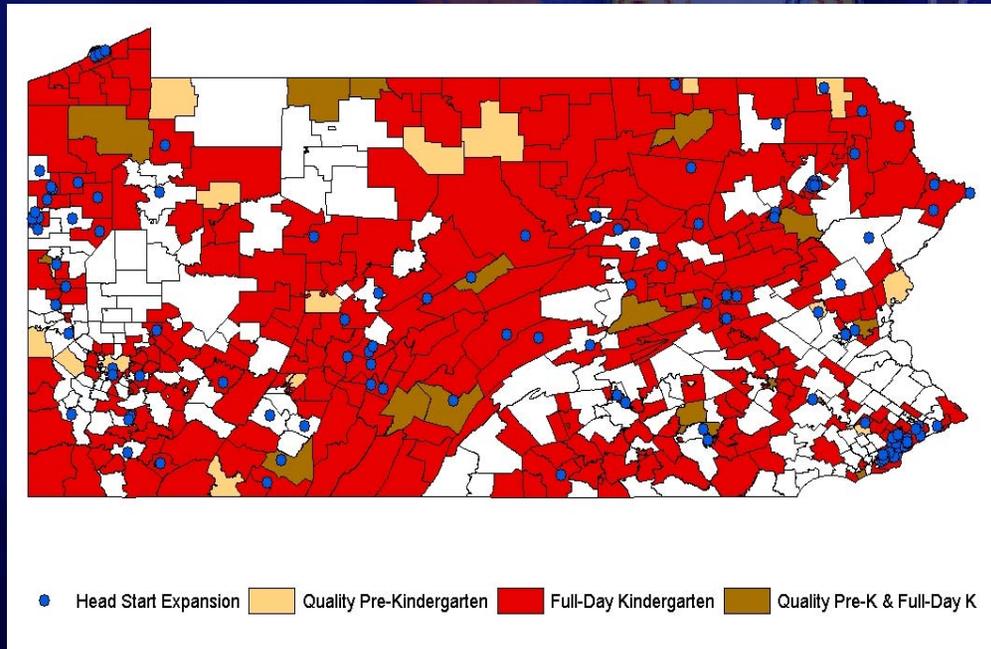
- **\$150.4 million increase in Basic Education Funding.**
- **\$24.6 million increase in Special Education Funding.**
- **\$200 million for the first year of the Accountability Block Grant program.**
- **\$13 million increase for tutoring in the most academically challenged school districts.**
- **\$15 million in first-ever state funding for Head Start.**
- **\$27.6 million increase in reimbursements to school districts for their mandated payments to charter schools.**

Investing In Pennsylvania's Future *Early Childhood Education Funding*

Pennsylvania is moving from near-last among the 50 states to becoming a significant investor in early childhood education.

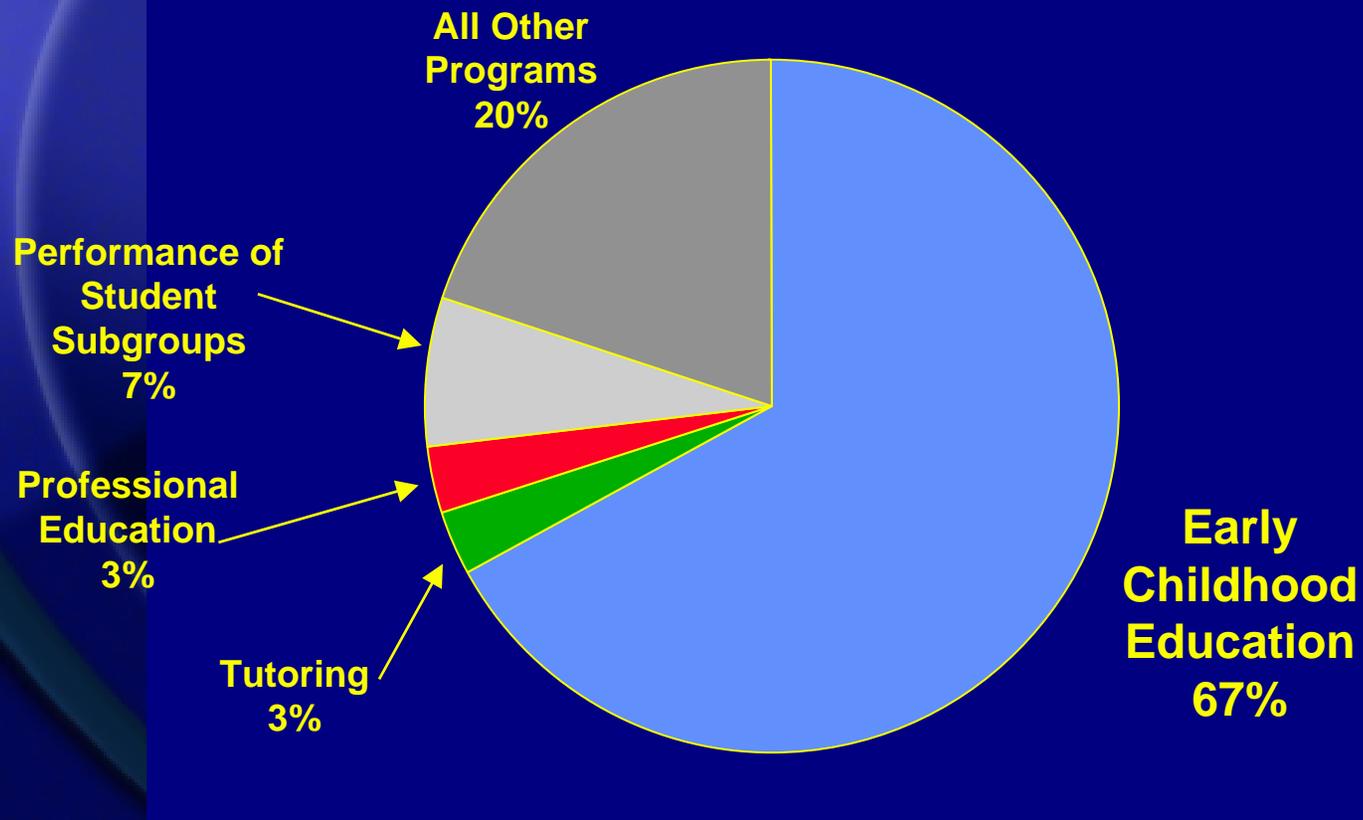
More than \$120 Million in State Funding for Head Start, Pre-K, and Full-Day Kindergarten

- 293 school districts funding full-day kindergarten with the Accountability Block Grant.
- 40 school districts funding quality pre-kindergarten with the Accountability Block Grant.
- 2,484 children benefiting from expanded Head Start.



Accountability Block Grant

School districts received \$200 million in first-year funding of the Accountability Block Grant to invest in a menu of proven programs. More than \$2 out of every \$3 in Block Grant funding is being used to support quality early childhood education investments.

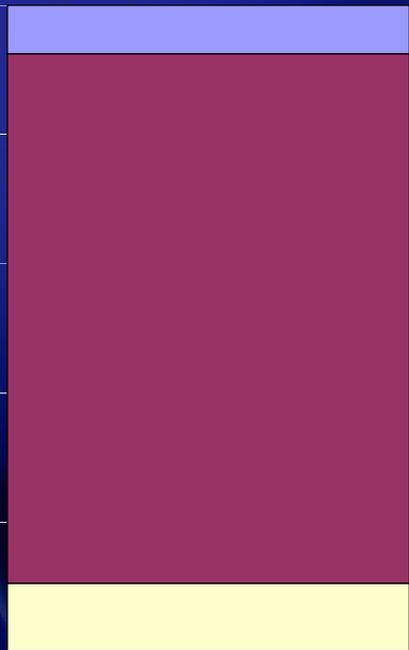


Accountability Block Grant Resources Being Used to Support Early Childhood Education

8 percent is being used to fund quality pre-kindergarten for more than 3,400 children.

82 percent is being used to fund full-day kindergarten for an estimated 51,000 children.

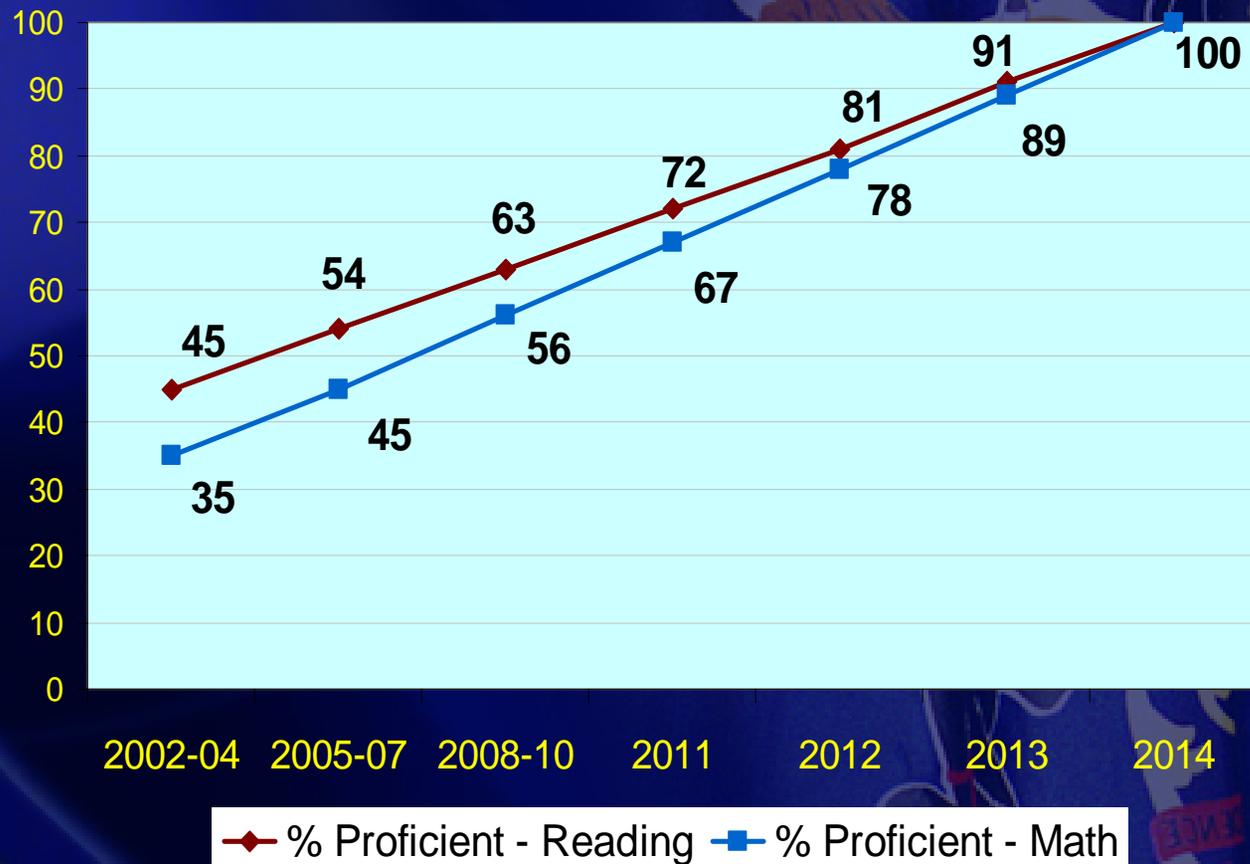
10 percent is being used to fund class-size reduction to benefit more than 20,000 students in kindergarten through third grade.



No Child Left Behind Reading & Math Targets

Pennsylvania has until 2014 to reach 100 percent proficiency in reading and math, as required by No Child Left Behind. This year's investment is a good start – but the Commonwealth still has a long way to go.

In FY 2003-04, nearly 1-in-5 Pennsylvania schools failed to make Adequate Yearly Progress, and the requirements will get even steeper beginning this coming year.



Approved Private Schools

The Rendell Administration inherited a funding crisis for the Commonwealth's Approved Private Schools (APS) – which educate some of the state's most severely disabled children. The FY 2004-05 budget replenishes the APS audit resolution fund and establishes a long-term funding solution for Approved Private Schools.

- ✓ **\$7 million increase for audit resolution.**
- ✓ **\$15 million in new educational funding.**

Mass Transit

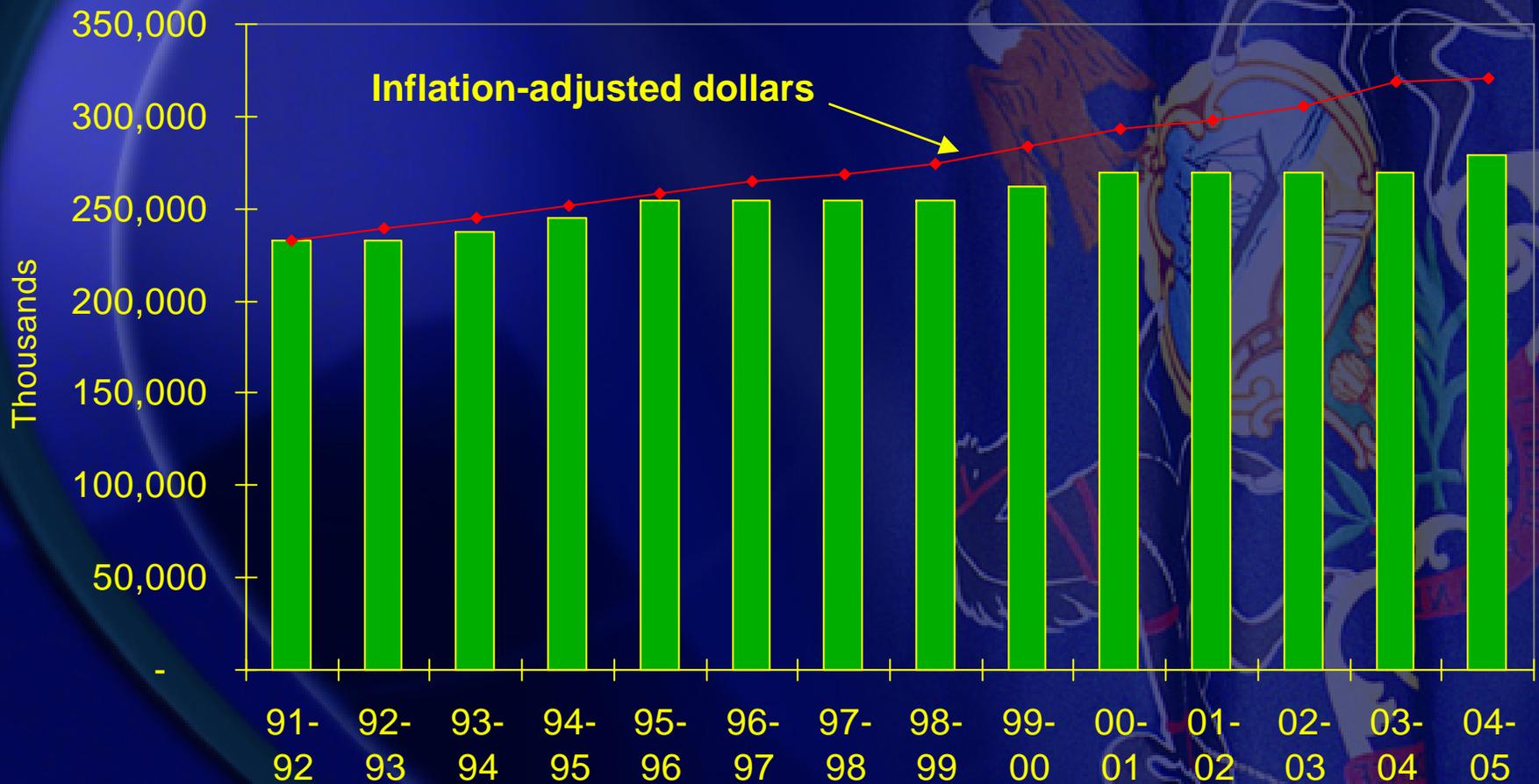


Mass Transportation in Pennsylvania

- **There are over 70 urban, rural, and community transit systems serving every Pennsylvania county.**
- **Mass transit brings over a million employees and customers to businesses every day.**
- **Transit systems spend more than \$1.2 billion on operations in their communities annually.**
- **Transit systems directly or indirectly employ 53,000 people in PA.**
- **Each \$1 of state/local money spent on public transportation capital improvements brings up to an additional \$4 of Federal grant money into PA.**

Mass Transportation Assistance (GF) Funding

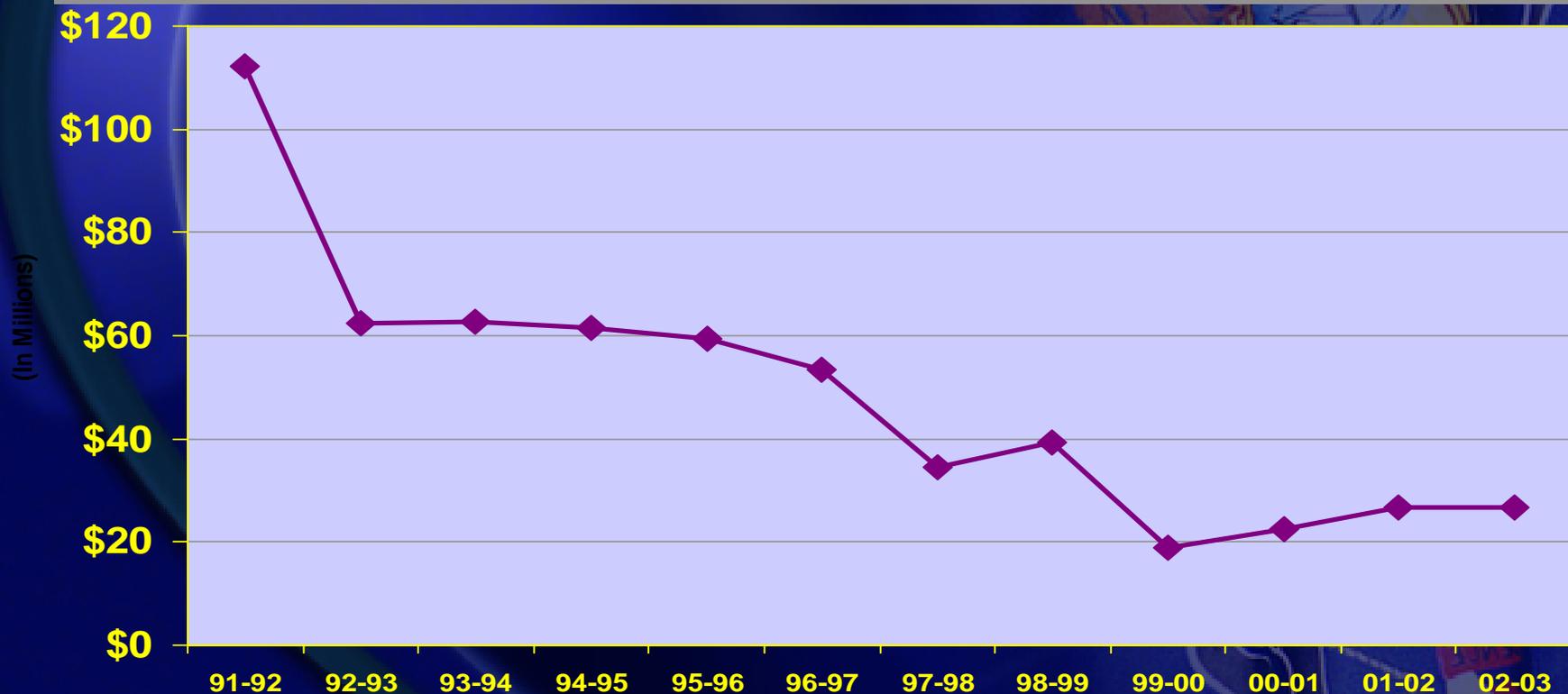
If General Fund Mass Transportation Assistance appropriation levels had kept pace with inflation, FY 2004-05 funding would be nearly \$42 million higher.



Public Transportation Assistance Fund

Revenue Derived from Public Utility Realty Tax

PTAF was created in 1991 to provide dedicated, predictable funding for PA mass transit, but the Fund has never performed as expected. Primarily as a result of electric deregulation, the Public Utility Realty Tax, the main revenue source for PTAF, decreased as a source of revenue over the course of the 1990's. Act 46 of 2003 replaced this unreliable revenue source with an additional transfer of 0.417 percent of the Sales and Use Tax.



Urban Mass Transportation Statistics

The Commonwealth's General Fund Mass Transportation Assistance appropriation has lagged inflationary increases, in part leading to increases to base fares, larger transit system operating deficits, and decreases in ridership.

	Percentage Increase 1991 to June 2003	Average Annual Growth Rate 1991 to June 2003
CPI-U (Northeast U.S. – All Items)	37.8%	2.5%
Transit Operating Expenses	40.3%	3.1%
Mass Transportation Assistance Funding	20%	1.4%
Transit System Base Fare*	27%	2.2%
Ridership	- 1.75%	- 0.16%

* Note: Transit system base fare compares data from 1991 to 2004.

Medical Assistance



Pennsylvania Medical Assistance

- Provides medical care for low-income individuals
 - Children, children and families, elderly, disabled, and General Assistance
 - Currently serves over 1.7 million people
- Benefit package is comprehensive
 - Is more generous than benefits under CHIP or PEBTF
- Provider network includes 68,000 providers
- Total annual expenditures exceed \$15 Billion
 - Office of Medical Assistance Programs \$13.3B
 - Other DPW Programs (MR, OSP Waivers, Child Welfare, etc) \$ 2.0B
- State administered but jointly funded with Federal and State funds

The Continuing Medicaid Budget Challenge: State Medicaid Spending Growth and Cost Containment in Fiscal Years 2004 and 2005 – Results from a 50 State Survey

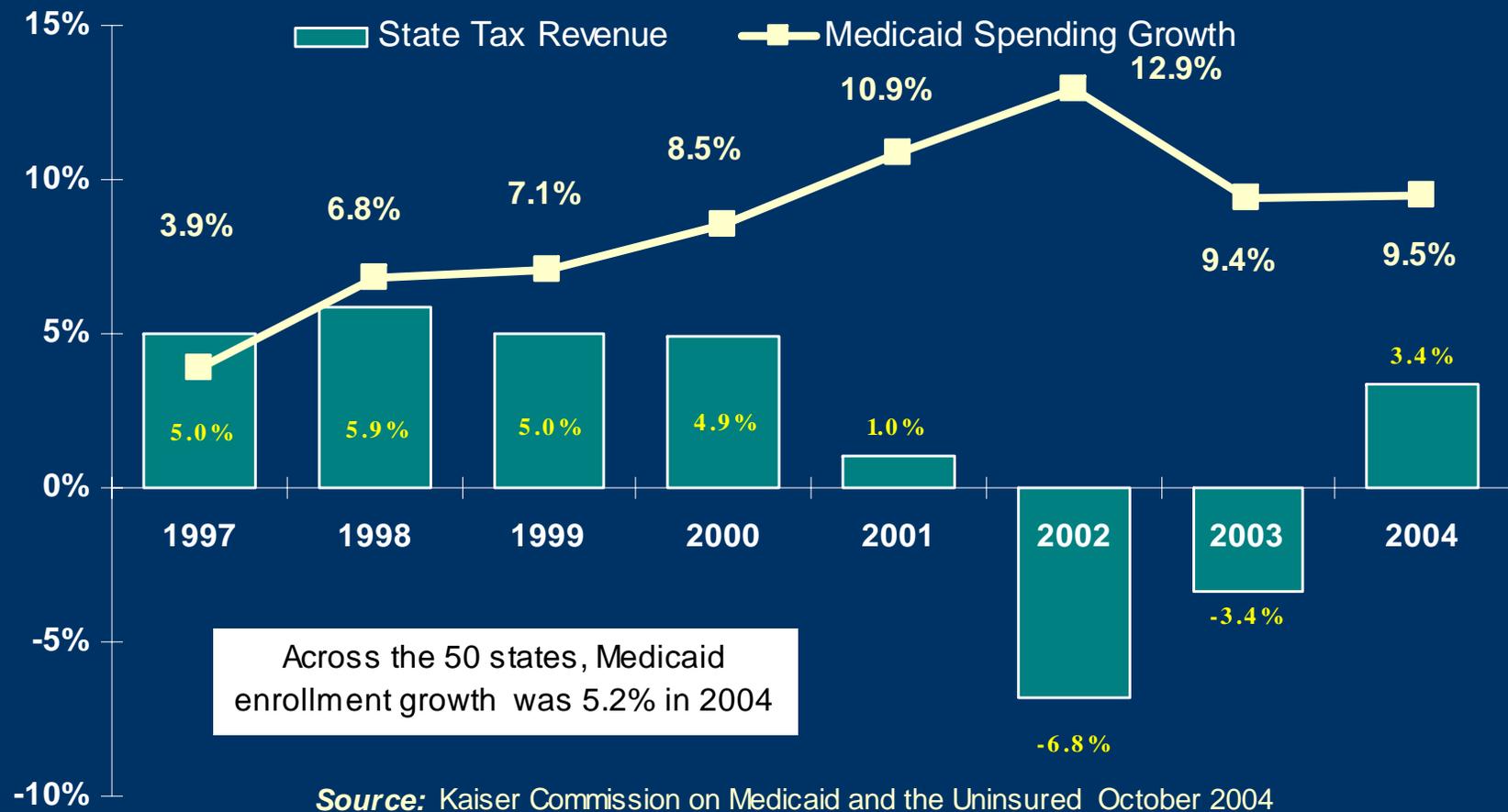
Key Findings:

- Despite severe state fiscal stress, Medicaid enrollment has grown by nearly one-third since the beginning of 2001 as the program maintained its role as a critical safety-net for low-income populations.
- Medicaid spending in FY 2003 and FY 2004 grew faster than other state programs but slower than growth in private health insurance premiums.
- Responding to pressure to control Medicaid costs, all 50 states and the District of Columbia implemented actions designed to control Medicaid spending growth in FY 2004 and all states planned to implement cost containment measures in FY 2005.
- Federal fiscal relief helped states meet Medicaid shortfalls in FY 2004 and helped to maintain Medicaid eligibility levels; however, states are expecting sharp increases in the state share of Medicaid costs in FY 2005 as they begin to cope with the loss of the enhanced federal support.
- States are approaching FY 2006 with caution. While revenues are improving overall, many states still face budget shortfalls and pressure to control Medicaid spending growth will continue.

- Kaiser Commission on Medicaid and the Uninsured

MA Growth is Significantly Exceeding State Revenue Growth across the U.S.

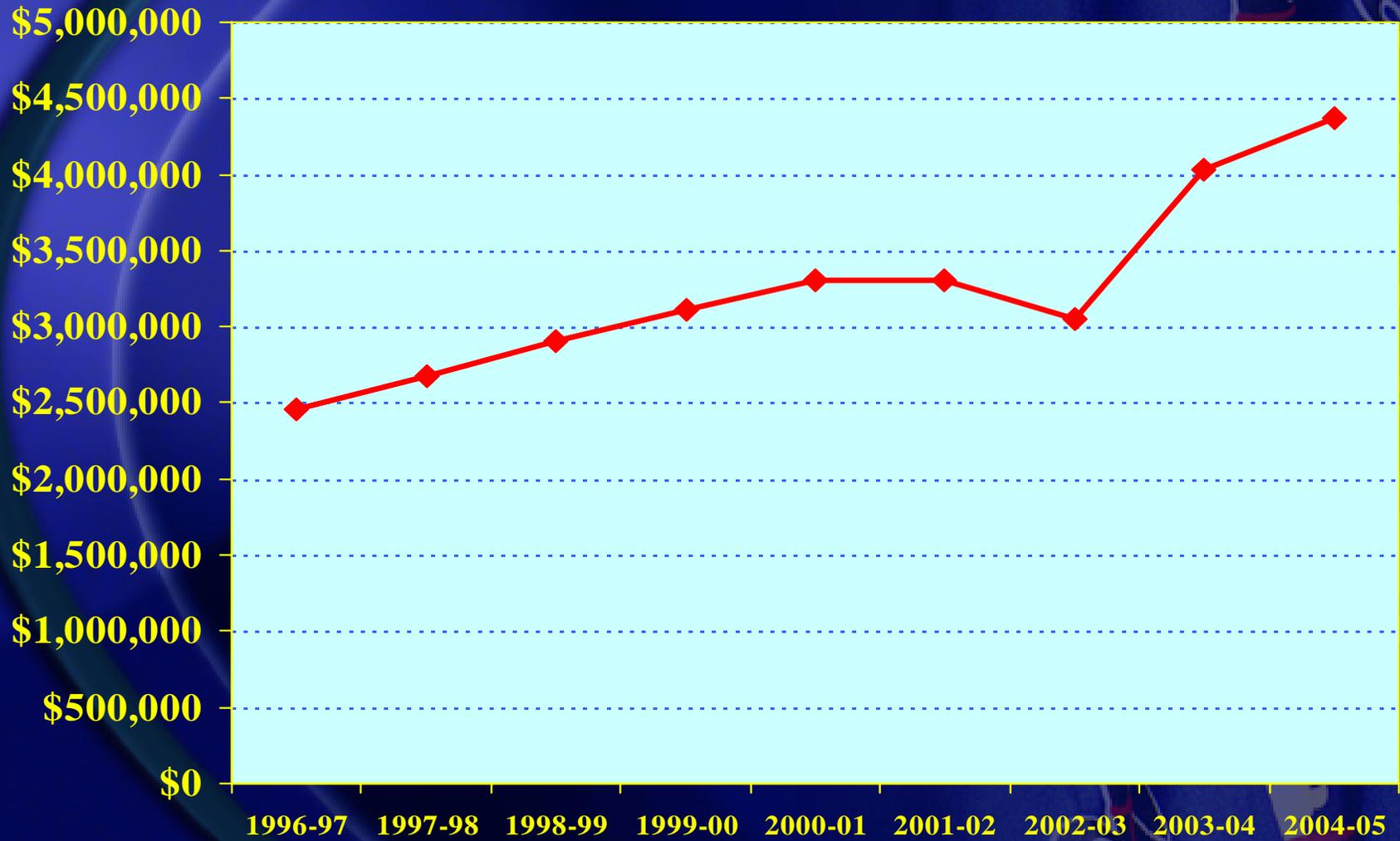
Underlying Growth in State Tax Revenue
Compared with Average Medicaid Spending Growth
1997-2004



Growth in MA Spending

State Funds

(In Thousands)



Why Are State Medicaid Costs Increasing?

Increasing Caseload

Growing Elderly Population
Growing Uninsured

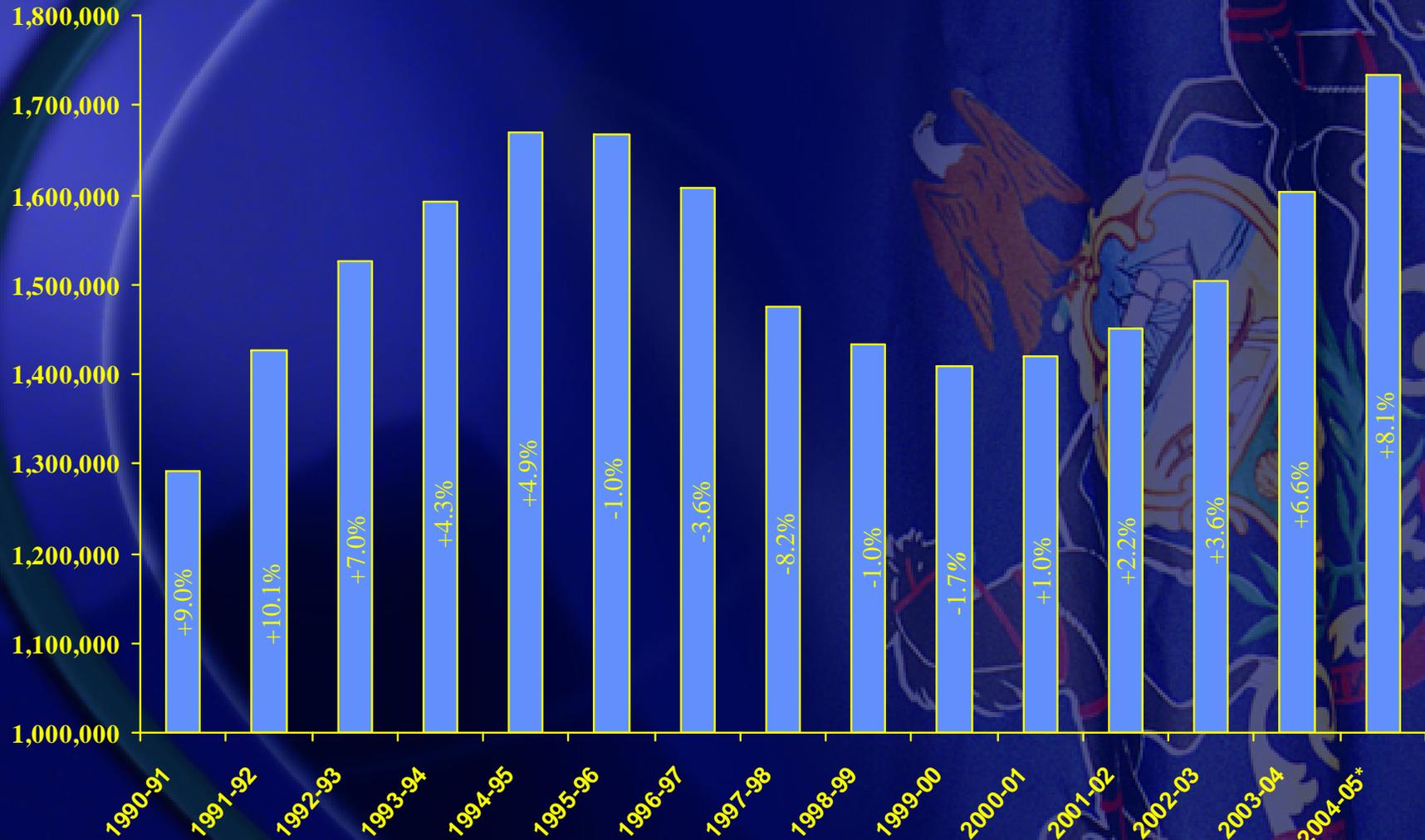
Health Care Trends

Patient Acuity
Service Utilization
New Technology
New Drug Treatments

Loss of Federal Funding

FMAP
One-Time Funding

The PA Medicaid Caseload Has Accelerated Rapidly During the Last Three Years



*Projected

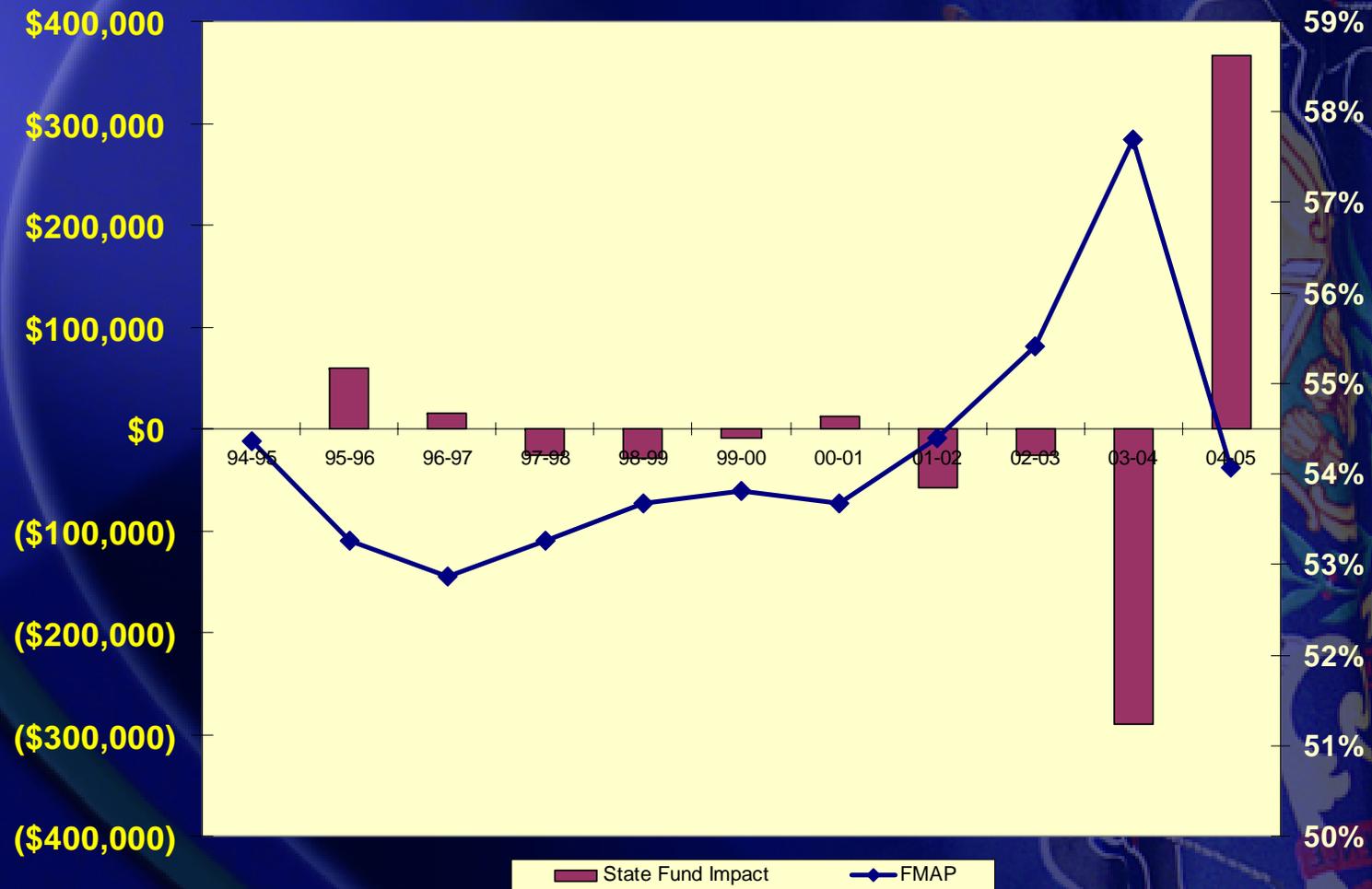
Average Monthly

Rate Increases

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Inpatient Hospitals (Fee-for-Service)	2.8%	3.0%	4.0%	4.1%	1.0%	3.5%
Rates are negotiated with the Hospital Association of Pennsylvania.						
Managed Care Organization	9.3%	6.1%	10.7%	7.7%	4.6%	5.0%
Rates are negotiated with the plans but must be within actuarially sound rate ranges for Federal participation.						
Nursing Home	7.1%	3.5%	5.8%	4.6%	6.7%	6.2%
Rates are determined by regulations and are based on 3 years of audited financial statements and the acuity level of residents.						

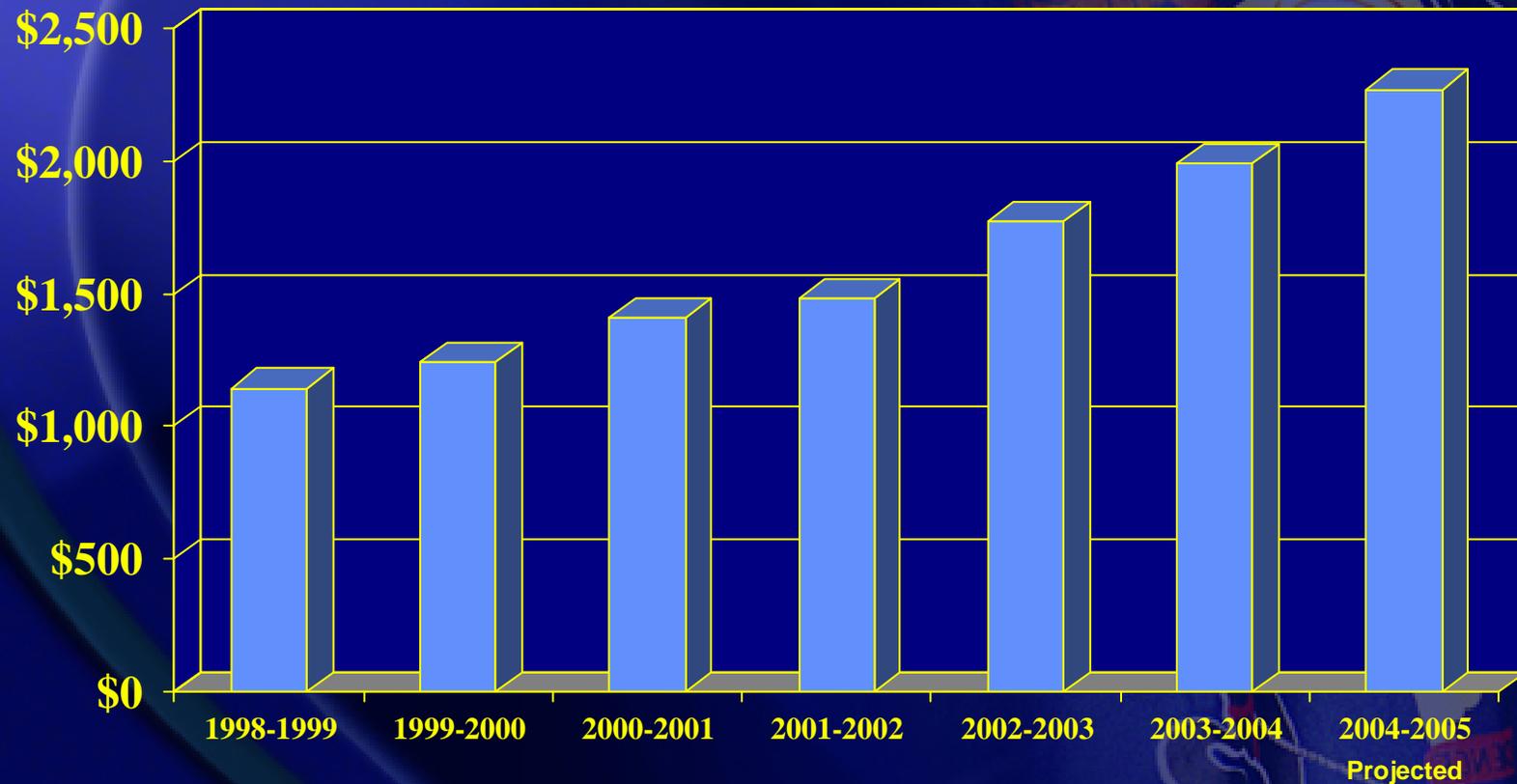
Federal Medical Assistance Percentage

As Federal Medical Assistance Percentage rates decrease, State fund requirements increase. In FY 2004-05 there was a significant increase in State fund requirement due to the elimination of the one time Federal Fiscal Relief.



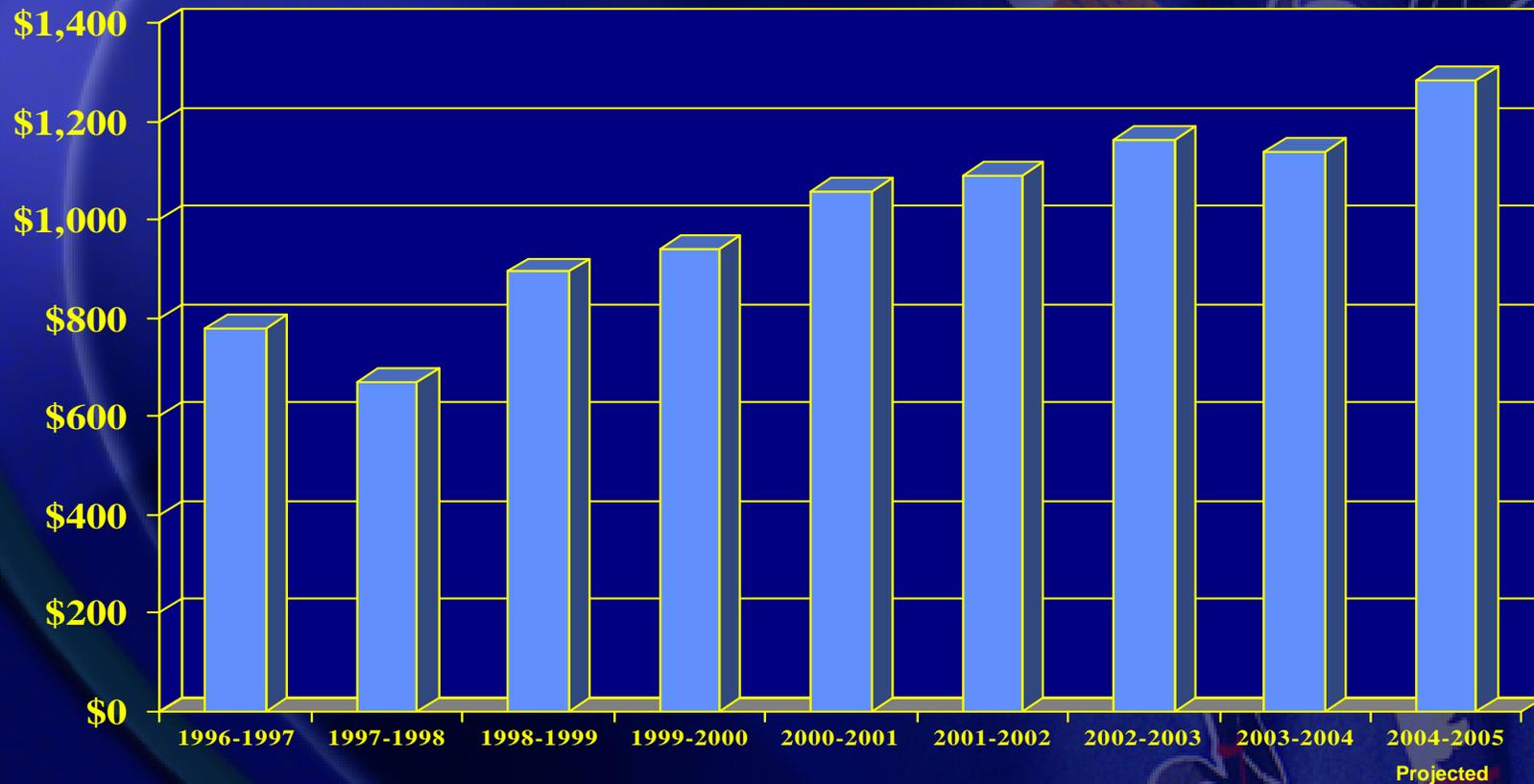
Pharmacy Drug Costs Per Year Total Funds Per Fee For Service Eligible

Pharmacy Drug Cost per Fee For Service Eligible has increased by 98.5 percent from FY 1998-99 to FY 2004-05 (projected).



Inpatient Hospital Costs Per Year Total Funds Per Fee For Service Eligible

Inpatient Hospital Costs per Fee For Service Eligible have increased by 75.1 percent from FY 1996-97 to FY 2004-05 (projected).

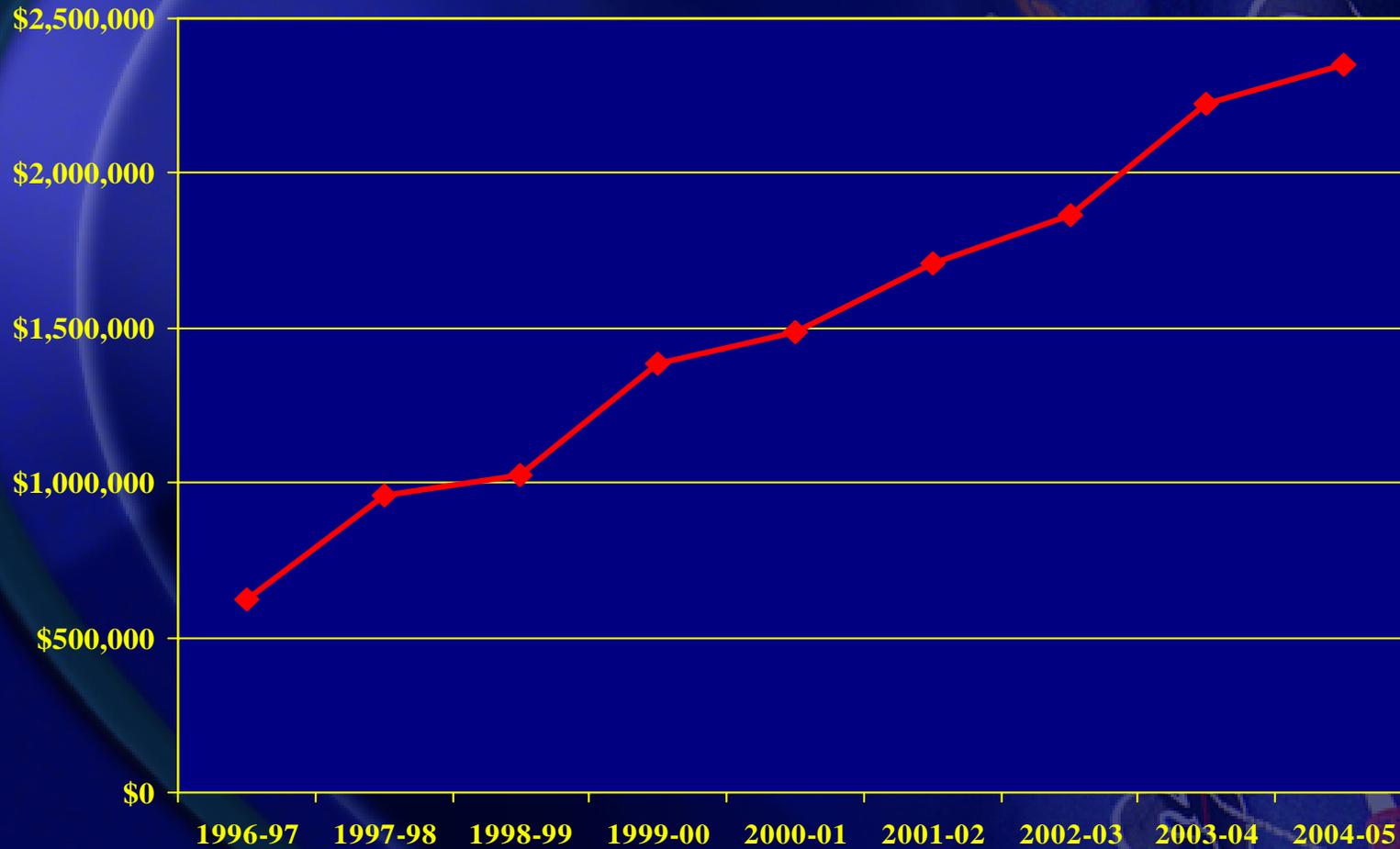


Managed Care Expenditures

State Funds

Managed Care State expenditures have increased 26.2 percent in the last two years.

(In Thousands)

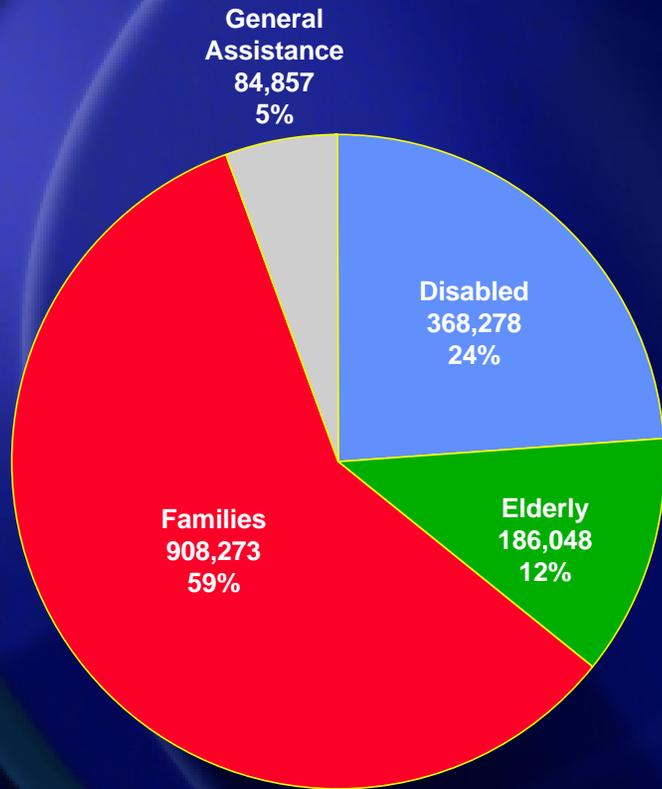


Source: DPW Budget Office

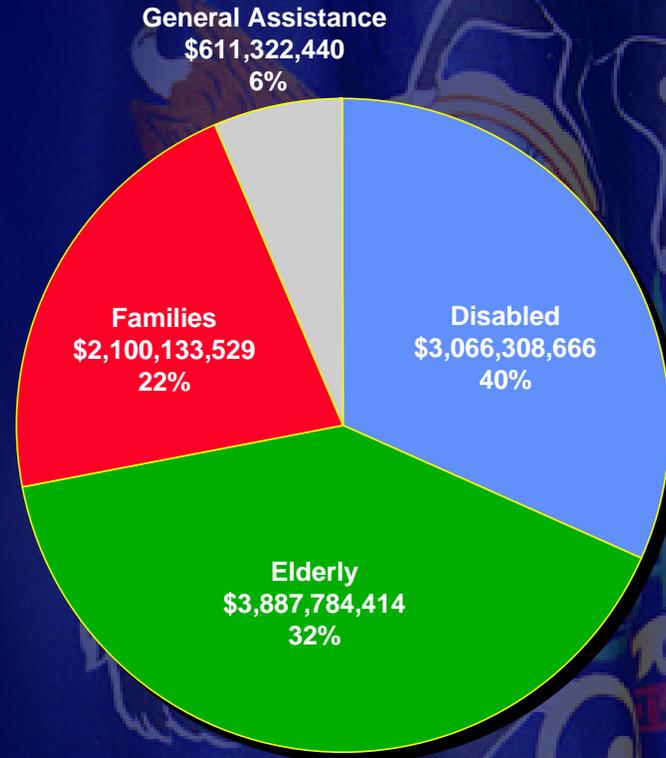
Distribution of Eligibles vs. Expenditures

FY 2002-03

Cumulative Percentile



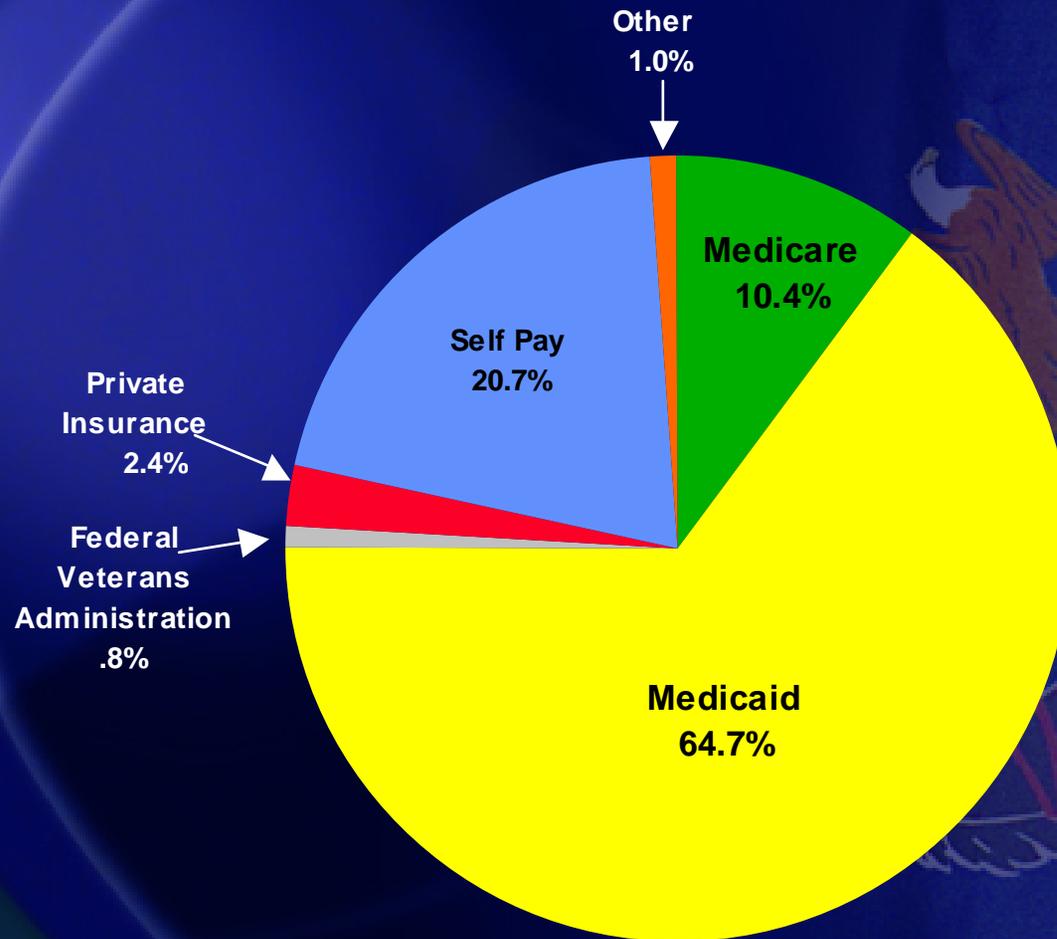
Number of Eligibles



By Expenditure

Nursing Home Care in Pennsylvania

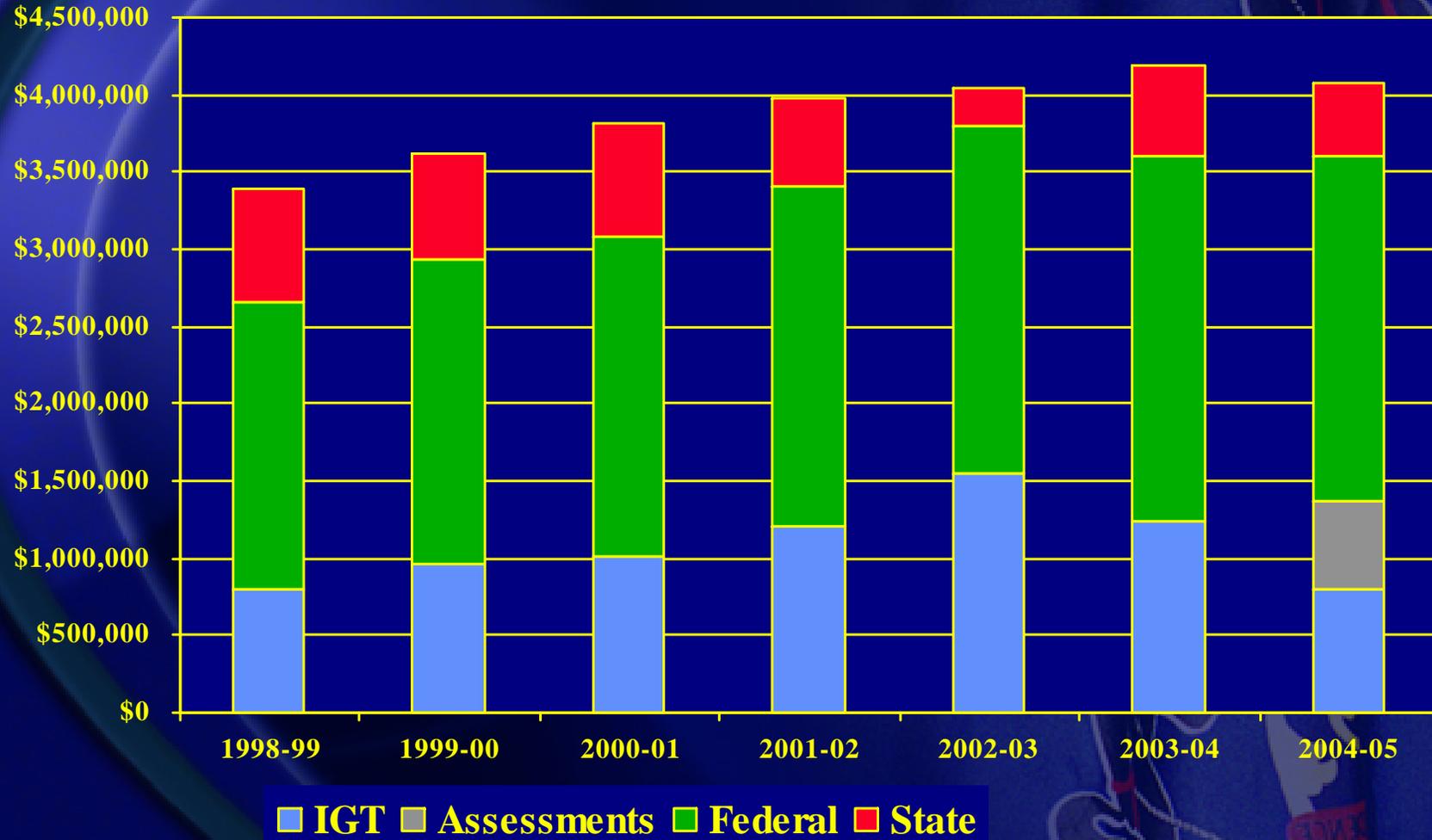
MA Pays For the Largest Portion



Long Term Care Growth and Source of Funding

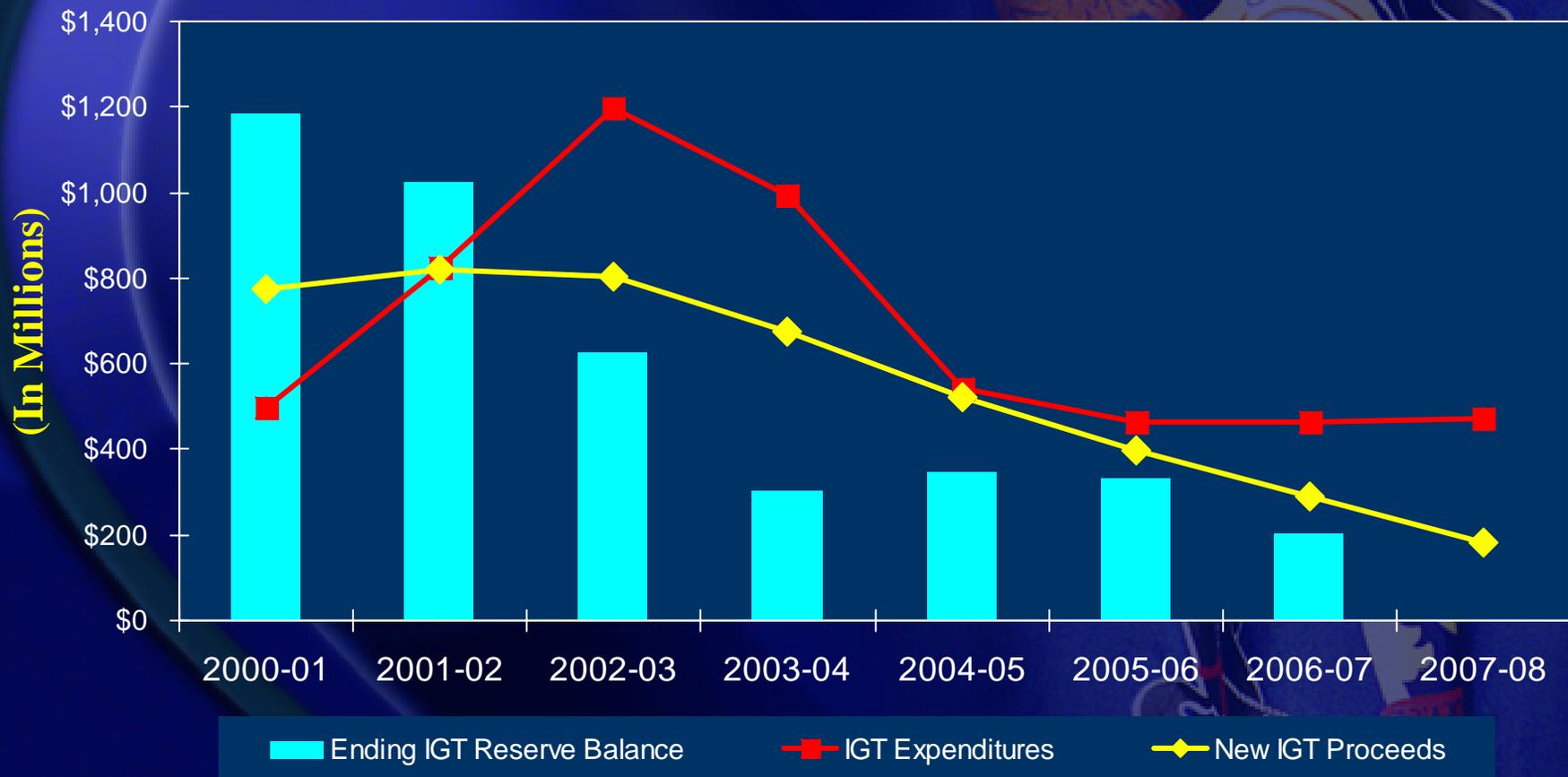
Includes Aging Waiver Costs

(Amounts in
Thousands)

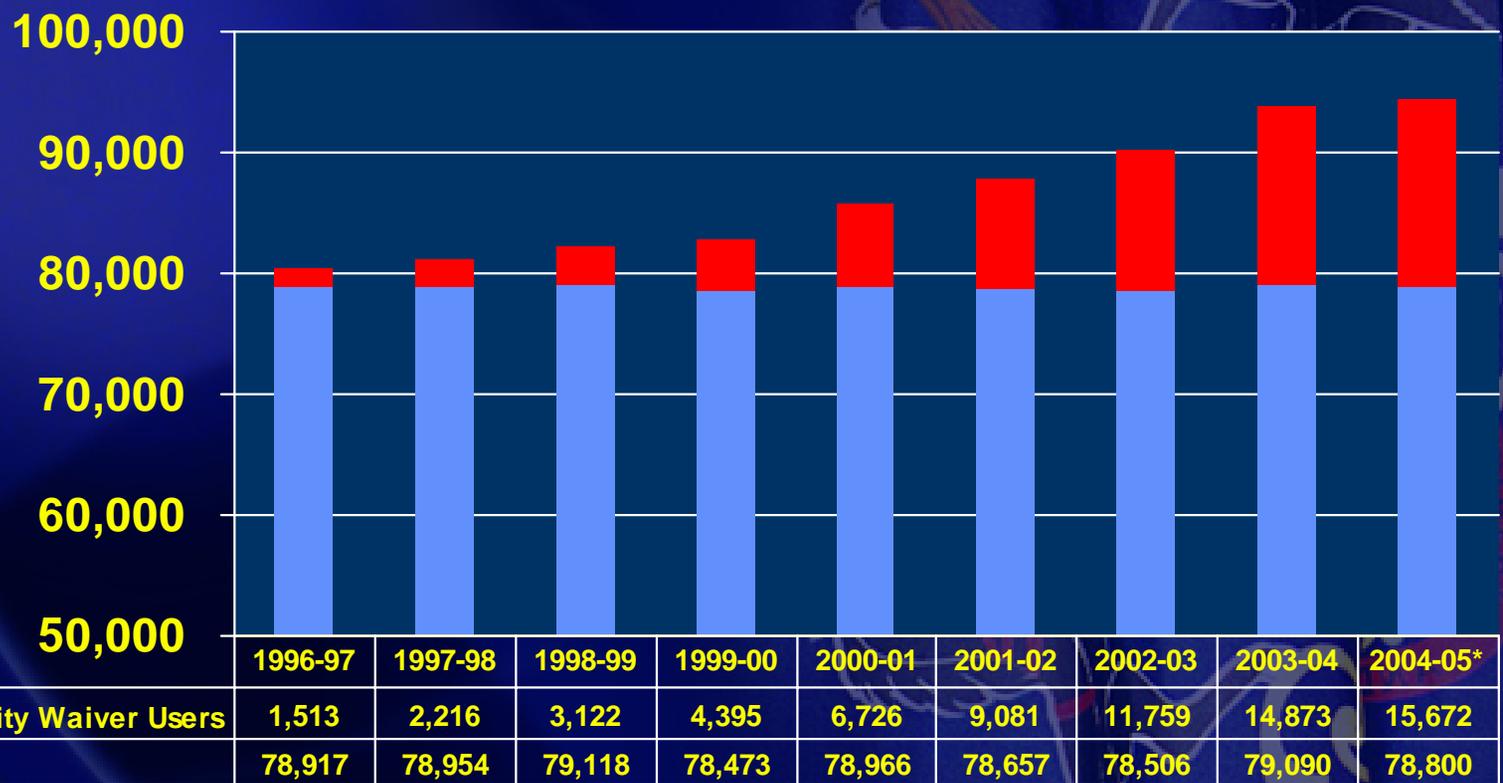


Utilization of Intergovernmental Transfer Funds

The Commonwealth's capacity to use Intergovernmental Transfer (IGT) funds to offset General Fund spending requirements will significantly diminish in future years as new IGT proceeds are phased out and the existing IGT reserve balance is depleted.



Nursing Home and Home and Community-Based Services Utilization



**Estimate*

Reasons To Rebalance Long Term Care

- Consumer's preference to remain in home and community-based settings as they age.
- Population that is 65+ has grown by 2 percent from 1990 to 2005. Population that is 85+ has grown by 92 percent from 1990 to 2005.
- More efficient use of financial resources because community care is less expensive than institutional care.
- Other insurance has limited coverage of nursing facility services.

Temporary Assistance to Needy Families (TANF)



Pennsylvania TANF Program

Temporary Assistance to Needy Families (TANF) Program:

- Provides a monthly cash payment and supportive services, such as child care and training programs, to low income families.
- States must spend 75 percent of their historic level of state-level spending for TANF programs if they meet TANF participation rates, but 80 percent if they do not. This is referred to as Maintenance of Effort (MOE).
- Pennsylvania has met the required participation rate and, must provide 75 percent MOE.

Pennsylvania TANF Funds

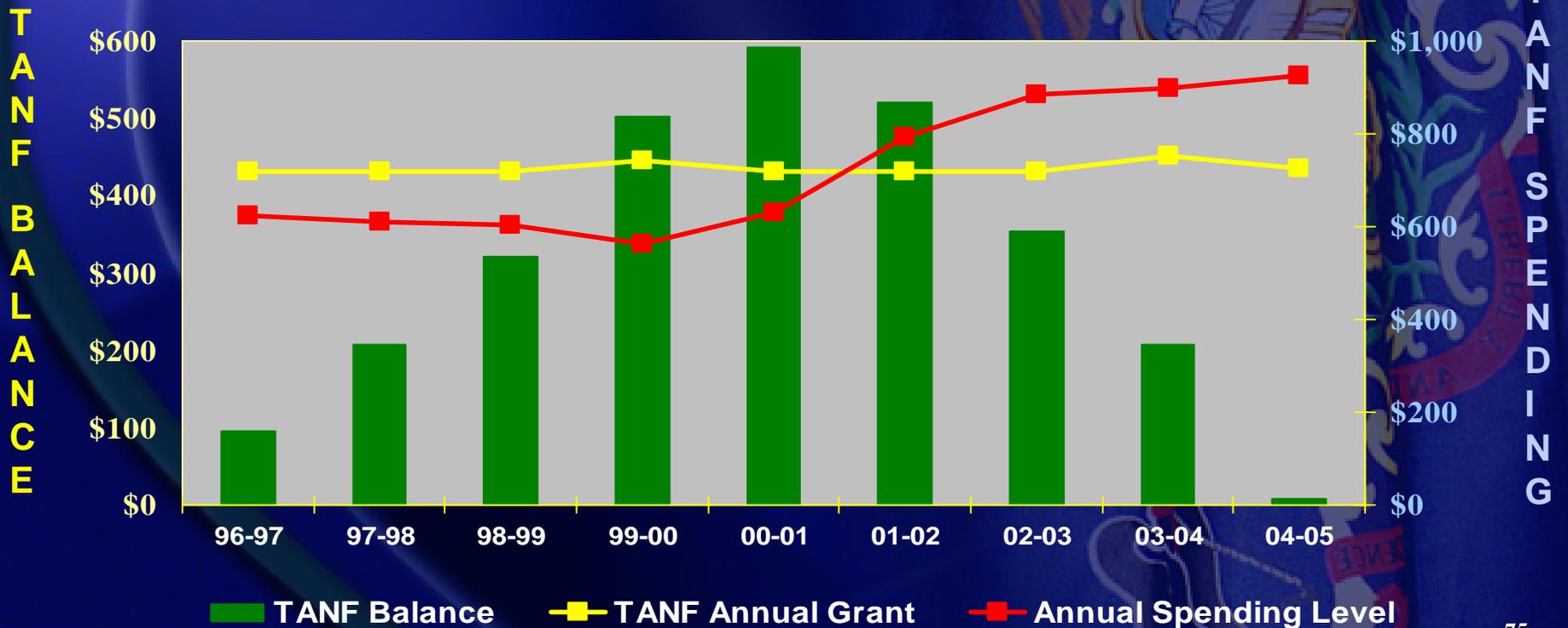
Federal TANF Funds:

- **May be used for any TANF-related program, such as cash assistance, child care, employment activities, etc.**
- **May be used for child welfare services if the state previously paid for these services with Federal Emergency Assistance Funds, which have been eliminated.**
- **Pennsylvania has chosen to spend a significant portion of its Federal TANF revenue on child welfare services.**
- **At the current spending level, the state's TANF fund balance will soon be depleted.**

Status of TANF Fund Balance

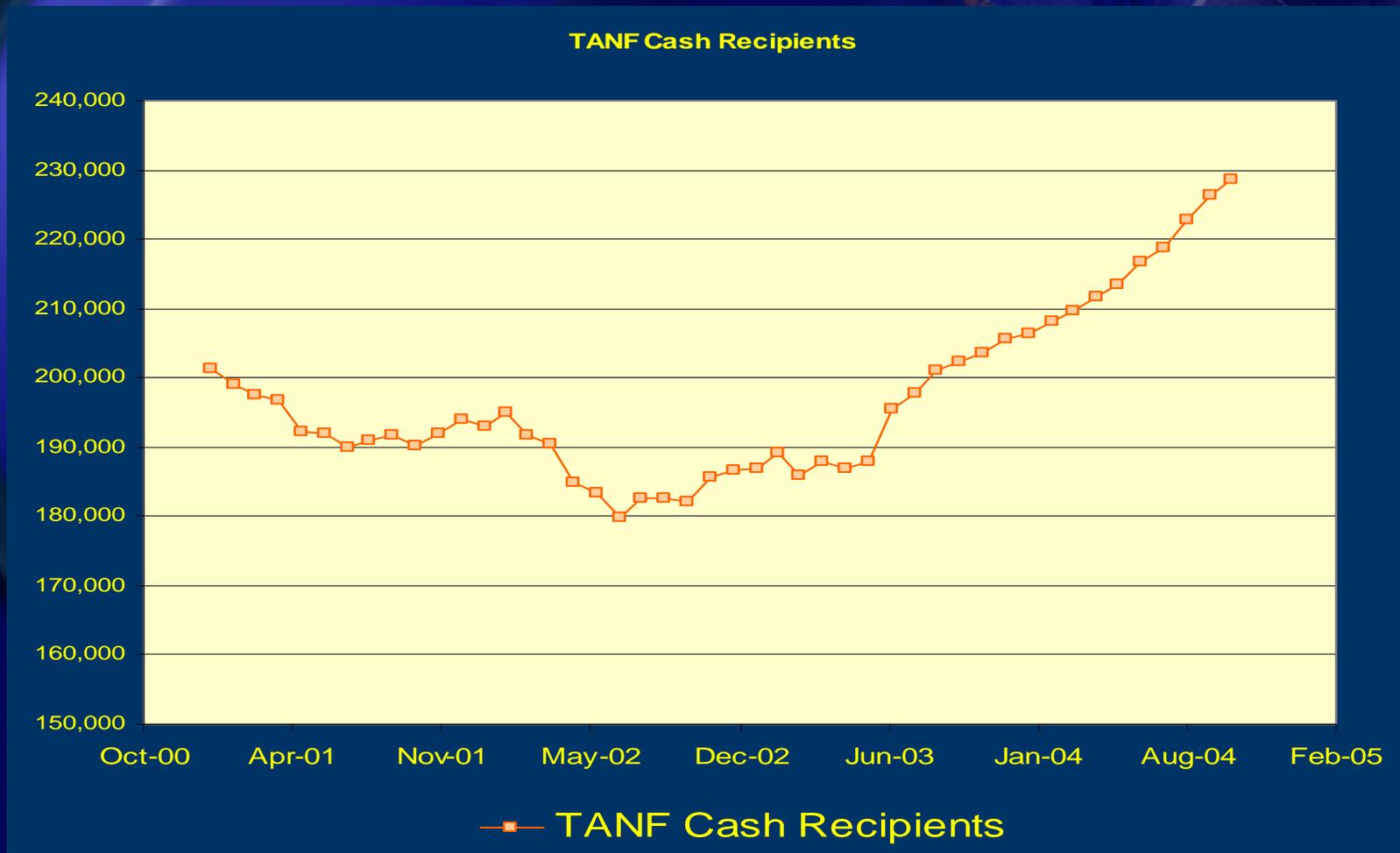
When the Temporary Assistance to Needy Families (TANF) program began, the Commonwealth's annual TANF expenditures were less than the annual TANF grant, resulting in the build-up of a significant reserve balance.

In recent years that trend has been reversed, as annual expenditures have exceeded the annual grant amount, causing the reserve balance to be nearly eliminated. Future TANF expenditures will have to be decreased to keep TANF expenditures in balance with the annual TANF grant level.



Caseload Trends

TANF caseload projected to increase from 205,961 cases per month to 229,226, an 11.3 percent increase from 2003-04.



Income Maintenance Caseloads

Why are caseloads increasing?

- From 2001 to 2003, the number of non-employed single parents in Pennsylvania rose by 43 percent (from 98,000 to 140,000). This mirrors a trend seen throughout the country.
- The phase out of Temporary Extension of Unemployment Benefits in April 2004 may be a contributing factor to the increase in the TANF caseload this year.
- Nine key industries employing welfare recipients saw large job losses, nationally and in Pennsylvania.
- The PA unemployment rate has decreased since February 2003, but it has not decreased to the levels seen at the end of calendar year 2001. As of October 2004, the seasonally adjusted PA unemployment rate was 5.5 percent.

Commonwealth of Pennsylvania
Governor's Budget Office

**Governor's Mid-Year
Budget Briefing
for FY 2004-05**

December 14, 2004

Edward G. Rendell
Governor