

*2006-07 Enacted Budget*

*Commonwealth of Pennsylvania*

*July 2006*

**2006-07 Enacted Budget**  
**July 2006**

***Edward G. Rendell***  
***Governor***

## 2006-07 Enacted Budget Highlights

*The 2006-07 budget invests in our children, promotes job creation, increases our state's global competitiveness and preserves the social safety net that protects the elderly, disabled and other Pennsylvanians in need.*

- The 2006-07 General Fund budget is \$26.1 billion, an increase of \$1.4 billion, or 5.8 percent, over 2005-06.
- In the budget, \$760 million, or more than half, of the \$1.4 billion increase in General Fund expenditures is for education.
- If increases for education, public welfare and legally mandated debt service are excluded from the \$1.4 billion growth in spending, all other spending increases by only 1.1 percent.
- The budget increases the balance of the Rainy Day Fund by 50 percent – an increase of \$171 million to a new balance of \$512 million.
- The budget has no new taxes or tax increases and includes \$297 million in business tax cuts and a \$25 million tax break for Pennsylvanians making contributions to qualified Tuition Account Programs.
- The budget re-invests savings realized through innovation and increased efficiency by eliminating waste and improving government operations, with \$841 million in annual savings achieved in 2005-06 and more than \$1 billion projected in 2006-07.
- The budget includes \$25 million to rebuild bridges and communities devastated by the June 2006 flooding.

## Major Initiatives in the 2006-07 Budget

- **Education:** A \$635 million, or 7.8 percent, increase in funding for educational programs
- Historic level of investment in PA **libraries** - \$75.5 million
- **Cover All Kids:** Affordable health insurance coverage for all uninsured Pennsylvania children
- **PACE Plus Medicare:** Prescription drug coverage for an additional 120,000 seniors
- **World Trade PA:** \$15 million to increase Pennsylvania's competitiveness worldwide
- An additional \$130 million to continue **improvements to Pennsylvania's highways and bridges**
- Nearly 320 **additional state troopers** to support public safety.

## 2006-07 Business Tax Cuts

- More than \$297 million in new business tax cuts, for a cumulative total of \$1.1 billion in business tax cuts during the Rendell administration. In 2006-07, these cuts include:
  - **Capital Stock and Franchise Tax** – accelerates the phase-out by one-tenth of a mill (\$21.7 million) to lower the rate to 4.89 mills, creates an exemption for single-member Restricted Professional Companies (\$7.2 million) and expands the exemption to \$150,000 (\$1.6 million) for a total reduction of \$249.4 million in 2006-07
  - **Research and Development Tax Credit** – A \$40 million total credit, an increase of \$10 million
  - **Net Operating Loss carry-forward** – A \$7.3 million tax cut, by increasing the cap from \$2 million to \$3 million per year or 12.5 percent of taxable income

## National Growth in General Fund Budgets

*As of July 10, 2006, across all 48 states with enacted budgets for the fiscal year beginning July 1, 2006, twenty-three states enacted budgets that exceeded Pennsylvania's 5.8 percent rate of growth between fiscal years. The average spending increase in all states with enacted budgets, compared to the prior year, is 7.0 percent.*

Alabama	10.2%	Louisiana	0.02%	Ohio	2.7%
Alaska	10.1%	Maine	1.4%	Oklahoma	12.0%
Arizona	16.9%	Maryland	9.7%	Oregon	0.0%
Arkansas	6.1%	Massachusetts	5.6%	<b>Pennsylvania</b>	<b>5.8%</b>
California	9.2%	Michigan	N/A	Rhode Island	2.5%
Colorado	6.0%	Minnesota	0.0%	South Carolina	8.7%
Connecticut	5.7%	Mississippi	8.4%	South Dakota	1.2%
Delaware	7.8%	Missouri	8.3%	Tennessee	6.2%
Florida	6.3%	Montana	-0.1%	Texas	N/A
Georgia	4.5%	Nebraska	7.0%	Utah	9.6%
Hawaii	15.6%	Nevada	6.8%	Vermont	5.7%
Idaho	5.0%	New Hampshire	1.3%	Virginia	11.0%
Illinois	4.6%	New Jersey	9.7%	Washington	3.3%
Indiana	2.6%	New Mexico	8.6%	West Virginia	1.4%
Iowa	5.4%	New York	9.2%	Wisconsin	5.8%
Kansas	0.8%	North Carolina	9.7%	Wyoming	47.4%
Kentucky	3.5%	North Dakota	5.0%	<b>Average</b>	<b>7.0%</b>

# 2005-06 Supplemental



## 2005-06 Supplemental Appropriations

(Dollar Amounts in Thousands)

2005-06 Available

Executive Offices.....	\$ 2,023
Community and Economic Development.....	\$ 8,454
Corrections.....	\$ 12,000
Education.....	\$ 1,580
Public Welfare.....	\$306,447
Pennsylvania Emergency Management Agency.....	\$ 75
Legislature.....	\$ 2,000
Judiciary.....	\$ 9,818
<b>Total Supplemental Appropriations. . . . .</b>	<b>\$342,397</b>

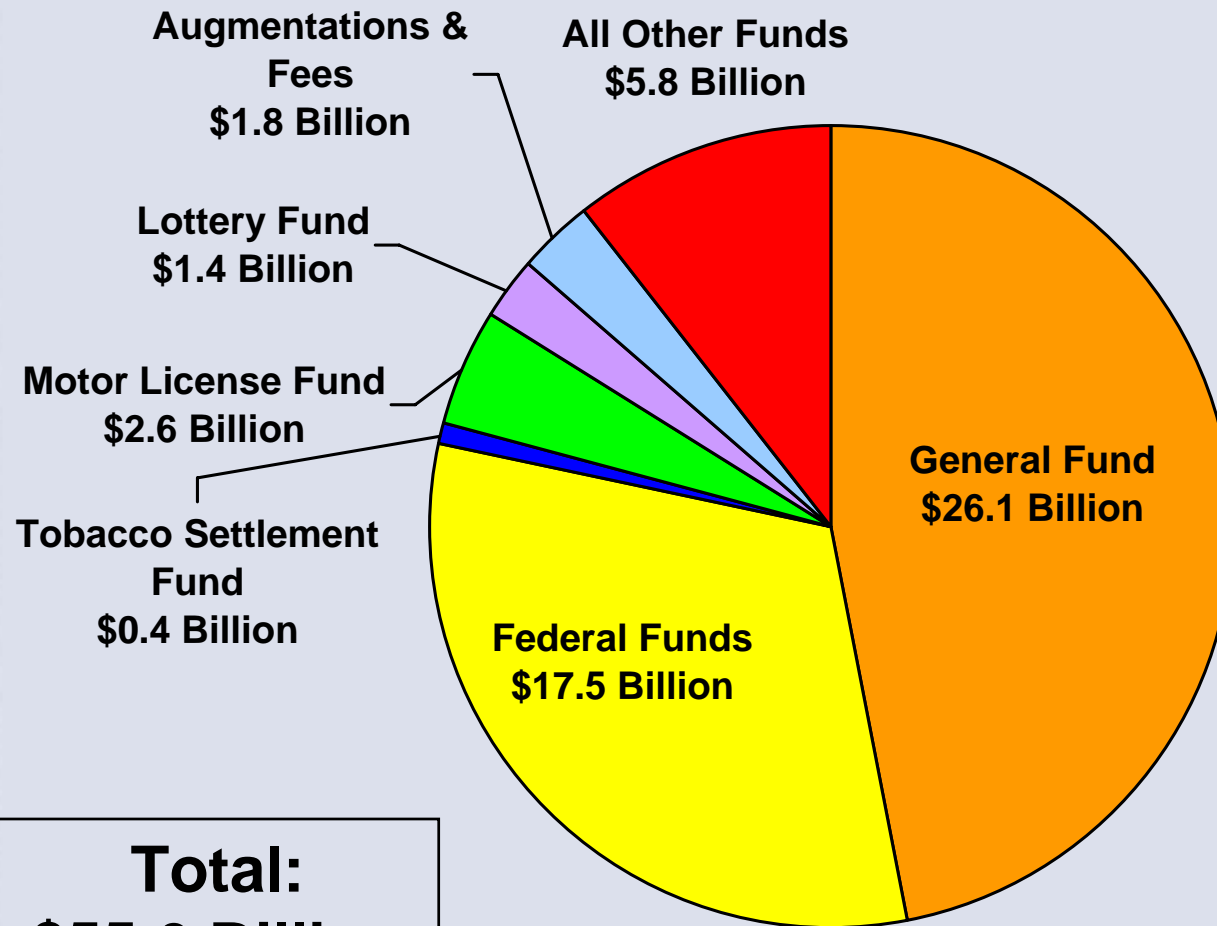
### Previously Enacted Funding

Law Enforcement and Emergency Response Personnel Death Benefits . . . . .	\$ 1,632
Low-Income Home Energy Assistance . . . . .	\$ 19,300
Volunteer Company Grants . . . . .	\$ 25,000
Full-Time District Attorney County Reimbursement....	\$ 5,063
Homeowners Emergency Mortgage Assistance .....	\$ 3,000
Merchant Marines World War II Veterans Home.....	\$ 500

# 2006-07 Budget Overview



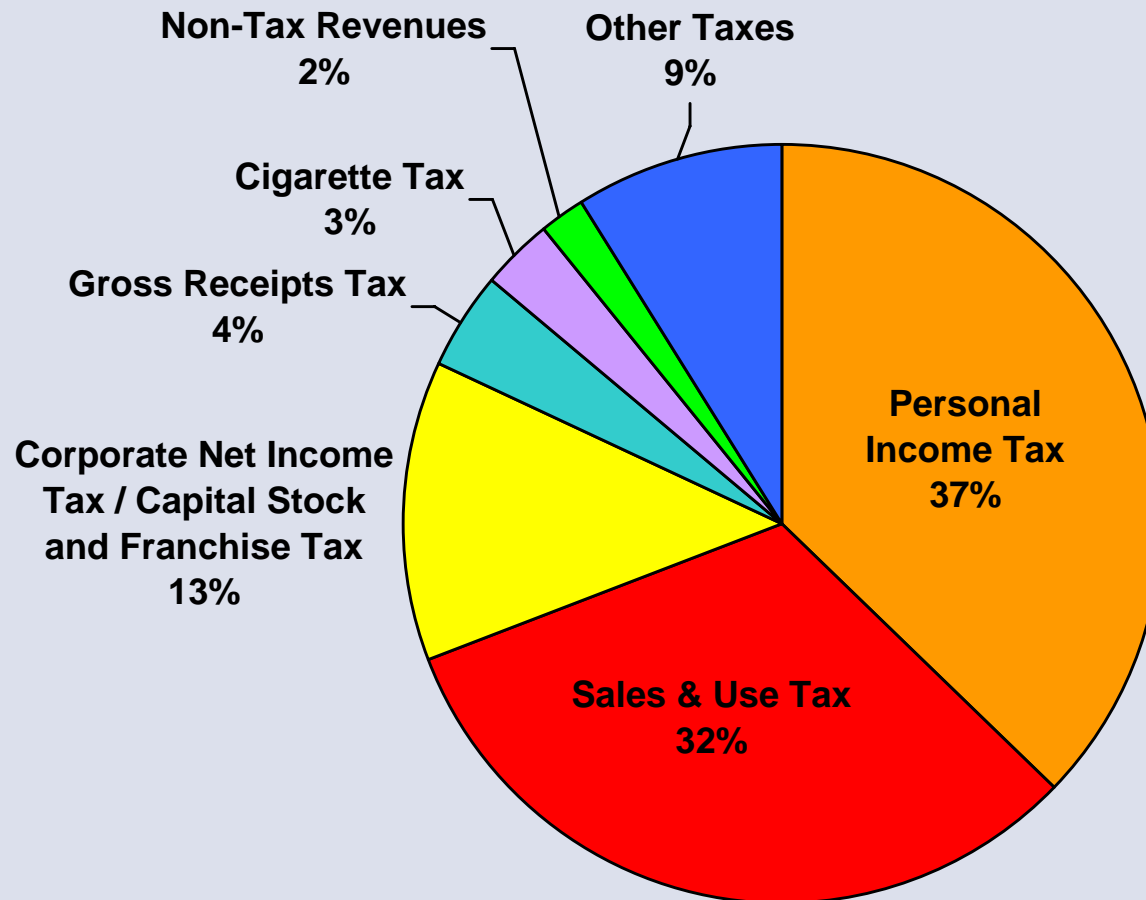
## 2006-07 Total Operating Budget



The total Fiscal Year 2006-07 operating budget, including all commonwealth funds, is \$55.6 billion. The General Fund represents 47 percent of this amount.

**Total:**  
**\$55.6 Billion**

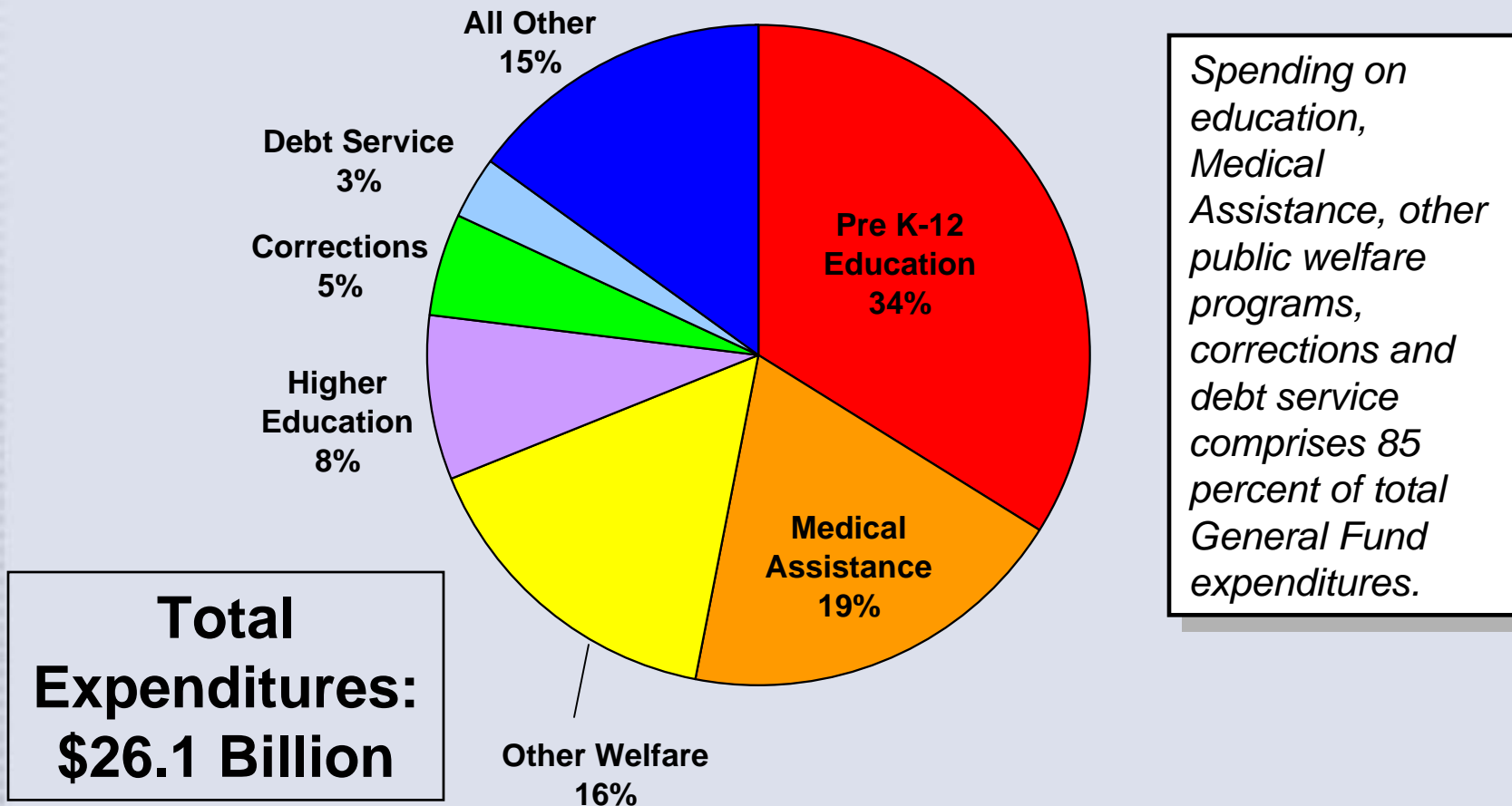
## 2006-07 General Fund Revenue Sources



*More than two-thirds (69 percent) of General Fund revenues are derived from the personal income tax and the sales & use tax.*

## 2006-07 General Fund Expenditures

The General Fund budget increases state spending by \$1.4 billion, or 5.8 percent, from \$24.7 billion in 2005-06 to \$26.1 billion in 2006-07.



## 2006-07 General Fund Financial Statement

	\$ Millions		
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
	Actual	Available	Budget
Beginning Balance . . . . .	\$ 77	\$ 365	\$ 514
Receipts . . . . .	23,309	24,819	25,605
Prior Year Lapses . . . . .	<u>97</u>	<u>166</u>	<u>. . . .</u>
Funds Available . . . . .	\$ 23,483	\$ 25,350	\$ 26,119
Expenditures . . . . .	\$ - 23,054	\$ - 24,338	\$ - 26,114
Supplemental Appropriations . . . . .	. . . .	-343	. . . .
Current Year Lapses . . . . .	. . . .	16	. . . .
Preliminary Balance . . . . .	<u>\$ 429</u>	<u>685</u>	<u>\$ 5</u>
Transfer To Rainy Day Fund . . . . .	<u>-64</u>	<u>-171</u>	<u>- 1</u>
Ending Balance . . . . .	<u><u>\$ 365</u></u>	<u><u>\$ 514</u></u>	<u><u>\$ 4</u></u>

# Making Government Work Smarter

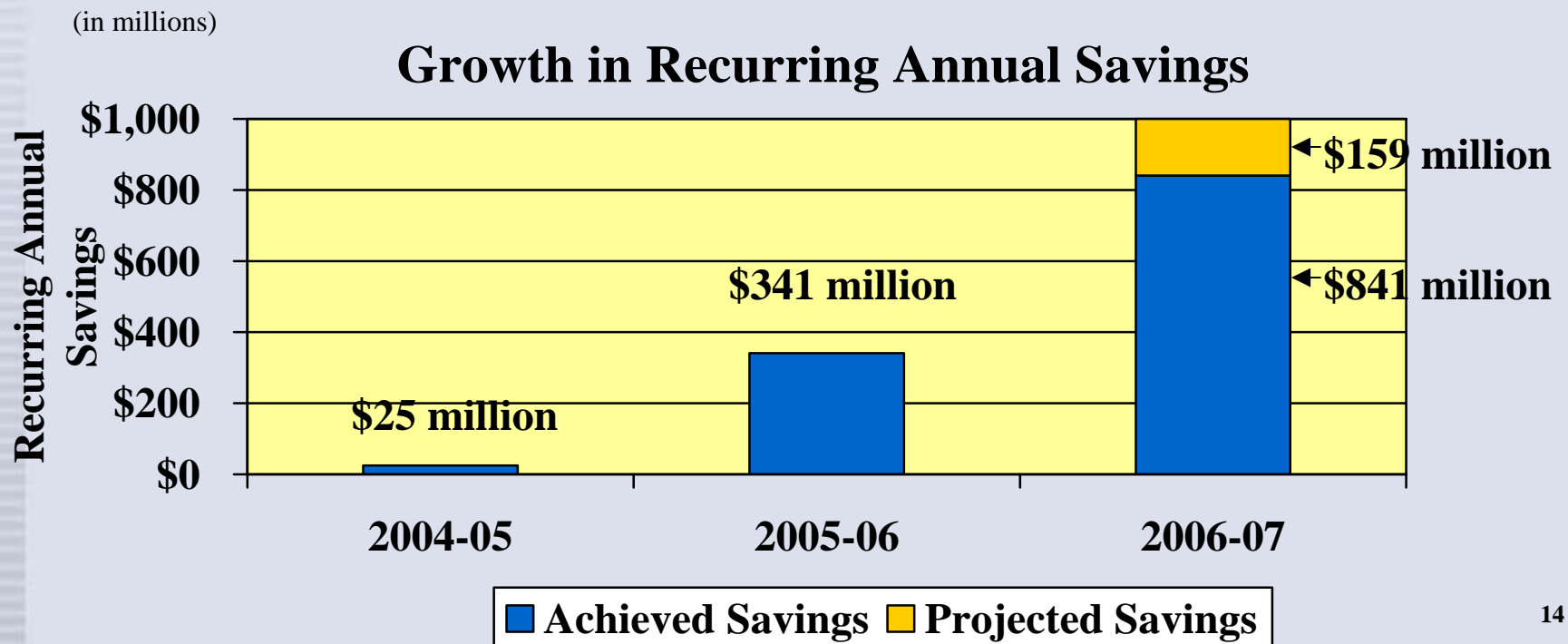
Lowering the Cost of Government  
Administration by \$1 Billion a Year

# Making Government Work Smarter

*Reaching Governor Rendell's Goal to Remove \$1 Billion*

*Annually from the Cost of State Government*

Governor Rendell pledged to cut the cost of government and change the way the commonwealth works. The results of those efforts are impressive. In just three years, by developing new business practices and focusing on innovation and efficiency throughout the government, this administration has already generated recurring savings totaling \$841 million, and is on target to meet Governor Rendell's goal of reducing the cost of state government by \$1 billion by 2006-07.





# Making Government Work Smarter

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

## Increasing Savings: Department of Public Welfare

- ✓ Pharmacy Savings (\$51M)
- ✓ Pharmacy Reimbursements (\$32M)
- ✓ Collecting Money Owed from Private Insurance Companies (\$16M)
- ✓ Fraudulent Claims Denied (\$16M)
- ✓ Using Electronic Payments Instead of Paper Checks (\$2M)

## Creating A More Efficient Government

- ✓ Reducing Fleet Costs (\$33M)
- ✓ Get Healthy Initiative (\$18M)

## Generating New Revenues

- ✓ Revenue Increases from Consumer-Oriented Business Practices at the Liquor Control Board (\$34M)
- ✓ Expanded Lottery Venues (\$8M)

# 2006-07 Budget Highlights

# Education

## Investing In Pennsylvania's Future

*The 2006-07 budget increases total state education funding by more than \$635 million, or 7.8 percent. Since 2002-03, the Rendell Administration has boosted investments in education by \$1.8 billion, or more than 26 percent.*

- \$269 million increase (6 percent) in **Basic Education Funding** - \$4.8 billion in total. This increase continues the foundation-based funding supplement to help school districts where per-student spending is inadequate to deliver a quality education.
- \$27.6 million increase (3 percent) in **Special Education Funding** - \$981 million in total.
- \$250 million, a \$50 million increase, for the third year of the **Accountability Block Grants**. These grants help nearly 80,000 students benefit from pre-kindergarten, full-day kindergarten, reduced class size and tutoring.
- \$40 million, a 33 percent increase in state funding for **Head Start** pre-kindergarten classrooms, to serve 5,750 children.
- *Job Ready PA*: \$66 million for **tutoring** in the most academically challenged school districts.
- *Job Ready PA*: \$12.6 million increase for **community colleges**.

## Transforming Pennsylvania's High Schools

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

- *Job Ready PA: \$8 million for dual enrollment programs that let high school students earn college credit while they complete their graduation requirements.*
- *Job Ready PA: \$8 million to transform Pennsylvania's high schools through **Project 720**, the state's high school improvement initiative.*
- *Reinvigorating College and Career Counseling: \$3 million for school districts to upgrade their career and counseling programs.*
- *Accountability for Results: \$2 million to make school-leader accountability a reality through annual incentive bonuses for meeting targets for increasing student learning in math and reading.*
- *Improving Teacher Quality: \$1.2 million to help 500 Pennsylvania teachers earn National Board certification.*

## Investing In Pennsylvania's Future

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

- **\$10 million - Science: It's Elementary.** Provides hands-on learning equipment and intensive teacher training to elementary schools that commit to upgrading their science curriculum. Makes every Pennsylvania student a scientist in the classroom and gives school districts access to a strategy that has been proven to lead not just the nation but also the world.
- **\$20 million - Classrooms for the Future.** Makes every high school classroom in the Commonwealth a high-tech center of learning. Through a multi-year initiative, every high school classroom in the four core subjects will have an Internet-equipped laptop computer on each student desk and multi-media technology at the teacher's fingertips.
- **\$4 million** for technology professional development for Pennsylvania teachers and school leaders.
- **\$3.7 million - From the Classroom to the Board Room.** Expands the *New Economy Technology Scholarship Program* to 500 more college students and raises the maximum annual grant to \$4,000. The current program provides grants of up to \$3,000 a year for three years to students pursuing college degrees in computers, math and science who commit to work in Pennsylvania after graduation.

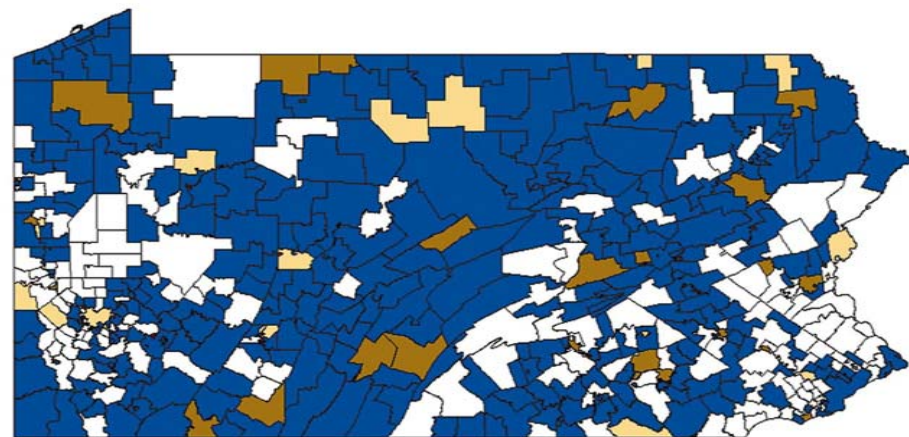


## Investing In Pennsylvania's Future *Early Childhood Education Funding*

*Pennsylvania is moving from near-last among the 50 states to becoming a key investor in early childhood education. These investments will continue in 2006-07 – highlighted by a 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 29<sup>th</sup> to 23<sup>rd</sup> 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.

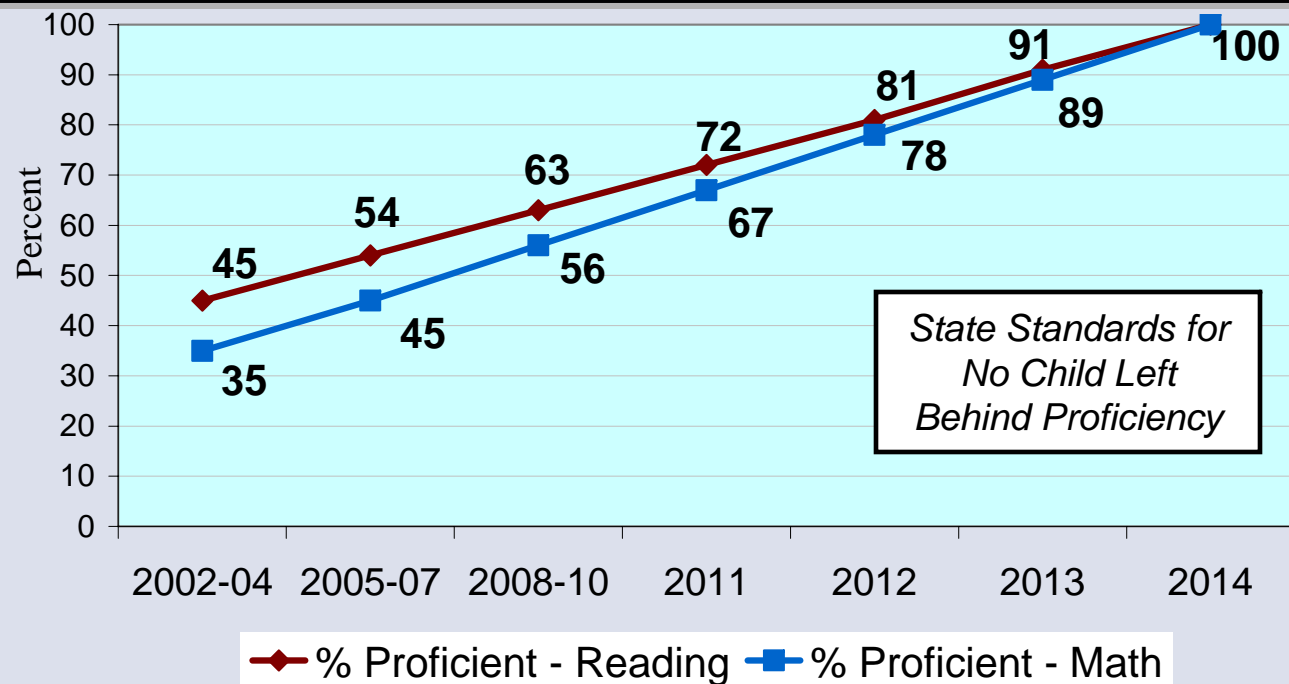


**Accountability Block Grant**  
**Early Childhood Education**  
■ PreK and Full-Day K  
■ Full-Day Kindergarten  
■ Pre-Kindergarten

# 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 has increased from 53 percent of our students in 2002 to 69 percent last year, while the number of fifth-graders meeting standards in reading is up 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 13<sup>th</sup> in 2002 to 9<sup>th</sup> in 2005.*

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



# Higher Education in the 2006-07 Budget

*Pennsylvania is making significant investments in higher education funding in the 2006-07 budget.*

Higher education funding includes:

5.0% increase for the <b>Community Colleges</b> . . . . .	\$ 264.7 M
5.0% operating increase for <b>State System of Higher Education</b>	\$ 487.9 M
4.5% operating increases for the <b>State-Related Universities</b>	
Penn State University . . . . .	\$ 327.8 M
University of Pittsburgh . . . . .	164.6 M
Temple University . . . . .	169.5 M
Lincoln University . . . . .	13.5 M
Total – State-Related Universities . . . . .	\$ 675.4 M
4.9% increase for the <b>Pennsylvania Higher Education Assistance Agency’s Grants to Students</b> program . . . . .	\$ 386.2 M
119.4% for <b>SciTech Scholarships</b> . . . . .	\$ 6.8 M
Expansion of clinical education opportunities and student retention activities to address a projected <b>shortage of nurses</b>	\$ 7.5 M

## Historic Level of Support for Public Libraries in the 2006-07 Budget

(amounts in thousands)

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

The 2006-07 budget includes a 23 percent increase in the Public Library Subsidy – to \$75.5 million. This is the greatest amount ever appropriated by the commonwealth in support of public libraries, enabling Pennsylvania to retain its rank as a national leader in state support of public libraries.

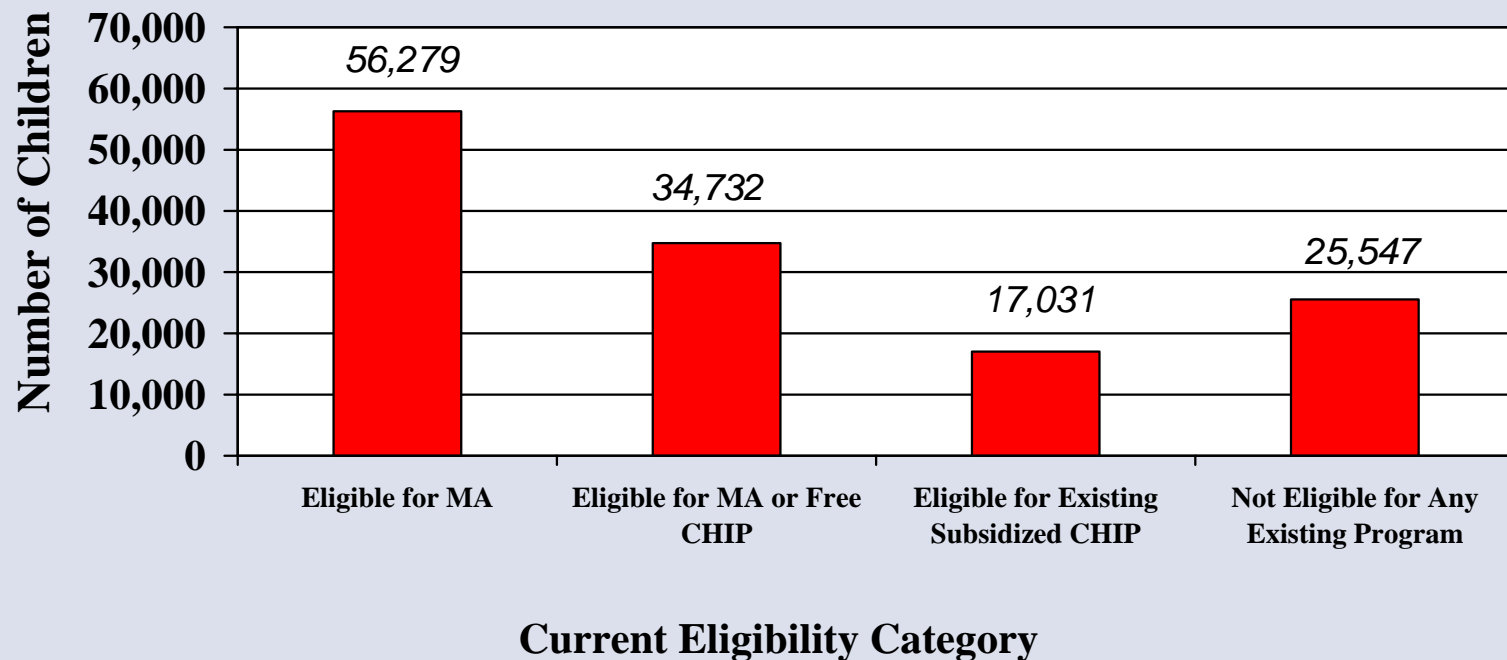
# Caring for Pennsylvanians in Need



## Cover All Kids

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

### Pennsylvania's Uninsured Children





## Cover All Kids: The Basics

*Cover All Kids, a new state program, will guarantee access to affordable, comprehensive health care coverage for all uninsured children in Pennsylvania. In 2006-07 Cover All Kids will insure nearly 15,000 additional children at a cost of \$14.6 million in state and federal funds.*

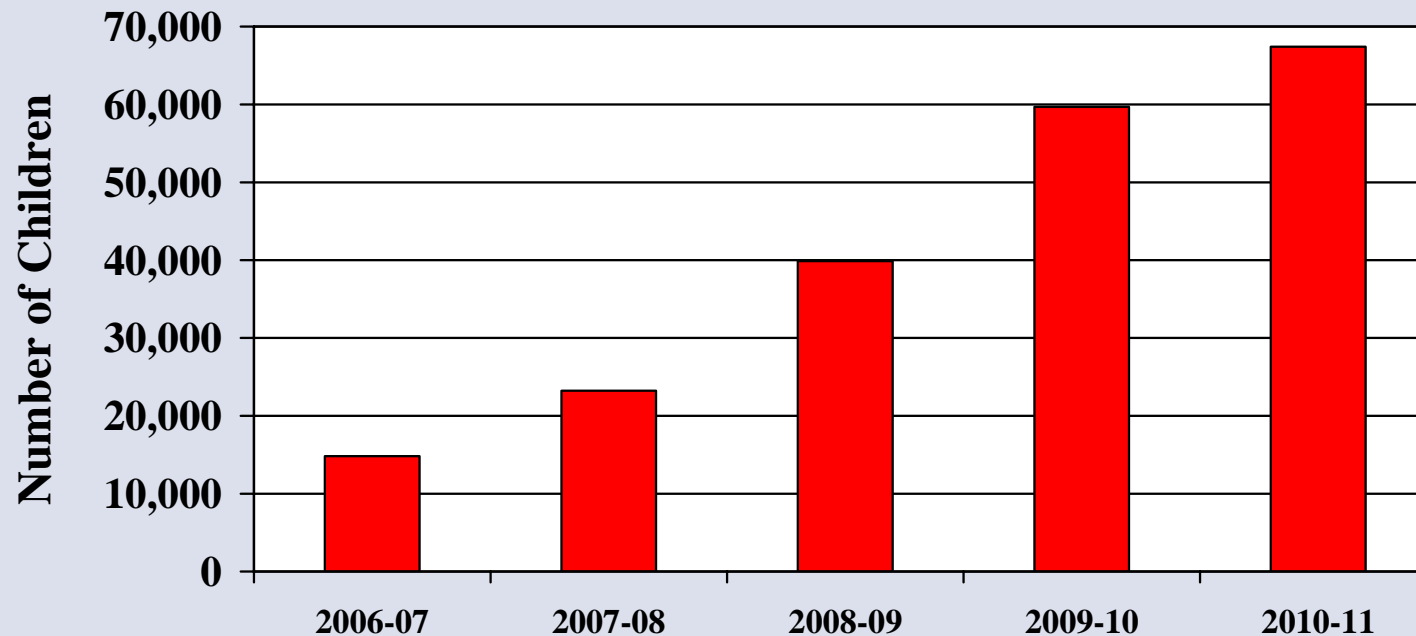
### Cover All Kids will:

- 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 350 percent of the federal poverty level (\$70,000 for a family of four). Family premiums will range, on average, between \$23 and \$32 per month per child.
- Offer at-cost coverage for children in families whose income exceeds 350 percent of poverty (on average, \$143 per month per child).
- Begin January 1, 2007, assuming legislative and federal approval.

# Cover All Kids: Projected Program Growth

*Cover All Kids will enroll nearly 15,000 uninsured children in 2006-07, growing to nearly 70,000 currently uninsured children within five years. These increases will be achieved through enhanced outreach efforts, federally approved increases in income eligibility for subsidized coverage and new opportunities for higher-income families to purchase health care coverage at cost.*

## Cover All Kids Additional Insured Children



# **Guiding Principles for Preserving and Reforming the Safety Net**

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

## Caring for All Pennsylvanians

### Additional People Served in 2006-2007 (Projections)

Medical Assistance	55,451
Children in Child Welfare System	5,706
Children in Child Care	20,235
Community Mental Retardation Programs	885
Behavioral Health Community Programs	498
Children's Health Insurance Program (CHIP) <i>(Including Cover All Kids)</i>	17,118
Uninsured Working Pennsylvanians (adultBasic)	6,175
PACE Plus Medicare	120,000
<i>Prescription Drug Coverage for Older Pennsylvanians</i>	

## Caring for All Pennsylvanians

*The 2006-07 budget includes \$89 million to increase services for children, adults and families in need. In addition, this budget expands the Behavioral Health HealthChoices program, which will provide managed mental health and substance abuse services to more than 72,300 additional Medical Assistance recipients in 2006-07.*

- \$1.7 million to provide **breast and cervical cancer screening** for 4,209 additional low-income, high-risk women ages 40 to 49.
- \$5.5 million to provide **subsidized child care services** to 1,861 additional low-income families – a total state investment of \$107.7 million.
- \$22 million to provide **early intervention services** for 5,537 additional children from birth through age five – a total state investment of \$242.8 million.
- \$6.3 million to allow **more children to be adopted** and to continue to provide financial assistance to those who have already been adopted – a total state investment of \$55.2 million.

## Caring for All Pennsylvanians

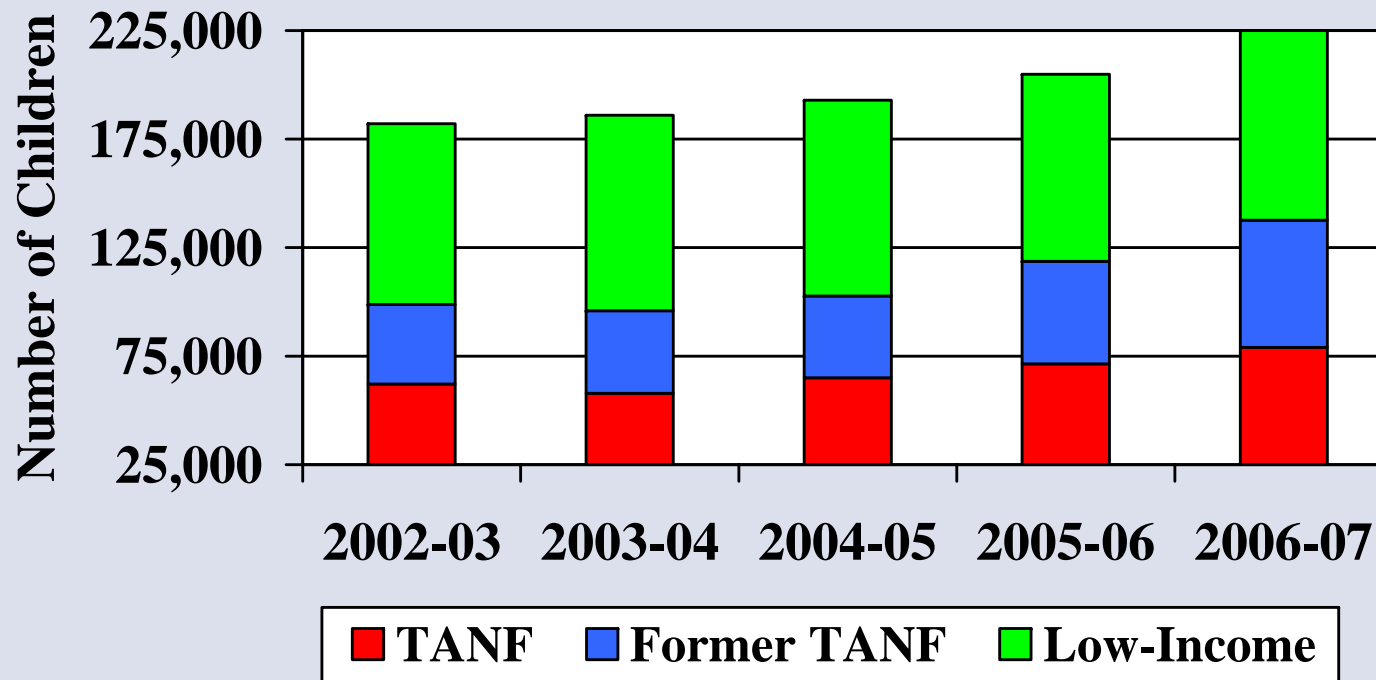
- \$3 million to **expand quality early learning experiences** to 21,000 additional children through the Keystone STARS Program – a total investment of \$35.7 million.
- \$28.3 million to provide **child care services** to 15,000 additional children in TANF and former TANF **families who are moving from welfare to work**– a total state investment of \$157 million.
- \$16.8 million to provide **home and community-based services** to 806 additional **people with mental retardation** and to address new federal requirements – a total state investment of \$789.6 million.
- \$5.5 million to provide **subsidized health care insurance** for 6,165 additional **uninsured working adults** – a total investment of \$166 million.



## 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 182,000 to 225,000 – an increase of 24 percent. In addition, the 2006-07 budget unifies the commonwealth's child care programs so that families have "one door" for all subsidized child care in their local communities.*

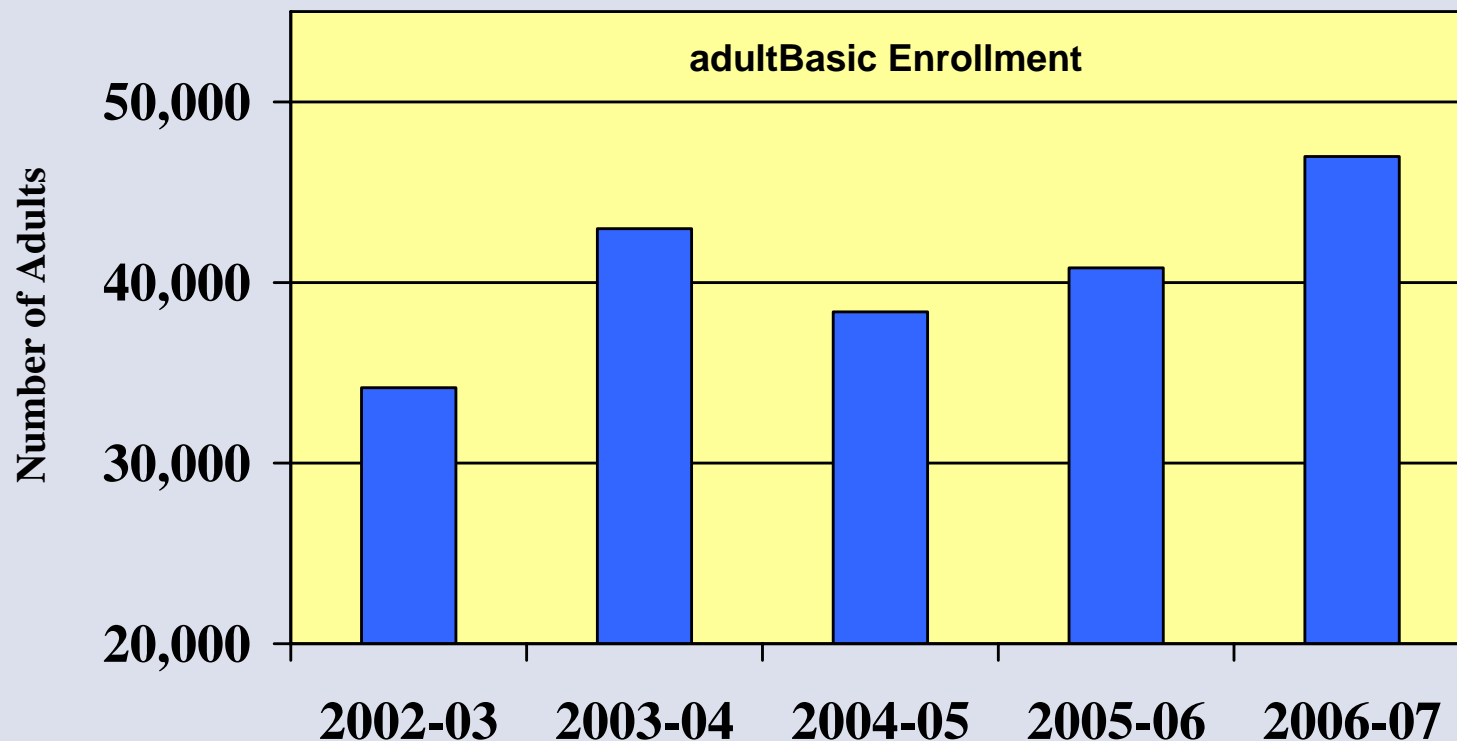
### Pennsylvania Children in Subsidized Child Care



TANF = Temporary Assistance to Needy Families

## adultBasic Program

The 2006-07 budget includes \$5.5 million in additional funding for the adultBasic program, which provides basic health care insurance for low-income working adults. This additional funding will provide health insurance to nearly 6,200 additional low-income working adults. Since the beginning of the Rendell administration, enrollment has grown from 34,171 adults to 46,974 adults – a 37 percent increase. Some of this increase is attributable to an agreement with Pennsylvania's four Blue Cross/Blue Shield plans for an annual commitment of funds, totaling an estimated \$1 billion over six years. This additional funding will provide affordable basic health care coverage for thousands of low-income and uninsured Pennsylvanians.



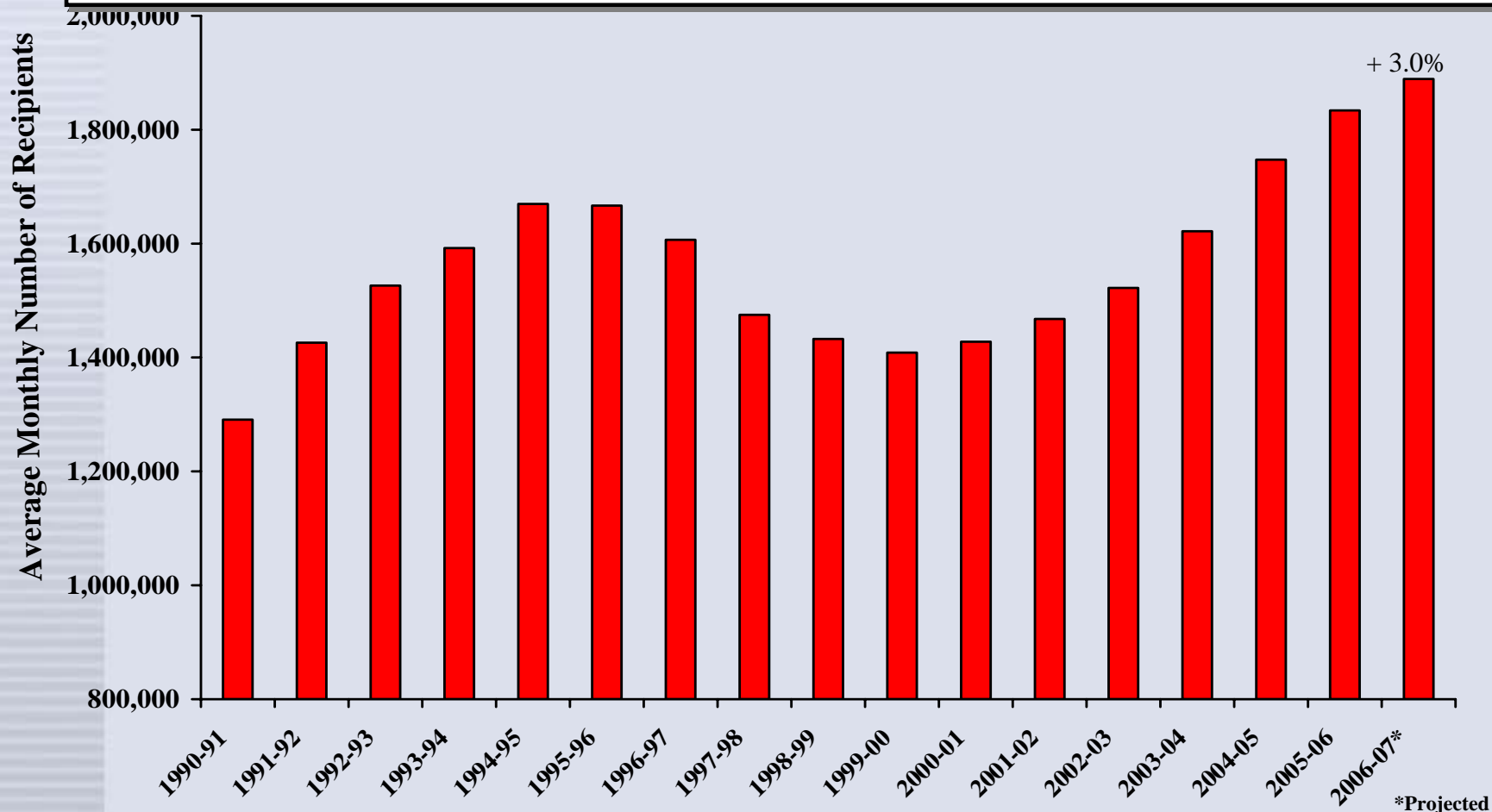
# Medical Assistance

# Medical Assistance in Pennsylvania

- Provides medical care for low-income individuals
  - Children, pregnant women, the elderly and people with disabilities
  - Currently serves nearly 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 exceed \$14 billion
- State-administered but jointly funded with federal and state and county funds

## MA in PA - Serving More People in Need

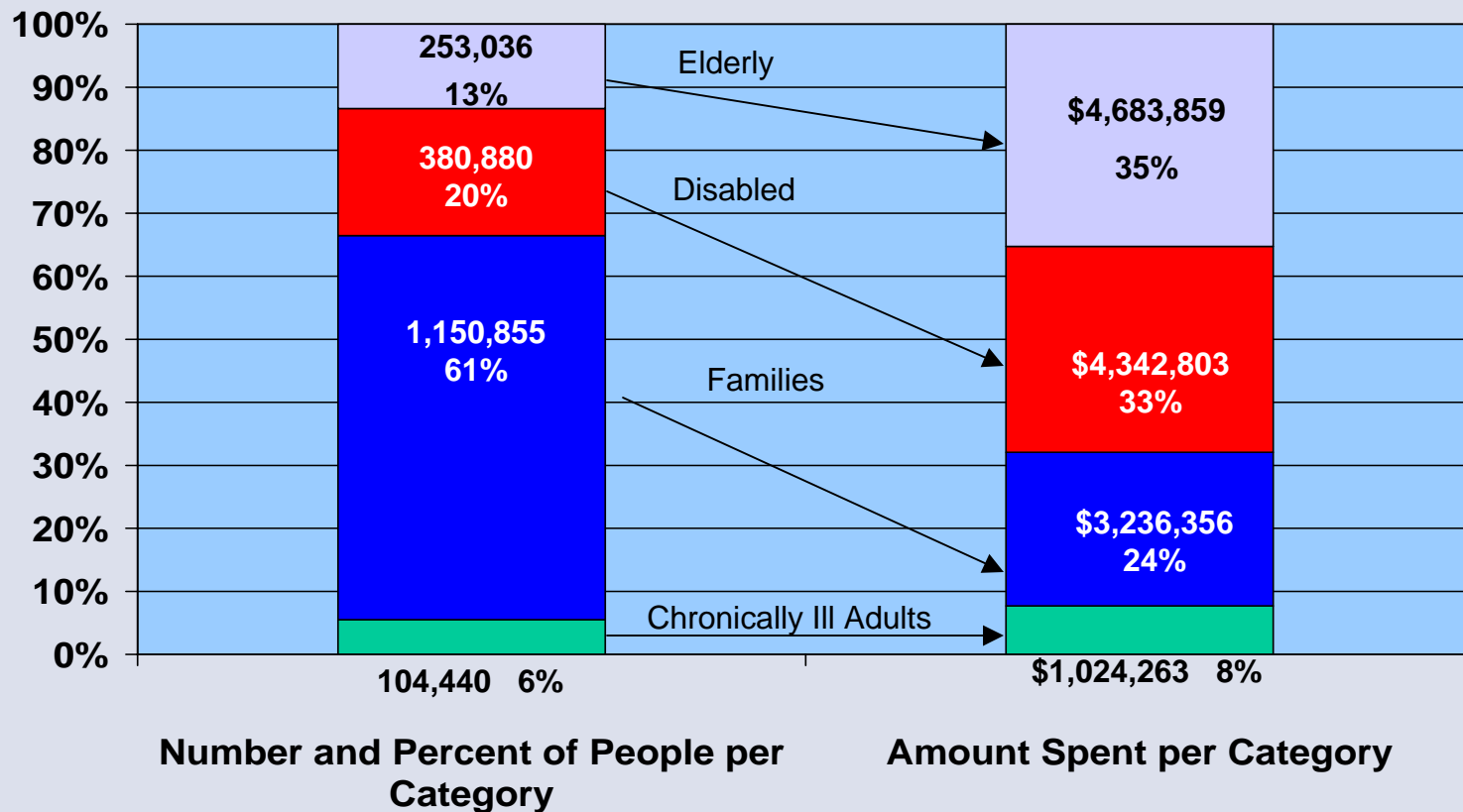
*Advances in health care have made it possible for more people to live longer with chronic diseases and conditions. Many of these people need but cannot afford services to assist them in their daily lives. The commonwealth provides these supports as well as health care services through the Department of Public Welfare's Medical Assistance program.*



\*Projected

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

Medical Assistance Recipients by Category and Cost  
2006-07



(Dollar Amounts in Thousands)



## Increasing Efficiency and Integrity in the Medical Assistance Program

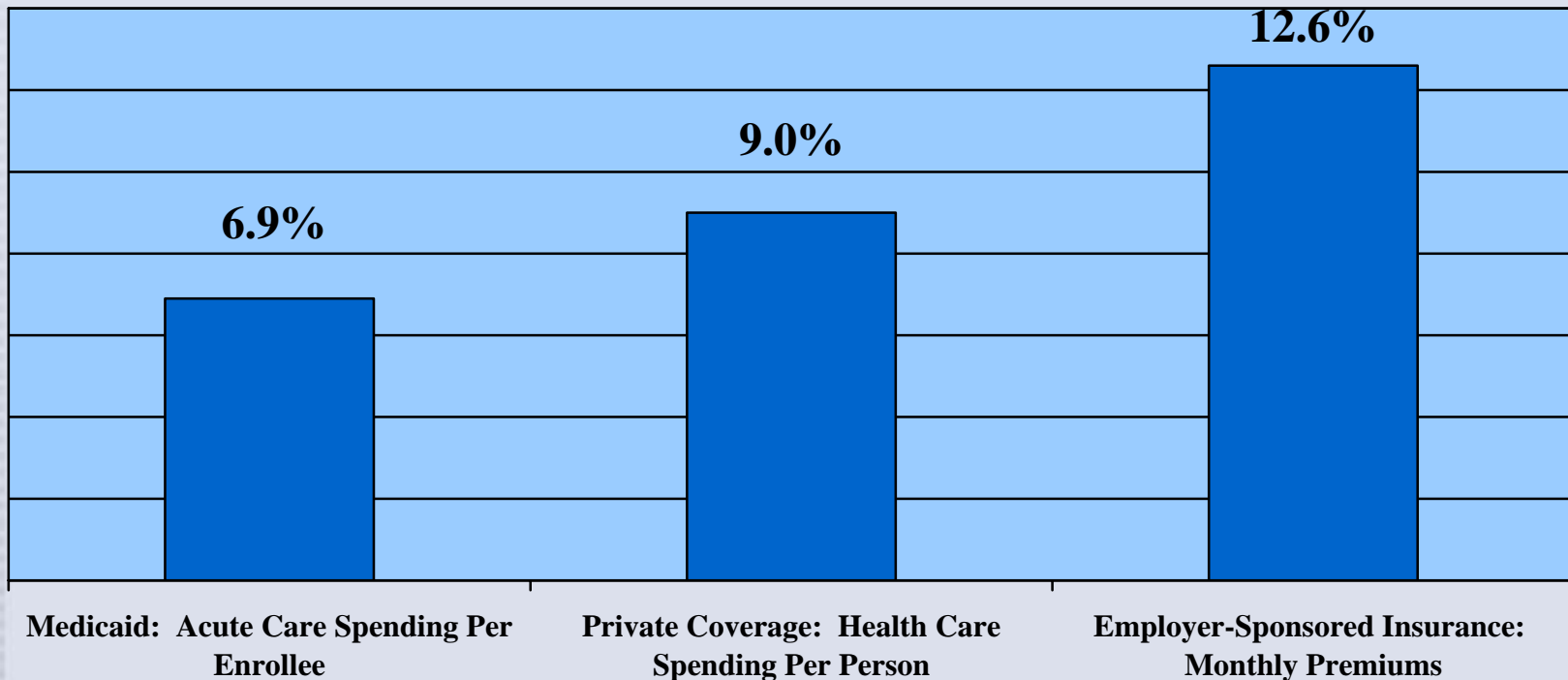
*Building upon the reforms to the commonwealth's safety net initiated in last year's budget, this budget includes additional measures to increase the efficiency and integrity of the Medical Assistance program. These initiatives will result in savings of nearly \$57 million, freeing up those funds to expand other programs that serve Pennsylvanians in need.*

<b>2006-07 Initiatives</b>	<b>State Savings (in Millions)</b>
Implementing Selective Contracting	\$16.8
Improving Oversight of Hospital Utilization	\$13.0
Enhancing Program Management: Prevention of Fraud/Abuse	\$6.5
Enhancing Program Management: Third-Party Liability	\$5.5
Seeking Federal Payments for Veterans in Nursing Facilities	\$5.1
Expanding Federal Reimbursements for County Long-Term Care Costs	\$10.0
<b>Total</b>	<b>\$56.9</b>

# **Medicaid is a National Problem**

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

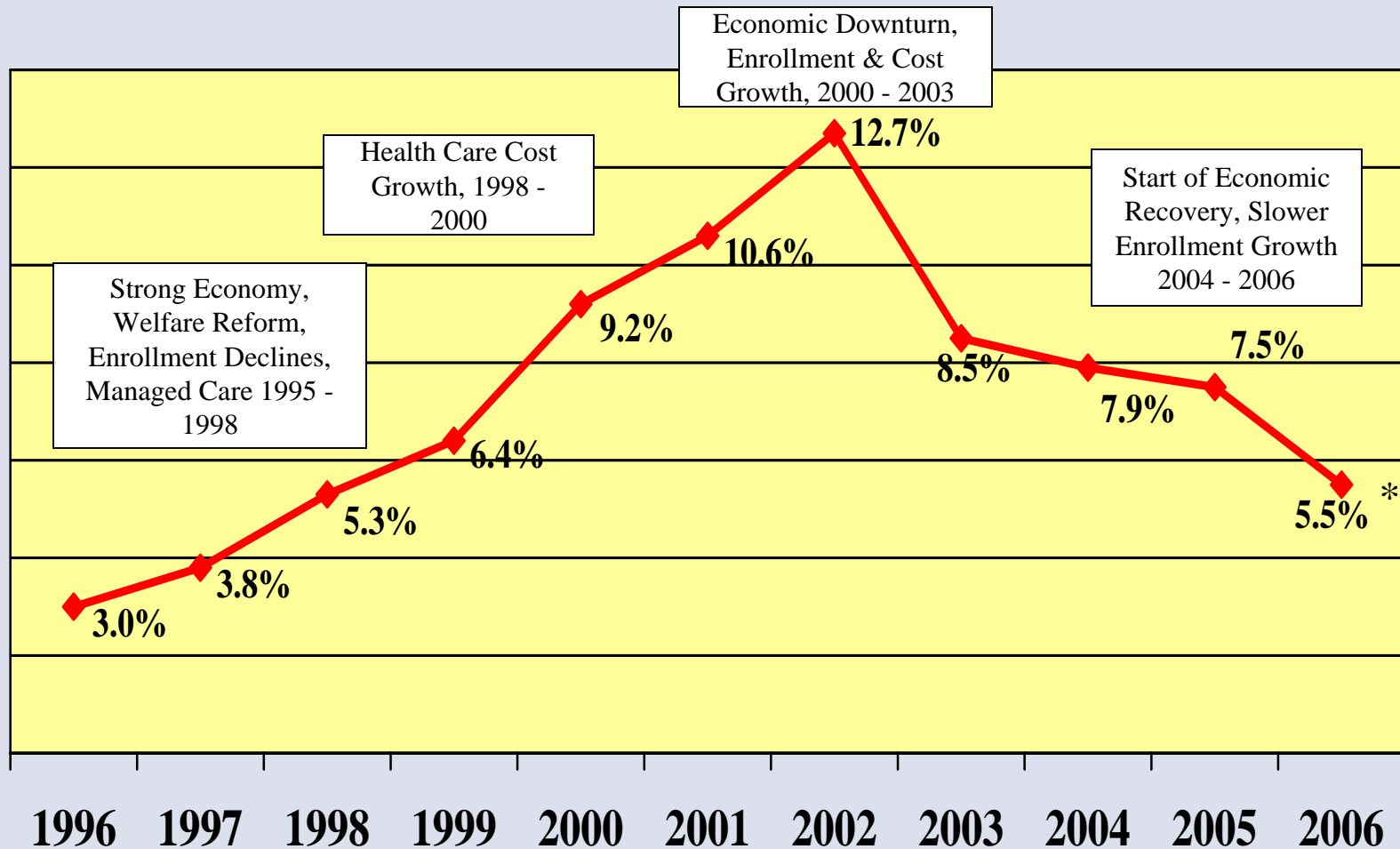
## Per Capita Medicaid Spending Growth in the U.S. Compared to Growth in Private Health Spending, 2000 - 2003



**SOURCE:** Kaiser Commission on Medicaid and the Uninsured. Data from John Holahan and Arunabh Gosh, "Understanding the Recent Growth in Medicaid Spending, 2000 - 2003," Health Affairs Web Exclusive, 26 January 2005

# Medicaid Spending Growth Nationally

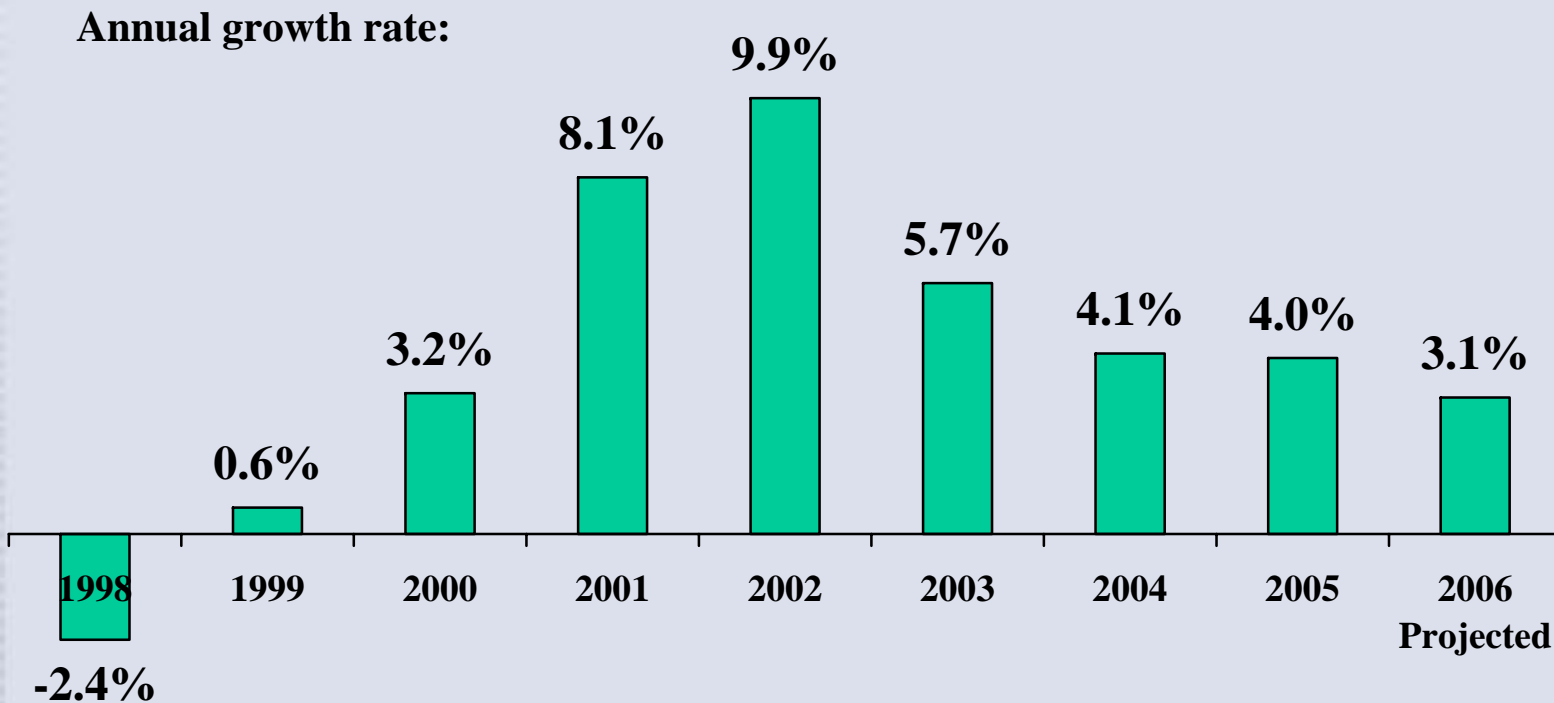
1996 - 2006



**Note:** Estimates in State Fiscal Year. Preliminary estimate for 2006.

**SOURCE:** Kaiser Commission on Medicaid and the Uninsured (KCMU) analysis of Centers for Medicare & Medicaid Services Form 54 Data and KCMU / Health Management Associates State Budget Survey

## Percent Change in U.S. Medicaid Enrollment, FY 1998 – FY 2006



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

**SOURCE:** Health Management Associates estimates based on information provided by state officials.

See: Eileen R. Ellis, Vernon K. Smith and David M. Rousseau,

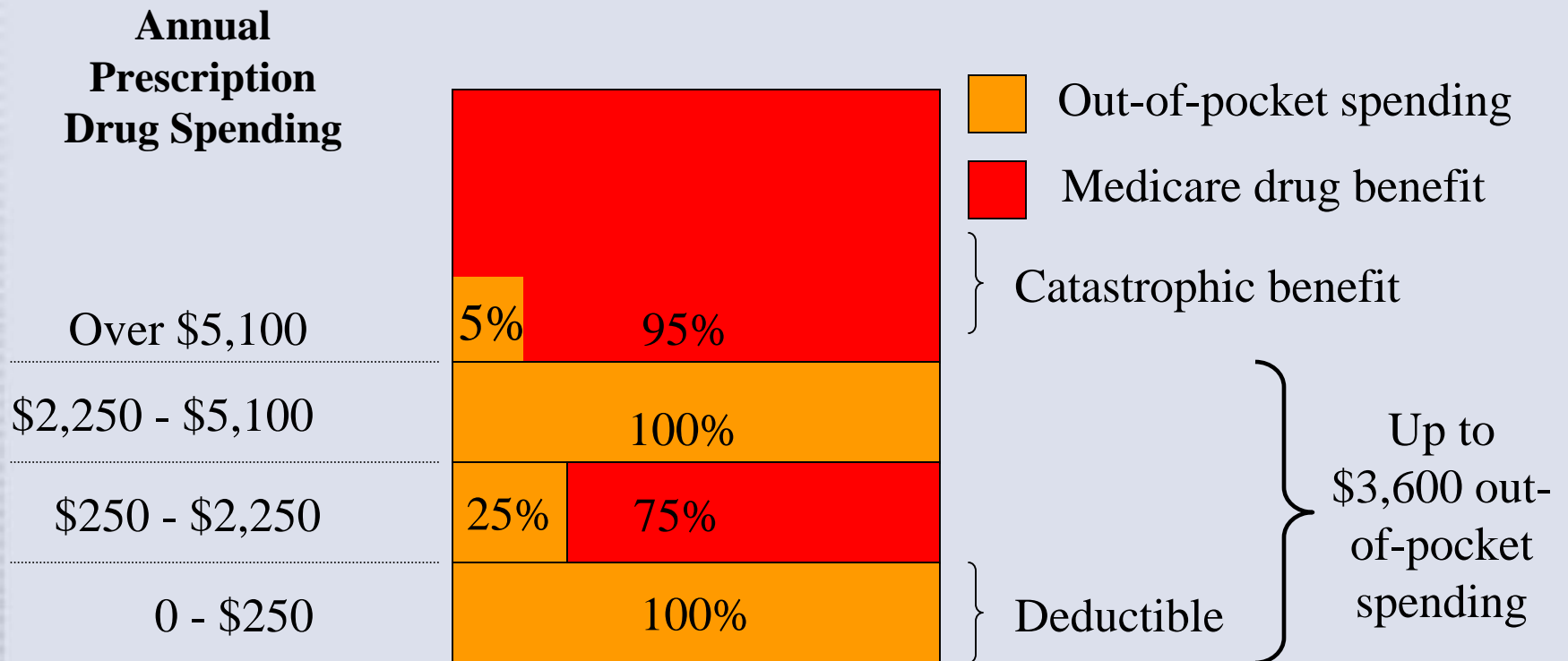
Medicaid Enrollment in 50 States, June 2004 Update, Kaiser Commission on Medicaid and the Uninsured, September 2005.

# Prescription Drug Coverage for Older Pennsylvanians



# Medicare Part D Prescription Drug Program

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



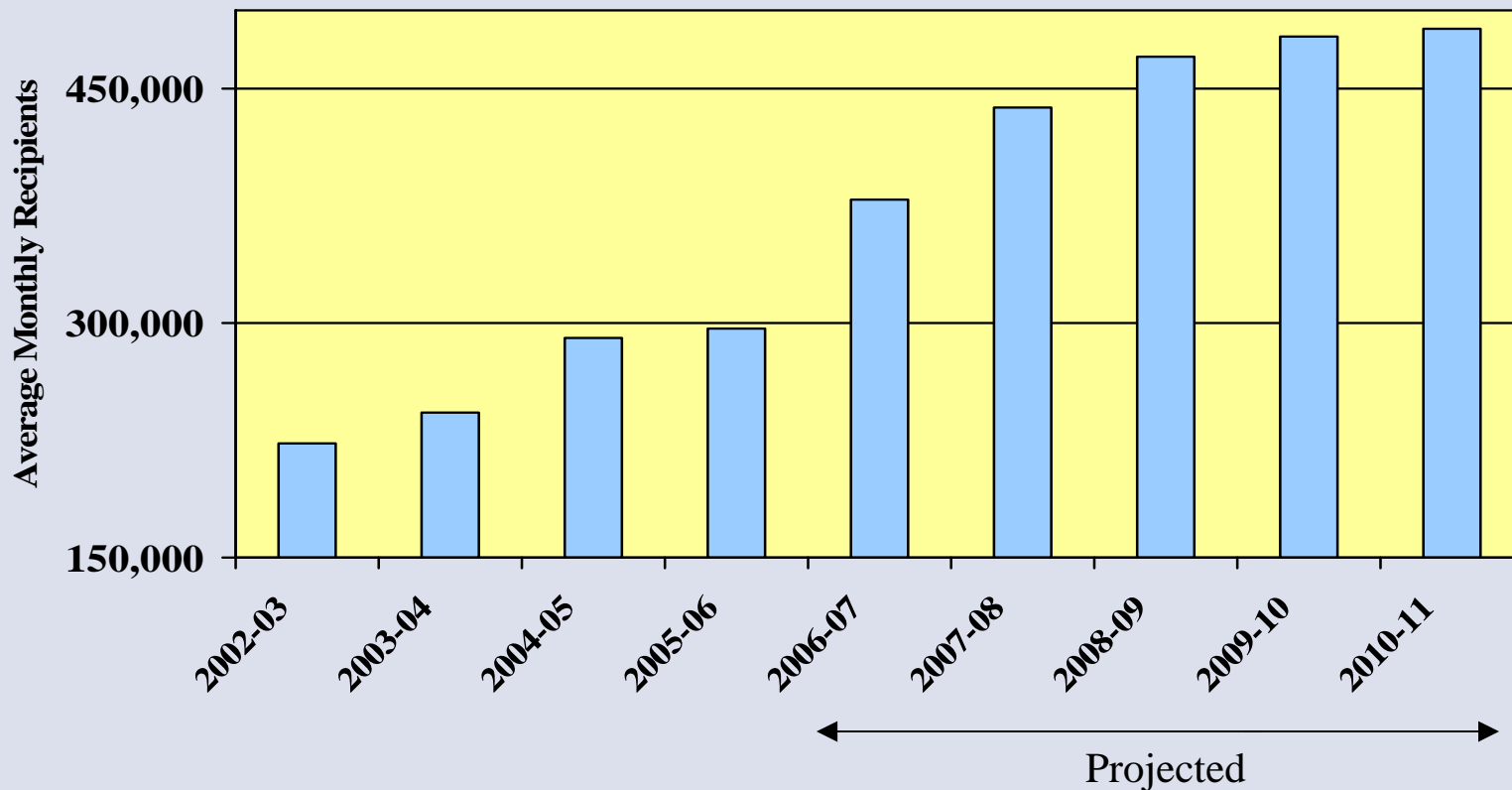
Medicare Part D plans may offer alternative options as long as they are actuarially equivalent.

## ***PACE Plus Wraps Seamlessly Around the Medicare Part D Benefit***

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

## PACE/PACENET Enrollment

The 2006-07 budget provides funding to extend PACE coverage to an additional 120,000 seniors who are currently eligible for but not enrolled in PACE/PACENET, assisting them with coverage gaps in the federal Medicare prescription drug program.



# Long-Term Living

## Providing Consumers With Long-Term Living Choices

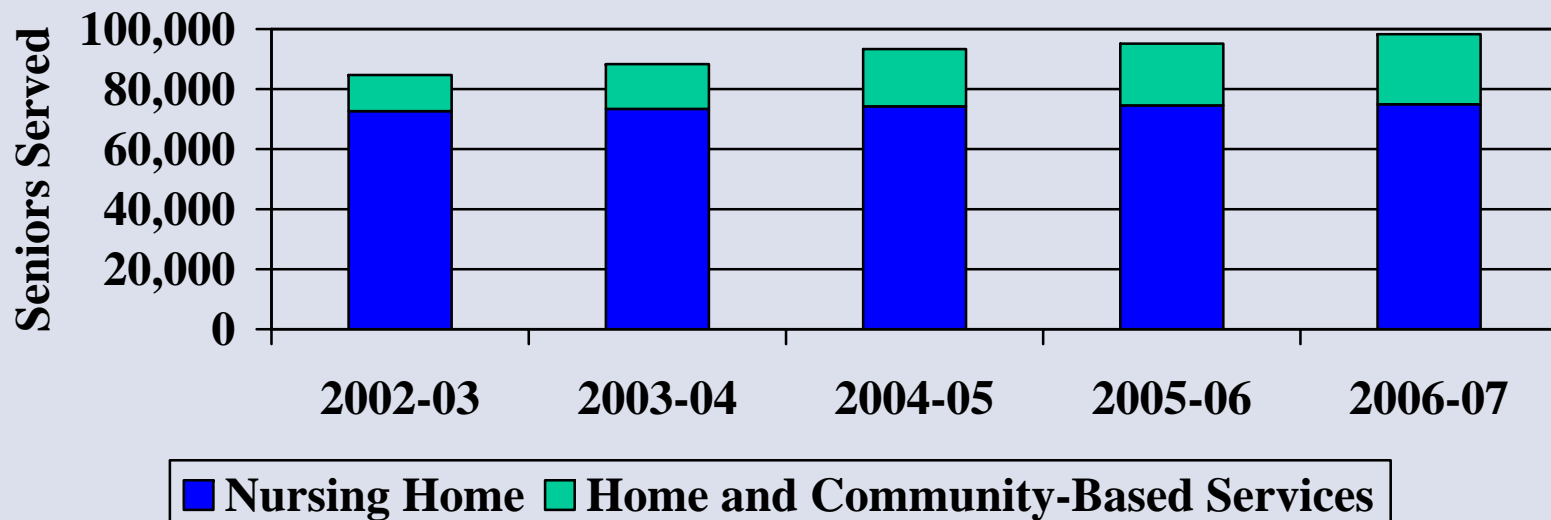
*In the fall of 2005, Governor Rendell established the Long-Term Living Council to develop plans for the future of Medical Assistance long-term living services in the commonwealth, building upon the administration's successes to date in reforming and rebalancing the state's long-term care system. The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

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

# Expanding Long-Term Living Choices for Seniors

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

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





# Promoting Economic Growth, Job Creation and Business Competitiveness

# Improving Pennsylvania's Business Tax Climate and Economic Competitiveness

*In 2006-07, the Commonwealth will lower business taxes by more than \$297 million, raising the total value of business tax cuts since Governor Rendell took office to \$1.1 billion. According to the Washington, D.C.-based Corporation for Economic Development, Pennsylvania advanced in a national ranking from 46<sup>th</sup> to 15<sup>th</sup> for short-term economic growth from 2003 to 2004. Pennsylvania is ranked 16<sup>th</sup> among the 50 states for its overall business tax environment, better than all neighboring states.*

- **World Trade PA:** \$15 million to increase Pennsylvania's global engagement. Create a World Trade PA Operations Center. Attract new foreign direct investment to secure jobs and capital. Leverage global networks from Pennsylvania colleges and universities.
- An acceleration in the phase-out of the **Capital Stock and Franchise Tax** by an additional one-tenth of a mill, creating an exemption for single-member Restricted Professional Companies and expanding the exemption to \$150,000, saving companies a total of \$249.4 million in fiscal year 2006-07.
- An increase the **Research and Development Tax Credit** from \$30 million to \$40 million.
- An increase the annual cap on **Net Operating Losses** from \$2 million to \$3 million or 12.5% of taxable income per year.

# Economic Stimulus Program

*The Rendell administration and the Pennsylvania General Assembly have enacted several pieces of legislation that make up the commonwealth's Economic Stimulus Program, an integrated set of programs in which the commonwealth is investing \$2.3 billion to jump-start Pennsylvania's economy and leverage at least \$5 billion in private investment. Funds are targeted towards the following areas: site preparation, infrastructure and construction, community revitalization and business development.*

- ✓ **Act 12 of 2004**
  - Expanded machinery and equipment loans to make biotech and medical facilities eligible for loans.
  - Created Keystone Innovation Zones (KIZs) to encourage research and development in cooperation with higher education institutions.
- ✓ **Act 22 of 2004** created the Commonwealth Financing Authority to issue economic development bonds to finance several major Stimulus programs.
- ✓ **Act 23 of 2004** established Tax Increment Financing - Multi-year grants to issuing authorities toward payment of debt service on local projects. Grants are based on anticipated sales, hotel occupancy and personal income taxes to be generated.

# Update on the Economic Stimulus Program

(dollar amounts in thousands)

Program	Projects Funded	Funds Committed	Program	Projects Funded	Funds Committed
<b>Infrastructure Projects:</b>			<b>Community Revitalization:</b>		
Business in Our Sites	94	\$253,482	Homeownership Choice	47	\$56,100
PennWorks	41	\$114,780	Hometown Streets	350	\$192,025
Tax Increment Financing	1	\$5,000	<b>Business and Other Private-Sector Investments:</b>		
Infrastructure Facilities Improvement Program	5	\$3,000	First Industries Fund (Agriculture/Tourism)	198	\$31,150
Redevelopment Assistance Capital Program	274	\$804,167	Second Stage Loan Program	2	\$375
<b>Community Revitalization:</b>			Venture Capital Guarantee Program	8	\$31,000
Main Street Downtown Business Renewal	178	\$16,980	Keystone Innovation Zones	33	\$6,365
Elm Street Downtown Residential Renewal	75	\$13,200	Base Realignment and Closures	Multiple Sites	\$4,460
Enterprise Zones	103	\$15,820	<b>TOTAL</b>	<b>1,662</b>	<b>\$1,620,764</b>
Housing and Redevelopment Assistance	253	\$72,860			

## Growing Greener II

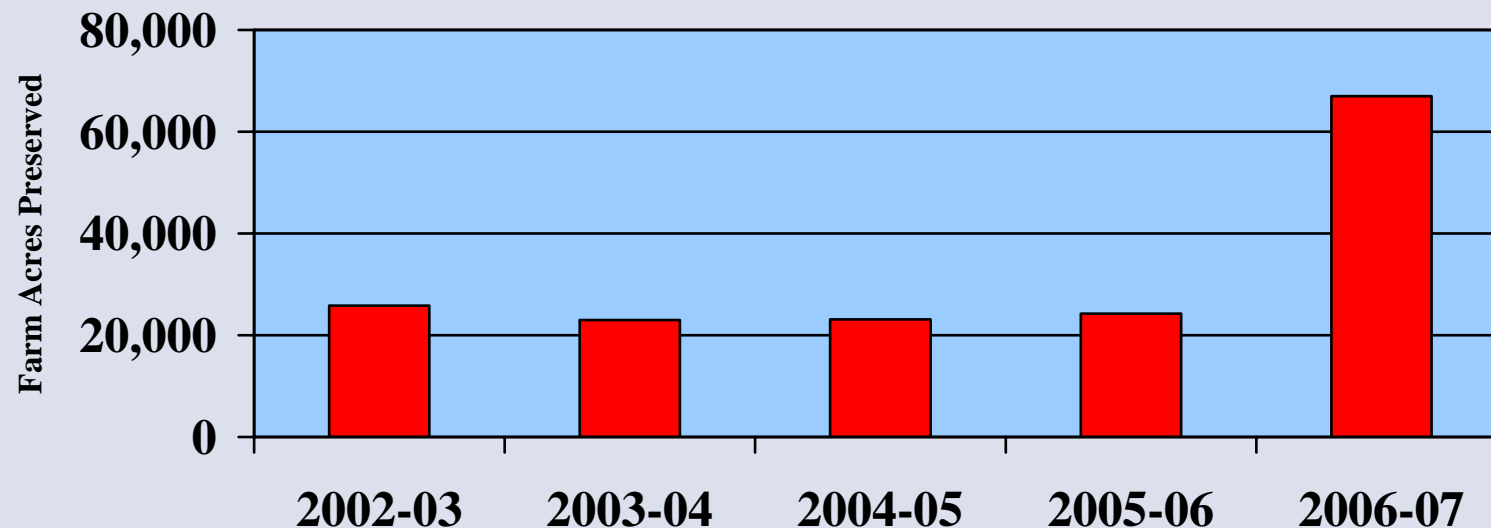
*To address Pennsylvania's critical environmental concerns, Governor Rendell proposed Growing Greener II, a six-year, \$625 million plan enacted by the General Assembly and approved by voters in 2005. Growing Greener II represents one of the largest investments ever in improving Pennsylvania's environment. A total of \$212 million in commitments for more than 236 different projects was made in the first year of the program. By the end of 2006-07, commitments are expected to reach more than \$300 million.*

- **\$230 million** to the **Department of Environmental Protection** to clean up rivers and streams, take on serious environmental problems at abandoned mines and contaminated industrial sites, and finance the development and deployment of advanced energy projects.
- **\$217.5 million** to the **Department of Conservation and Natural Resources** to preserve natural areas and open spaces, improve state parks and enhance local recreational needs.
- **\$80 million** to the **Department of Agriculture** to protect working farms.
- **\$50 million** to the **Department of Community and Economic Development** to revitalize communities through investments in housing and mixed-use redevelopment projects.
- **\$27.5 million** to the **Pennsylvania Fish and Boat Commission** to repair fish hatcheries and aging dams.
- **\$20 million** to the **Pennsylvania Game Commission** for habitat-related facility upgrades and repairs.

## Growing Greener II - 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 67,000 acres of farmland will be preserved in 2006-07, an increase of nearly 160 percent since 2002-03. Pennsylvania's efforts in preserving its farmland earned it the top ranking in 2005 from the National Association of State Departments of Agriculture in the number of acres of farmland preserved.*

### Preserving Pennsylvania's Farmland





# Public Safety and Security

## Pennsylvania Safety and Security – A Commonwealth Priority

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

- ✓ \$80.8 million in federal funds for **bio-terrorism preparedness**
- ✓ \$25.0 million in state gaming funds for **volunteer company grants**
- ✓ \$25.0 million in total funds for **flood disaster relief**
- ✓ \$17.6 million in state funds for **statewide radio system**
- ✓ \$12.3 million in federal funds for **pandemic influenza preparedness**
- ✓ \$8.8 million in state funds to increase **driver's license security**
- ✓ \$8.0 million in total funds for **hazard mitigation**
- ✓ \$2.1 million in state funds for four **new correctional housing units**

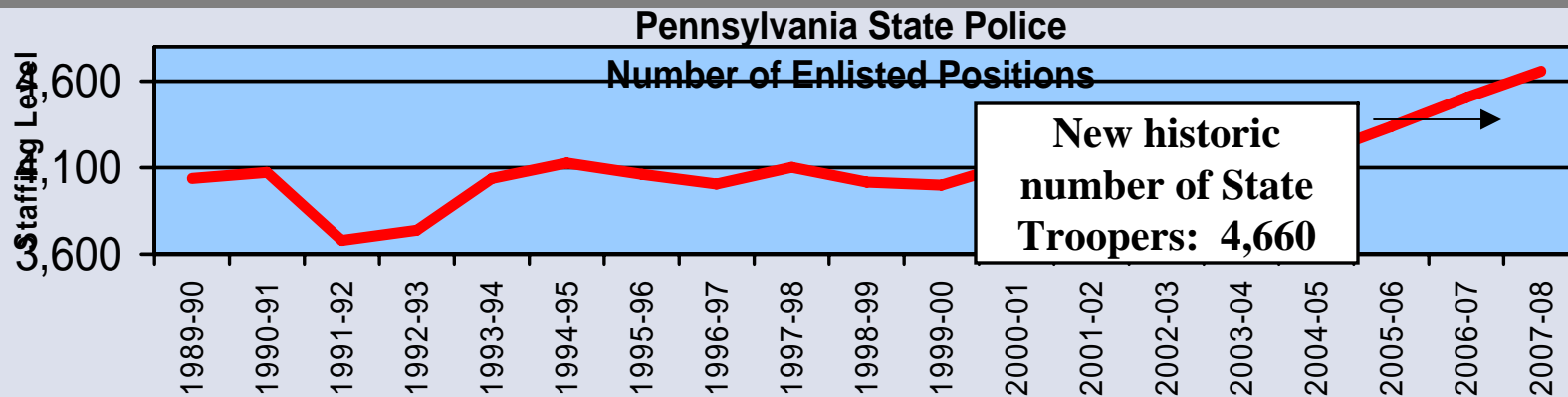
# Pennsylvania is Supporting Those Who Defend Our State and Nation

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

- ✓ \$1 million for Pennsylvania **base preservation and development efforts**
- ✓ \$300,000 for the implementation of Governor Rendell's Support Our Troops Initiative and other veterans programs
- ✓ ***Military Family Relief Assistance Program*** to help soldiers and their families who face emergency situations
- ✓ ***National Guard Educational Assistance Program*** benefits have been extended
- ✓ **New protections for soldiers:**
  - increasing maximum voluntary life insurance coverage for eligible National Guard members to \$400,000 – the commonwealth will pay that portion of the premium not paid by the federal government
  - allowing soldiers to qualify for their parents' health insurance coverage when they return to school after deployment
  - supporting soldiers who defer motor vehicle insurance coverage during deployments
  - granting additional paid military leave to state employees who are deployed

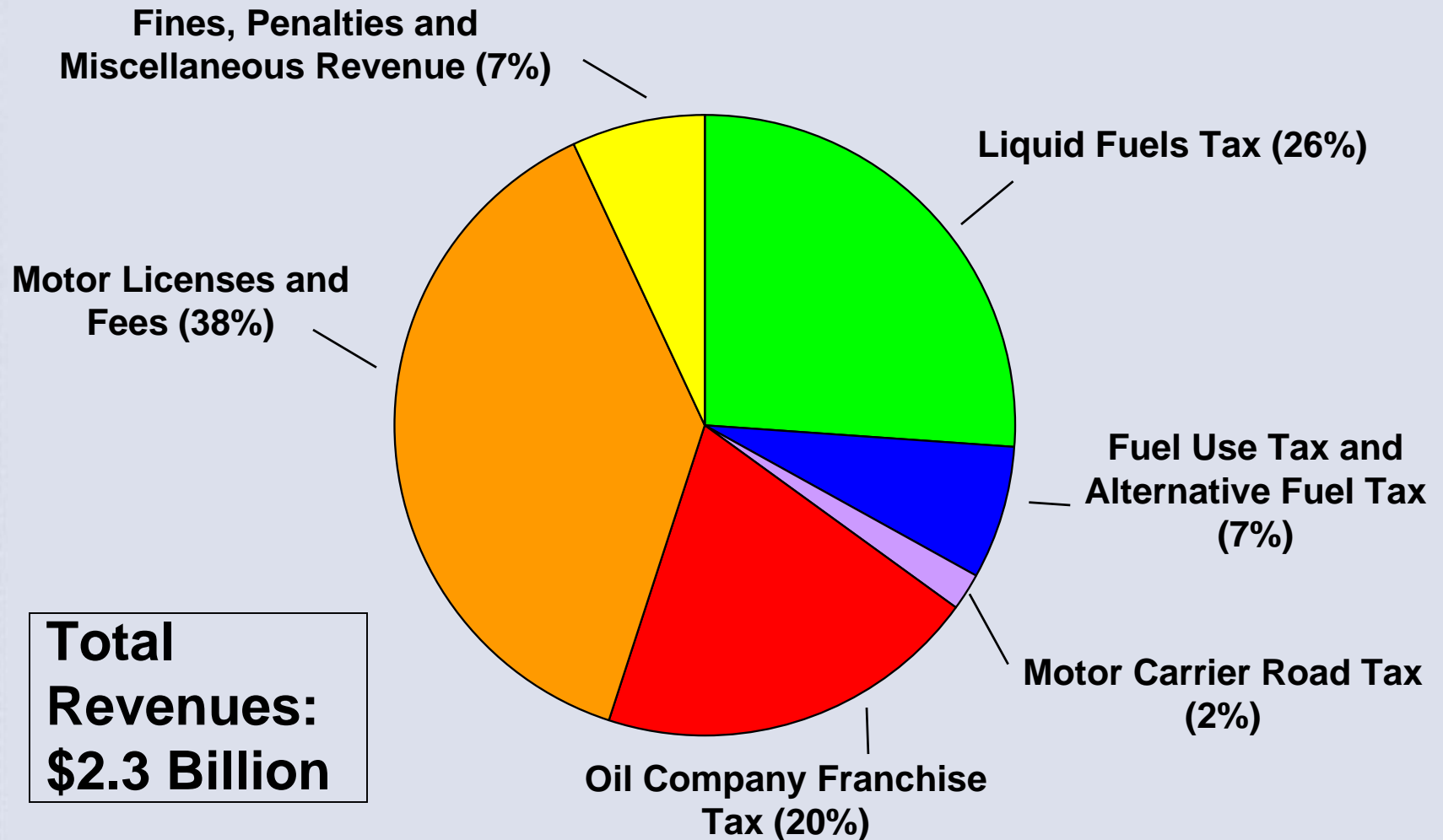
# Pennsylvania State Police

Recognizing the critical role of the State Police in ensuring public safety in the future, the 2006-07 budget includes additional funding for 316 trooper positions, bringing the State Police complement to its highest enlisted complement level ever by July 2007 – 4,660. The 2006-07 budget also provides funding to civilianize 60 additional enlisted personnel currently performing desk duties and to transition them back into active law enforcement duties. The Pennsylvania State Troopers Association must drop its objection to the administration’s civilianization efforts before this funding can be accessed and the number of enlisted personnel devoted to law enforcement is increased even more.



# Transportation

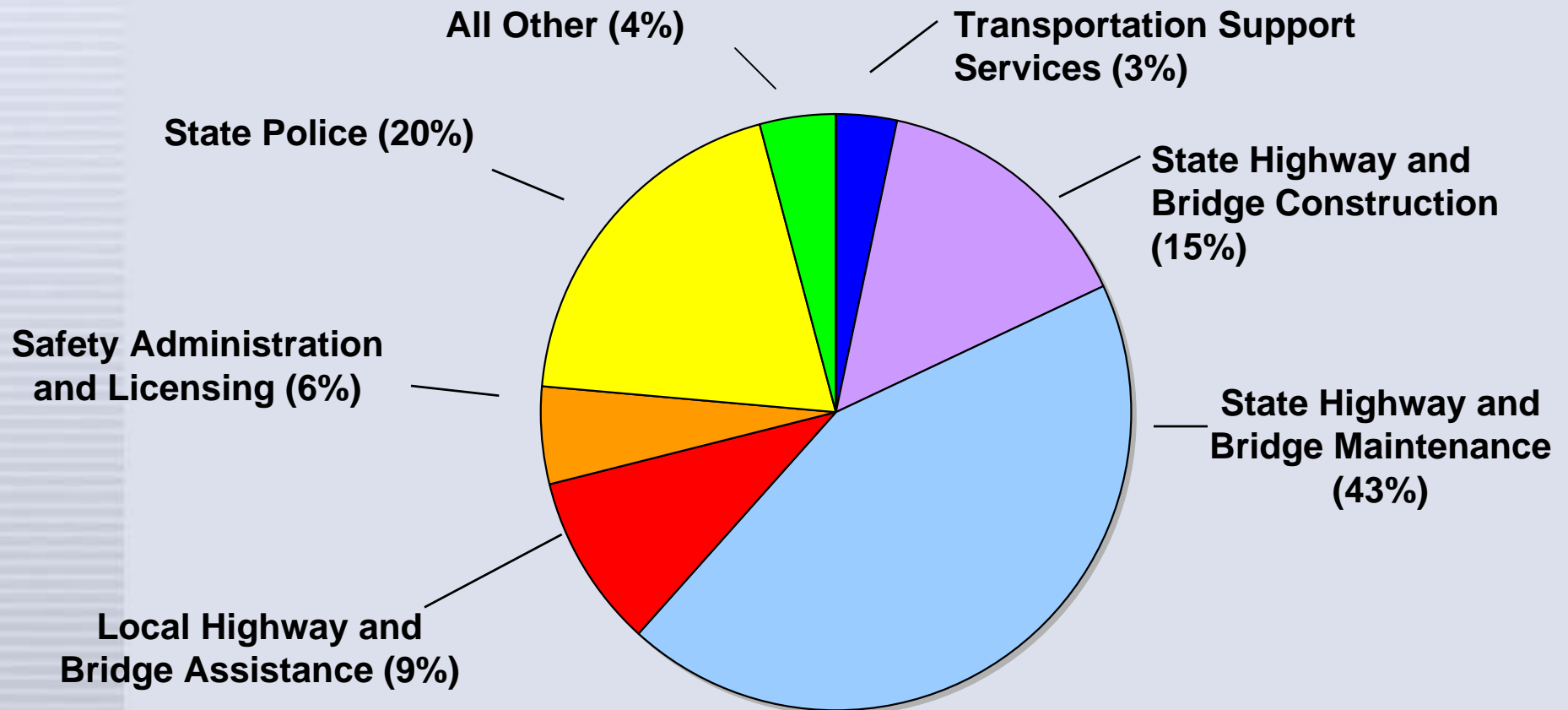
## 2006-07 Motor License Fund Revenue Sources





## 2006-07 Motor License Fund Expenditures

About 67 percent of all non-restricted Motor License Fund dollars are used to build or maintain roads and bridges in the commonwealth. The remainder is used for highway law enforcement, licensing, and safety and support activities.



# Highway Funds Continue Strong Growth Trend

Even after “flexing” some additional federal transportation funds to keep the state’s 13 transit agencies operating, Pennsylvania highway spending is still growing substantially, with an anticipated \$529 million increase in total funds in 2006-07. Pennsylvania highway spending in 2006-07 is 25 percent, or \$1 billion, higher than when Governor Rendell took office. From 2002 to 2004, Pennsylvania’s highways improved by 6 percent, according to the widely used International Roughness Index.

## Total Pennsylvania Highway Funding

(in millions of dollars)

## Flexed Funds for Transit

(in millions of dollars)

	State Funding	Federal Funding	Total Funding	Dollar Change	Percent Change	Standard Flex Funds	“Crisis” Flex Funds
2000-01	\$2,943	\$1,112	\$4,055	-	-	\$46	-
2001-02	\$2,940	\$1,272	\$4,212	\$157	3.9%	\$36	-
2002-03	\$2,949	\$1,265	\$4,214	\$2	0.0%	\$31	-
2003-04	\$2,966	\$1,205	\$4,171	(\$43)	-1.0%	\$59	-
2004-05	\$3,124	\$1,081	\$4,205	\$34	0.8%	\$48	\$74
2005-06	\$3,510	\$1,219	\$4,729	\$524	12.5%	\$25	\$202
2006-07	\$3,822	\$1,436	\$5,258	\$529	11.2%	\$25	\$138

# Pennsylvania's Bridges

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

Amounts in  
Millions

### Department of Transportation Bridge Program



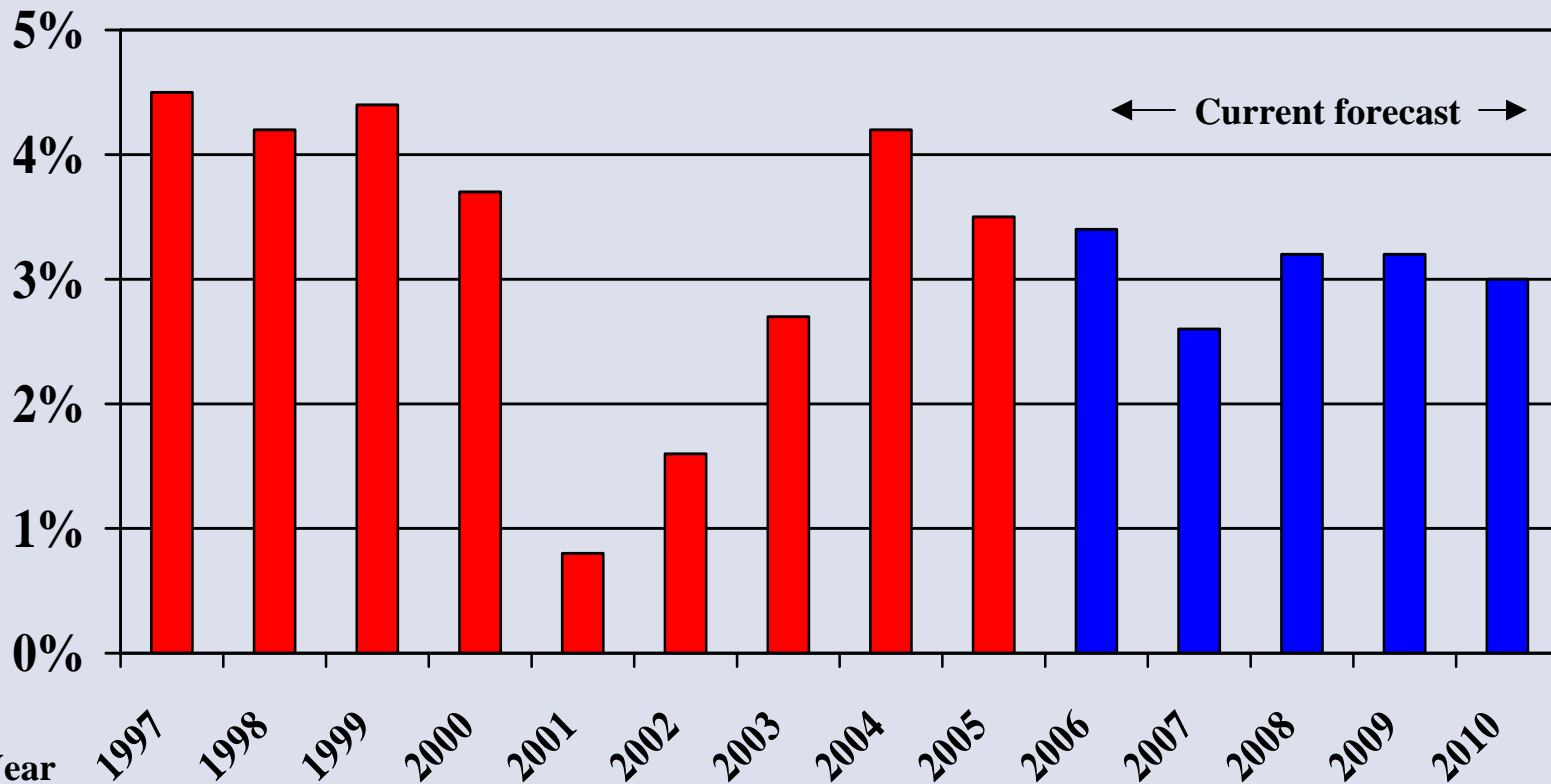
# Economic Outlook

## General Fund Revenues

# Real U.S. Gross Domestic Product

## Annual Growth

Calendar year 2005 Gross Domestic Product (GDP) growth was 3.5 percent. Current GDP forecasts for 2006 estimate the annualized growth rate at 3.4 percent. Economic forecasting firms project that peak GDP growth occurred in 2004 and that real U.S. GDP growth will slow, staying close to 3 percent annually through 2010.



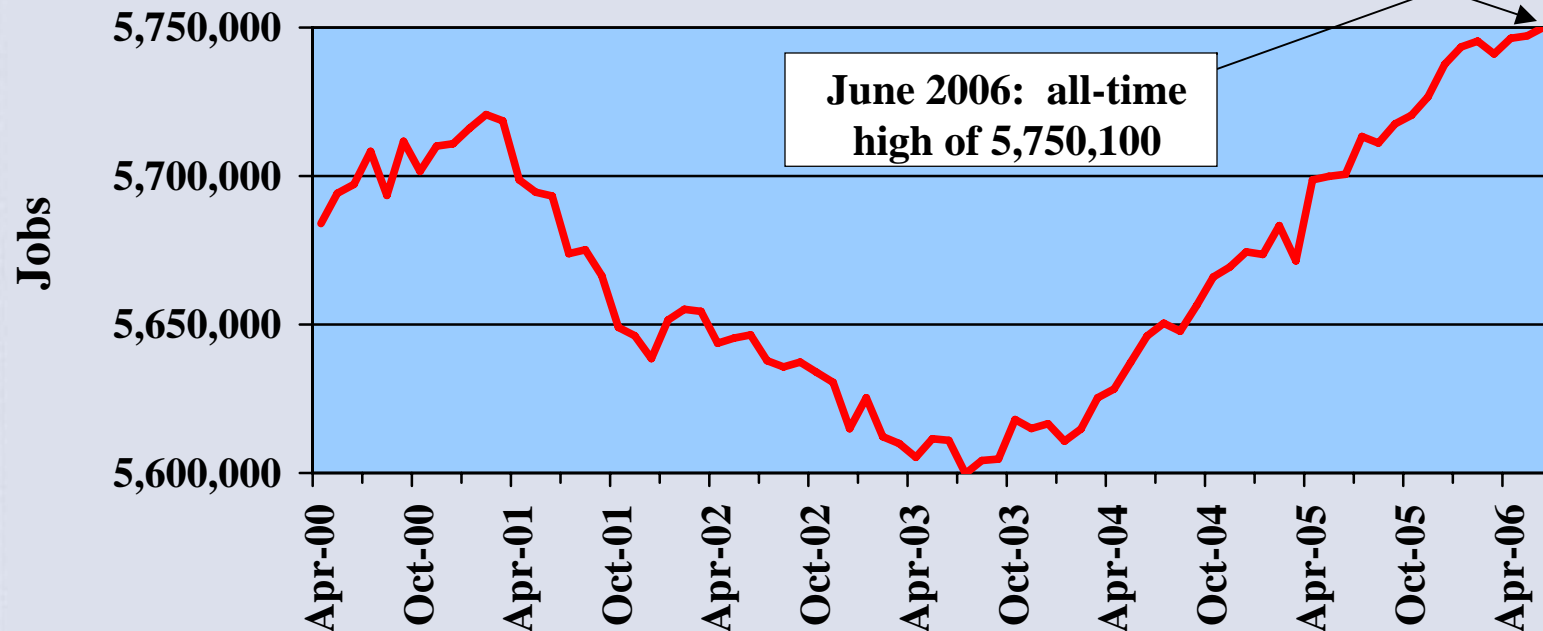
Calendar Year

# Pennsylvania Job Growth

The brightest spot in the economic outlook for Pennsylvania is job growth. In June 2006, Pennsylvania reached a historic high in the number of non-farm jobs, seasonally adjusted. The state's monthly unemployment rate in June was 4.7 percent, a full percentage point lower than it was in June 2003. Since January 2003, the Pennsylvania economy has generated a net increase of 125,000 jobs. State investments, including the Economic Stimulus program, have been a major factor behind the turnaround.

## Steady Rise in Pennsylvania Jobs

(non-farm)

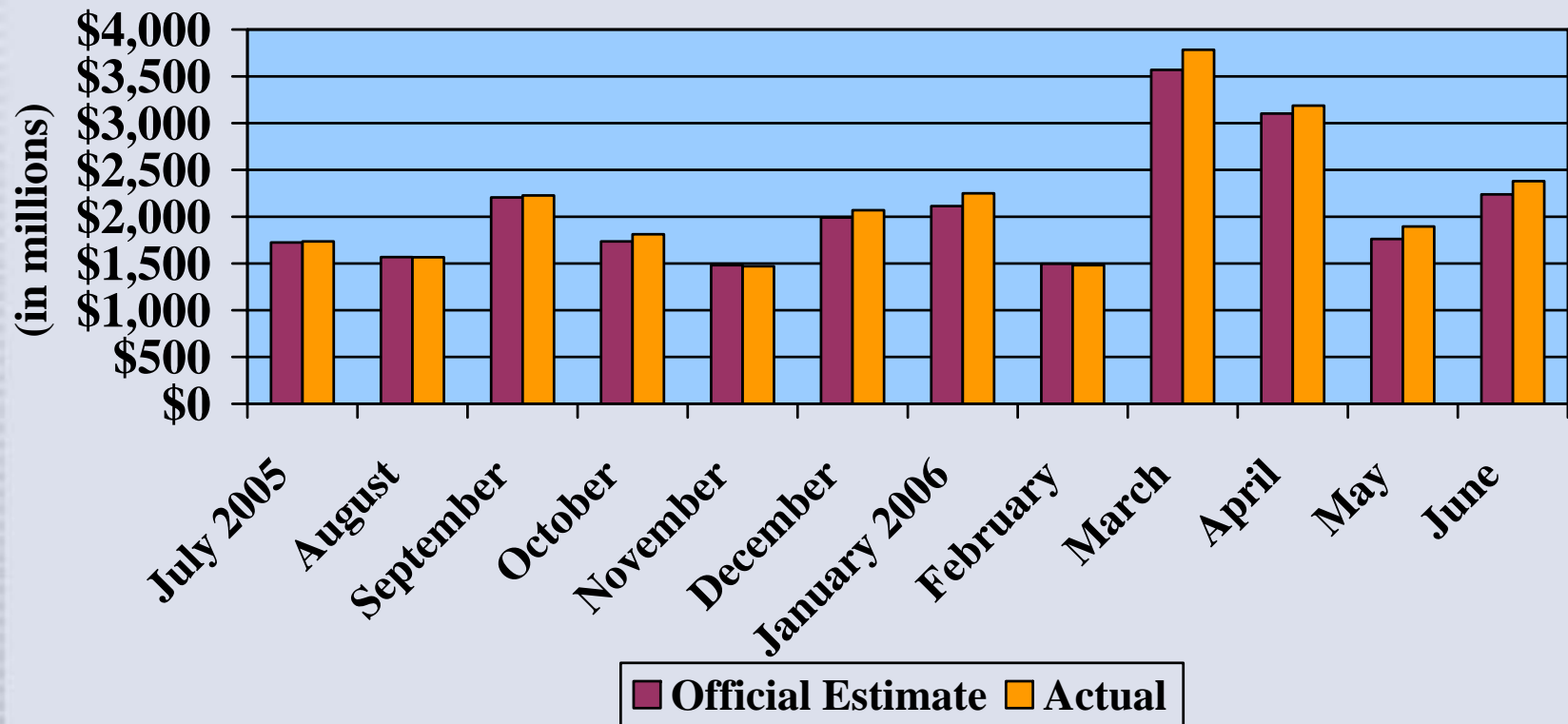




# General Fund Revenues

2005-06 Forecast versus Actual Collections

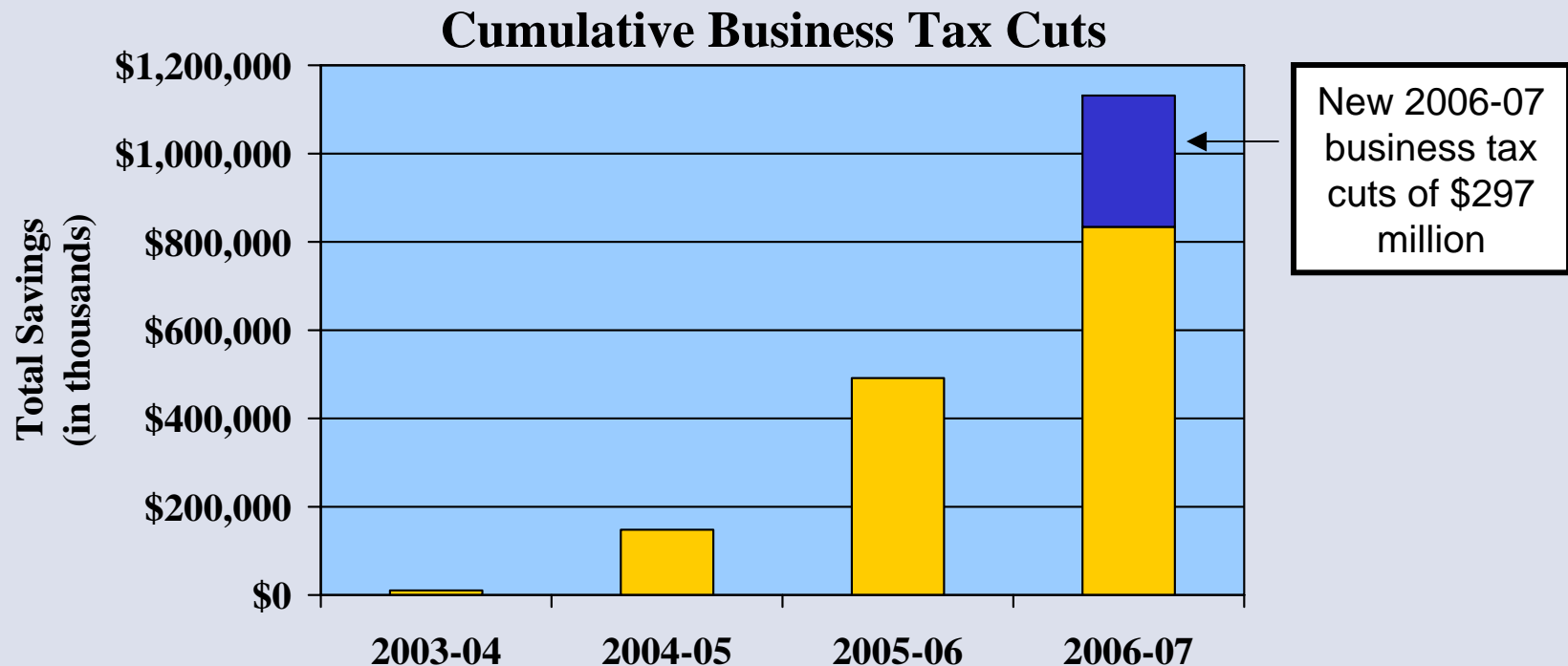
Total 2005-06 General Fund revenues were \$864 million, or 3.5 percent, higher than the official estimate.



# Cumulative Business Tax Cuts

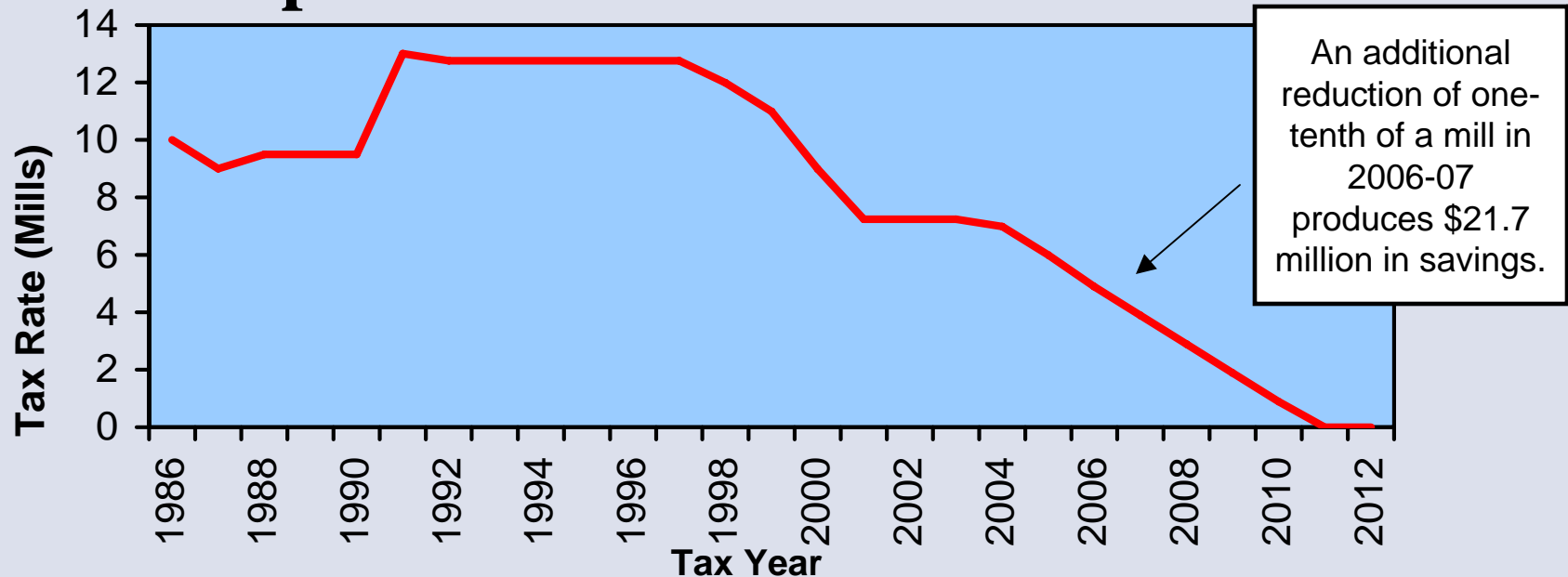
## 2003-04 through 2006-07

The 2006-07 budget includes more than \$297 million in new business tax cuts, including \$249 million from the Capital Stock and Franchise Tax (CSFT), \$21 million from raising the Net Operating Loss cap from \$2 million to \$3 million or 12.5 percent of taxable income, \$14 million by increasing the sales factor weighting to 70 percent and an additional \$10 million from the Research and Development Tax Credit. Since 2003, the administration has reduced business taxes by \$1.1 billion.



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

## Accelerating the Phase-Out of the Capital Stock and Franchise Tax



- Accelerating the phase-out by an additional one-tenth of a mill beyond the scheduled rate for tax year 2006 will lower the rate from 5.99 mills in 2005 to 4.89 mills (\$240.6 million in savings). That change, along with a new exemption for single-member restricted professional companies (\$7.2 million in savings) and the expansion of that exemption to \$150,000 (\$1.6 million in savings), will save Pennsylvania's businesses a total of \$249.4 million in 2006-07.
- Cumulative business tax reductions from major tax savings initiatives for 2003-04 through 2006-07 will total \$1.1 billion, including more than \$820 million from the capital stock and franchise tax phase-out and other reductions.

# National Trends in State Tax Revenue Growth

## Rates of Revenue Growth – First Quarter 2006 Compared to First Quarter 2005

*Nationwide, states are generally realizing healthy revenue growth that is increasing faster than the rate of inflation. In sales tax and personal income tax collections, Pennsylvania is achieving rates of growth comparable to the nationwide average. However, the rate of growth for the state's corporate net income tax is nearly 50 percent lower than the average growth other states are experiencing, additional evidence that Pennsylvania's corporate net Income tax needs to be reformed.*

	<b>Sales Tax</b>	<b>Personal Income Tax</b>	<b>Corporate Net Income Tax</b>
Average (among states that levy)	6.8%	9.2%	36.9%
Pennsylvania	6.3%	8.1%	18.9%
States in sample	44	40	42
States with higher tax growth than PA	25	24	25
Percentage of states in sample higher than Pennsylvania	57%	60%	60%

**Source: Rockefeller Institute of Government, State Revenue Report, June 2006.**

*No data from Hawaii.*

## Business Tax Reform – Still Needed

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

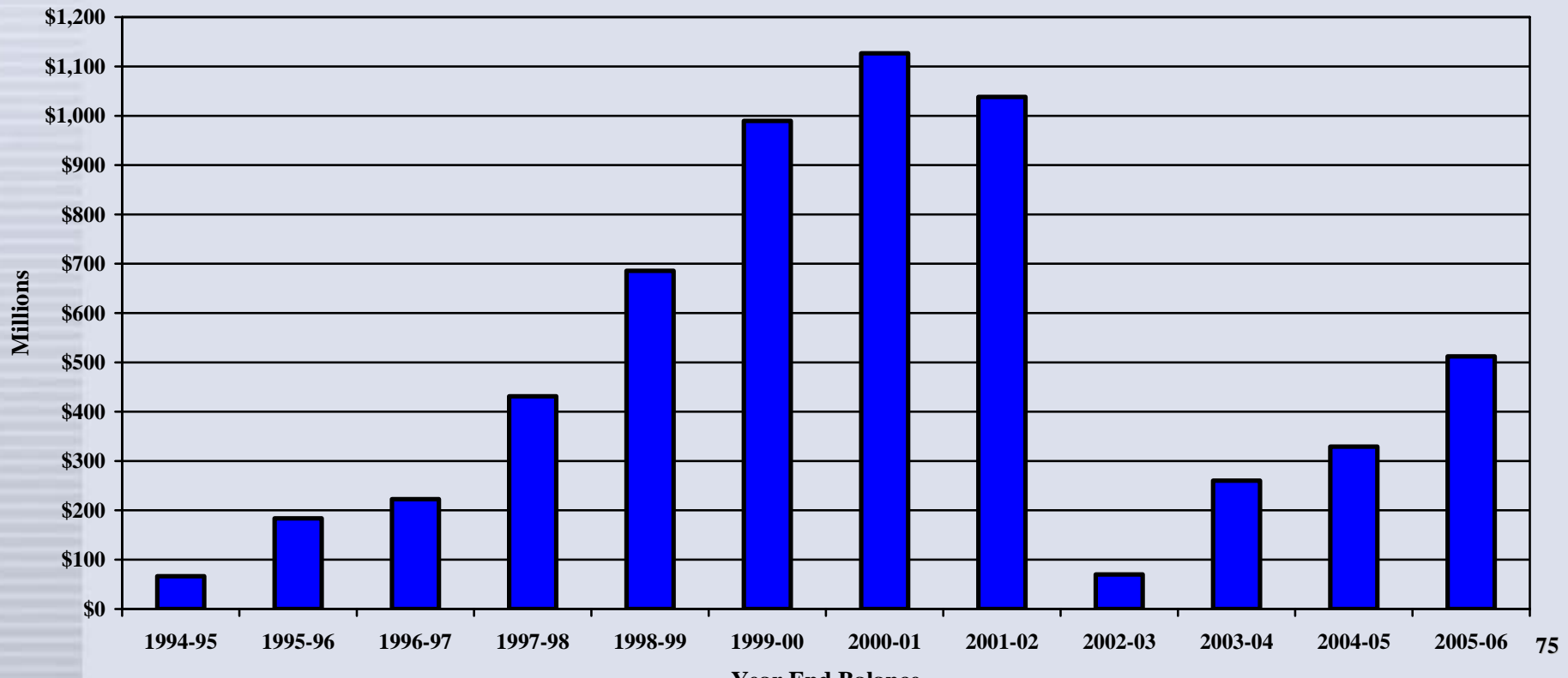
- ✓ Reduce the Corporate Net Income (CNI) Tax rate to 7.90 percent. **This historic reduction will lower the CNI Tax rate by more than 20 percent from the current 9.99 percent rate.**
- ✓ Eliminate the annual cap on Net Operating Losses.
- ✓ Continue the scheduled phase-out of the Capital Stock and Franchise Tax.
- ✓ Change the weighting of the sales factor of the CNI Tax apportionment formula to 100 percent. **This will encourage employers to locate or expand production in Pennsylvania.**
- ✓ Shift to market-based sourcing in the CNI Tax apportionment formula for the sale of services. **This will encourage growth in service-related industries.**
- ✓ Reform Pennsylvania's tax appeals process and related administrative procedures.
- ✓ Implement a mandatory unitary combined reporting system. **Requires members of a unitary group of businesses to combine income and expenses for tax purposes.**

# The Rainy Day Fund



# Status of PA's Rainy Day Fund

The Rainy Day Fund balances were built up substantially during the latter part of the 1990s and peaked at more than \$1.1 billion in 2000-01. The fund was depleted in order to balance the 2001-02 and 2002-03 General Fund budgets. The 2006-07 budget includes statutory transfers of \$171 million from 2005-06 and \$1.2 million from 2006-07, increasing the Rainy Day Fund balance to \$512 million. 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 \$1.34 billion, an increase of \$828 million.



## Major Initiatives in the 2006-07 Budget

- **Education:** A \$635 million, or 7.8 percent, increase in funding for educational programs
- Historic level of investment in PA **libraries** - \$75.5 million
- **Cover All Kids:** Affordable health insurance coverage for all uninsured Pennsylvania children
- **PACE Plus:** Prescription drug coverage for an additional 120,000 seniors
- **World Trade PA:** \$15 million to increase Pennsylvania's competitiveness worldwide
- An additional \$130 million to continue **improvements to Pennsylvania's highways and bridges**
- Nearly 320 **additional state troopers** to support public safety.