

Commonwealth of Pennsylvania

2009-10 Executive Budget

Edward G. Rendell
Governor

Mary A. Soderberg
Secretary of the Budget

February 4, 2009

Guiding Principles of the 2009-10 Budget

➤ This budget is built to:

- Put more Pennsylvanians to work and keep those who are working in their jobs.
- Relieve the impact of the recession on hard-working families.
- Keep the cost of state government down and manageable in the long run.

The National Economy's Effect on Pennsylvania

“U.S. GDP Sees Biggest Drop in 27 Years”

The Economic Times, January 30, 2009

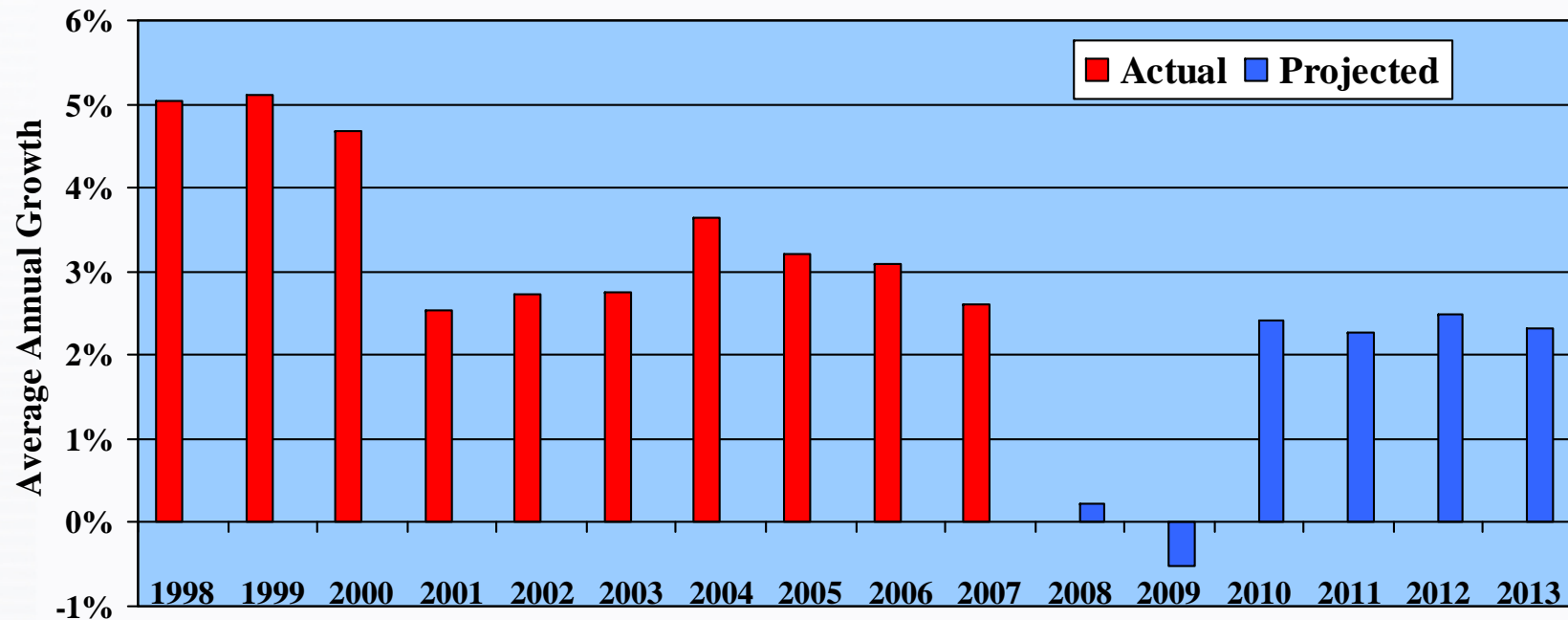
“U.S. Economy Falls 3.8 Percent at Year's End”

The Washington Post, January 30, 2009

Personal Consumption is Declining

Personal consumption growth has declined dramatically since mid-2008, and it is expected to contract further during 2009. Personal Consumption Expenditures is the component of GDP that includes all consumer spending on durable goods, non-durable goods and services. In the United States, personal consumption is a critical driving factor for the economy. It accounts for about two-thirds of the nation's GDP.

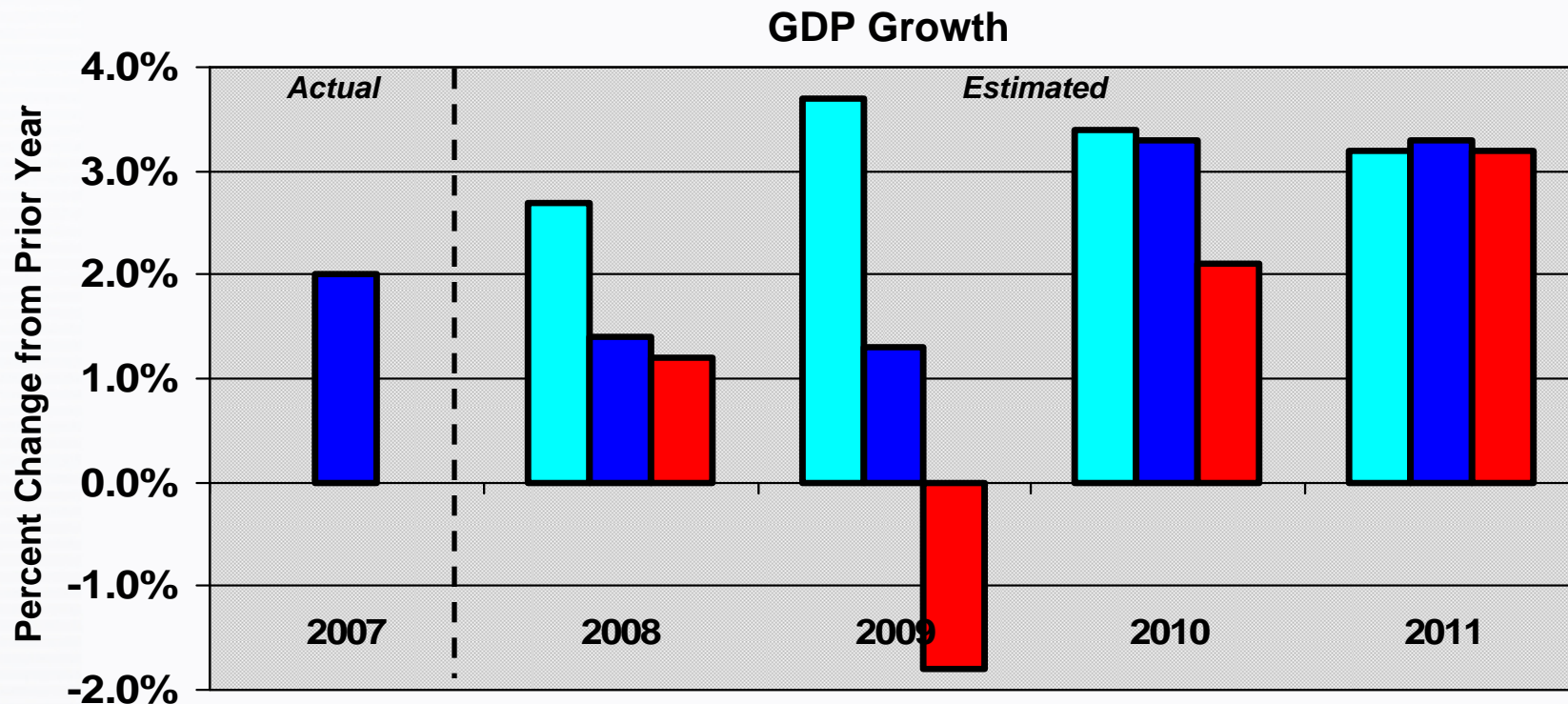
U.S. Real Personal Consumption Expenditures



Source: *Global Insight*, December 2008

U.S. Real Gross Domestic Product Growth

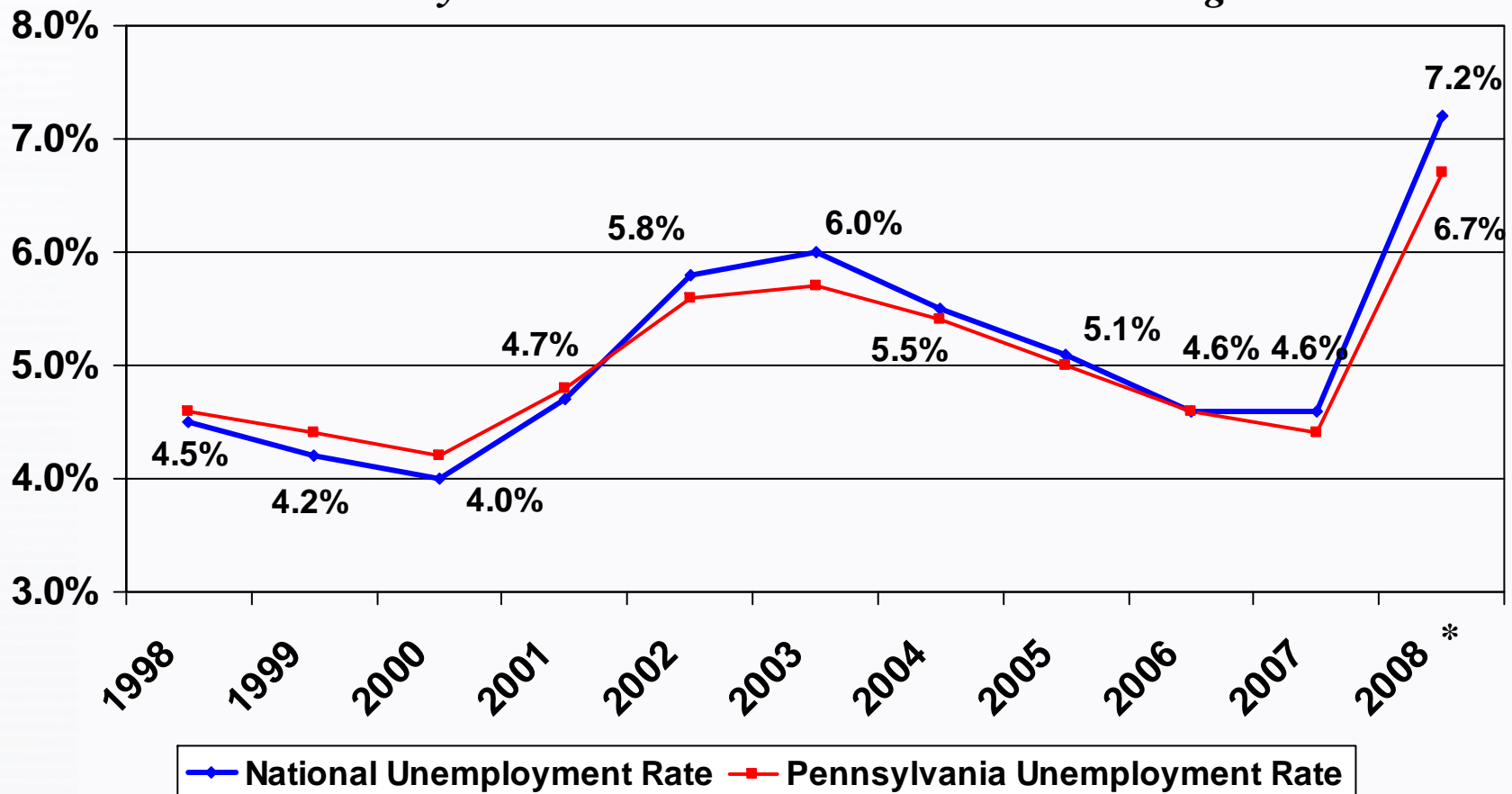
With the slowing of the economy this year, GDP growth projections are now much lower than estimated in February and June. A decline of nearly 2 percent is projected for 2009.



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National and State Unemployment Rates at Five-Year Highs

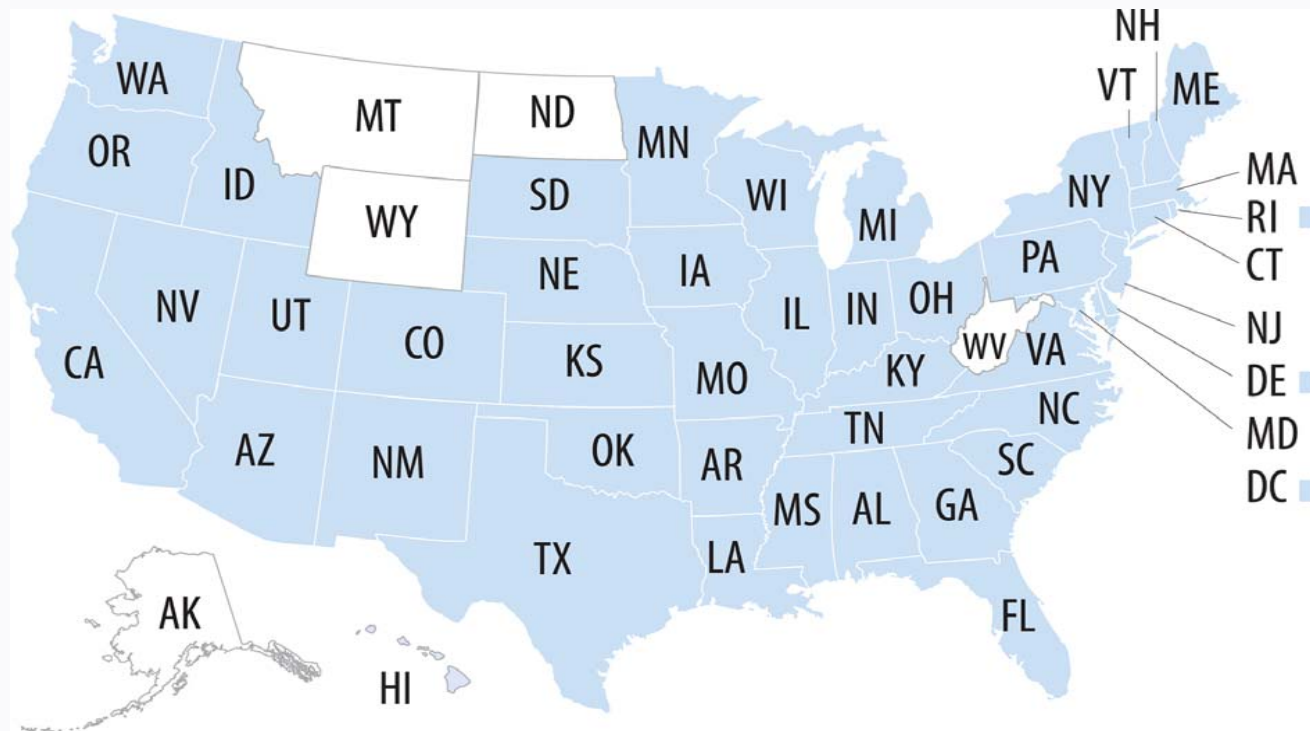
Pennsylvania Remains Below the National Average



*December 2008 data.

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45 States Face Budget Shortfalls*



***Includes states with shortfalls in fiscal year 2009 or projected shortfalls for fiscal year 2010**

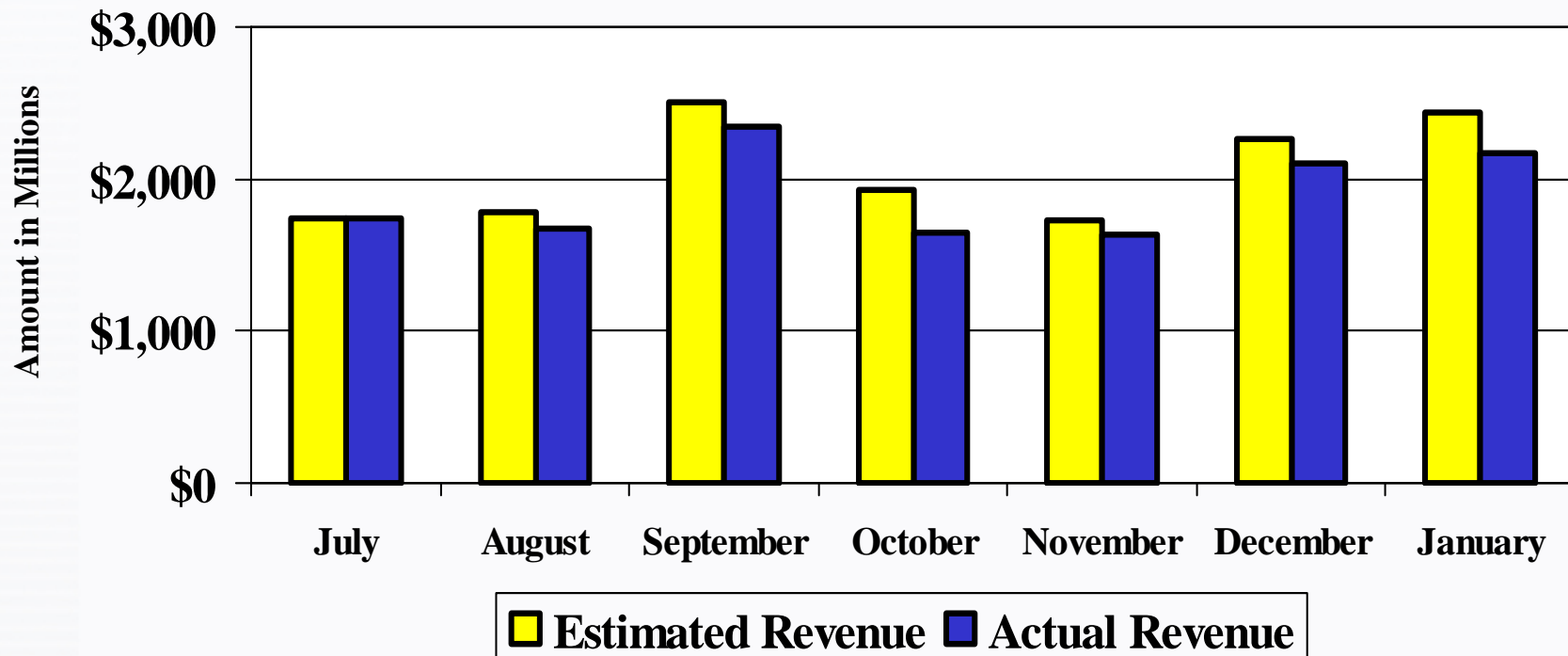
Source: Center on Budget and Policy Priorities
“State Budget Troubles Worsen”
January 14, 2009

Revenue Shortfall

2008-09 General Fund Revenues

Estimated versus Actual Revenue Collections

After the first seven months of 2008-09, General Fund revenue collections were \$1.1 billion lower than estimated (down 7.5 percent).



Year-to-Date General Fund Revenues

Total commonwealth revenues are significantly below the official estimates (7.5 percent below the official estimate through January).

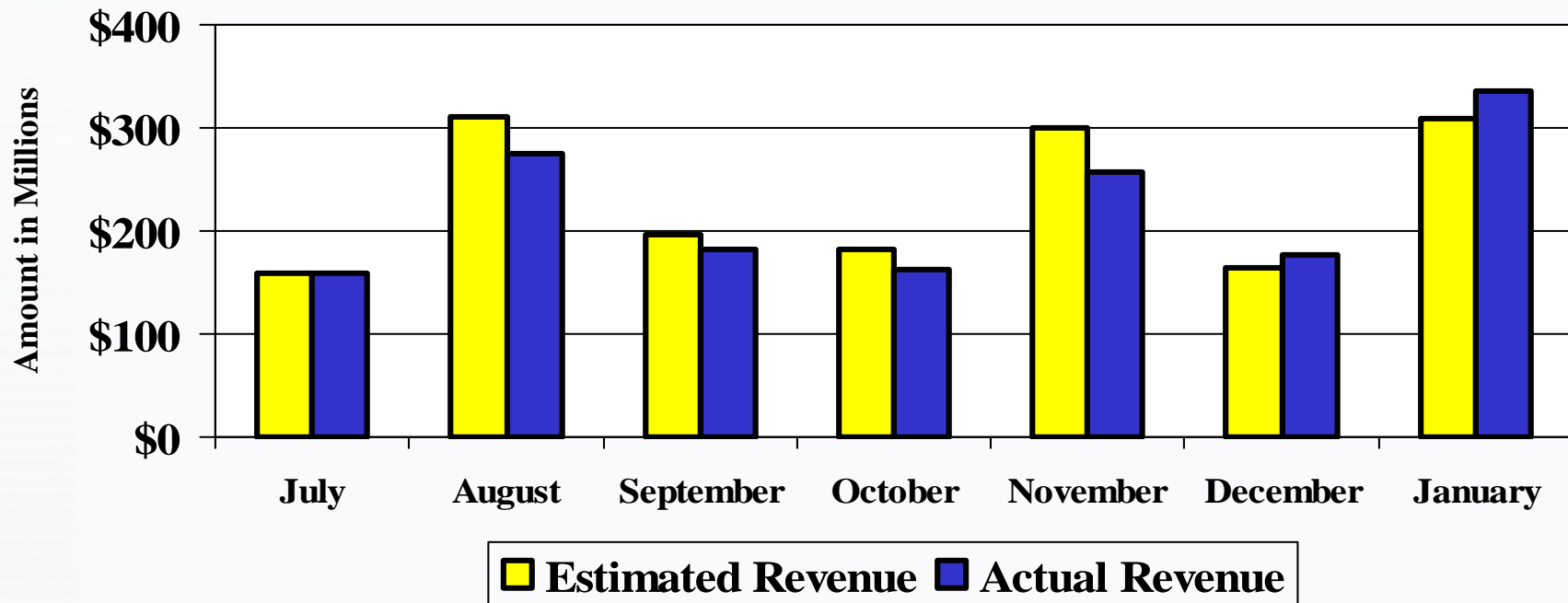
(dollars in thousands)

	YTD Est.	YTD Actual	\$ Diff	% Diff
REVENUE SOURCE:				
Personal Income Tax	\$ 5,954,000	\$ 5,678,104	\$ (275,896)	-4.6%
Sales Tax – Motor and Non-Motor	5,252,200	5,013,698	(238,502)	-4.5%
Business/Corporate Taxes	1,619,200	1,466,401	(152,799)	-9.4%
All Other Taxes & Revenues	1,469,800	1,345,050	(124,750)	-8.5%
Treasury Earnings	112,500	(171,805)	(284,305)	-252.7%
All Other Taxes & Revenues	1,469,800	1,345,050	(124,750)	-8.5%
TOTAL	\$14,407,700	\$13,331,448	\$(1,076,252)	-7.5%

2008-09 Motor License Fund Revenues

Estimated versus Actual Revenue Collections

After the first seven months of 2008-09, revenue collections were \$72.6 million lower than estimated (down 4.5 percent).



Budgetary Freeze Measures

Budgetary Freeze

As a result of revenue shortfalls, Governor Rendell put \$464 million of General Funds into budgetary reserve. If independent agencies meet the Governor's request to cut their spending by 4.25 percent, General Fund spending will be reduced by \$500 million.

(In Millions)

\$ 311	First round of General Fund budget cuts
128	Second round of General Fund budget cuts
25	Third round of General Fund budget cuts
36	Independent Agency General Fund budget cuts
<hr/>	
\$ 500	Total - General Fund budget cuts in 2008-09
\$ 41	Motor License Fund budget cuts

Administrative Actions

In addition to directing agencies to reduce their spending, the Governor announced the following administrative actions for 2008-09:

- Implemented a general hiring freeze
- Restricted out-of-state travel
- Banned the purchase of new vehicles and reduced the size of the fleet by 1,000
- Froze cabinet and non-union employees' salaries

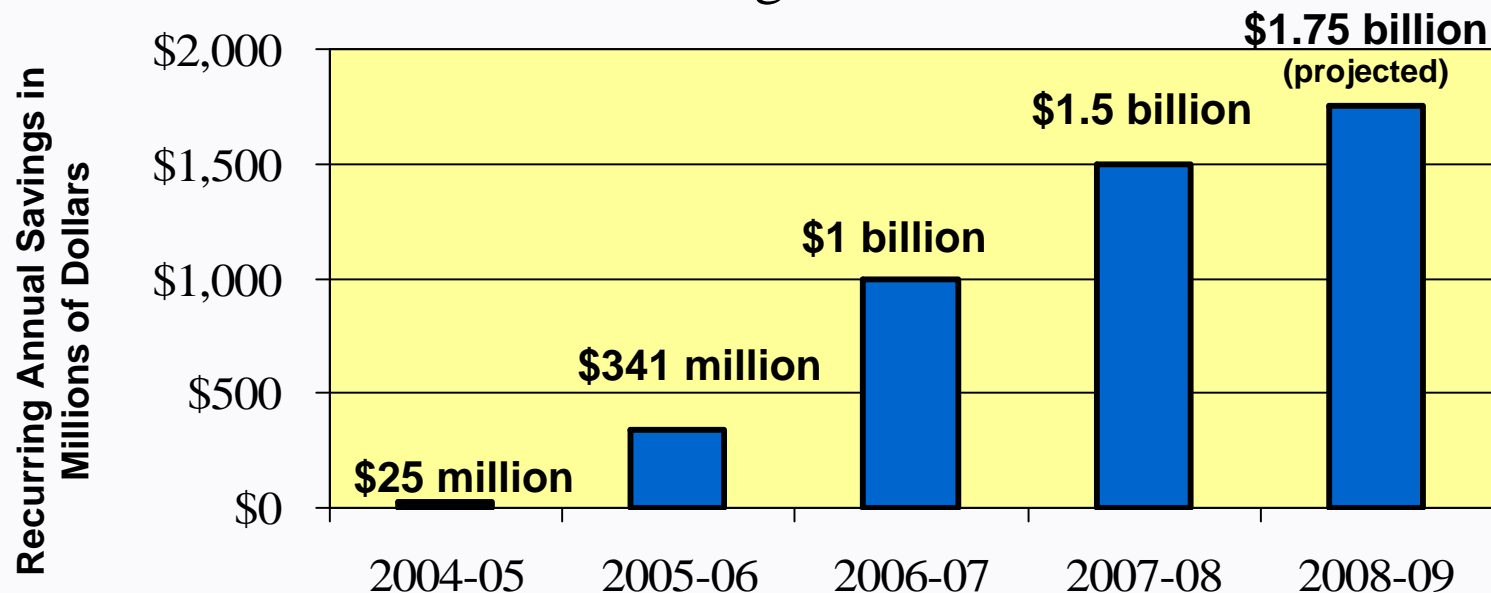
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Making Government Work Smarter

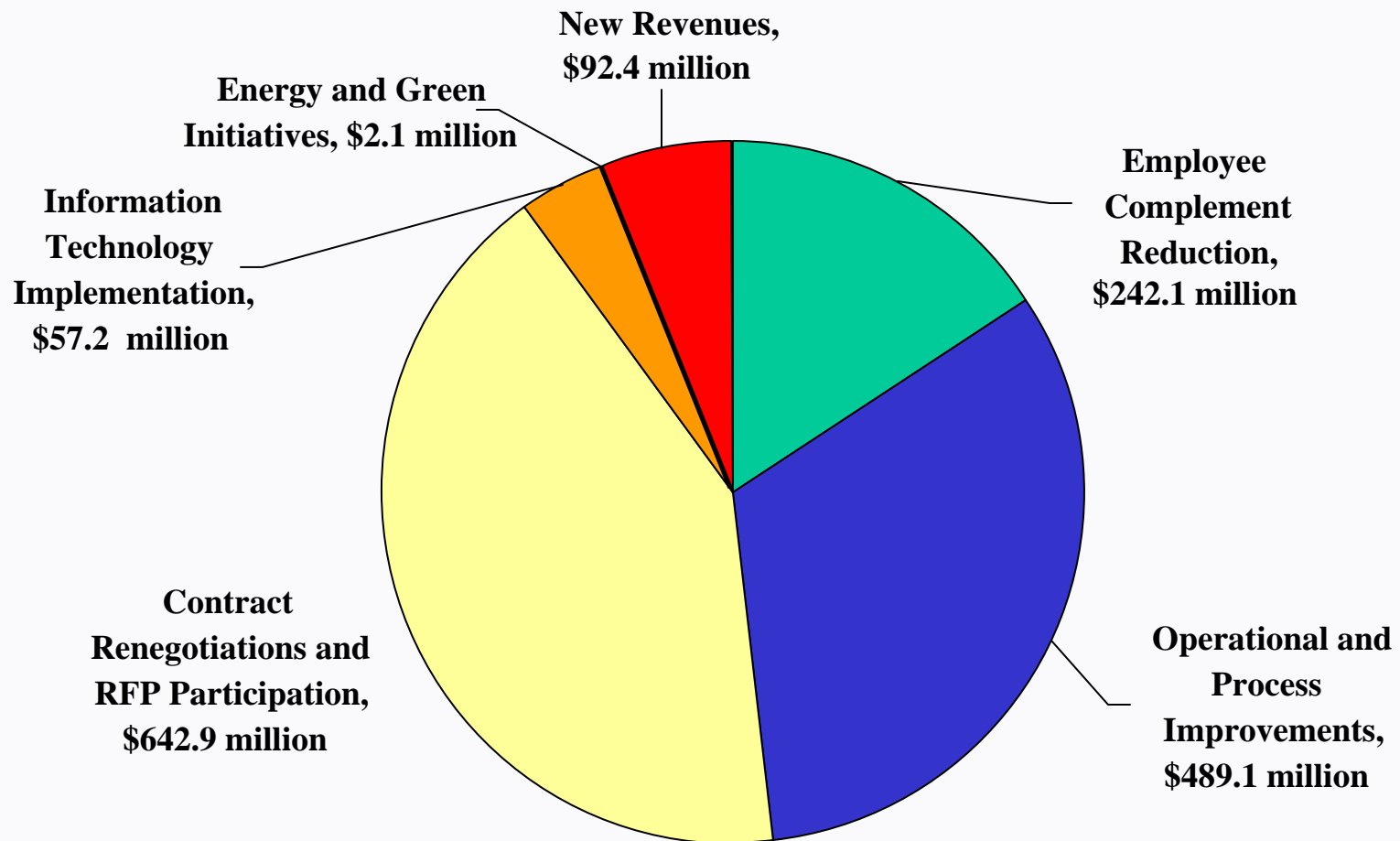
Management & Productivity Improvements Are Projected to Reach \$1.75 Billion in 2008-09

Governor Rendell pledged to cut the cost of government and improve the way the commonwealth works. In five years, by developing new business practices and focusing on innovation and efficiency throughout the government, the administration exceeded its \$1.2 billion projections and reached annual recurring savings of \$1.5 billion in 2007-08.

Recurring Annual Reductions

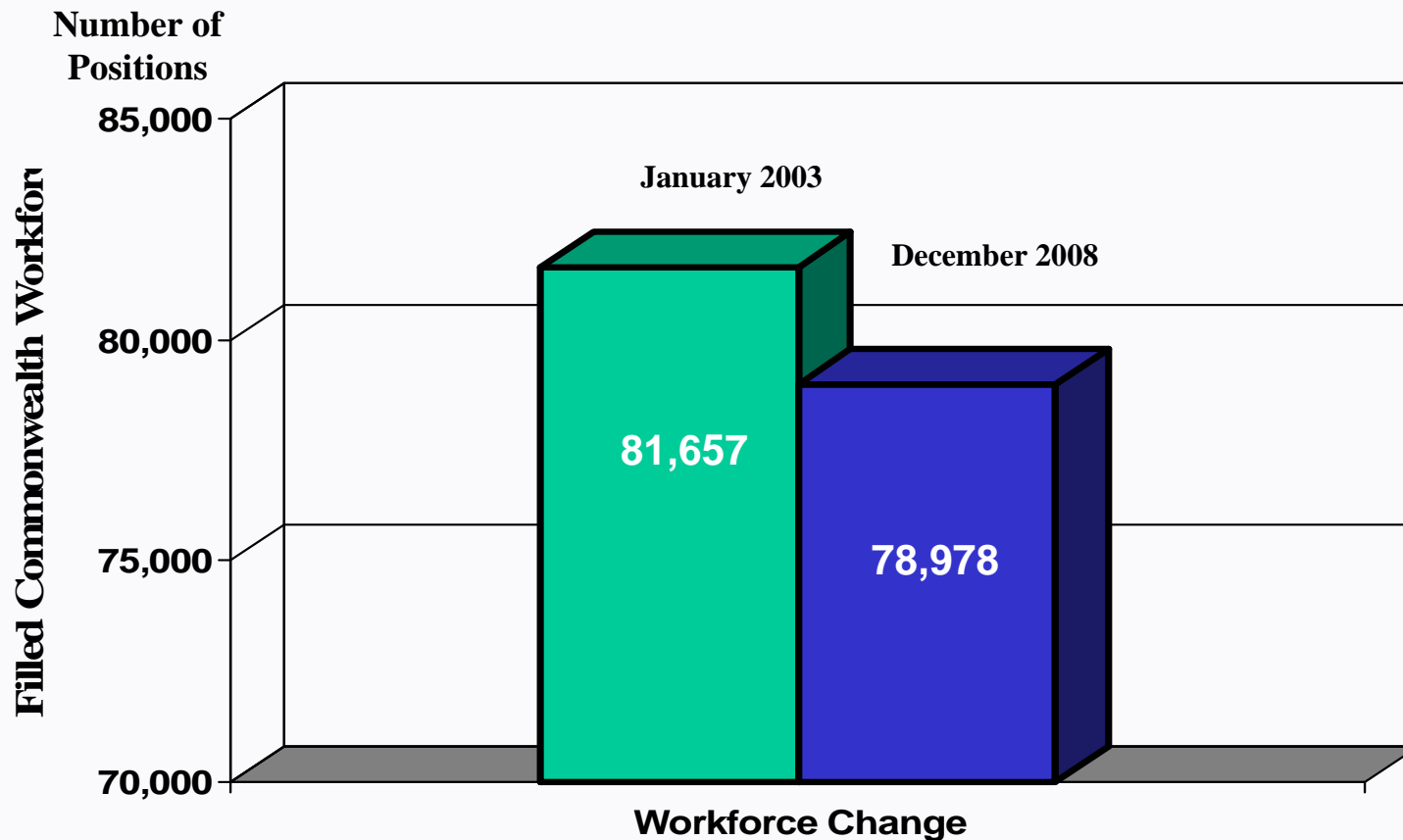


Components of the \$1.5 Billion in Management and Productivity Savings for 2007-08



Percentage Change in Filled Positions *2002-03 versus 2008-09*

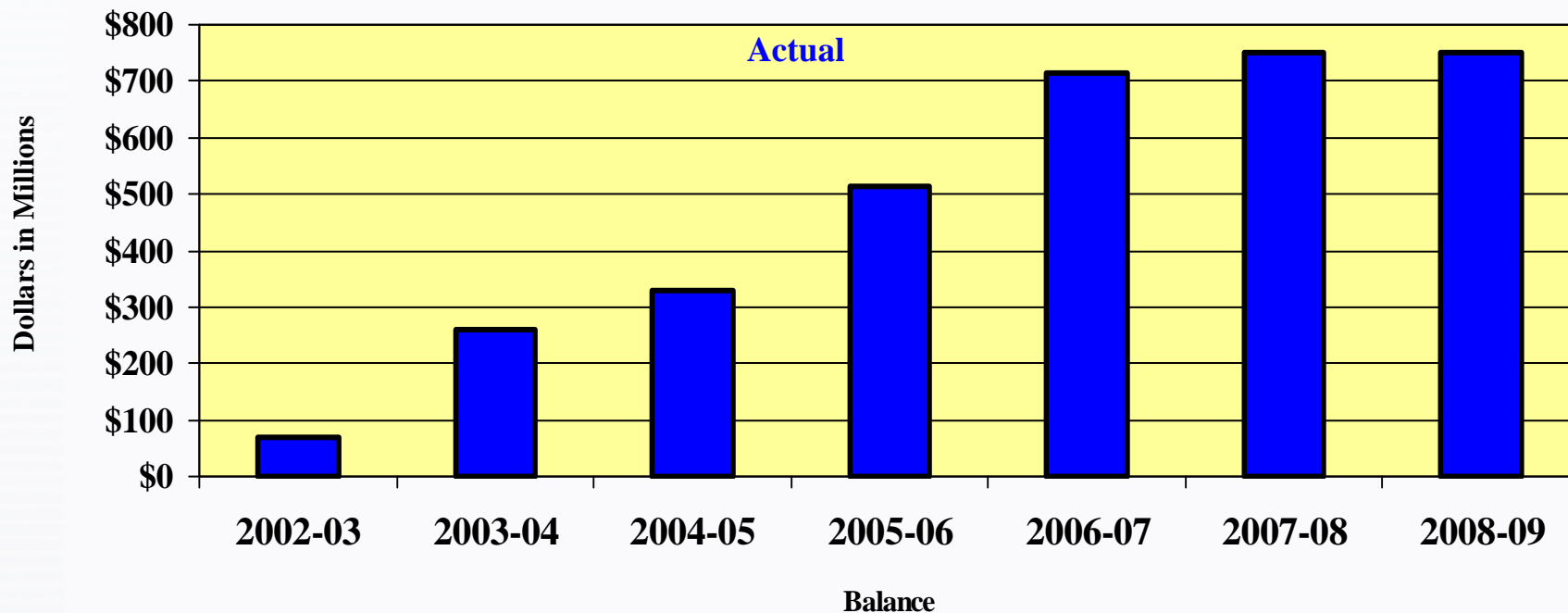
Between January of 2003 and December of 2008, the number of filled positions in agencies under the Governor's jurisdiction declined by 3.4 percent, or 2,679 positions.



Status of Pennsylvania's Rainy Day Fund

Through disciplined budget management, the balance in the Rainy Day Fund increased from \$70 million in 2002-03 to more than \$750 million in 2008-09.

RAINY DAY FUND BALANCES



Federal Fiscal Relief

Federal Fiscal Relief

The passage of the American Recovery and Reinvestment Act will mean a significant injection of federal funds for key state and local services in Pennsylvania.

- ✓ The 2009-10 commonwealth budget anticipates several major new funding streams from the federal fiscal stimulus initiative:
 - State Fiscal Stabilization Funds to prevent cuts in education, public safety and other critical government programs;
 - Increases in the federal government's matching funds for Medical Assistance programs; and
 - Funds to support other critical services such as special education and child care.

Federal Fiscal Relief - continued

State Fiscal Stabilization Fund:

- ✓ \$79 billion for states and school districts to stabilize budgets and maintain critical programs.
- ✓ Pennsylvania currently anticipates a total allocation of \$1.26 billion in federal funds for both 2009-10 and 2010-11:
 - Approximately 61 percent of Pennsylvania's total allocation from this fund, or \$771 million per year, must be used to support elementary, secondary and higher education; and
 - 39 percent of the allocation, or \$493 million per year, will be used to offset critical funding needed in the Department of Corrections.

Medical Assistance Aid:

- ✓ The Federal Medical Assistance Percentage (FMAP) enhancement is projected to increase federal reimbursement of Pennsylvania's Medical Assistance and Title IV-E foster care and adoption assistance programs by approximately \$4.0 billion between October 2008 and December 2010

Other Programs:

- ✓ Additional federal funds for special education are anticipated to prevent cuts to other education programs and services. The 2009-10 budget includes approximately \$20.5 million from this stimulus measure
- ✓ The 2009-10 budget also includes \$5.7 million in additional child care grant funds to provide services for children in low-income families while their parents go to work

**Plan to Balance
Pennsylvania's Budget**

2008-09 General Fund *Budget-Balancing Measures*

Federal Fiscal Relief will provide the major source of revenue to offset a projected General Fund shortfall of \$2.3 billion in 2008-09. The 2009-10 budget proposes other budget balancing options that were selected to retain funding in the commonwealth's Rainy Day Fund for use in future years.

	(in millions)
Projected Revenue Shortfall	\$ -2,300
Federal Fiscal Relief	\$ 1,083
Current Year Lapses (Including Budgetary Freezes)	521
Rainy Day Fund	250
Legislative Lapses	175
Transfer of Marcellus Shale Revenues	174
Prior Year Lapses	91
Current Year Lapses (Independent Agencies).	36

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2009-10 General Fund Financial Statement

(in millions)

	<u>2008-09</u> Available	<u>2009-10</u> Budget
Beginning Balance	\$ 585	\$ 8
Receipts	\$ 27,660	\$ 25,354
Revenue Shortfall	- 2,300
Additional Projected Revenue	830
Transfer from Oil & Gas Lease Fund	174
Prior Year Lapses¹	266
Funds Available	<u>\$ 26,385</u>	<u>\$ 26,192</u>
Expenditures	\$ 28,267	\$ 28,973
Federal Fiscal Relief	- 1,083	- 2,410
Current Year Lapses²	- 557
Total Expenditures (0.2% reduction)	<u>\$ 26,627</u>	<u>\$ 26,563</u>
Preliminary Balance	\$ - 242	\$ - 371
Transfer from Rainy Day Fund	250	375
Ending Balance	<u><u>\$ 8</u></u>	<u><u>\$ 4</u></u>

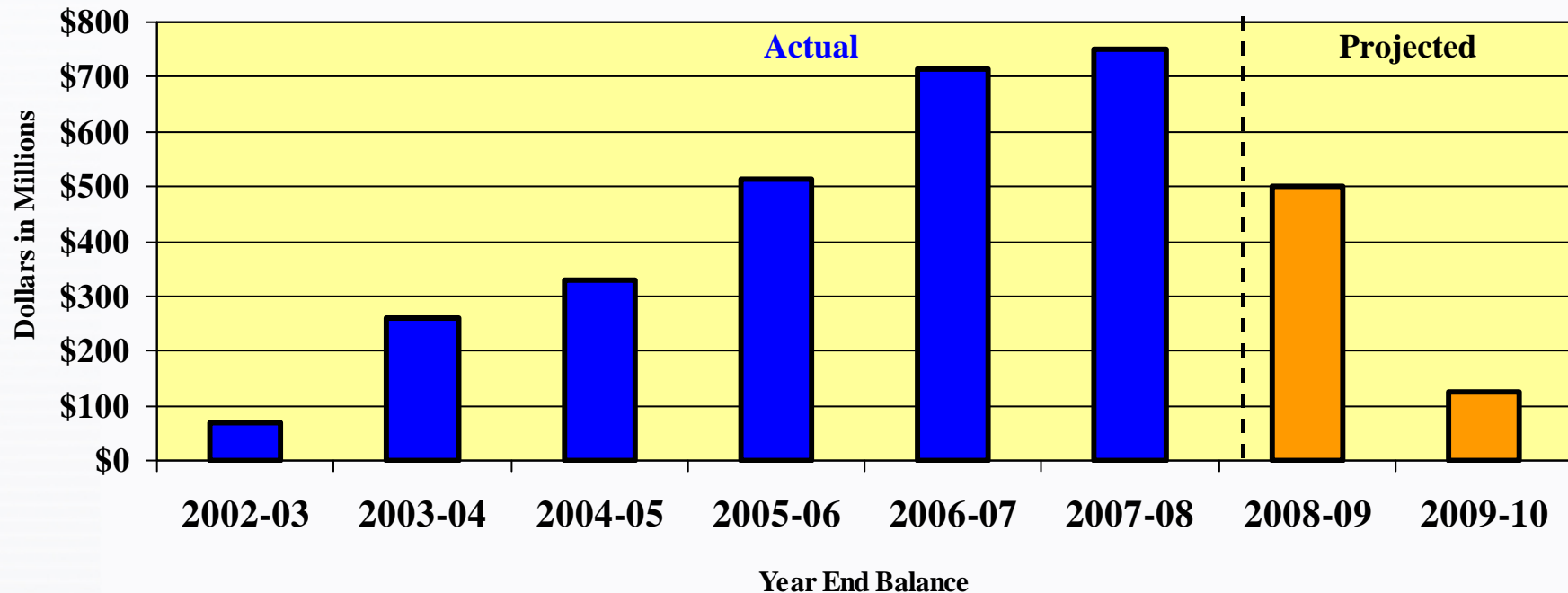
¹ 2008-09 includes \$175 million of legislative lapses.

² 2008-09 includes \$36 million of lapses from independent agencies.

Status of Pennsylvania's Rainy Day Fund

Through disciplined budget management, the balance in the Rainy Day Fund increased from \$70 million in 2002-03 to more than \$750 million in 2007-08. This budget proposes transfers of \$250 million in 2008-09 and \$375 million in 2009-10 to stabilize the General Fund during these difficult economic times.

RAINY DAY FUND BALANCES



2009-10 General Fund *Sources of Additional Proposed Revenue*

	(in millions)
Transfer from the Health Care Provider Retention Account . .	\$ 350
Redirect 25 cent per pack cigarette tax to the General Fund . .	199
Implement Severance Tax on natural gas	107
Eliminate vendor Sales Tax discount	75
Increase of 10 cents per pack to the cigarette tax	61
Institute Other Tobacco Products Tax (36 cents per ounce) . .	38

Program Reductions and Eliminations

Even with anticipated federal fiscal relief and new revenue sources to support the commonwealth's General Fund, it will be essential to make painful reductions to administrative spending as well as numerous popular programs to ensure the commonwealth's budget remains in balance once federal fiscal relief is no longer available.

The 2009-10 budget proposes to reduce or eliminate funding for programs in nearly every commonwealth agency.

	Number of Appropriations Affected	Funding Change (in millions)
Programs Eliminated	101	\$ - 395.0
Programs with Reduced Funding	346	\$ - 582.2
Total	447	\$ - 977.2

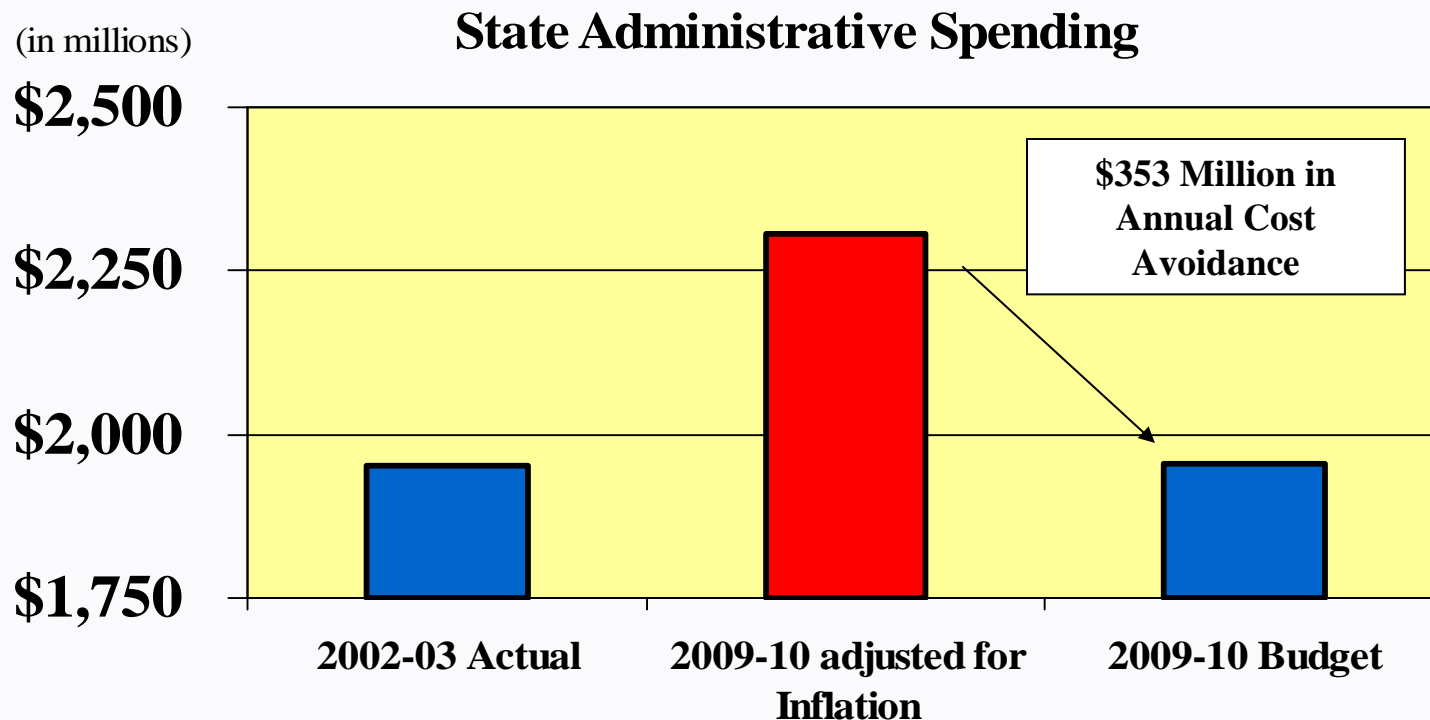
Selected 2009-10 Program Eliminations

The 2009-10 budget proposes numerous program eliminations which cut out \$395 million of General Fund expenditures.

<u>Department</u>	<u>Appropriation</u>	<u>Amount</u> <i>(in millions)</i>
Military and Veterans Affairs	<i>Scotland School for Veterans' Children</i>	\$ - 10.5
Education	<i>Scranton School for the Deaf</i>	\$ - 7.3
	<i>Governor's Schools of Excellence</i>	\$ - 3.2
Community and Economic Development	<i>Workforce Leadership Grants</i>	\$ - 3.0
Health	<i>PA Injury Reporting and Intervention System</i>	\$ - 1.3
Agriculture	<i>Ag Promotion, Education and Exports</i>	\$ - 1.3
Housing Finance Agency	<i>Early Childhood Education Capital</i>	\$ - 1.2

Holding the Line on Administrative Spending

*2009-10 administrative spending is projected to be the same as it was six years ago when Governor Rendell took office. If state administrative spending had been allowed to grow with the rate of inflation, **commonwealth agencies would spend \$353 million, or 18 percent, more in this budget to operate state government.***



Note: Bureau of Labor Statistics CPI Inflation Calculator used.

2009-10 Budget Overview

Major Initiatives in the 2009-10 Budget

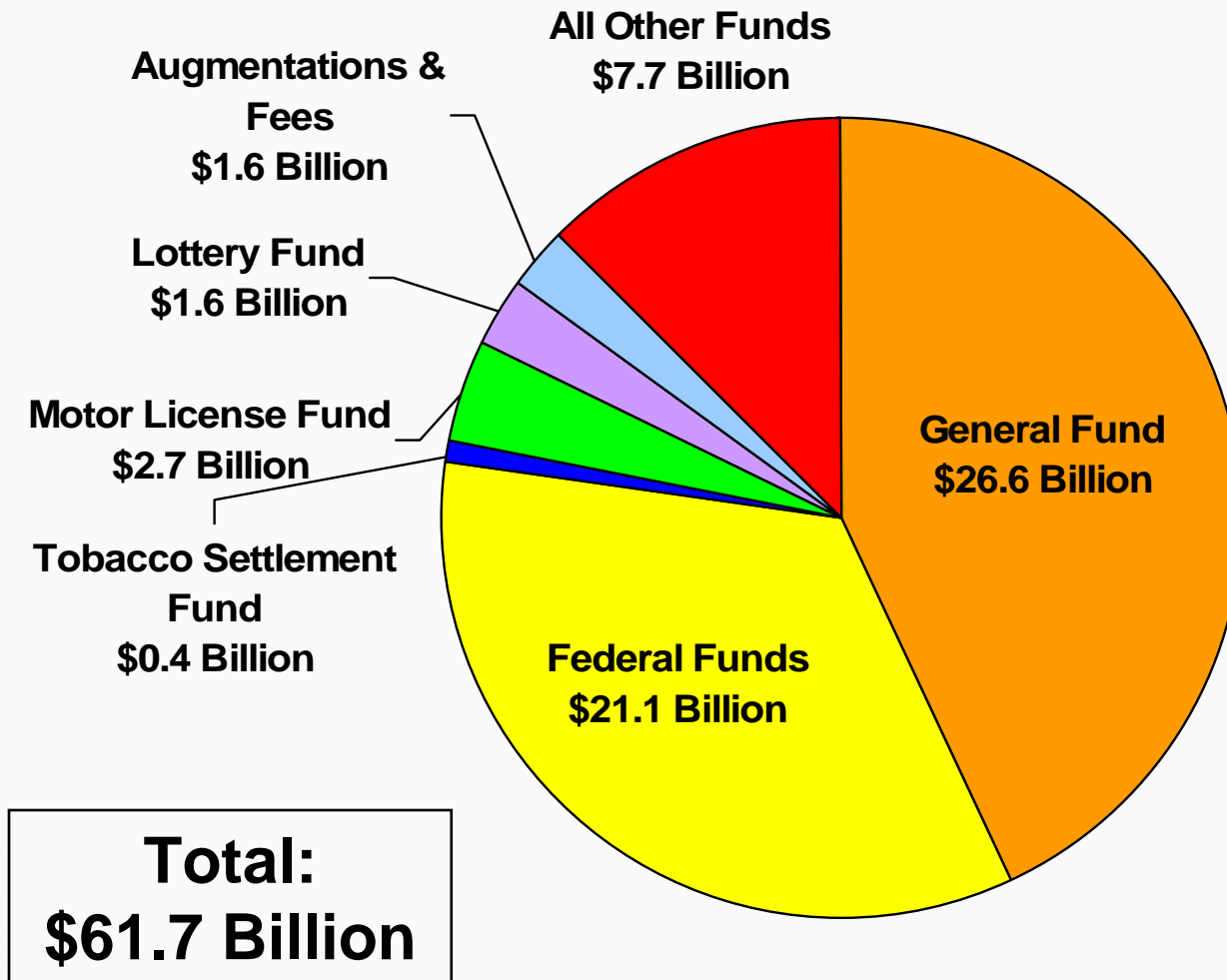
- Provide economic stimulus measures to help businesses create new jobs
- Increase student achievement in our schools
- Make college more affordable
- Increase the number of adults with access to health care
- Rebuild Pennsylvania's infrastructure
- Maintain the safety net
- Protect our environment

2009-10 Budget Highlights

The 2009-10 budget is built to put more Pennsylvanians to work and keep those who are working in their jobs, relieve the impact of the recession on hard working families and keep the cost of state government down and manageable in the long run.

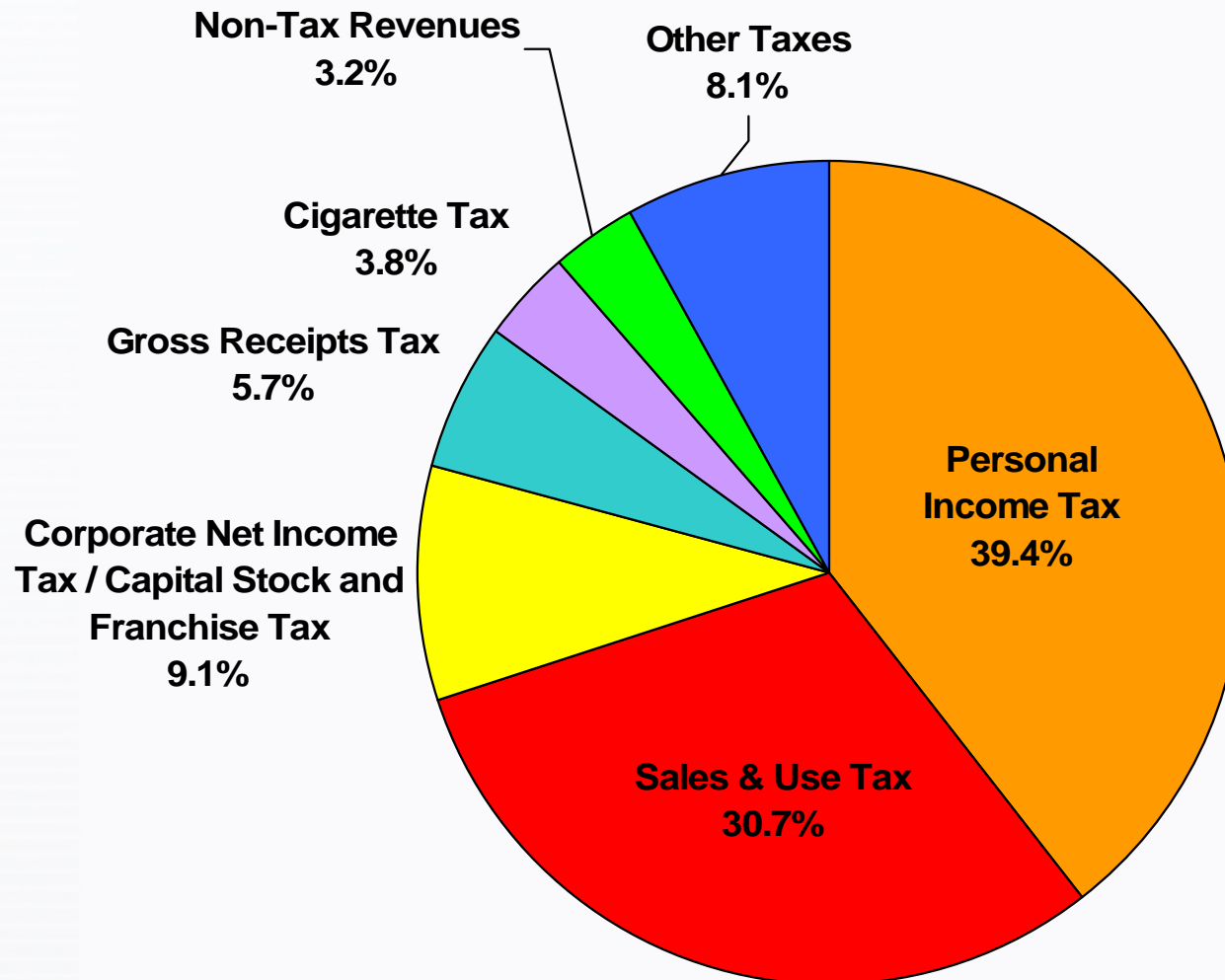
- This budget does not propose a broad-based tax increase.
- The 2009-10 General Fund budget is \$26.6 billion, a decrease of \$64.5 million, or 0.2 percent less than 2008-09.
- The 2009-10 budget continues to re-invest savings realized through innovation and increased efficiency. By eliminating waste and improving government operations, the commonwealth will achieve \$1.75 billion in annual recurring savings from the time Governor Rendell took office through the end of the 2008-09 fiscal year.
- The 2009-10 budget includes a reduction of 2,622 positions in the commonwealth's current authorized complement for a total reduction of 4,767 positions since January 2003.
- The 2009-10 General Fund budget reduces spending by 8.8 percent in all areas other than Education, Public Welfare, Corrections and Probation and Parole.
- The budget proposes the investment of more than \$537 million as the second year of a multi-year plan to rebuild Pennsylvania's infrastructure.
- The 2009-10 budget proposes to expand the adultBasic insurance program to provide affordable basic health care for an additional 50,000 uninsured adults.

2009-10 Total Operating Budget



The total Fiscal Year 2009-10 operating budget, including all commonwealth funds, is \$61.7 billion. The General Fund represents 43 percent of this amount.

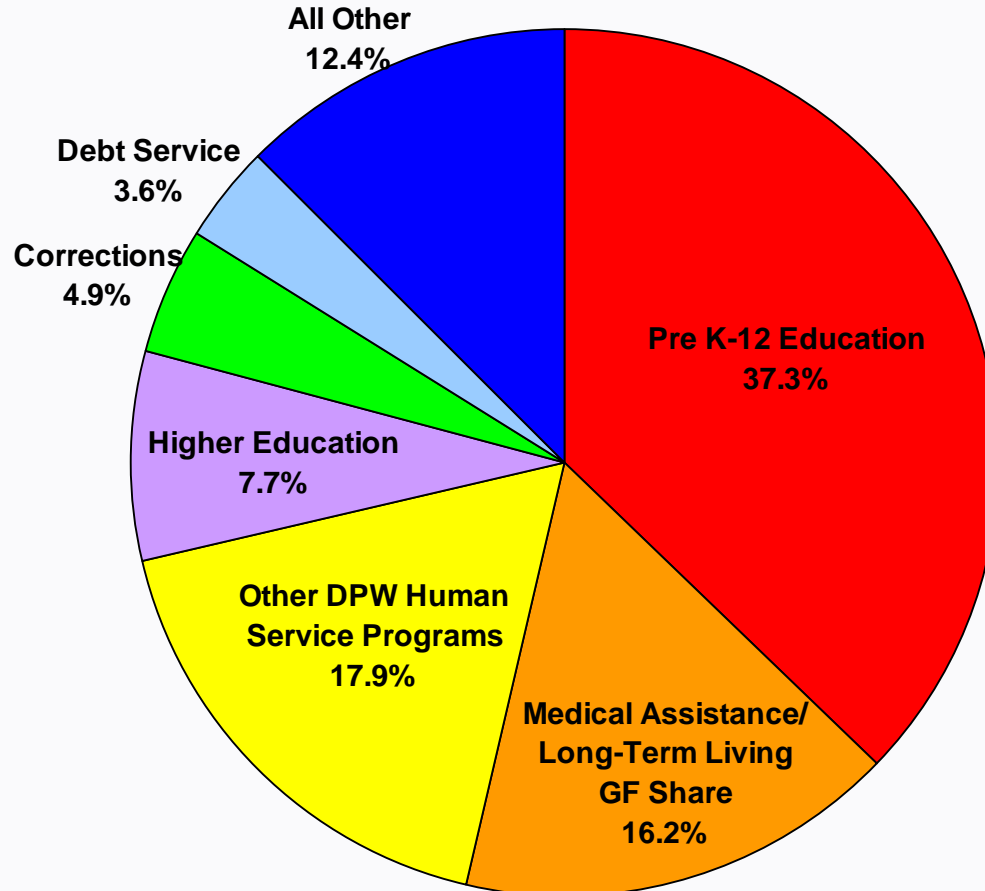
2009-10 General Fund Revenue Sources



More than two-thirds (70 percent) of General Fund revenues are derived from the Personal Income Tax and the Sales & Use Tax.

2009-10 General Fund Expenditures

The 2009-10 General Fund budget is \$26.6 billion, a decrease of \$64.5 million, or 0.2 percent, from 2008-09 after accounting for \$1.1 billion of anticipated federal fiscal relief funds, as well as lapses anticipated in 2008-09 from implementation of budgetary freezes.

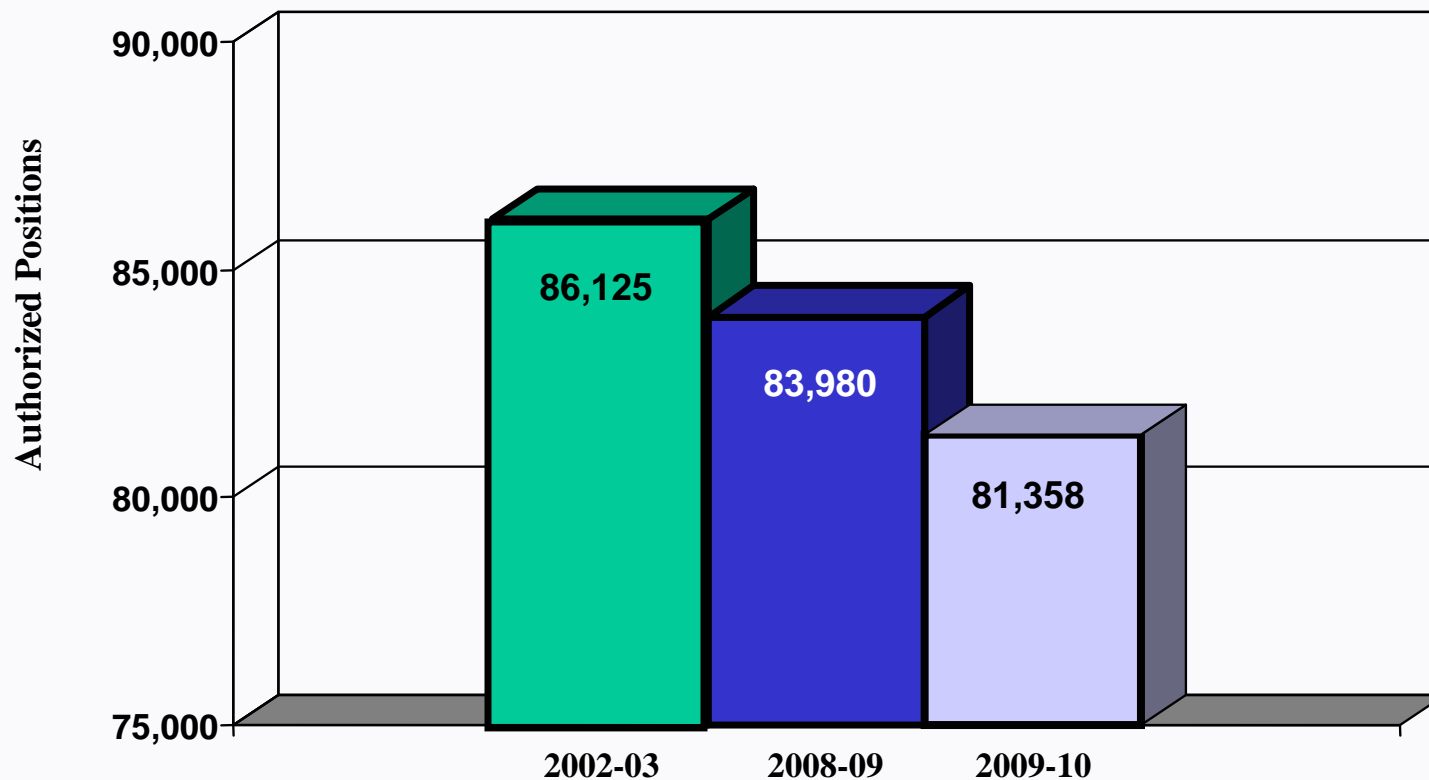


Spending on Education, Medical Assistance / Long-Term Living, other Department of Public Welfare programs, Corrections and Debt Service comprises nearly 88 percent of total General Fund expenditures.

Total GF Expenditures: \$26.6 Billion

Percentage Change in Authorized Positions *2002-03 through 2009-10*

Between January 2003 and December 2008, the authorized workforce in agencies under the Governor's jurisdiction declined by 2.5 percent, or 2,145 positions. The 2009-10 budget proposes an additional reduction of 2,622 positions, for a total of nearly 4,800 positions.



2009-10 Budget Overview

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Budget Overview

Education

Investing in Pennsylvania's Future

- **Basic Education Subsidy** – \$300 million increase, to support PreK-12 education by continuing to phase in a research-based funding approach to assist districts to advance student achievement.
- Basic Education Subsidy (\$5.5 billion), Accountability Block Grant (\$271.4 million), Education Assistance Program (\$65.1 million) and Basic Education Formula Enhancement (\$2 million) funding will be folded into the same appropriation to create a targeted approach to support PreK-12 education.
- **Special Education** – \$1.05 billion in total funding, including federal fiscal relief. A \$20.5 million, or 2 percent, increase.
- **Classrooms for the Future** – \$22 million to continue changing the way teachers teach and students learn by putting a laptop on each student's desk to engage the technology generation in more effective learning.
- **Science: It's Elementary** – \$13.6 million to help 65,000 students become active science explorers.
- **Project 720** – \$10.7 million to transform Pennsylvania high schools by increasing the rigor of academic programs. More than 160 high schools are already participating.
- **Dual Enrollment** – \$10 million to help students earn college credit. High school students are taking nearly 25,341 college courses this year as a result of our current investment of \$10 million.

Investing in Pennsylvania's Future

Early Childhood Education Funding

The 2009-10 budget makes significant investments in pre-kindergarten, Early Intervention, Head Start and Keystone STARS in order for these proven programs to continue to serve Pennsylvania's children.

Significant investments in the 2009-10 budget include:

- ***Early Intervention*** – \$189 million, a \$3.9 million increase, to serve an additional 1,107 children from ages three through five.
- ***Pennsylvania Pre-K Counts*** – \$95.1 million for pre-kindergarten, an \$8.6 million increase.
- ***Keystone STARS*** – \$66.2 million to offer child care providers research-based performance standards, professional development and on-site technical assistance. This funding brings the total number of children served to more than 170,900 children.
- ***Head Start*** – \$39.5 million in state funding for to serve 5,620 children.

Higher Education in the 2009-10 Budget

Higher education funding totals more than \$2 billion.

	(Total Funding)
Community Colleges	\$ 287.6M
State System of Higher Education	\$ 519.2M
State-Related Universities	
Pennsylvania State University	\$ 318.1M
University of Pittsburgh	160.5M
Temple University	165.0M
Lincoln University	13.6M
Total State-Related Universities	\$ 657.2M
Non-State-Related Universities	\$ 54.9M
Pennsylvania Higher Education Assistance Agency	\$ 513.7M

Making College Affordable

Governor Rendell is proposing a program that will make post-secondary education affordable for Pennsylvania resident students and their families.

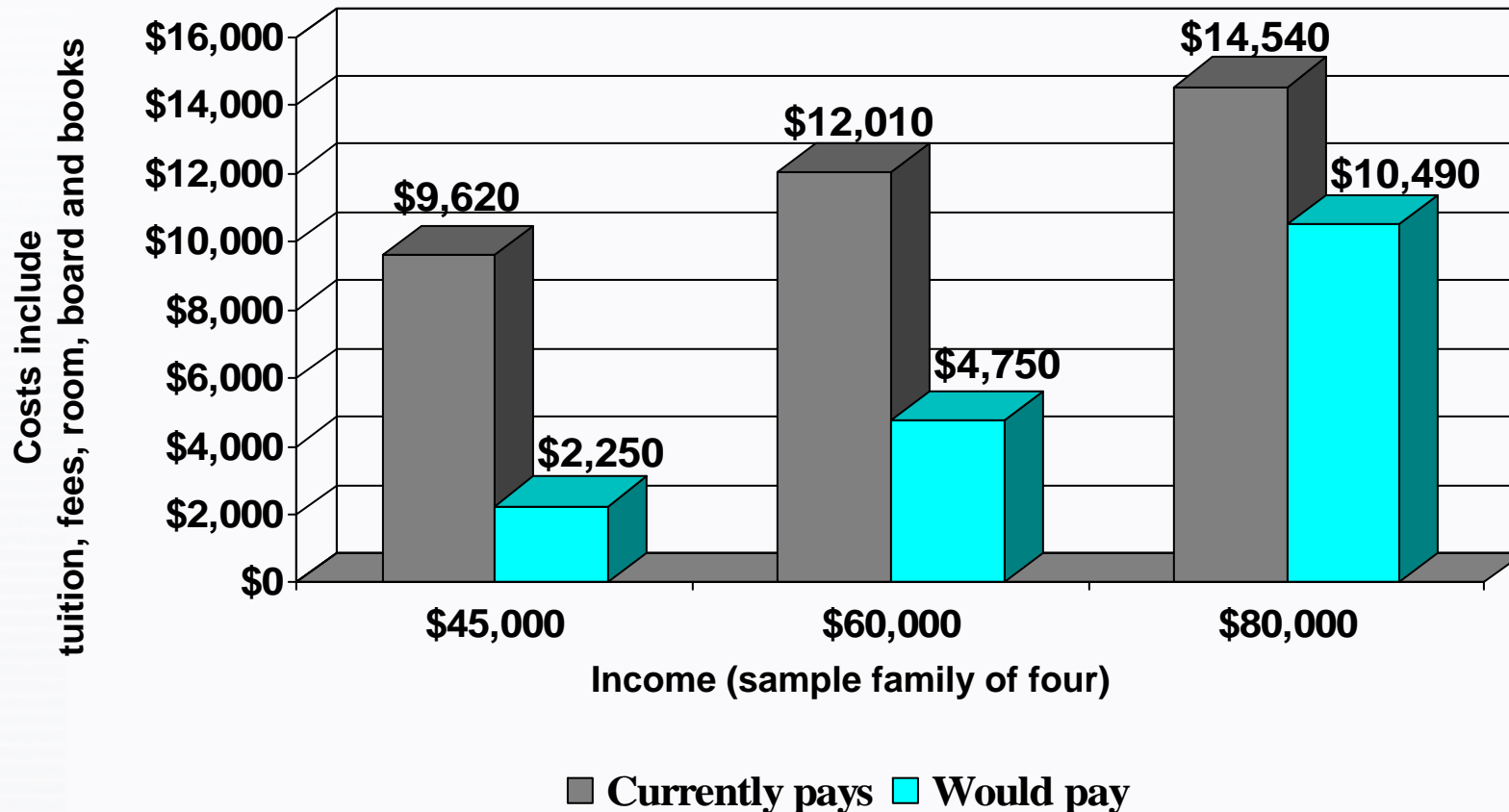
*The Tuition Relief Act will benefit incoming students of families earning **less than \$100,000 per year**. According to current enrollment rates this would include:*

- **more than 170,000** students at the PA State System of Higher Education and the commonwealth's community colleges; and
- an additional **10,000** students who would not otherwise have gone to college at all or who would have left PA and enrolled out-of-state

*Everyone will have to pay at least \$1,000 towards their education, and families will receive additional grants up to \$7,600. Due to the **urgent** need for tuition relief, Governor Rendell proposes that the program start in Fall 2009 with the incoming freshman class.*

Making College Affordable

The Tuition Relief Act will reduce the amount that qualifying incoming freshmen and their families will need to pay for a four-year degree at the State System of Higher Education.



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Budget Overview

Protecting Our Progress

Protecting Our Progress

Since 2004, Pennsylvania's economic stimulus program has invested \$3.2 billion in more than 2,800 projects - helping Pennsylvania businesses to create and maintain a projected 288,000 new jobs. The rapid pace of investment through the Economic Stimulus program has had a significant impact on Pennsylvania's economy, leveraging more than \$8.6 billion in additional economic activity.

- **\$100 million to reinvest in proven economic stimulus programs:** Includes \$60 million dollars to reinvigorate the successful Business in Our Sites program and \$40 million to invest in water and wastewater infrastructure projects.
- **\$100 million reallocation to expand the Second Stage Loan program** to provide working capital to manufacturing, biotech, technology and other companies.
- **\$10 million increase to the Infrastructure Facilities Improvement Grant program** for new infrastructure and facility improvement projects for this valuable engine of economic growth.
- **Double the available capital funding for the commonwealth's public universities.** Doubling the State System of Higher Education's \$65 million capital allocation to a total of \$130 million.

Budget Overview

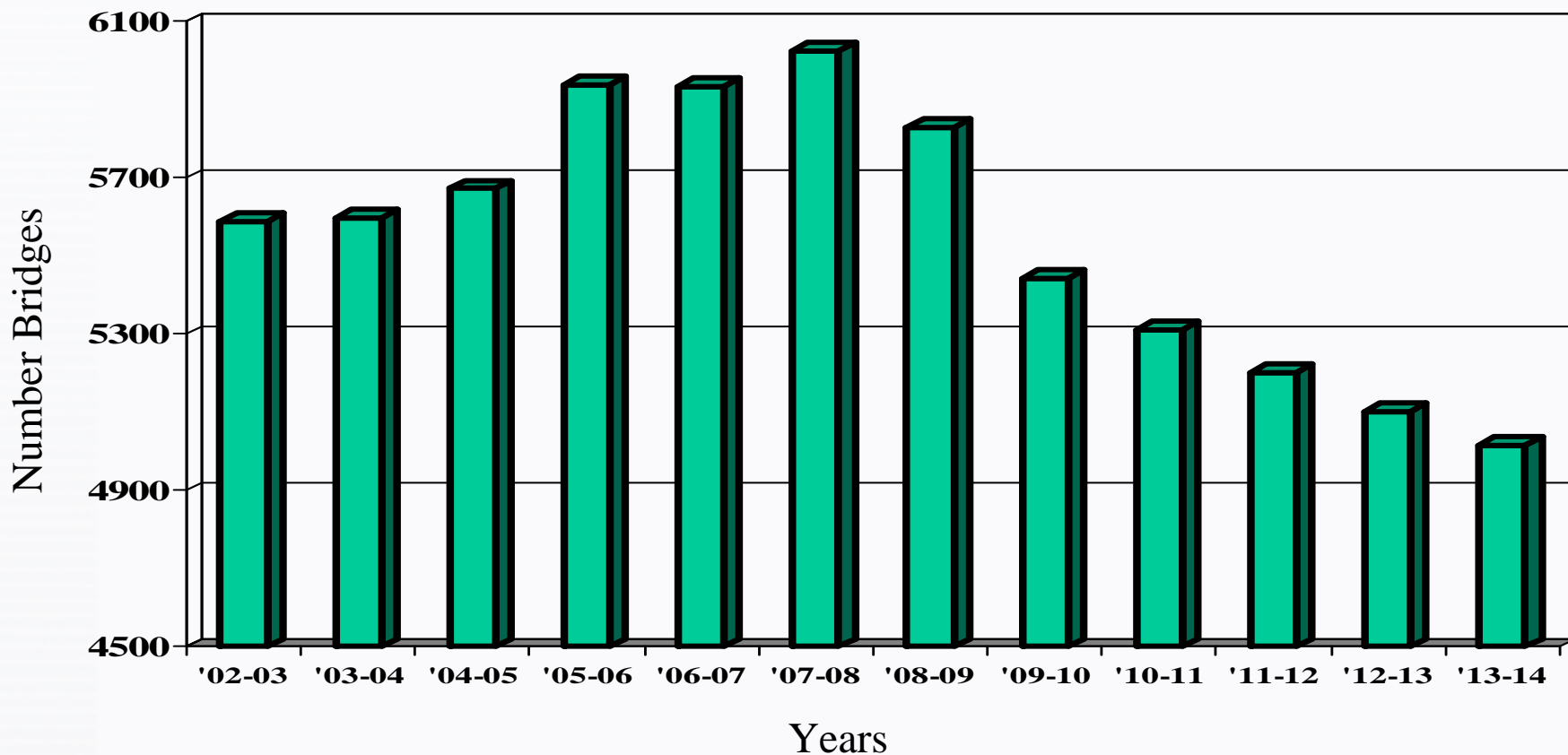
Rebuilding Pennsylvania

Protecting Our Progress

Infrastructure Initiative

Structurally Deficient Bridges

The Governor's 2009-10 budget proposes \$200 million for the continuation of the bridge repair program. These funds are in addition to the federal stimulus funds, estimated at \$1 billion over the next two years for bridge and road repair and other infrastructure projects in Pennsylvania.



Rebuilding PA Infrastructure Initiative

- **Ramping Up Repair: 1,000 Rebuilt bridges by 2010-11.** \$200 million in 2009-10 to accelerate the repair of structurally deficient bridges. This is in addition to \$1.9 billion in 2009-10 base Motor License Fund highway and bridge program funding.
- **Safety First – Repairing Pennsylvania’s Dams.** Repair 24 state-owned, high-hazard, dams by 2010. \$25 million being provided in 2009-10. **Pennsylvania’s Flood Prevention program.** \$100 million through 2010 to protect flood prone communities.
- **Pennsylvania’s Rail Freight Economic Development program.** The 2009-10 budget increases this three year total by \$25 million (\$12.5 million additional increase in 2009-10). Also, \$15 million in additional Rail Freight Assistance funding will be provided over each of the next three years to expand intermodal transportation facilities.
- **Pennsylvania’s Aviation Economic Development program:** An additional \$10 million over two years to address medium/small-city/regional airport expansion.
- **Repairing Critical Water and Sewer Infrastructure:** The H₂O Fund will provide \$800 million over the next 10 years for critical water, sewer, and flood-control projects, and repairs to unsafe, high-hazard dams, including an estimated \$150 million in 2009-10. A \$400 million bond issue was also approved for PENNVEST to provide funds for public drinking water and wastewater systems.

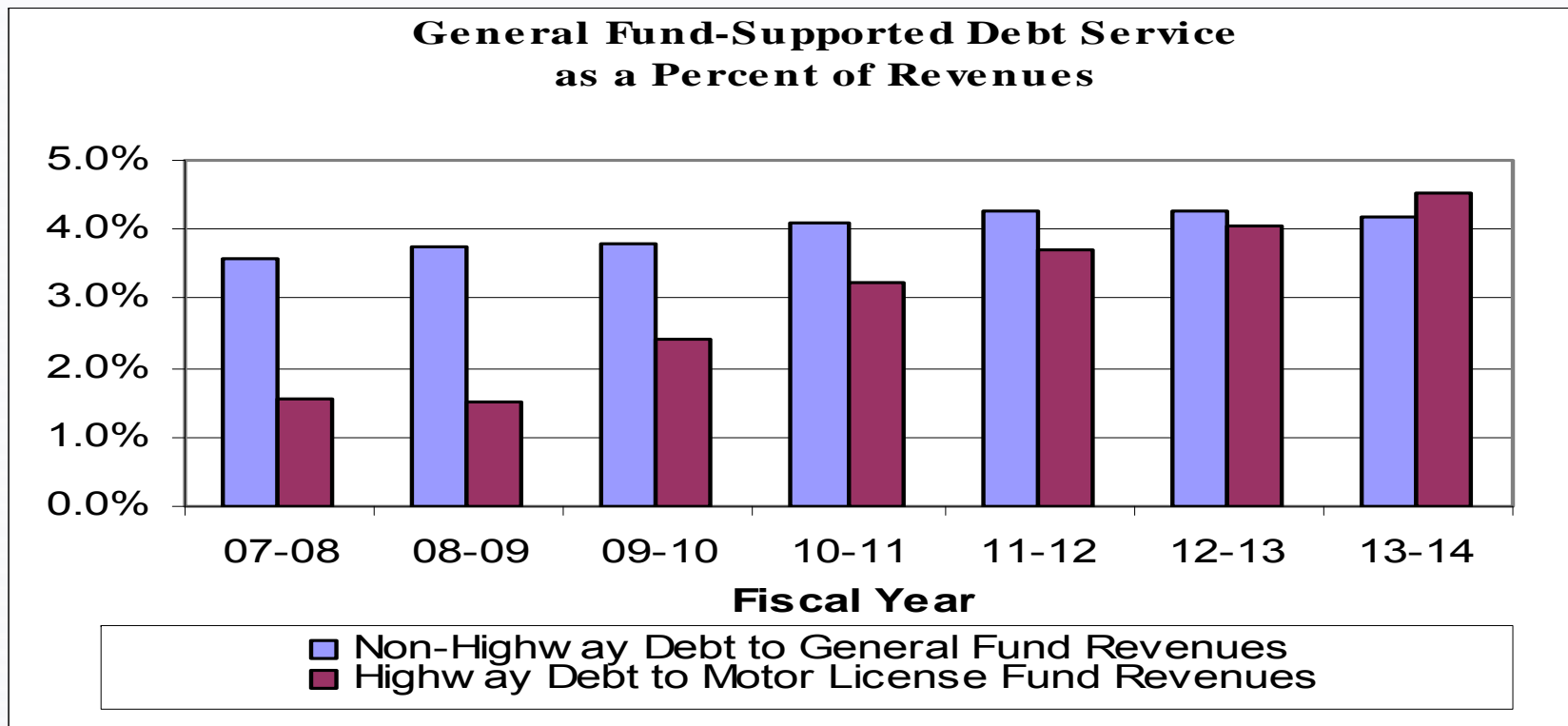
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Budget Overview

Debt Service

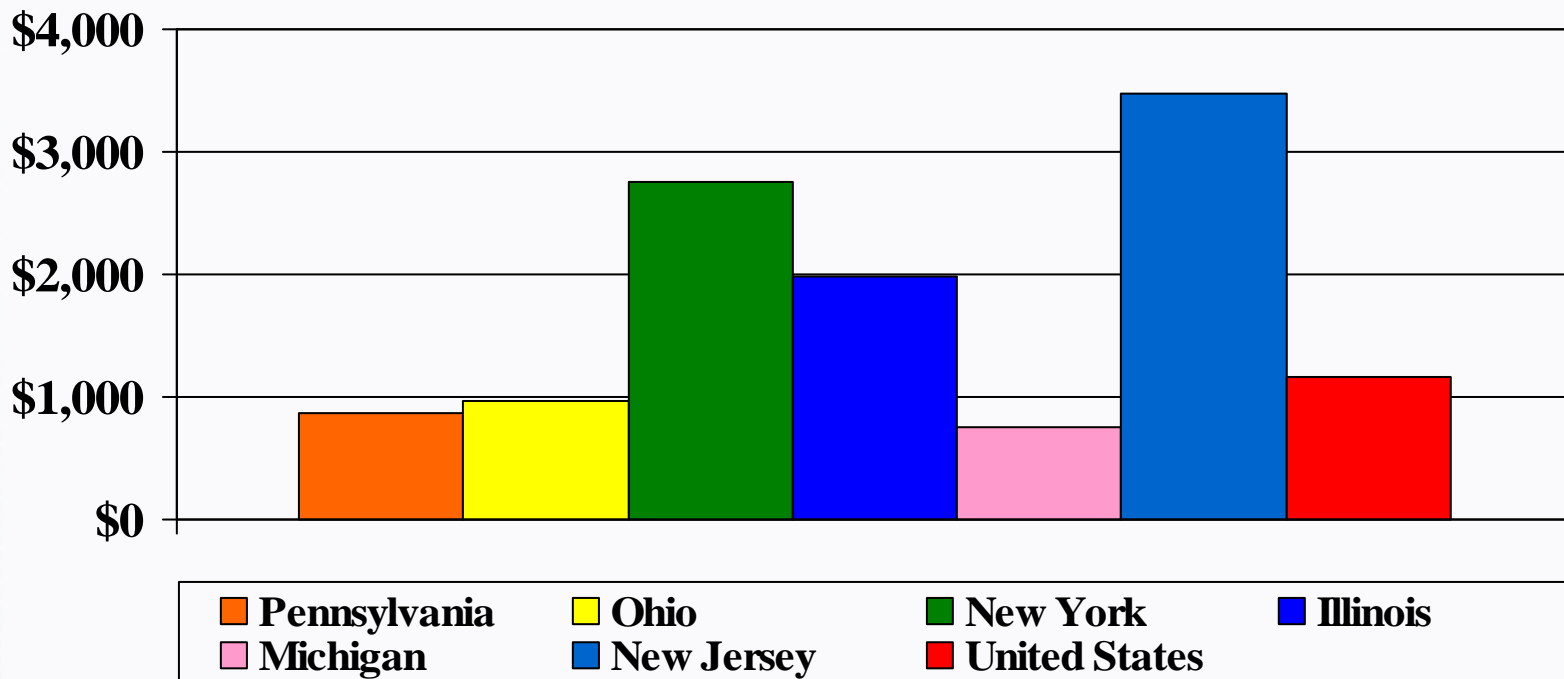
Pennsylvania's Debt Affordability

In 2009-10 the commonwealth will spend \$943 million, or 3.8 percent of its General Fund budget, on debt service. The commonwealth's General Fund debt service as a percent of revenues remains below the generally accepted criteria of 5 percent for issuers considered to have a "low debt burden." The commonwealth issues debt to pay for capital enhancements to state-owned facilities, environmental remediation and economic development projects.



Net Tax-Supported Debt Per Capita

Pennsylvania's debt per capita of \$870 places it in the middle of the pack among the states but well below the neighboring states of New York and New Jersey, and below the U.S. mean.



Source: Moody's Investors Service, "2008 State Debt Medians," April 2008

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Budget Overview

Preserving the Safety Net

Expanded adultBasic Health Insurance Program

- ✓ Expanded adultBasic will:
 - Offer more low-income, uninsured individuals the option of affordable health insurance that includes prescriptions drugs, and behavioral health services.
 - More than double the number of low-income Pennsylvanians with state-supported health care insurance from approximately 40,000 at the end of 2008-09 to 90,000 by the end of 2009-10.
 - Cost a projected \$251.7 million in 2009-10 and will be funded using existing Tobacco Settlement and Community Health Reinvestment funds and enrollee premiums, as well as new federal matching funds.

2009-10 Medical Assistance Cost Containment

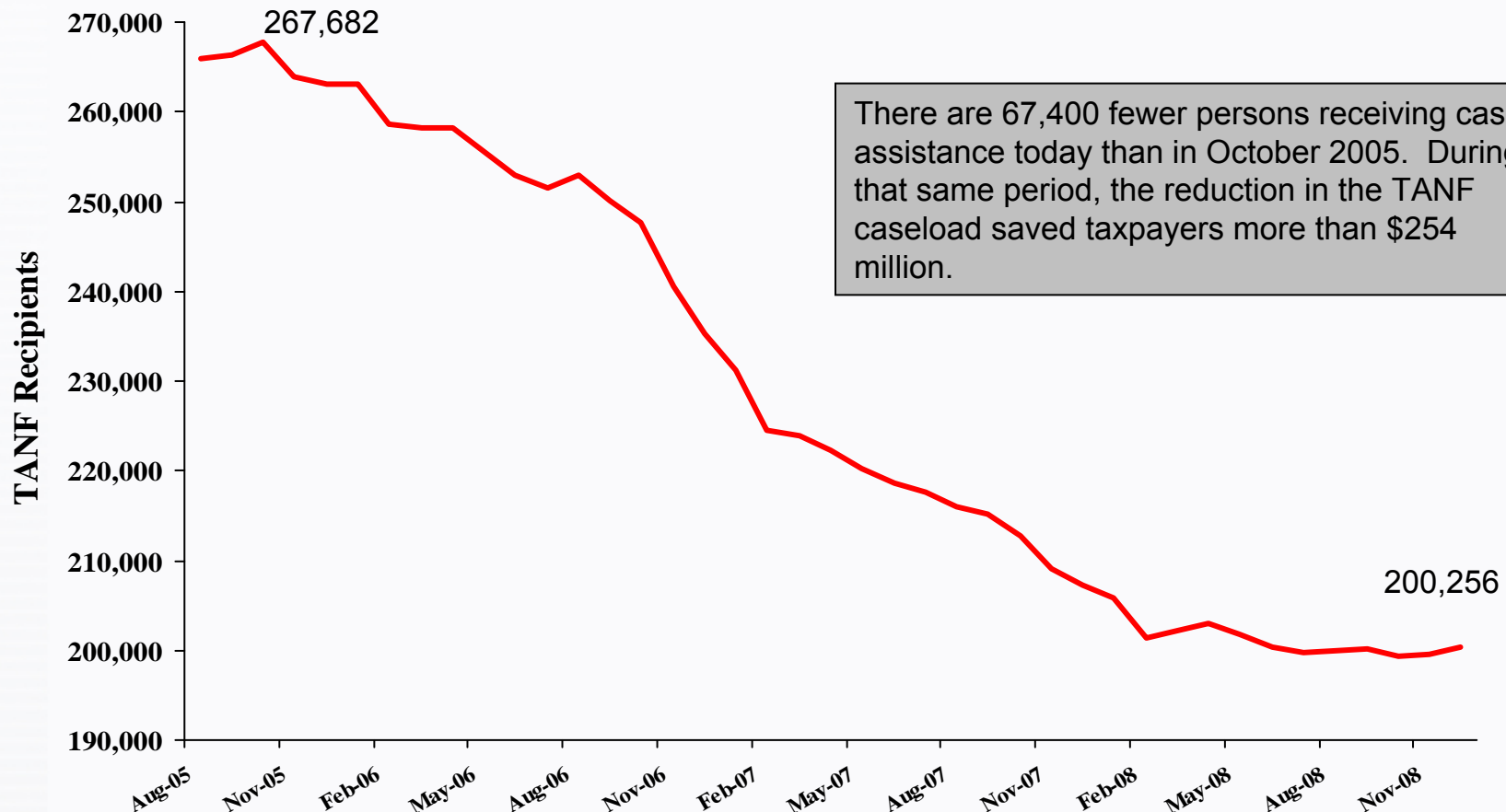
The 2009-10 proposed budget includes cost-containment reforms and revenue replacement initiatives to fund needed services in critical programs. These cost-containment measures are estimated to save an additional \$329.1 million in state funds, which will increase to \$615.6 million in 2010-11.

Initiatives (Savings in Millions of Dollars)	2009-10 Savings	2010-11 Savings
Replace Managed Care Assessment	\$ 200.0	\$ 400.0
Implement Smart Pharmacy Program	54.0	146.0
Increase Behavioral Health Managed Care Efficiencies	35.0	10.0
Reduce Hospital Supplemental Payments	20.0	20.0
Reduce Fraud and Abuse and Expand Third-Party Liability	15.7	28.1
Increase Access Plus Efficiencies	4.4	11.5
Total	\$ 329.1	\$ 615.6

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TANF Caseload Declines

As of December 2008, there has been a 25 percent decrease in the number of people receiving Temporary Assistance for Needy Families (TANF) benefits since October 2005. Due to the economic recession, however the 2009-10 budget assumes an increase of more than 3,000 cases or 1.8% in the TANF caseload.



The Commonwealth Provides Vital Services to Children, Seniors and Other Pennsylvanians in Need

	People Served 2008-09*	People Served 2009-10*	Percent Change
Medical Assistance – Health Care for Low-Income Elderly, Disabled, Children, Adults and Chronically Ill Adults	1,960,514	2,022,490	3.2%
Pharmaceutical Assistance Contract for the Elderly (PACE) /PACENET	360,000	375,000	4.2%
Protection for Children at Risk due to Abuse, Neglect and Delinquency	283,745	286,983	1.1%
Cash Assistance (TANF, General Assistance and State Blind Pension)	219,414	225,240	2.7%
Child Care for Low-Income Families	246,579	253,054	2.6%
Children’s Health Insurance Program	183,356	206,836	12.8%
Community Mental Retardation and Autism Services	48,991	50,051	2.2%
adultBasic	40,052	90,000	124.7%
* Some people may receive services in more than one category			

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 one-third – from 125,983 in January 2003 to 183,891 in January 2009.

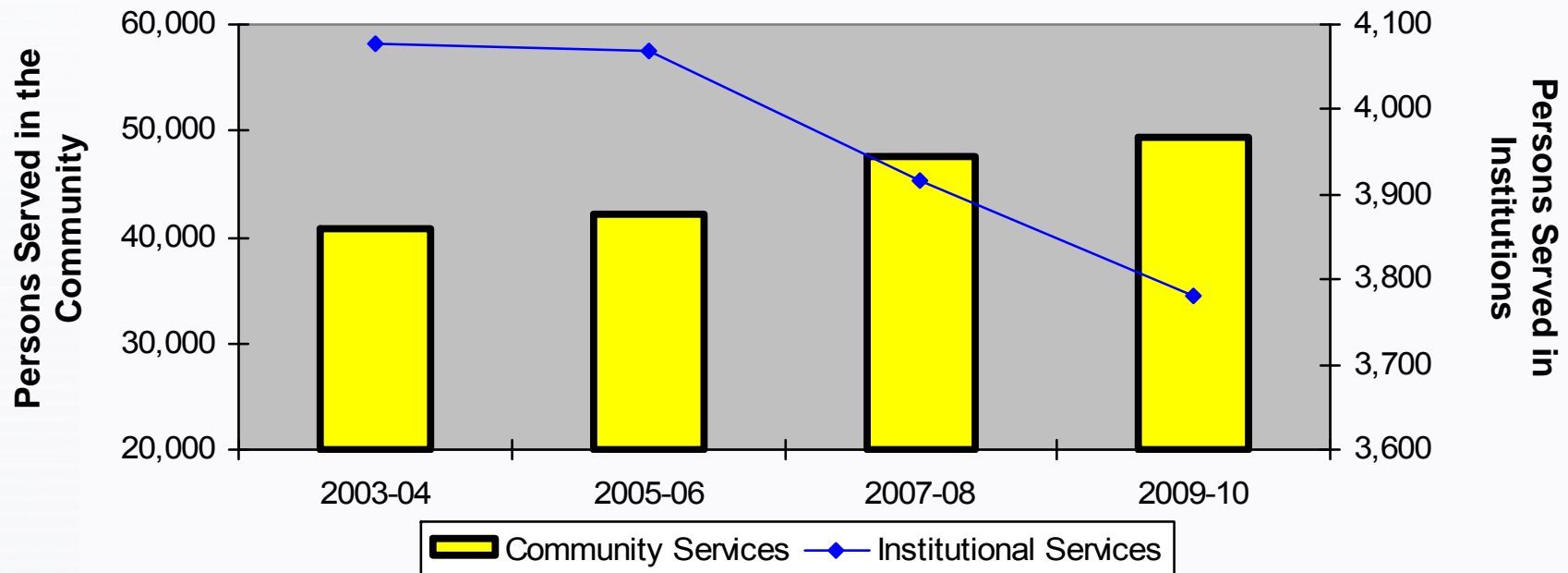
- Provides \$407 million in state and federal funds to serve 206,836 children an increase of 23,480 children, or nearly 13 percent, above 2008-09.
- Provides comprehensive health care coverage, including visits to doctors, hospitalization, prescription drugs, mental health and substance abuse services, vision, dental and home health care.
- Subsidizes 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 in 2009). Family premiums range, on average, between \$43 and \$69 per month per child.
- Offers at-cost coverage for children in families whose income is at or above 300 percent of poverty level (on average, \$172 per month per child).

Community Mental Retardation Services

The number of people receiving home and community-based mental retardation services has increased 21.5 percent since 2002-03; the number of people receiving services in institutions has decreased 9 percent.

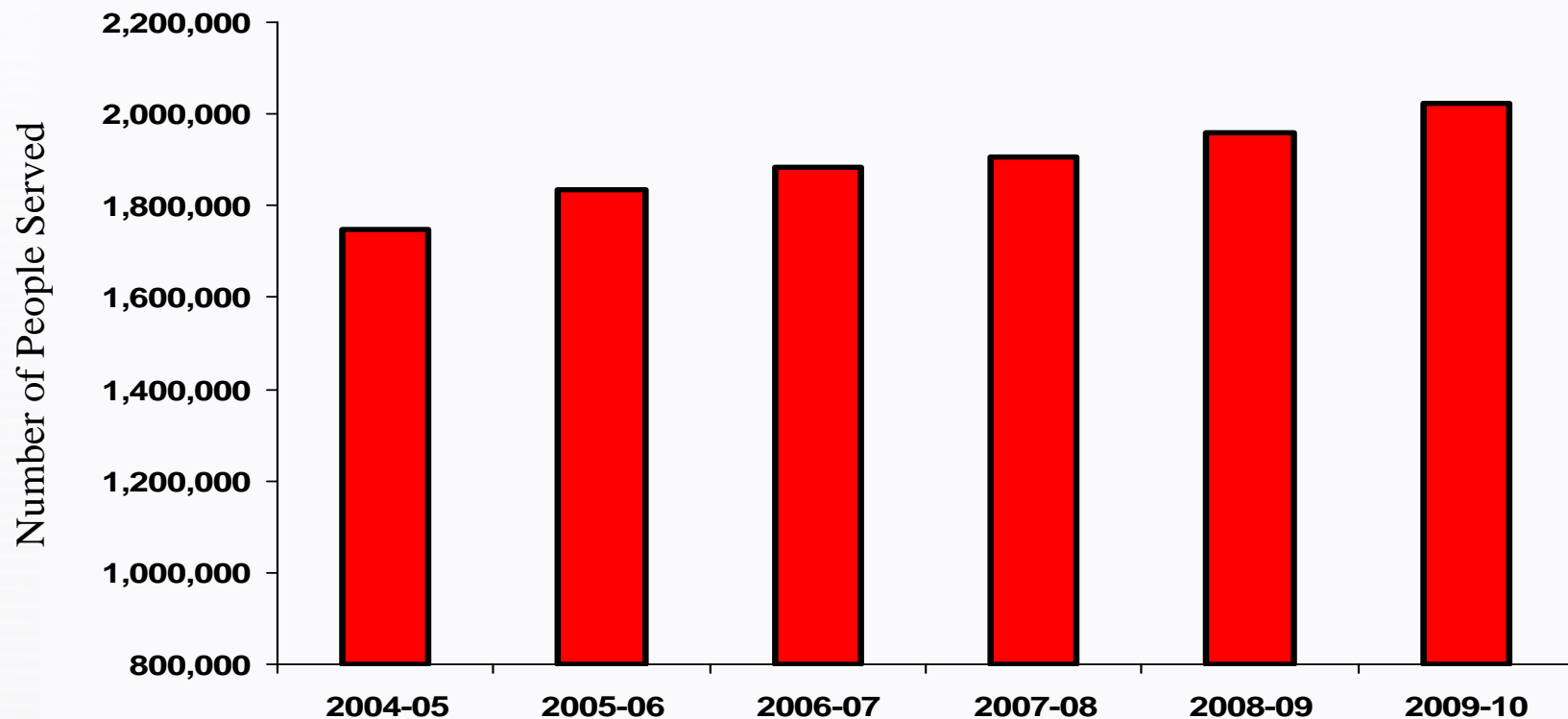
The 2009-10 budget includes \$15.1 million to provide home and community-based mental retardation services for 793 additional individuals, including 500 young people leaving the special education system.

Persons Receiving Mental Retardation Services



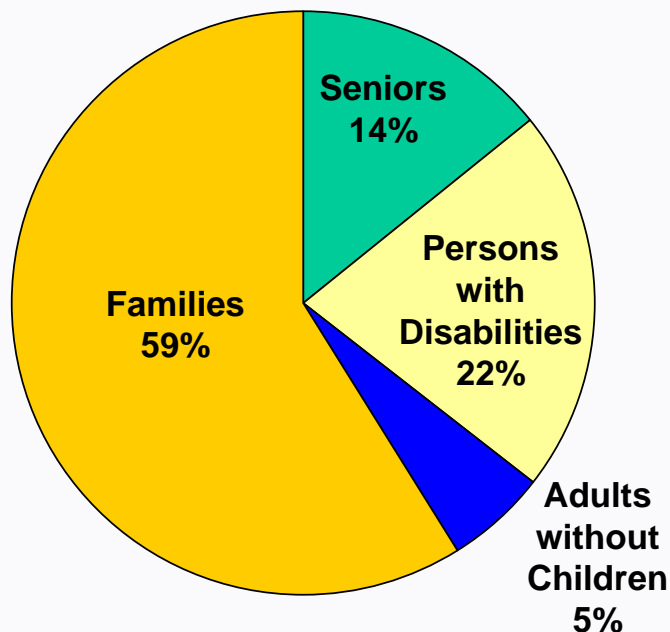
Medical Assistance *Serving More People in Need*

The Medical Assistance program is projected to provide services for a total of 2 million people, an increase of 62,000, or 3.2 percent, in 2009-10. Growth in the Medical Assistance caseload comes primarily from serving additional persons with disabilities and older Pennsylvanians.

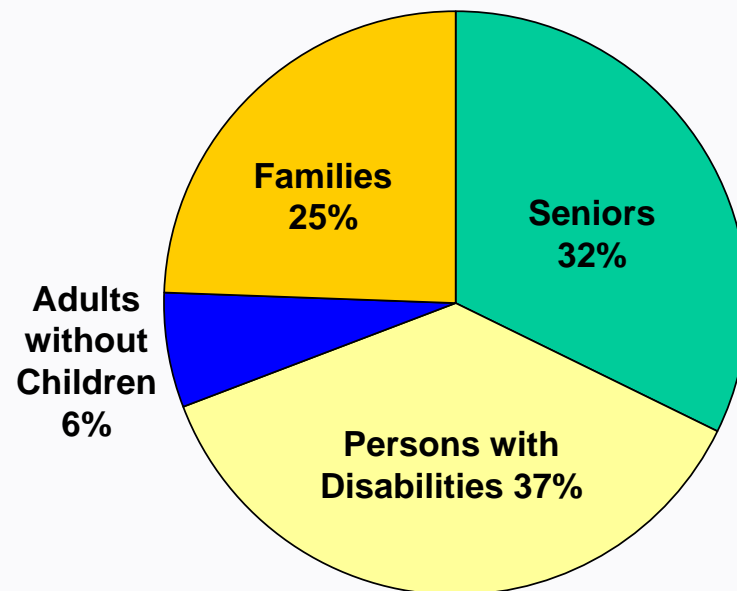


Seniors and Persons with Disabilities Use the Greatest Share of Medical Assistance Resources

Seniors and persons with disabilities are 36 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 the expenditures.



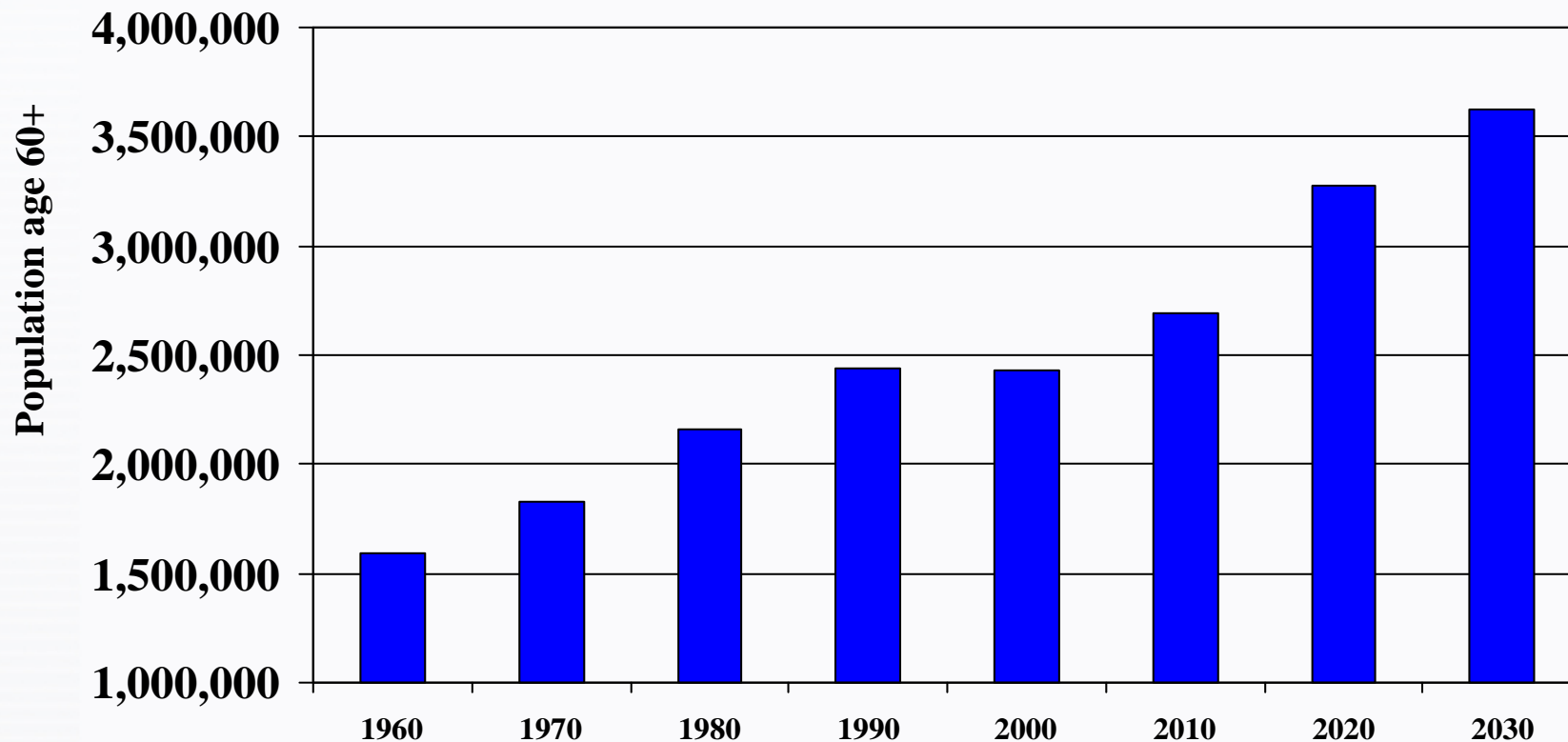
Number of People
2 Million



Expenditures
\$14.3 Billion

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

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



The Commonwealth's Plan for Long-Term Living

*The 2009-10 budget proposes to consolidate the 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 2009-10 budget proposes \$1.3 billion for the Department of Aging and Long Term Living, an increase of \$232 million from 2008-09, including:
 - \$9.6 million to provide home and community-based services to **2,000 additional older Pennsylvanians**.
 - \$16.5 million to provide home and community-based services to **1,600 additional individuals with disabilities**.

PACE/PACENET Prescription Drug Program

The PACE/PACENET program will serve an estimated 375,000 people in 2009-10, which is an increase of 15,000, or 4.2 percent, from 2008-09.

- The 2009-10 budget proposes to save \$41.6 million by modifying the PACE pharmacy reimbursement methodology:
 - Replace Average Wholesale Price (AWP) with Actual Acquisition Cost (AAC) as the primary reimbursement component.
 - AAC is the final cost paid by the pharmacy after all discounts, rebates and charge-backs are subtracted.
 - Provide higher dispensing fees for medications – \$5.00 for brand-name drugs and \$10.00 for generic drugs.

Budget Overview

Landmark Energy Initiatives

Landmark Energy Initiatives

Alternative Energy Investment Act (Act 1 of Special Session 1 of 2008), authorizes the Commonwealth Financing Authority to incur up to \$500 million in debt for up to 30 years for alternative energy development programs and provides \$100 million from the General Fund for consumer and small business energy programs. In addition, the Act provides \$50 million in alternative energy production tax credits.

- ***Alternative Fuels Incentive Act Amendment (Act 2 of Special Session 1 of 2008)***
 - Up to \$100,000 for nitrogen tire inflation grants
 - Up to \$5.3 million in incentives for biomass-based diesel production
 - Up to 0.5 percent of fund for education and outreach – (\$107,000 based on 6-30-08 account balance)

- ***Biofuel Development and In-State Production Act (Act 78 of 2008)***
 - Mandates biodiesel content in diesel fuel sold or offered for sale in Pennsylvania

Water and Sewer Improvements

➤ *H₂O PA Act (Act 63 of 2008)*

- Commonwealth Financing Authority to incur up to \$800 million in debt for water, sewer, stormwater, flood control and high hazard dam projects
- At least \$100 million for flood control projects
- At least \$35 million for high hazard dam projects

➤ *Water and Sewer Systems Assistance Act (Act 64 of 2008)*

- PENNVEST to provide \$400 million in grants/loans for acquisition, repair, construction, reconstruction, rehabilitation, extension, expansion and improvements of water supply and sewage treatment systems and can include purchase or trading of nutrient credits
- \$100 million per year for four years, beginning in FY 2009-10
- Voters approved referendum in November 2008

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Budget Overview

Public Safety and Security

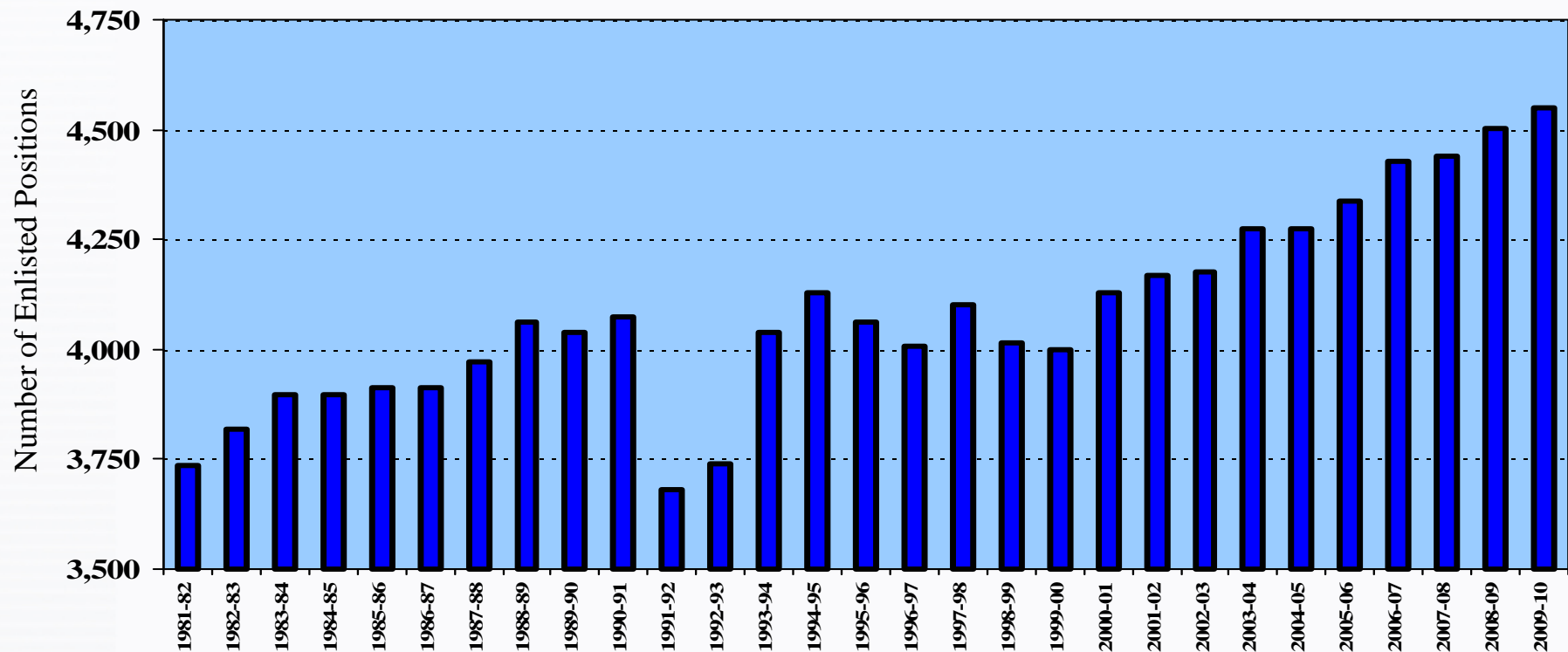
Pennsylvania's Safety and Security *A Commonwealth Priority*

The 2009-10 budget provides additional investments to provide for the security and safety of Pennsylvanians. The budget recommends \$1.8 billion, an increase of \$164 million, to fund the Department of Corrections.

- \$11.9 million in state funds for capacity increases at community corrections centers
- \$19.6 million in state funds for housing units at nine correctional institutions
- \$2 million in state funds for additional parole agents and staff to increase case processing capabilities
- Provides funding for the highest level of troopers

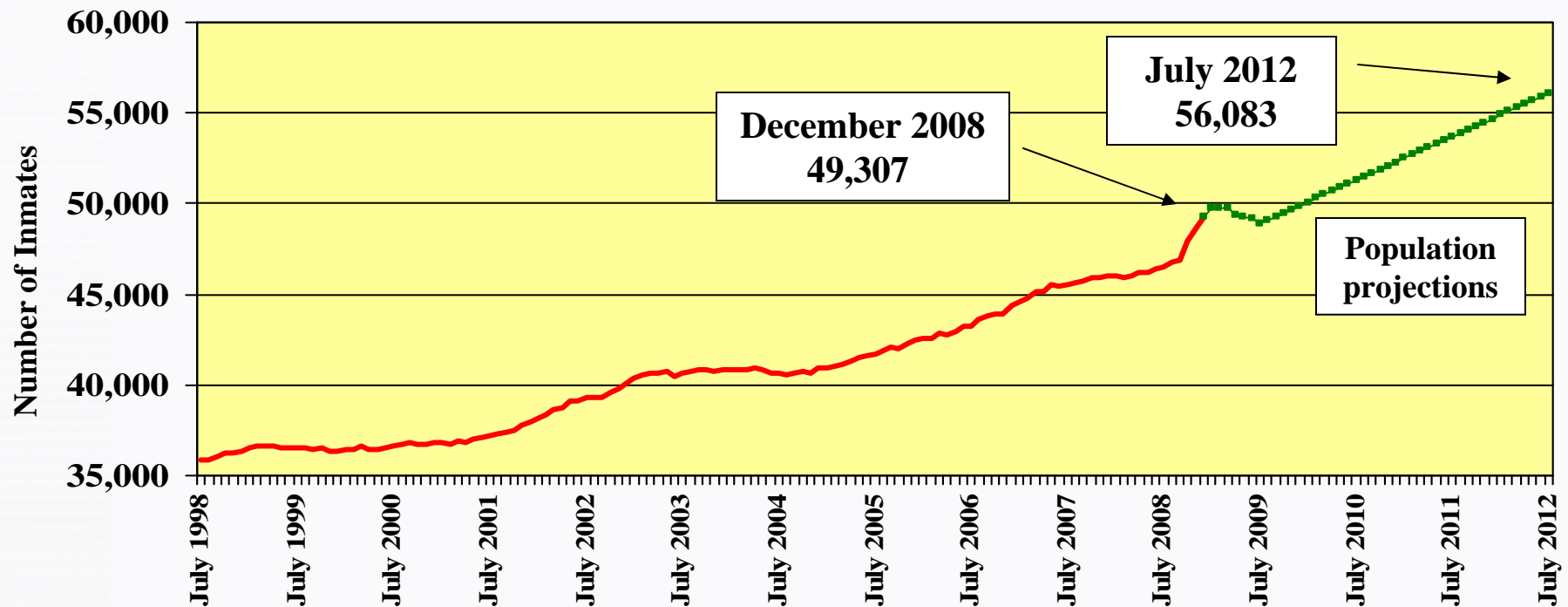
Pennsylvania State Police *Status Update*

The Rendell Administration has supported the greatest increase in State Police trooper strength in Pennsylvania history. Recognizing the critical role of the State Police in ensuring public safety, the 2009-10 budget includes funding to enable the filled trooper levels to reach 4,549 positions by June 2010.



Department of Corrections Inmate Population *Status Update*

The number of offenders incarcerated in State Correctional Institutions is projected to increase nearly 20 percent, from more than 49,000 inmates in December 2008 to more than 56,000 inmates by July 2012. The 2009-10 recommended budget provides new funding for an additional 1,609 prison beds and 800 community corrections center beds.



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Budget Overview

Reducing the Tax Burden

Protecting Our Progress

Estimated Property Tax Relief

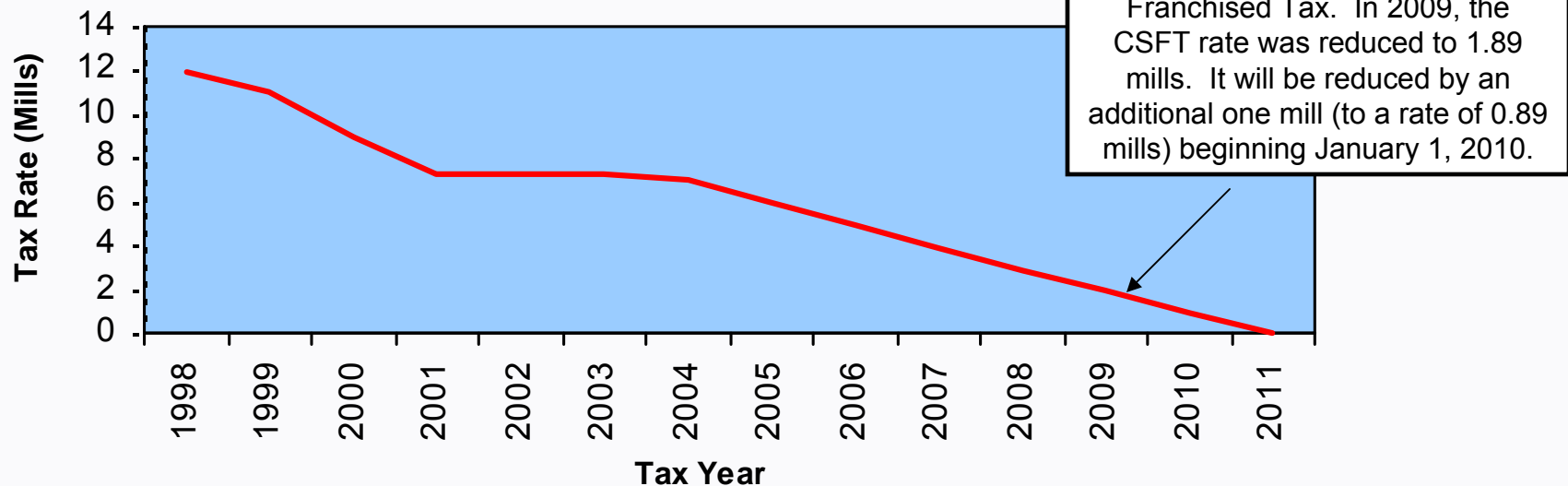
The 2009-10 budget continues property tax relief for all Pennsylvania homeowners. The Taxpayer Relief Act of 2006 uses revenue from expanded gaming to fund property tax cuts in two ways:

To provide the quickest relief to the senior citizens who have the most urgent need. The annual expansion of the state's Property Tax / Rent Rebate program began in 2007. In 2009-10, a total of \$174 million in Property Tax / Rent Rebates will be provided to senior citizens.

To reduce property taxes for all Pennsylvania homeowners. This broad-based property tax relief will continue in 2009-10, with Pennsylvanians receiving a total of nearly \$613 million.

Type of Tax Relief	Tax Relief in 2008-09	Tax Relief in 2009-10
Relief for all Homeowners from gaming revenue (wage tax relief in Philadelphia)	\$612.9 M	\$612.9 M
Enhanced property tax rebates of up to \$650 for senior citizens earning up to \$35,000 per year	\$124.6 M	\$143.4 M
Higher rebates for senior citizens with a high tax burden or those living in cities with a high tax burden	\$48.5 M	\$30.6 M
TOTAL	\$786.0 M	\$786.9 M

Continuing the Phase-Out of the Capital Stock and Franchise Tax



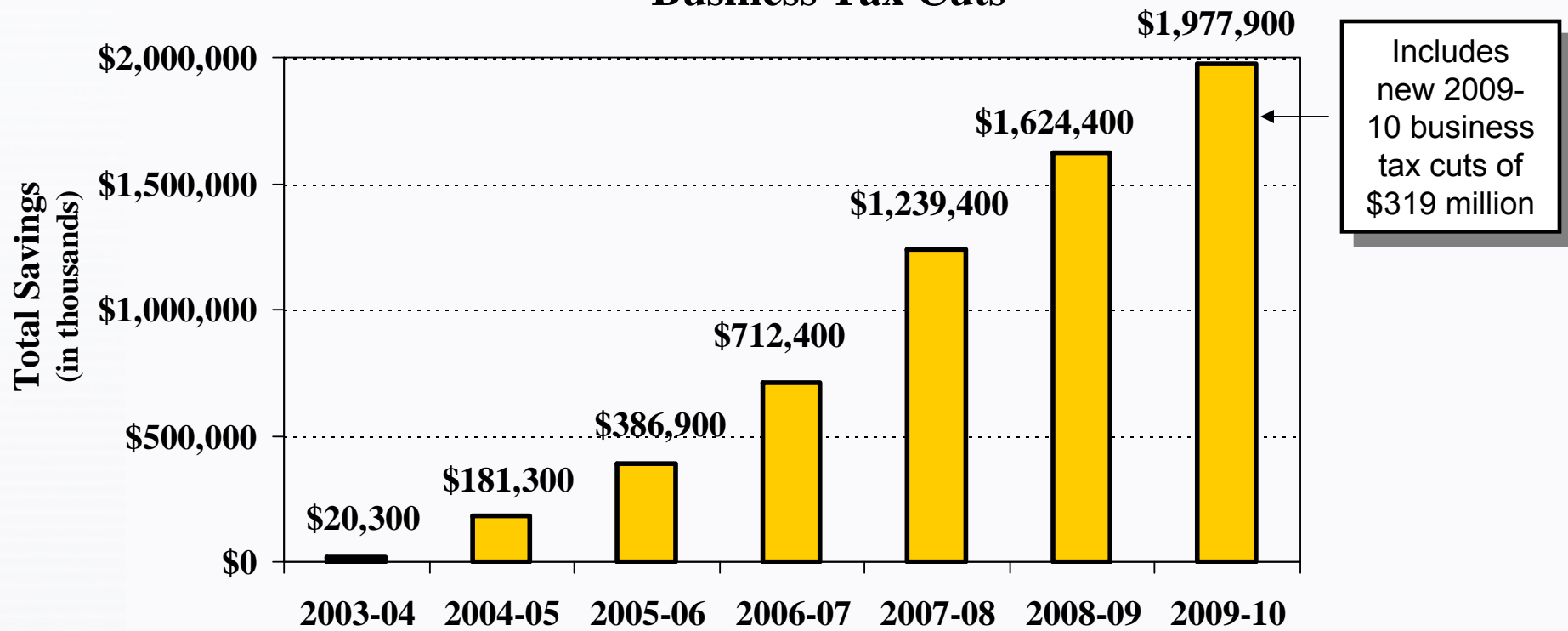
- The Capital Stock and Franchise Tax declined by another one mill to 1.89 mills in 2009, resulting in a \$239.1 million estimated savings to businesses in 2009-10. The 2009-10 budget proposes to continue the phase-out at the currently scheduled rate of reduction (0.89 mills beginning January 1, 2010). The tax will be completely eliminated in 2011.
- Cumulative business tax reductions from major tax savings initiatives for 2003-04 through 2009-10 total more than \$6.1 billion, including \$4.5 billion in cumulative savings from the Capital Stock and Franchise Tax phase-out.

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Business Tax Cuts 2003-04 through 2009-10

The 2009-10 budget includes \$2 billion in savings from business tax cuts, including \$319 million in new savings from the phase-out of the Capital Stock and Franchise Tax. Since 2003, the administration has reduced business taxes by more than \$6.1 billion, including nearly \$4.5 billion in savings from the phase-out of the Capital Stock and Franchise Tax.

Business Tax Cuts



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

Guiding Principles of the 2009-10 Budget

➤ This budget is built to:

- Put more Pennsylvanians to work and keep those who are working in their jobs.
- Relieve the impact of the recession on hard-working families.
- Keep the cost of state government down and manageable in the long run.

Commonwealth of Pennsylvania

2009-10 Executive Budget

Edward G. Rendell
Governor

Mary A. Soderberg
Secretary of the Budget

February 4, 2009