

COMMONWEALTH OF PENNSYLVANIA



2008-09

BUDGET IN BRIEF

Edward G. Rendell
Governor





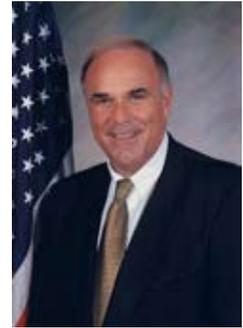
COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE GOVERNOR
HARRISBURG

THE GOVERNOR

February 5, 2008

To the People of Pennsylvania:

As I begin my sixth year in office, I am proud of the progress we have made in our great commonwealth. Since 2003 we have seen improvements in virtually every area of daily life – from the education of our youngest students to the care of our elderly residents; from the preservation of our farmlands to the revival of our historic cities and towns; from investments that help local businesses to the arrival of long-awaited property tax relief for every homeowner.



We can all take pride in Pennsylvania's progress, but we also know that there is much left to do. In the commonwealth and the country, many forces threaten our stability:

- Our national economy appears to be faltering, and decisive state and national action is needed to put it on a firm footing again.
- The health care crisis remains unsolved, with costs continuing to spiral upward and the number of people without health insurance steadily growing.
- Record prices for oil and concerns about global warming demonstrate the urgent need to increase our use of clean and renewable energy.
- Finally, tragedies like the breaching of the New Orleans floodwalls after Hurricane Katrina and the collapse of the I-35W bridge in Minneapolis are proof that our country's physical foundations are literally crumbling, and we must take action now to rebuild them.

Last year I introduced an ambitious set of initiatives – the Agenda for Pennsylvania Progress. The budget I signed last summer funds many of that agenda's key initiatives, including major improvements to education, health care and economic competitiveness. The \$28.3 billion budget I am proposing for 2008-09 carries that agenda forward, addressing important unfinished business.

We must adopt the rest of my Prescription for Pennsylvania health care reform plan, including the Cover All Pennsylvanians plan to provide health coverage to the uninsured. We must enact The Jonas Salk Legacy Fund to invest \$1 billion in medical innovation and life-saving treatments. We must implement an Energy Independence Strategy to reduce our dependence on foreign fuels, increase our use of renewable energy, and become a leader in the emerging clean and renewable energy industry.

We must build on the measurable successes we have had with \$2.4 billion in new resources directed to PreK-12 education since 2003. We must also keep our covenant with our most vulnerable neighbors by continuing to fund programs that support the elderly, people with disabilities, children at risk and low-income families striving to make better lives for themselves.

In this budget I am proposing a tax rebate for lower-income families that will help offset the economic slowdown. In addition, my Rebuilding Pennsylvania infrastructure initiative will make historic investments in bridges and dams. That initiative, along with incentives to stimulate private capital investment, will go a long way to address our infrastructure needs and create the jobs necessary for a healthy economy. These actions will help keep our economy growing in these uncertain times.

The goal of this budget is to protect and build upon the progress we have made. We have a chance to make fundamental changes for the better in the way we live and care for and work with one another. This budget provides the resources to allow us to seize those opportunities.

Sincerely,

Edward G. Rendell



Commonwealth of Pennsylvania

2008-09 Budget in Brief

A complete copy of the ***Governor's Executive Budget, Budget in Brief***
and more budget information can be found on our Web site:

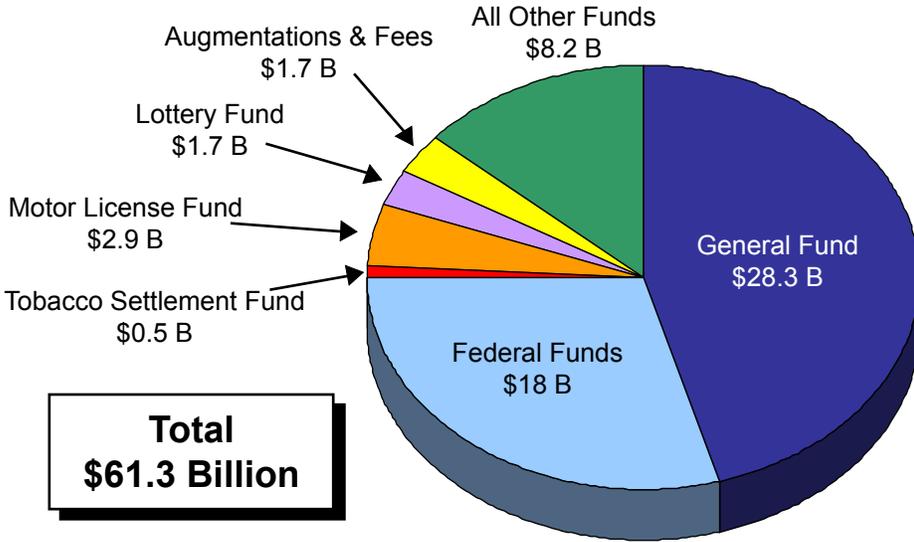
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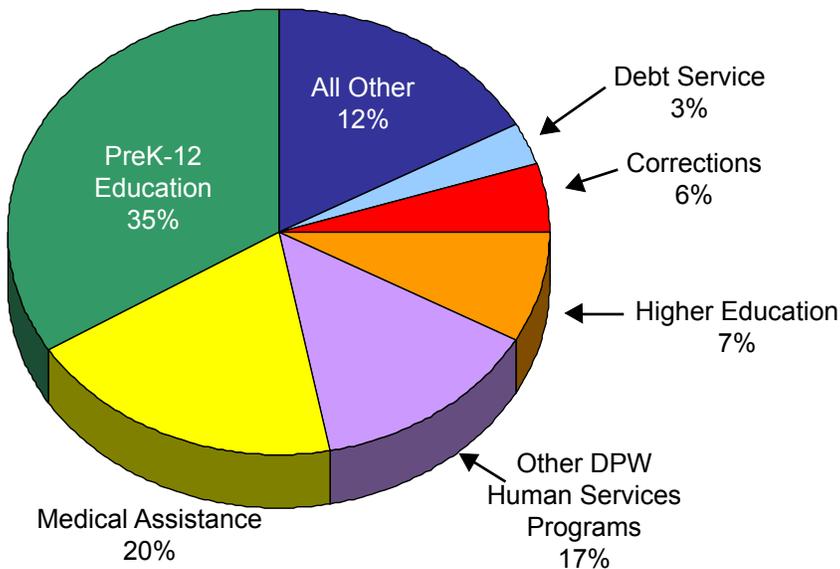
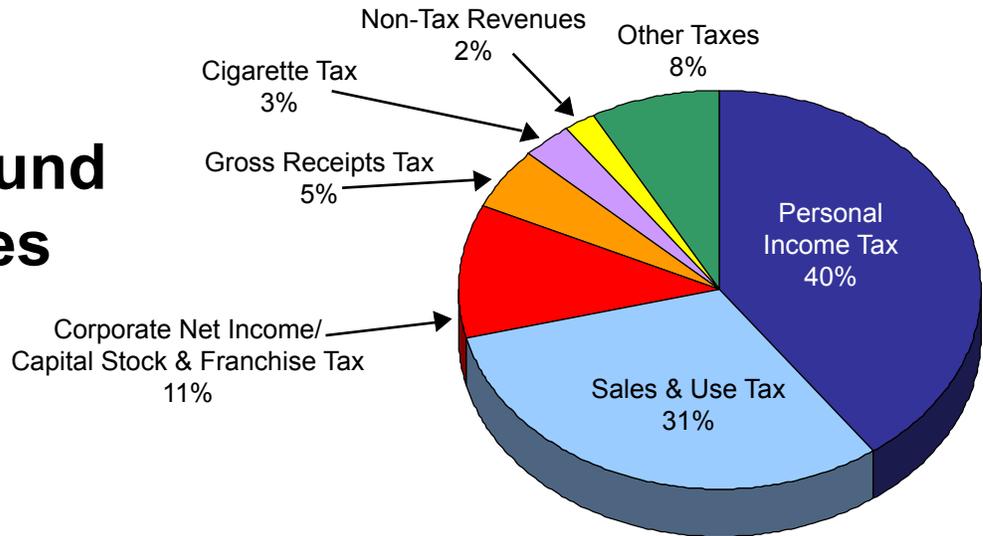
2008-09 Budget Overview



Total Operating Budget

The total Fiscal Year 2008-09 operating budget, including all commonwealth funds, is \$61.3 billion. The General Fund represents 46 percent of this amount.

General Fund Revenues



General Fund Expenditures

\$28.3 Billion

Protecting Our Progress Agenda

Protecting Our Progress

With the direction of the national economy uncertain, Pennsylvania can protect the progress that has been made in our commonwealth over the past five years by promptly implementing a comprehensive plan to provide immediate relief to struggling working families and spur community development and business expansion through targeted and accelerated public investments.

We can protect our progress by taking these critical steps:

- Immediately enact the Protecting Our Progress tax rebate to provide help now to struggling working families facing rising costs.
- Immediately release commonwealth investment funds under the Redevelopment Capital Assistance Program to fund ready-to-go construction projects in communities across Pennsylvania.
- Immediately enact The Jonas Salk Legacy Fund to construct ready-to-go health-related research facilities to create jobs and maintain Pennsylvania's competitive edge in the life sciences.
- Immediately enact the Energy Independence Strategy to lower energy costs for Pennsylvania homeowners and businesses, reduce Pennsylvania's dependence on foreign oil and expand Pennsylvania's growing presence in renewable energy industries.
- Launch Rebuilding Pennsylvania to accelerate the repair of the commonwealth's aging infrastructure.
- Extend the Business in Our Sites program to clear old industrial sites and permit action on a growing backlog of shovel-ready development projects.
- Increase funds for urgently needed grants for business infrastructure upgrades.
- Extend the Keystone Opportunity Zone program to encourage the development of underutilized land and buildings.
- Increase state tax incentives for new job creation.
- Immediately lower interest rates charged by key state economic development loan programs.
- Provide \$850 million in property tax relief to Pennsylvania homeowners.

2008-09 Budget Highlights

- The 2008-09 budget marks the beginning of historic property tax relief for all Pennsylvania homeowners by providing more than \$850 million of property tax relief.
- The 2008-09 budget proposes an economic stimulus package – Protecting Our Progress – that includes \$130 million for immediate tax rebates to more than 475,000 working families.
- The 2008-09 budget proposes the investment of more than \$260 million in the first year of a multi-year plan to rebuild Pennsylvania’s public infrastructure.
- The 2008-09 General Fund budget is \$28.3 billion, an increase of \$1.1 billion, or 4.2 percent, over 2007-08.
- In the 2008-09 General Fund budget, \$476 million, or more than 40 percent of the overall \$1.1 billion increase, is for Education.
- The 2008-09 General Fund budget reduces spending by 2.1 percent in all areas other than Education, Public Welfare, Corrections, and Probation/Parole, while improving many vital state-funded services.
- In light of the recent weakening in the national economy and the forecast for slower growth at the outset of 2008, General Fund revenues are projected to grow only 3 percent in 2008-09 over the current fiscal year. This rate of increase is less than half of the 6.5 percent average annual rate of General Fund revenue growth the commonwealth has experienced over the last five years.
- The 2008-09 budget continues to re-invest savings realized through innovation and increased efficiency. By eliminating waste and improving government operations, the commonwealth will achieve \$1.2 billion in annual recurring savings between the time Governor Rendell took office and the end of the 2007-08 fiscal year.

Protecting Our Progress

Protecting Our Progress Tax Rebate – A tax rebate of up to \$400 for struggling working families.

Property Tax Relief – More than \$850 million in property tax relief in 2008.

Redevelopment Capital Assistance – Increase the cap by \$750 million, which will enable more than \$1.5 billion in development projects to proceed. Immediately accelerate implementation of up to \$500 million in projects that are ready to break ground this year.

Job Creation Tax Credit – Increase the credit from \$1,000 to \$3,000 per employee during the first year of employment.

Business in Our Sites – \$100 million in additional funding to enable shovel-ready business site development projects to proceed.

Governor’s Rebuilding Pennsylvania Infrastructure Initiative – Invest more than \$260 million in our public infrastructure, including bridges, rail freight lines, small airports, high-hazard dams and flood-related projects.

Keystone Opportunity Zone Program – Encourage the development of underutilized land and buildings, creating new business districts to revitalize the economy.

Energy Independence Strategy – Invest \$850 million to help Pennsylvania companies and consumers to lower their energy costs, to reduce their dependence on foreign oil and develop renewable energy industries.

Jonas Salk Legacy Fund – Use Tobacco Settlement Funds to leverage \$1 billion in accelerated investments in bricks-and-mortar expansion of Pennsylvania’s world-class health research facilities.

Reduce Business Loan Interest Rates – Reduce interest rates on loans offered by the Department of Community and Economic Development’s Small Business First, Machinery and Equipment Loan and Industrial Development programs to 2 percent below prime.

Infrastructure Development Program – \$10 million in additional funds to provide urgently needed infrastructure upgrades to help businesses ready to expand.

2008-09 Budget Highlights

Education – Investing in Our Children, Preparing for the Future

PreK-12 Education – More than \$9.8 billion in total funding for basic education, a \$470 million, or 5 percent, increase.

Basic Education Funding – \$5.24 billion in funding, a 6 percent increase, to support PreK-12 education and to begin phasing in a funding approach to assist districts in reaching a research-based funding level adequate to advance student achievement.

Special Education – \$1 billion in total funding, a \$30.3 million, or 3 percent, increase.

Accountability Block Grant – \$275 million to fund proven educational programs. Includes \$15 million for quality pre-kindergarten and \$20 million for full-day kindergarten.

Pennsylvania Pre-K Counts – \$87.6 million for pre-kindergarten, a \$12.6 million increase, to benefit 12,000 children.

Public Library Subsidy – \$77.3 million, the largest amount ever in state support for public libraries.

Science: It's Elementary – \$15 million, an 11 percent increase, to help more than 64,400 students become active science explorers.

Project 720 – \$11 million to transform Pennsylvania high schools by increasing the rigor of academic programs. More than 160 high schools are already participating.

Dual Enrollment – \$12 million, a 20 percent increase, to help students earn college credit. High school students are taking nearly 23,000 college-credit courses this year as a result of our current investment of \$10 million.

Classrooms for the Future – \$90 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.

Higher Education Programs – More than \$2 billion in total, including \$519 million for the State System of Higher Education and \$281 million for community colleges.

Caring for All Pennsylvanians

Prescription for Pennsylvania – \$25.1 million in state and federal funds to implement a series of initiatives to improve the coordination and quality of healthcare.

Cover All Pennsylvanians – \$479.5 million in state and other funds to provide an affordable basic health care plan to 149,500 eligible uninsured adults.

Cover All Kids – Third-year funding includes \$361.7 million in state and federal funds to provide affordable health care coverage for 185,750 children, an increase of nearly 11 percent.

Expanding Services for the Disabled – \$385.4 million in state and federal funds, an increase of \$47.8 million, or 14 percent, including funds to enable 1,169 more individuals receive non-institutional community-based care to remain in their own homes.

Child Care – \$790.4 million in state and federal funds, an increase of \$48.6 million or nearly 7 percent, including funds to expand services to 2,600 more children.

Long-Term Living – \$4.2 billion in total funds for nursing home and home and community-based services. Includes funding to enable 2,100 additional seniors to remain in their homes as an alternative to nursing home care.

PACE Plus Medicare – \$332.1 million for the state pharmaceutical program that complements Medicare Part D. An additional 24,000 seniors will be served by PACE, for a total of more than 407,000 enrollees.

Community-Based Mental Retardation Services – \$1.8 billion in state and federal funds, an increase of \$85.9 million or 5 percent, including funds to provide home and community-based services to 1,818 more people.

Early Intervention – \$307 million in state and federal funds, a \$13.8 million increase, or 4.7 percent, to serve 77,665 developmentally delayed children up to age five.

Autism – \$50.1 million in state and federal funds, a \$27.1 million increase that more than doubles the funding for this program, to provide autism services for 664 adults.

Making Pennsylvania Safer

Department of Emergency Management and Homeland Security – Creation of a cabinet-level agency to coordinate emergency response efforts.

State Prison Capacity Expansion – 1,000 additional community corrections beds and 690 prison beds.

Police on Patrol – \$20 million to enable cities affected by rising gun violence to hire additional police.

Comprehensive Legislation to Keep Ex-Offenders from Returning to Prison – \$35 million in savings over the next five years through more effective management and treatment of less violent offenders.

State Police – Including this summer's cadet class, the number of troopers will reach nearly 4,660 by June 2008.

Protecting Our Progress

Since 2003, Pennsylvania's Economic Stimulus program has invested more than \$2.6 billion in 2,500 Pennsylvania business development projects. In addition, commonwealth agencies have assisted more than 78,000 businesses through other programs and initiatives. As a result, more than 400,000 jobs have been saved and just as many new jobs are being created. Pennsylvania residents are now working in record numbers. Today there are 190,000 more jobs than there were five years ago, and unemployment has remained below national levels. Pennsylvania's jobless rate has been equal to or below the national average for 50 of the past 60 months.

These impressive employment gains have been accompanied by significant business tax cuts. Since 2003, business taxes have been reduced by a cumulative total of \$2.5 billion. More than \$1.2 billion of these reductions are recurring cuts that will be augmented by additional tax reductions. In addition, homeowners will benefit from more than \$850 million in property tax relief in 2008-09.

Pennsylvania's momentum has been impressive, but experts are painting a troubling picture of the U.S. economy over the next several months. To ensure that our

commonwealth is as insulated as possible from the current turbulence in national economic conditions, Governor Rendell is proposing a short-term stimulus package – **Protecting Our Progress** – that will offer immediate fiscal relief to struggling working families and infuse much-needed capital into public works projects and local business development to stimulate job creation.

The Governor is calling for immediate passage of a one-time rebate of up to \$400 per household that would go to more than 475,000 of the commonwealth's lower-income working families. Targeted fiscal relief of this type will help the economy in two ways. First, these families are the ones hardest hit by recent increases in fuel, medical care and food bills. Focusing on these families will help keep their credit sound and their families more stable. Second, because these families have limited resources, they are likely to spend these funds in the consumer sectors of the economy.

In addition to providing an immediate economic-stimulus rebate to lower-income working families, the Governor's **Protecting Our Progress** plan will also infuse critically needed capital into the business sector to help create jobs. This part of the plan includes the following provisions:

Redevelopment Capital Assistance – Increase the cap by \$750 million, which will enable more than \$1.5 billion in development projects to proceed. Immediately accelerate up to \$500 million in projects that are ready to break ground this year.

Energy Independence Strategy – Provide an \$850 million investment to assist Pennsylvania companies and consumers to lower their energy costs, expand renewable energy and develop Pennsylvania's energy industries.

The Jonas Salk Legacy Fund – Use Tobacco Settlement Funds to leverage \$1 billion in accelerated investments to fund bricks-and-mortar expansion of Pennsylvania's world-class health-related research facilities.

Job Creation Tax Credit – Increase the credit from \$1,000 to \$3,000 per employee during the first year of employment.

Reduce Business Loan Interest Rates – Reduce interest rates on loans offered through the Department of Community and Economic Development's Small Business First, Machinery and Equipment Loan and Industrial Development programs to 2 percent below prime.

Business in Our Sites – Provide \$100 million in additional funding to enable shovel-ready business site development projects to proceed.

Keystone Opportunity Zone Program – Encourage the development of underutilized land and buildings, creating new business districts to revitalize the economy.

Infrastructure Development Program – Make available \$10 million in additional funds to provide the urgently needed infrastructure upgrades to help businesses ready to expand.

Rebuilding Pennsylvania Infrastructure Initiative – Invest \$260 million in our public infrastructure, including bridges, rail freight lines, small airports, high-hazard dams and flood-related projects.

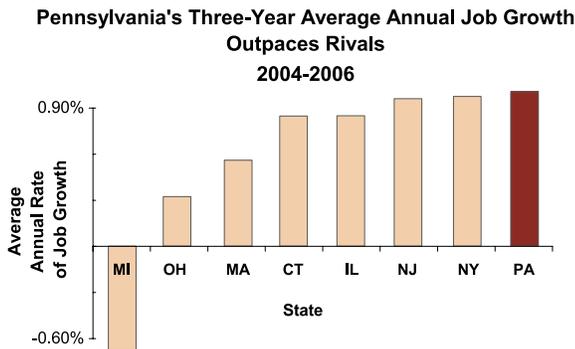
Property Tax Relief – Deliver more than \$850 million in property tax relief to Pennsylvania homeowners in 2008.

Protecting Our Progress

The **Protecting Our Progress** plan is intended to ensure that the state's economy continues to expand – or, at the very least, does not decline – even if the U.S. economy continues to worsen.

In the past five years, Pennsylvania has made measurable progress in many areas – education, the environment, public safety and economic development. This budget continues that momentum. Record job counts and economic expansion are the most obvious proof that the policies begun in 2003 were on target and must continue.

Through strategic investments in targeted economic development, Pennsylvania's economy has become stronger and is better equipped to weather future volatility in the national economy. From 2004 to 2006, Pennsylvania's three-year average annual growth rate was higher than nearby competitor states like Ohio, New York, Michigan, Massachusetts, Connecticut and New Jersey.



Pennsylvanians are also seeing other kinds of visible improvements in their communities – more open spaces protected from development; new, welcoming streetscapes in historic small towns; expanded home-based services for the elderly; expanded pre-school opportunities for more and more children; investments that help build local businesses; historic property tax relief for homeowners; greater access to public information; and faster and better services provided by government agencies.

In addition to providing for immediate action to protect the economic gains Pennsylvania has made over the last five years, this budget also contains proposals that decisively address two long-term economic challenges that have been facing the commonwealth for many years – health care and education.

Health Care - In his **Prescription for Pennsylvania** initiative, Governor Rendell has proposed a comprehensive plan to:

- ensure access to affordable, quality health care for all Pennsylvanians;
- improve the quality of care available to all Pennsylvanians;

- implement insurance reforms that will help Pennsylvania businesses afford to continue offering health care to their employees; and
- begin to eliminate more than \$7.6 billion in unnecessary costs in the health care sector.

Education - In the area of education, recent progress in student achievement has been promising, with increases in proficiency in every grade and subject area – and for all ethnic and economic groups of students. But there are still too many students who are unable to perform at grade level.

To determine the level of resources needed to enable public schools to meet the demanding goals being set for them, the General Assembly last year directed the State Board of Education to conduct an “adequacy study.” That study revealed that 471 of Pennsylvania’s school districts do not have sufficient resources to do what is necessary to ensure that every child will graduate with at least 12th grade skills. The study projected an adequacy gap of more than \$4 billion. The responsibility to close this gap is shared between local school districts and the commonwealth. This budget proposes a six-year, phased-in strategy to enable the commonwealth to meet its share of the adequacy gap: slightly over \$2 billion. The budget also assumes that new resources provided to school districts to close the adequacy gap must be targeted to investments in educational programs that are proven to be effective in boosting student achievement.

This budget proposes the actions necessary to **Protect Our Progress**, and it also recommends funding for the initiatives we need to address the long-term challenges Pennsylvanians must successfully meet in order to build prosperous communities we can pass on to our children.

Pennsylvania: Then and Now		
	Then	Now
Employment	5, 628,200 (January 2003)	5,815,200 (November 2007)
Unemployment	5.7% (Jan. 2003)	4.2% (Nov. 2007)
Personal Income (Per Capita)	\$31,023 (2002)	\$36,689 (2006)
Exports	\$15.8 Billion (2002)	\$26.3 Billion (2006)
PA Gross Domestic Product (GDP)	\$423 Billion (2002)	\$510 Billion (2006)
Number of Tourists	119 Million (2002)	138 Million (2005)
Venture Capital Investment	\$458 Million (2002)	\$778 Million (2006)
R & D Investment	\$1.91 Billion (2002)	\$2.4 Billion (2005)

Property Tax Relief for Pennsylvania

The 2008-09 Budget Will Provide More Than \$850 Million in Property Tax Relief This Summer

Pennsylvania will become even more competitive in 2008-09 through a historic reduction in the amount of property tax each homeowner in the state pays. For Pennsylvanians, this budget marks the beginning of long-anticipated property tax relief, which is designed to provide the greatest benefit for those areas with weak tax bases and high tax burdens, so they can increase their competitive edge.

Delivering Urgent Tax Reform and Property Tax Relief

The 2008-09 budget provides more than \$850 million in property tax relief, including \$672 million in broad-based property tax relief and \$134 million in property tax and rent rebates for Pennsylvania's senior citizens. The 2006 Taxpayer Relief Act – also known as Special Session Act 1 – put in place a delivery system for property tax relief. When fully in place, this tax reform will cut property taxes by more than \$1 billion each year.

- In 2008-09, the \$672 million in **broad-based property tax cuts** will translate to an average of \$185 for every Pennsylvania household. Philadelphia's share of funding for broad-based tax relief will be used to reduce the city's wage tax instead of its property tax, since the wage tax is a greater barrier to economic growth in Philadelphia. In 2009, the Philadelphia wage tax rate is projected to drop below 4 percent for city residents – in large part because of state-funded tax relief. The Taxpayer Relief Act also allows Scranton to use a portion of its tax relief funds to cut that school district's wage tax, which is the highest of all Pennsylvania school districts.
- Compared to the earlier **Property Tax/Rent Rebate program**, the enhanced program includes 252,000 additional senior citizens at a total cost of nearly

\$134 million in 2008-09. Overall, the program includes 419,000 homeowners and 171,000 renters earning less than \$35,000 a year. These older Pennsylvanians will also receive additional property tax relief from the tax reduction that all homeowners receive.

Property Tax/Rent Rebate Program for Senior Citizens

Tax Year 2007	Old PTRR	Additional Claimants	Total New PTRR
Homeowners	169,600	249,003	418,603
Renters	168,436	2,961	171,397
Total	338,036	251,964	590,000

- In total, nearly 600,000 Pennsylvania seniors will benefit from higher state rebates or will be added to the state rebate program because of the increase in the maximum income limit to \$35,000 (which excludes half of Social Security income) and the increase in the top rebate to \$650.
- In addition, **senior citizens who pay a significant portion of their income in property taxes or who live in high property-tax areas** will receive additional targeted property tax relief totaling \$48.5 million in 2008-09.
- An estimated 68,000 senior citizens will have their school property taxes completely eliminated.

Estimated Property Tax Relief Funded by Expanded Gaming in Pennsylvania

Type of Tax Relief	Amount of Tax Relief in 2008-09	Amount of Tax Relief in 2009-10	Amount of Tax Relief in 2010-11
Property tax relief for all homeowners from gaming revenue (wage tax relief in Philadelphia)	\$671.5 million	\$674.7 million	\$754.5 million
Enhanced property tax rebates of up to \$650 for senior citizens earning up to \$35,000 a year	\$133.8 million	\$157.9 million	\$169.8 million
Higher rebates for senior citizens with a high tax burden or those living in cities with a high tax burden	\$48.5 million	\$55.3 million	\$55.5 million
TOTAL	\$853.8 million	\$887.9 million	\$979.8 million

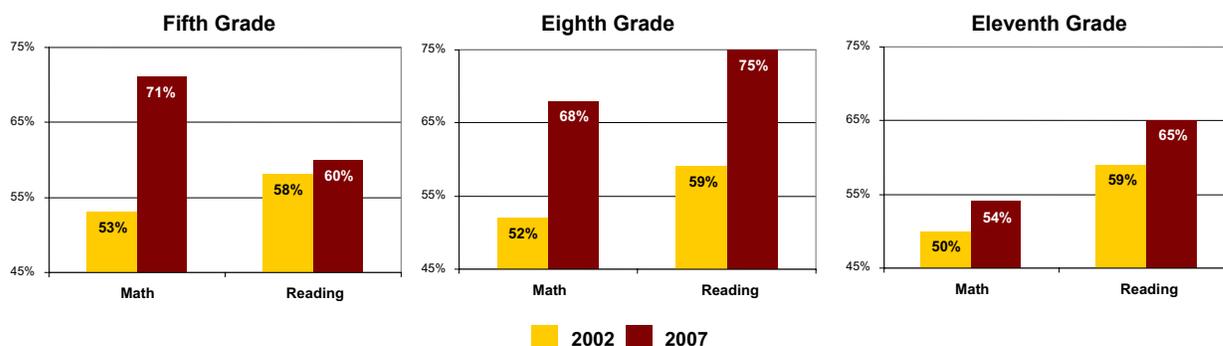
Education - Investing in Our Children, Preparing for the Future

Governor Rendell has made education a top priority for Pennsylvania – championing new investment and greater accountability as critical to the commonwealth’s economic development strategy and necessary to fulfill our moral imperative to ensure that today’s students have the opportunity to succeed in the competitive, high-skills knowledge economy of the future. And Pennsylvania’s investment in education is paying off with greater student achievement across the state and in every grade.

Since 2003, Governor Rendell and the Pennsylvania General Assembly have made \$2.4 billion in new educational investments in programs that have been proven to work in boosting achievement. As a result of these efforts, student achievement in Pennsylvania is on the rise – with improvements in elementary, middle and high schools over the last five years.

Math and Reading Achievement on the Rise, 2002 vs. 2007

Percentage of Students on Grade Level



Pennsylvania is one of only nine states in the nation that made progress in elementary school math and reading achievement from 2003 to 2007, according to the National Assessment of Educational Progress, also known as “The Nation’s Report Card.” Moreover, the commonwealth ranked 10th in the nation in education performance and policy on the 2008 Quality Counts report – earning an overall “B-” grade, which was exceeded by only three other states.

The Challenge

Pennsylvania has committed to bringing all students up to grade level in reading and math by 2014. This goal is essential to the commonwealth’s future economic prosperity and to fulfilling its most basic obligation to serve its citizenry.

Significant challenges remain: More than three in 10 Pennsylvania students are still below grade level in reading and math.

Reaching the Pennsylvania goal of 100% achievement by 2014 is possible – as long as the commonwealth takes strong action now to build on the progress of the last five years.

The 2008-09 education budget will accelerate the commonwealth’s progress in boosting student achievement in every one of Pennsylvania’s 501 school districts.

Building A School Funding Formula Designed to Boost Achievement

Just as targeted investment in proven educational strategies is imperative to increasing student achievement, so is a school funding formula that ensures adequate education resources are available in every Pennsylvania community. In July 2006, the General Assembly passed bipartisan legislation directing the State Board of Education to conduct a “costing-out study” to determine the level of funding needed in each school district in order to help all students meet the state’s academic standards. Released in November 2007, the study – **Costing Out the Resources Needed to Meet Pennsylvania’s Public Education Goals** – provided, for the first time ever, a Pennsylvania-specific per-pupil dollar target for achieving adequate funding levels in each of the commonwealth’s school districts. The study concluded that Pennsylvania is short-changing adequate funding of its students’ educations by an average of \$2,414 per pupil.

The costing-out study reinforces the importance of having a school funding formula that bases resource decisions on what research shows it takes to provide a quality education. The **2008-09 basic education subsidy includes a \$291.3 million (6 percent) increase** to demonstrate the commonwealth is serious about providing adequate resources using a funding formula that promotes student

Education - Investing in Our Children, Preparing for the Future

2008-09 Basic Education Subsidy Proposal

The school district's **2006-07 funding (or adequacy) target** is calculated using the formula recommended by the legislature's costing-out study:

- \$8,355 per student in **base funding** (which represents the \$8,003 per student base funding amount included in the study for 2005-06, increased by the statewide school inflation index);
- **additional funding** for every student who is **low-income** or an **English-language learner**; and
- **adjustments** based on each school district's **size** and the **cost of living** in its region of the state.

The **adequacy target** is then compared to the school district's **actual spending** in 2006-07.

The resulting **gap** between the adequacy target and the district's actual spending is then adjusted to reflect each school district's **tax burden** and the **level of local wealth**, resulting in a **state funding goal**.

The 2008-2009 school year begins the multi-year process of phasing in the resulting state funding adequacy goal for each school district.

achievement in all 501 of Pennsylvania's school districts. The above chart summarizes the 2008-09 basic education subsidy proposal.

Continuing to boost achievement so all children receive the high-quality education they deserve – and our economy demands – will require an ongoing commitment to provide school districts with adequate resources and demand of school districts high levels of accountability to ensure that every taxpayer dollar is spent wisely on behalf of the commonwealth's students.

Early Childhood Education: The Foundation for Student Success

Quality pre-kindergarten gives children the early skills that are building blocks for future achievement. Since 2003, Pennsylvania has gone from being one of only nine states in the nation that failed to fund pre-kindergarten to its status today as a national leader in expanding high-quality early childhood education. This budget provides:

- **\$87.6 million for Pennsylvania Pre-K Counts.** School districts, Head Start programs and other community providers with proven track records of success are eligible to apply for these resources. Children from every part of the commonwealth will have new opportunities for early learning as a result of this investment – with the greatest focus on children who are at risk of future academic failure. This program will serve 12,000 children in 2008-09.
- **\$275 million for the Accountability Block Grant.** This initiative funds pre-kindergarten, full-day

kindergarten, elementary school class-size reduction and other proven educational programs. An estimated \$15 million will be invested in pre-kindergarten.

- **\$40 million for the Head Start Supplemental Assistance program.** For the last four years, Pennsylvania has supplemented federal Head Start funding so the successful program can reach more families. The 2008-09 funding will make it possible to enroll 5,620 children ages 3 and 4.
- **\$185 million for the Department of Education's Early Intervention program** to serve nearly 45,000 children from ages 3 through 5 who have a disability or developmental delay.

Preparing Our Future Innovators

In 2006-07, the commonwealth launched **Science: It's Elementary** to bring effective hands-on science learning and intensive teacher training strategies to school districts across Pennsylvania. This budget provides \$15 million to help more than 64,400 students become active science explorers.

Making the High School Diploma Count

Pennsylvania is taking action to give the high school diploma more meaning by ensuring that all students demonstrate essential skills in English, math, science and social studies in order to graduate. In January 2008, the State Board of Education took the first step to adopt meaningful statewide high school graduation requirements starting with the class of 2014.

Education - Investing in Our Children, Preparing for the Future

To ensure that all high school students stay in school and are ready and able to graduate, Pennsylvania is providing more resources and support than ever before:

- Creating Classrooms for the Future:** This budget provides \$90 million to continue changing the way teachers teach and students learn in Pennsylvania high schools by putting a laptop on every student's desk and providing teachers with intensive training so they can effectively use the power of the Internet to engage the technology generation and enhance student achievement.
- Helping More High School Students Earn College Credit:** This budget provides \$12 million for **Dual Enrollment** to increase the number of college courses taken and college credits earned by high school students. A portion of this funding is directed toward low-income students – who otherwise might never even visit a college campus – to ensure that these students are not “priced out” of an experience that can change their lives.
- Resources To Help Every Student Succeed:** This budget will offer school districts:
 - Flexibility in maximizing current resources aimed at helping struggling students. The budget continues \$66 million in **Educational Assistance Program** funding for 175 school districts and Area Career and Technical Centers. For the first time, school districts will have additional local control over how best to invest these resources to address students' academic needs, including tutoring, creating a longer school day or school year, implementing new rigorous curricula or expanded course offerings and intensive teacher training.
 - New resources, including the beginning of a voluntary curriculum for English, math, science and social studies courses; strategies for identifying students who need help and ways to effectively boost their academic skills; and Improved teacher training.

Higher Education

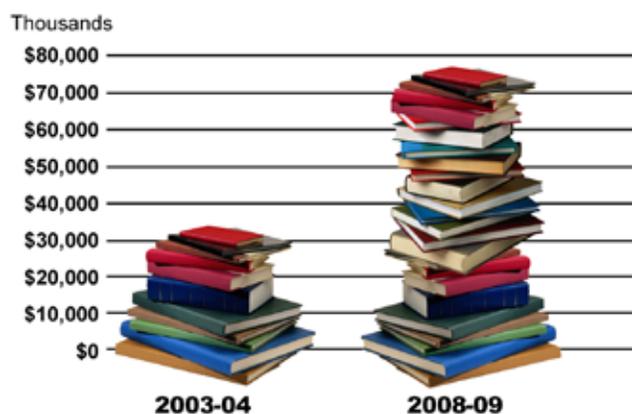
This budget contains \$2.06 billion in total for institutions of higher education and for grants and aid.

Technical Colleges. This budget provides \$2.4 million to continue opportunities for postsecondary education and training in underserved regions in high-demand technical fields by supporting Technical Colleges.

Key Higher Education Funding:		(In Millions)
TOTAL FUNDING		
3.0% increase in total funding for the Community Colleges	.....	\$ 280.7
3.0% operating increase for State System of Higher Education	.....	\$ 518.8
1.5% operating increases for the State-Related Universities:		
– Pennsylvania State University	.....	\$ 336.8
– University of Pittsburgh	.....	170.3
– Temple University	.....	175.5
– Lincoln University	.....	14.0
Total – State-Related Universities	.....	\$ 696.6
Non-State-Related Universities and Colleges	.....	\$ 75.6
PA Higher Education Assistance Agency	.....	\$ 463.6
<i>dollar increase in grants to students</i>	.....	\$ 11.6
Total Higher Education Funding \$2.06 Billion		

A Historic Investment in Libraries. Building a knowledge society demands a strong investment in our public libraries. This budget continues to increase library funding, bringing the state subsidy for local libraries to \$77.3 million – the largest amount ever appropriated. This increase reaffirms Pennsylvania's current standing as a national leader in state funding for libraries.

Support for Public Libraries



Energy Independence

Leading the Way in the Renewable Energy Economy

Pennsylvania's economy is growing "green." Strategic investments in the alternative energy sector over the last five years have helped the commonwealth become a leader in renewable energy production and its consumption. More than \$120.6 million in state funds and another \$297 million in federal dollars have been invested in energy programs since 2003. As a result, Pennsylvania is now home to some of the world's leading renewable energy companies and is on track to produce 18 percent of all energy sold in the state from clean renewable sources by 2021. It is now time to expand Pennsylvania's leadership in this vital emerging sector of the global economy.

Energy Independence Strategy

Governor Rendell's Energy Independence Strategy will enable the commonwealth to achieve three key goals:

- Save Pennsylvania consumers \$10 billion in energy costs over the next 10 years.
- Reduce Pennsylvania's reliance on foreign oil.
- Stimulate Pennsylvania's economy by expanding its energy production and energy technology sectors.

PennSecurity Fuels Initiative. The PennSecurity Fuels Initiative will foster economic development, energy independence and environmental protection through the use of alternative fuels by requiring all diesel fuel and gasoline sold in Pennsylvania to contain a percentage of ethanol or biodiesel. This initiative will require that 1 billion gallons of home-grown biofuels be produced and consumed in Pennsylvania by 2017 – an amount equal to what the state will import from the Persian Gulf by that time.

Energy Independence Fund. The \$850 million Energy Independence Fund will support a broad array of activities:

- \$350 million for the Pennsylvania Energy Development Authority to offer low-interest **Clean Energy Loans** and **Clean Energy Grants** to stimulate the development of innovative clean energy projects and companies.
- \$200 million for the **Pennsylvania Sunshine** program to provide incentives to expand the solar market in Pennsylvania.
- \$150 million for the **Energy Site Preparation Program** that will stimulate the development of highly efficient advanced energy business sites for clean energy companies and other businesses by offering grants and low-interest financing for infrastructure preparation.
- \$56 million for the **Clean Energy Greenhouse** to help Pennsylvania translate its wealth of clean energy research and development into products that will reach the marketplace.

- \$50 million for the **Clean Energy Venture Capital Program** that will help sustain the development of emerging clean energy companies.
- \$44 million for the **Air Conditioner/Refrigerator Swap Program** to fund rebates to Pennsylvania retailers so that residential and small business customers can replace inefficient air conditioners and refrigerators with high-efficiency units at low cost.

To fund these essential investments in Pennsylvania's economy and energy security, the Pennsylvania Energy Development Authority will issue \$850 million in bonds. To support the cost of the bonds, the administration has proposed a Systems Benefit Charge of 1/20th cent per kilowatt-hour of electricity consumption – a cost of \$0.45 per month for the average household – and has also stated its willingness to explore other funding options. The average residential customer is projected to save more than \$70 a year as a result of the Energy Independence Strategy. The average commercial customer is projected to save more than \$425 a year and the average industrial customer more than \$10,500.



Sharpening Pennsylvania's Competitive Edge

Through strategic investments in job growth, coordinated economic and community development initiatives, and targeted business tax cuts, Pennsylvania's economy has become stronger in the past five years. The commonwealth is consistently reaching new records for job creation. Per capita income is on the rise – with income growth in Pennsylvania outpacing that of our major industrial competitors. Communities where Pennsylvanians live and work are more vibrant because of renewed investment in downtowns and older residential neighborhoods.

The Jonas Salk Legacy Fund: Accelerating Medical Research to Create Jobs and Save Lives

Health care and higher education account for more than one out of every three of Pennsylvania's service-sector jobs. The Brookings Institution concluded in its 2003 "Back to Prosperity" report that health care and education "give the state traction in two critical growth industries."

In 2006, Governor Rendell proposed the creation of The Jonas Salk Legacy Fund to build on these strengths by investing \$500 million in medical innovation and life-saving treatments – at no expense to taxpayers. Fully funded by a portion of Pennsylvania's Tobacco Settlement Fund revenues, the investments made possible by The Jonas Salk Legacy Fund will leverage a total of \$1 billion and lead to projected employment of more than 12,000 people, while leveraging an additional \$500 million in non-state funds.

The 2008-09 budget provides funding of approximately \$500 million through The Jonas Salk Legacy Fund for biosciences research, as well as additional resources for biotechnology commercialization and investment capital.

The Jonas Salk Legacy Fund will support two major types of investments:

- **Starter Kits** will provide grants to renovate and equip research facilities and to recruit research faculty to Pennsylvania, universities and academic medical centers.
- **Bricks and Mortar Grant Financing** will be available for expansion or construction of biomedical research facilities.

The 2008-09 budget augments the investments made through The Jonas Salk Legacy Fund by redirecting 4 percent of the tobacco revenue currently used to support the PACE program to provide additional resources for biotechnology commercialization for the Life Sciences Greenhouses (2 percent) and for additional funding for the Health Venture Account (2 percent). These changes can be made with no negative impact on the PACE program because of the changes made to its design in 2006-07 to complement the federal Medicare prescription drug program.

Increased Support for Biotechnology Commercialization

The Life Sciences Greenhouse funds will be shared equally among the three Life Sciences Greenhouses in Eastern, Central and Western Pennsylvania. These regional biotechnology centers are an effective mechanism for investments in early-stage life sciences companies.

Increased Funding for Health Venture Investments

Four private venture firms have been selected by the Tobacco Settlement Investment Board to manage and leverage an initial \$60 million. These investments are creating a pool of available capital at a rate of three to one to the invested Health Venture funds, providing the opportunity to turn Pennsylvania-based research and development into viable Pennsylvania companies offering high-wage jobs. Additional funding will create even more opportunities for growing life sciences businesses in Pennsylvania.

International Trade/World Trade PA

The World Trade PA program operates international offices and programs that help Pennsylvania businesses thrive in the world marketplace. Pennsylvania trade and investment offices that are located in the Czech Republic, Saudi Arabia, Vietnam, Japan, China, India, Spain and Scandinavia are paying dividends. Further expansion of the overseas network this fiscal year includes: Qatar, Russia, Spain, the Netherlands, Israel and Italy. A total of \$3.25 million has been set aside for direct business assistance to Pennsylvania exporters, including \$1 million for Market Access Grants

and \$2.25 million for low-interest export financing. A total of \$850,000 has been budgeted for an international media campaign, including \$250,000 for targeted "lead generation" efforts in Western Europe, the primary source of foreign investment in Pennsylvania. In addition, \$3 million has been budgeted for the new Pennsylvania Global Alumni program that will offer grants to Pennsylvania universities and colleges to give the commonwealth direct access to the more than 100,000 Pennsylvania alumni living overseas, with the goal of bringing more trade and investment to the state.

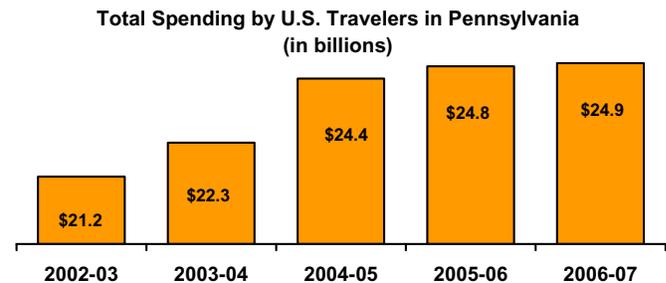
Sharpening Pennsylvania's Competitive Edge

Pennsylvania Grows Its Tourism Industry

Pennsylvania's burgeoning tourism industry is becoming a major economic driver for the commonwealth, with travelers from throughout the U.S. spending nearly \$25 billion each year in Pennsylvania – an increase of 17.5 percent since 2002-03 – and with international visitors contributing an additional \$2 billion per year.

Spending by tourists on travel-related goods and services supports 600,000 Pennsylvania jobs in businesses that directly serve the traveling public, supply the goods and services used by travelers or benefit from the spending of tourism-related wages by employees of such companies. The commonwealth's tourism industry also generates more

than \$2.5 billion annually in state and local tax revenue that is then used for services that benefit all Pennsylvanians.



Source: Based on data from D.K. Shifflet & Associates, Ltd.

Growing Greener II Continues to Improve Our Environment

Governor Rendell has championed an agenda for Pennsylvania's future that is based on a belief that the commonwealth can achieve tremendous economic growth and also create a cleaner environment. To implement this vision and address some of Pennsylvania's most critical environmental concerns, Governor Rendell proposed the Growing Greener II plan. This plan was enacted by the General Assembly and approved by the state's voters in 2005. The \$625 million, six-year Growing Greener II program is providing:

- \$230 million to the Department of Environmental Protection (DEP) to clean up rivers and streams, abandoned mines and contaminated industrial sites, and finance the development and deployment of advanced energy projects.
- \$80 million to the Pennsylvania Department of Agriculture to protect working farms.

- \$50 million to the Department of Community and Economic Development for investments in housing and mixed-use redevelopment projects.
- \$27.5 million to the 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.
- \$217.5 million to the Department of Conservation and Natural Resources to preserve open spaces, improve state parks and enhance recreational programs.

Growing Greener II is now in its third year and more than 600 environmental improvement and land conservation projects have been announced. Projects include \$57 million for 133 community park, recreation, state park and state forest improvement projects; \$33 million for 55 projects that will preserve more than 22,000 acres of open space; and \$42 million for 38 abandoned mine reclamation, acid mine drainage abatement and treatment of deep mine discharge projects. Statewide, \$80 million will be used to purchase agricultural conservation easements through Pennsylvania's farmland preservation program, which has become a model for the nation. More than \$57 million in Growing Greener II funding has been spent so far to preserve 20,827 acres on 193 farms.

In the Growing Greener II program, counties are authorized to spend \$90 million on local priorities. Sixty counties have applied for more than \$60 million for projects, including: stream bank stabilizations, water and sewer infrastructure improvements, local park improvements, and the cleanup of acid mine drainage.



Sharpening Pennsylvania's Competitive Edge

Since it was approved by the General Assembly in 2004, Pennsylvania's \$2.8 billion economic stimulus package has invested \$2.6 billion to date and has created new opportunities for economic success across the commonwealth. Nearly 2,500 projects have already been funded with Stimulus Program resources – and have helped Pennsylvania businesses to create a projected 250,000 new jobs.

The 2008-09 budget provides additional funding for several critical components of the Economic Stimulus Program:

Economic and Community Development Infrastructure

- **Infrastructure Facilities Improvement Program.** \$8 million increase in 2008-09. Every \$10 million of funding for this program creates about 20,000 jobs.

Business, Capital and Financial Assistance:

- **Keystone Innovation Zones (KIZ).** \$4 million increase. The KIZ program provides technical support to early stage companies located in growth areas that are adjacent to institutions of higher learning.
- **Tourist Promotion Assistance, Regional Marketing Initiative and Marketing to Attract Business.** \$4 million net increase in the regional marketing program. Pooling these programs will lead to more efficient operations and could produce an additional 1 percent to 2 percent growth in total tourism spending.
- The budget also continues the successful “**Creativity in Focus**” **Film Tax Credit Program** at \$75 million in 2008-09. Creativity in Focus promotes the film industry in Pennsylvania – creating new jobs, promoting tourism and enhancing the economy.

Economic Stimulus Program – Status Report as of June 30, 2007				
Program	Number of Projects	State Funds Invested	Jobs Pledged	Other Funds Leveraged
Infrastructure Projects				
Business in Our Sites	105	\$295,883,717	117,359	\$993,549,551
PennWorks	61	\$199,999,328	92,832	\$265,168,384
Tax Increment Financing	2	\$10,000,000	1,500	\$10,850,000
Infrastructure Facilities Improvement Program	18	\$17,363,941	30,824	\$1,041,515,575
Redevelopment Assistance Capital Program	606	\$1,247,767,000	N/A	\$1,247,767,000
Subtotal	792	\$1,771,013,986	242,515	\$3,558,850,510
Community Revitalization				
Main Street Downtown Business Renewal	235	\$23,100,000	461	\$33,475,852
Elm Street Downtown Residential Renewal	149	\$26,000,000	12	\$12,159,750
Enterprise Zones	134	\$21,174,844	1,452	\$84,037,349
Housing & Redevelopment Assistance	376	\$121,637,658	457	\$298,030,974
Homeownership Choice	55	\$65,512,300	N/A	N/A
Hometown Streets	271	\$176,100,000	N/A	N/A
Subtotal	1,220	\$433,524,802	2,382	\$427,703,925
Business and Other Private-Sector Investments				
First Industries Fund (Agriculture/Tourism)	374	\$76,195,830	2,495	\$156,897,004
Second Stage Loan Program	5	\$2,475,000	90	\$6,950,000
Venture Capital Investment Fund	15	\$47,850,000	210	\$36,174,979
Venture Guarantee Program	7	\$182,500,000	N/A	N/A
Building PA	11	\$52,300,000	393	\$117,028,993
Keystone Innovation Zones	26	\$9,320,375	1,966	\$367,929,941
PA Base Development Committee	Multiple sites	\$6,031,443	N/A	N/A
Subtotal	438	\$376,672,648	5,154	\$684,980,917
GRAND TOTALS	2,450	2,581,211,436	250,051	4,671,535,352

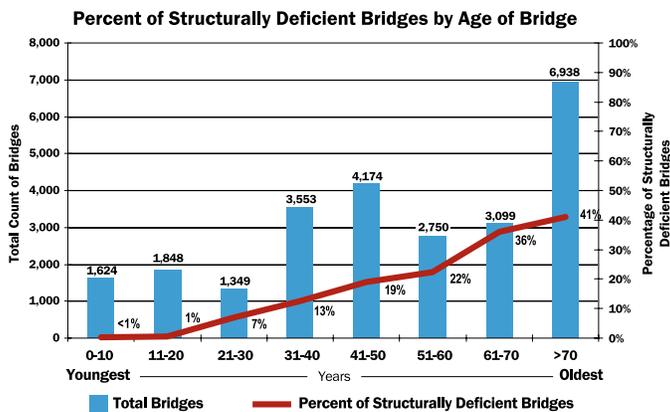
Rebuilding Pennsylvania

Repairing our Infrastructure to Protect Lives and Promote Economic Growth

As the tragedies involving the collapse of the New Orleans floodwalls and the Minneapolis bridge illustrated, our public infrastructure needs to be properly managed and maintained. The Governor's Rebuilding Pennsylvania infrastructure initiative proposes more than \$260 million in new funding in 2008-09 to begin addressing overdue repairs to dangerous bridges and dams in our commonwealth, as well as investing in necessary improvements to economically critical aviation and rail freight facilities. In addition to repairing our commonwealth's aging infrastructure, this initiative will help Pennsylvania's economy at a time when concerns are growing about a possible national economic downturn.

1,000 Rebuilt Bridges by 2010-11

Over the last five years, the commonwealth has repaired 1,381 Pennsylvania bridges. In spite of this historic effort, more than 5,900 state-owned bridges remain structurally deficient. The budget proposes to add \$200 million a year in new capital funding for bridge repair each year. As a result, \$15.5 billion will be targeted to bridge repairs over the next 10 years. This approach will ensure that 1,000 additional bridges are under construction by 2010.



Dam Repair Program

The commonwealth is taking the lessons of Hurricane Katrina to heart and is embarking on an initiative to repair 24 state-owned, unsafe, high-hazard dams by 2010. The budget provides \$12 million in capital funds to repair these dams. A total of \$37 million in capital funds will be directed to remediating state-owned dams over the next two years.

Another 21 unsafe, high-hazard dams are owned by local governments. The budget proposes to launch a \$6.6 million matching grant program wherein the state provides up to 30 percent of the cost of repairs. This program will be managed by the Pennsylvania Infrastructure Investment Authority.

Flood Prevention Program

The budget proposes more than \$100 million through 2010 to make flood-prone communities safe. The budget includes a \$3 million increase in the flood mitigation program managed by the Department of Environmental Protection and an increase in capital funds that will provide \$13 million in new flood projects in 2008-09, growing to \$58 million in 2010-11. The budget also proposes a surcharge on property insurance premiums for structures located in flood plains.

The budget includes \$1.5 million for administrative support for the expanded flood mitigation programs. In addition, \$2.4 million is proposed to update floodplain maps.

Rail Freight Economic Development Program

Given the rising cost of oil, more companies are turning to rail to move their materials and products. The budget proposes to add \$10 million in capital capacity for rail freight expansion. The allocation for these projects will grow from \$20 million to \$30 million in each of the next three years.

Aviation Economic Development Program

The Governor's 2008-09 budget proposes targeted resources to address the infrastructure needs of our medium/small-city/regional airports by providing \$15 million in new capital funding over the next three years.

Pennsylvania Infrastructure Bank

The Pennsylvania Infrastructure Bank provides low-cost financing for highway, bridge, aviation, rail freight and public transportation projects. Since inception, 127 loans worth \$72.3 million have been given to municipalities and other recipients leveraging an additional \$242 million. The loans will be increased by \$13 million to \$30 million in 2007-08 and continue at the \$30 million level in 2008-09.

Rebuilding Pennsylvania in 2008-09 (Amounts in Millions)

New Capital Funds	
Bridge Repairs	\$200.0
State-owned Dam Repairs	\$12.0
New Flood Projects	\$13.0
New Aviation Projects	\$5.0
New Rail Freight Projects	\$10.0
Total—New Capital Funds	\$240.0
New General Fund Expenditures	
PENNVEST Local Dam Repairs	\$2.2
DEP Flood Control Projects	\$3.0
DCNR Infrastructure Mapping	\$2.4
Floods/Dams Administration	\$1.5
Total—General Fund	\$9.1
Other Operating Funds	
Additional Pennsylvania Infrastructure Bank Funding	\$13.0

Transportation on the Move

Historic Funding Increase Will Preserve and Repair Pennsylvania's Bridges, Highways and Public Transit Systems

Because of Pennsylvania's mid-Atlantic location, transportation is an especially important segment of the commonwealth's economy. Governor Rendell is committed to increasing the quality and safety of each part of the transportation network and investing resources wisely across the state.

Finding a stable, long-term funding source for the state's critical transportation needs has been one of Governor Rendell's top priorities and is a key element of his Agenda for Pennsylvania Progress. In July 2007, the Governor signed into law Act 44, which opens an era of historic investment in the state's bridges, roads and public transit systems.

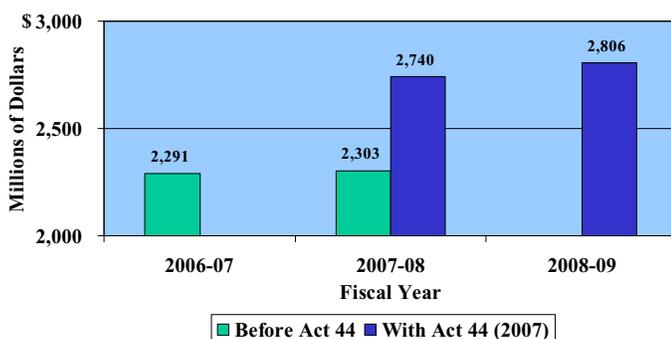
Act 44 Funding

Under the terms of Act 44, the Pennsylvania Turnpike Commission and the Department of Transportation have entered into a historic partnership to enhance transportation funding. Using funds generated through increased tolls on the turnpike and the future operation of I-80 as a toll road, the Pennsylvania Turnpike Commission will make payments to provide PennDOT with additional resources for investments in roads, bridges and transit. The Pennsylvania Turnpike Commission has submitted an application to the federal government seeking approval of the conversion of I-80 to a toll road and is already implementing other provisions of Act 44.

Act 44 will provide new investment averaging \$946 million a year for 10 years in new, dedicated, recurring funding for public transit, roads and bridges to address the commonwealth's critical transportation needs:

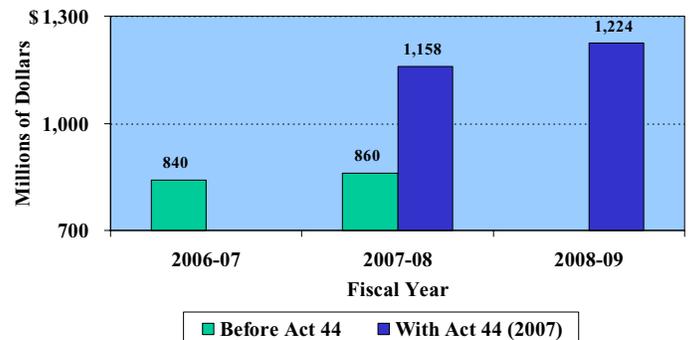
- \$532 million on average annually over the next 10 years will be available to fund state and local bridge and road repairs.

Motor License Fund Revenues



- \$414 million on average annually over the next 10 years will be available to support the 73 public transit systems that provide more than 400 million rides a year to residents in all of Pennsylvania's 67 counties.

Public Transit Funding



This new, stable and expanded transportation funding program will prevent drastic and devastating public transit service cuts statewide and fund repairs to the state's nearly 6,000 structurally deficient bridges and more than 8,500 miles of roads that are in need of repair.

The transportation funding law replaces a previous patchwork transit funding system with a new Public Transportation Trust Fund, which will draw resources from the Sales Tax and other taxes and lottery proceeds as well as money from the Pennsylvania Turnpike Commission. Overall transit funding grew to \$1.15 billion in the 2007-08 fiscal year, compared to \$850 million in 2006-07. In the 2008-09 proposed budget, overall transit funding is set at \$1.22 billion. The new operating funding will be distributed based on system statistics and will be tied to performance.

In the area of public transit, the impact of Act 44 has already been felt:

- Pennsylvania transit agency operating deficits have been eliminated.
- The Southeastern Pennsylvania Transportation Authority (SEPTA) plans to modernize signals, improve switching and acquire paratransit vehicles.
- The Centre Area Transportation Authority is restoring service that was previously eliminated due to lack of funding.
- The York County Transportation Authority is evaluating additional service.

In addition, the commonwealth will now be able to expand the Persons with Disabilities Rural Transportation Program to the 16 remaining unserved counties.

Prescription for Pennsylvania

Making Quality Health Care Affordable and Accessible in Pennsylvania

Prescription for Pennsylvania is the commonwealth's plan to ensure access to affordable health insurance for all Pennsylvanians, expand the availability of health care, improve the quality of care and help bring health care costs under control for employers and workers.

In January 2007, Governor Rendell proposed the **Prescription for Pennsylvania**. The plan has three major components:

- Guaranteeing affordable health care to Pennsylvania businesses and individuals;
- Expanding access to the right kind of care, at the right time and place, and for the right cost; and
- Improving the quality of care that Pennsylvanians receive.

Pennsylvania Has Taken Several Essential First Steps in Health Care Reform

Over the last year the commonwealth has made strides in reducing health care costs and improving the quality of care – including steps that will reduce health-care-associated infections, expand access to health care professionals and provide new tools to address chronic diseases:

- **Adopting the most comprehensive plan in the nation for eliminating health-care-associated infections.**

Act 52 of 2007 is Pennsylvania's first-ever law requiring that health care facilities report all incidents of health-care-associated infections and adopt plans to reduce them. Health care facilities that reduce infections by at least 10 percent and meet other quality benchmarks will receive performance payments from the commonwealth. This budget recommends \$4.6 million for health-care-associated infection-reduction initiatives.

- **Ensuring that licensed health care providers – including nurses, midwives, physicians' assistants and dental hygienists – can practice to the fullest extent of their training.**

Enabling medical professionals to perform all of the duties they are trained and qualified for improves patients' access to care and drives down the cost. Governor Rendell signed several bills into law that expand the ability of physicians' assistants, certified registered nurse practitioners, clinical nurse specialists, nurse midwives and dental hygienists to serve Pennsylvanians.

- **Improving prevention and treatment of chronic diseases such as heart disease, diabetes and asthma.**

Approximately 78 percent of all health care costs in Pennsylvania can be traced to the 20 percent of patients with chronic diseases. In addition, Pennsylvania has some of the highest hospitalization rates in the nation for chronic diseases because patients do not receive appropriate care. The Chronic Care Management, Reimbursement and Cost Containment Commission was created by an Executive Order in May 2007 to improve the delivery of health care to Pennsylvanians with chronic diseases. The commission is responsible for developing the process to effectively manage chronic diseases across the state. This budget recommends \$2.2 million for chronic care management. This budget also includes \$5 million to develop and begin implementation of a statewide information technology system that will enable health care providers to better coordinate patient care.

- **Eliminating disparities in health care.**

In May 2007, Governor Rendell signed an Executive Order creating the Office of Health Equity. The office is responsible for raising public awareness about health disparities and working across government and private-sector lines to eliminate them. This budget recommends \$500,000 for health equity strategies.

- **Expanding access to health care.**

The 2007-08 budget included \$2.9 million to increase access to primary health care in underserved areas, including community health centers and mobile health clinics. This budget recommends an additional \$1.9 million to further increase access to primary medical and dental care, including a new nurse loan-repayment program, an enhanced primary care practitioner loan-repayment program and an expanded community challenge grant program.

The budget includes \$11.3 million to provide prescription drug coverage to approximately 43,000 low-income adults who qualify for Medical Assistance but who are not currently eligible for pharmaceutical benefits. The alignment of these drug benefits will be done in conjunction with the implementation of Cover All Pennsylvanians.

This budget includes \$100,000 to assess opportunities for increasing the availability of hospice and palliative care services provided through state health care programs and private health care insurance products.

Prescription for Pennsylvania

- **Improving nutrition in schools.**

Research shows that children will perform better in school and reduce their risk for obesity and related illnesses if they have a healthy lifestyle. This budget recommends \$6.2 million in state funds to provide incentives to school districts that adopt the state standards for the food served in school cafeterias and vending machines.

Pennsylvania is “Covering All Kids” to Provide Universal Health Insurance for All Children

In 2006, the legislature passed Governor Rendell’s Cover All Kids initiative, making Pennsylvania one of six states in the nation to ensure that all children have access to health care coverage. As a result, the number of children enrolled in Cover All Kids has risen by one-third from 125,983 in January 2003 to 166,919 in January 2008. Enrollment is expected to grow to 185,764 in 2008-09.

Cover All Kids:

- 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 does not exceed 300 percent of the federal poverty level (\$62,000 for a family of four). Family premiums range, on average, between \$41 and \$65 per month per child.
- Offers at-cost coverage for children in families whose income exceeds 300 percent of poverty (on average, \$163 per month per child).

Pennsylvania is Ensuring that Older Adults have Access to Affordable Prescription Drugs

In November 2003, Governor Rendell signed into law a historic expansion of Pennsylvania’s PACE and PACENET programs, which provide affordable prescription medication for senior citizens.

- Pennsylvania established “PACE Plus Medicare,” which guarantees that eligible seniors will not incur more costs than they otherwise would have paid when their prescriptions were covered by PACE and PACENET.
- PACE Plus Medicare also enables more senior citizens to sign up for prescription drug coverage. The number of older Pennsylvanians benefiting from these programs will grow by more than 133,000 since 2002-03 – to 407,575 in 2008-09.

Pennsylvania’s Medical Malpractice Reforms are Working

The success of Pennsylvania’s health care system depends on a continuing ability to recruit and retain world-

class doctors and other medical professionals. When Governor Rendell took office in January 2003, medical malpractice posed a major threat to the well-being of health care in the commonwealth.

The tide has turned. Initiatives implemented by the current and prior administrations, the General Assembly and the Supreme Court have had a substantial impact on the medical malpractice climate.

The commonwealth’s strategy is working:

- The number of practicing physicians has remained stable; there is not an exodus of doctors from Pennsylvania.
- Insurance rates are decreasing for the first layer of medical malpractice insurance that doctors are required to carry – the coverage administered by private insurance companies. The two largest insurers held their rates steady in 2006 and 2007, and reduced rates in 2008.
- Since April of 2002, 57 new entities are writing medical malpractice insurance in Pennsylvania, providing new competition in the insurance marketplace.
- Assessments are decreasing for medical malpractice insurance provided through the state’s Medical Care Availability and Reduction of Error (Mcare) fund. For the fourth consecutive year, the total dollar amount of medical malpractice claims paid by the fund is down. In fact, in 2007 Mcare paid half as much in claims as in 2003.
- The number of statewide medical malpractice claims was 38 percent lower in 2006 than the base period of 2000 to 2002.

The creation of the Mcare Abatement program in 2003 was one of the successful reforms that helped spur the dramatic improvement in the medical malpractice market. The program reduces or eliminates the amounts that physicians, midwives, podiatrists and nursing homes pay in Mcare assessments. Since 2003, health care providers have received nearly \$1 billion in Mcare payment relief as a result of the Abatement program.

Unfinished Business: Filling the Prescription for Pennsylvania

- **“Cover All Pennsylvanians” will provide affordable basic health insurance for small businesses and uninsured adults.**

The vast majority of Pennsylvania’s uninsured adults have full-time jobs and many are employed by small businesses. Most earn low wages and do not have access to health insurance because of the high cost of premiums for both businesses and individuals. Cover All Pennsylvanians is the solution to these problems.

Prescription for Pennsylvania

- Cover All Pennsylvanians will be supported by the state and offered through private insurance companies.
- Employers can participate if they have not offered health care coverage to their employees for at least six months, if they have 50 or fewer employees and if, on average, these employees earn less than the state average wage.
- All eligible uninsured adult Pennsylvanians – no matter what their employment status or income level – will be able to purchase affordable health insurance through the program. A family of four that earns up to \$62,000 a year will receive help from the state in paying part of their premiums.
- Uninsured adults who earn more than 300 percent of the federal poverty level (\$62,000 for a family of four) can participate in Cover All Pennsylvanians by paying the full cost of the premium.
- In addition to premiums, there will be co-payments that vary depending on family income for certain health care services.
- To ensure that businesses and individuals do not drop current health care coverage to participate in Cover All Pennsylvanians, eligibility will be limited to those who have been uninsured prior to enrollment for 90 days or 180 days, depending upon family income.

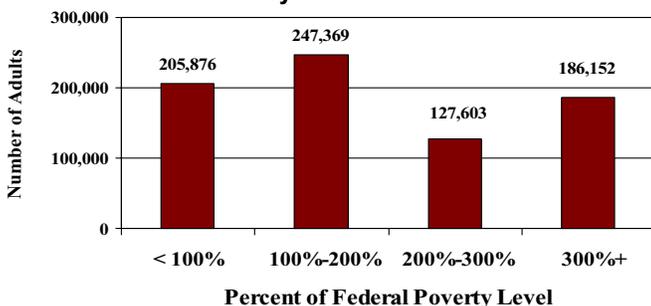
revenue sources, including existing state funds currently used to support a more limited adultBasic program, a small increase in the cigarette tax and a new tax on other tobacco products, federal Medicaid matching funds, enrollee and small employer cost-sharing, a gradual reduction of state-provided uncompensated care payments starting in 2009-10, and, beginning 2012-13, available balances from the state's Health Care Provider Retention Account, after funding has been provided for the commonwealth's Mcare-related obligations.

Cover All Pennsylvanians will begin providing health care coverage for uninsured adults in July of 2008 on a phased-in basis, assuming the passage of state legislation and approval by the federal government.

In addition to Cover All Pennsylvanians, the commonwealth must enact other important elements of **Prescription for Pennsylvania**:

- **Protecting public health by banning smoking in public places.** Prescription for Pennsylvania calls for an indoor smoking ban that will make workplaces, restaurants and bars smoke-free.
- **Protecting individuals and small businesses from extraordinary spikes in health care premium costs through more effective regulation of the individual and small-group insurance market.** Prescription for Pennsylvania calls for the strengthening of state oversight of health insurance companies and health maintenance organizations. This strengthened oversight will protect individuals and small employers from volatile premium increases, require insurers to establish a standard basic health care package for individuals and small businesses, and prohibit insurers from driving up the cost of insurance based on narrowly-defined demographic characteristics.
- **Providing more appropriate sites for the treatment of health conditions that do not need emergency room care.** The plan will require hospitals to immediately screen and redirect patients who go to emergency rooms but do not need emergency care to more appropriate health care settings within the hospital.

Pennsylvania's 767,000 Uninsured Adults by Income Level



Through an extensive outreach effort, Cover All Pennsylvanians expects to enroll 149,500 adults in 2008-09, growing to an enrollment of 271,900 in 2012-13. While the majority of the uninsured will enroll in the subsidized component of Cover All Pennsylvanians, including those transferring from the existing adultBasic program, some will be eligible instead for the commonwealth's existing Medical Assistance program. Others will be able to purchase health care coverage through Cover All Pennsylvanians at the same affordable premium rate that the commonwealth pays.

The health care premium and administrative costs of Cover All Pennsylvanians will total \$479.5 million in 2008-09. These costs will be covered by a variety of

Continuing the Commitment to Medical Malpractice Reform and Assuring Access to Health Insurance for All Pennsylvanians

The reforms that have been implemented since 2002 have begun to yield substantial improvements in Pennsylvania's medical malpractice climate. Because Mcare claims payouts in 2007 were half of what they were in 2003, there is a significant balance in the Health Care Provider Retention Account (HCPRA). The positive impact of recent malpractice reforms enables the commonwealth to consider other ways

Prescription for Pennsylvania

to ensure access to quality health care for Pennsylvanians, consistent with the original intention of the fund.

Based on these circumstances, the commonwealth is prepared to take two important steps to support continuing improvements in the medical malpractice insurance climate and to improve health care access for Pennsylvanians:

- At the end of December 2007, legislative authorization to continue the Mcare abatement program expired. Governor Rendell supports the renewal of the program. Moreover, instead of extending the Mcare abatement by just one year at a time, the Governor advocates greater predictability for health care providers through a multi-year renewal.

- The Governor also supports legislation to enact Cover All Pennsylvanians in tandem with renewal of the Mcare abatement, using unspent HCPRA balances not needed for abatements to help fund Cover All Pennsylvanians.

Implementation of the remaining elements of the Prescription for Pennsylvania, including Cover All Pennsylvanians, and continuation of the successful strategy to control medical malpractice costs, will make Pennsylvania a national leader in addressing the issues of health care cost, funding and quality.

Cover All Pennsylvanians

State Receipts and Disbursements

	(Dollar Amounts in Thousands)				
	2008-09 Estimated	2009-10 Estimated	2010-11 Estimated	2011-12 Estimated	2012-13 Estimated
Cash Balance, Beginning	\$ 0	\$ 76,669	\$ 67,452	\$ 34,225	\$ 10,001
Receipts:					
Cigarette Tax.....	\$ 66,100	\$ 64,900	\$ 63,700	\$ 62,500	\$ 61,400
Other Tobacco Products Tax.....	48,000	50,500	53,400	56,500	59,700
Transfer from General Fund.....	0	8,494	15,681	18,294	18,947
Transfer from Tobacco Fund.....	49,462	76,764	78,969	78,282	76,149
Transfer from Community Health Reinvestment.....	121,912	84,823	88,216	91,745	95,415
Transfer from Health Care Provider Retention.....	0	0	0	25,831	72,478
Total State Revenues	<u>285,474</u>	<u>285,481</u>	<u>299,966</u>	<u>333,152</u>	<u>384,089</u>
Total Funds Available	<u>\$ 285,474</u>	<u>\$ 362,150</u>	<u>\$ 367,418</u>	<u>\$ 367,377</u>	<u>\$ 394,090</u>
Disbursements:					
Insurance					
Administration.....	\$ 20,745	\$ 7,568	\$ 7,510	\$ 8,206	\$ 8,006
Program Costs (CAP).....	154,612	261,500	296,424	318,334	343,387
Labor and Industry					
Administration.....	2,902	1,013	548	561	574
Public Welfare					
Administration.....	22,168	8,539	8,909	9,094	9,296
Program Costs (Medical Assistance).....	8,378	16,078	19,802	21,181	22,826
Total State Spending	<u>-208,805</u>	<u>-294,698</u>	<u>-333,193</u>	<u>-357,376</u>	<u>-384,089</u>
Cash Balance, Ending	<u>\$ 76,669</u>	<u>\$ 67,452</u>	<u>\$ 34,225</u>	<u>\$ 10,001</u>	<u>\$ 10,001</u>

Total Program Cost

	(Dollar Amounts in Thousands)				
	2008-09 Estimated	2009-10 Estimated	2010-11 Estimated	2011-12 Estimated	2012-13 Estimated
Total State Spending.....	\$ 208,805	\$ 294,698	\$ 333,193	\$ 357,376	\$ 384,089
Employer Share.....	2,033	4,738	8,066	9,253	10,717
Enrollee Share.....	77,462	184,628	221,493	238,637	258,851
Federal Funds					
Insurance Administration.....	0	5,046	5,007	5,470	5,337
Insurance Program.....	181,380	306,608	347,322	372,942	402,228
Labor and Industry Administration.....	0	675	366	374	383
Public Welfare Administration.....	0	5,696	5,940	6,064	6,201
Public Welfare Program.....	9,835	18,874	23,245	24,864	26,796
Subtotal Federal Funds	<u>191,215</u>	<u>336,899</u>	<u>381,880</u>	<u>409,714</u>	<u>440,945</u>
Total Program Cost	<u>\$ 479,515</u>	<u>\$ 820,963</u>	<u>\$ 944,632</u>	<u>\$ 1,014,980</u>	<u>\$ 1,094,602</u>

Caring for All Pennsylvanians

Helping Our Families and Our Neighbors to Find Work, Regain Independence and Live in Dignity

Economic uncertainty, rising health care costs and unfavorable federal policies are challenges that continue to face the commonwealth as it seeks to meet its responsibilities to the most vulnerable citizens. In spite of these challenges, the commonwealth is maintaining its commitment to ensure that all Pennsylvanians – including children, the elderly, people with disabilities and low-income families – have access to health care and other critical services.

Protecting Pennsylvania's Most Vulnerable Citizens

To meet these continued commitments, the 2008-09 budget provides an increase of \$668.1 million in General Fund resources to expand programs for Pennsylvanians in need, representing a 6.9 percent increase from the previous year. This additional funding will provide a broad array of health and human services to more than 3 million Pennsylvania residents in 2008-09.

The Commonwealth Provides Vital Services to More than 3 Million People

PROGRAM	People Served 2007-08	People Served 2008-09
Medical Assistance – Health Care for Low-Income Elderly, Disabled, Children, Adults and Chronically Ill Adults	1,915,240	1,949,270
PACE Plus Medicare – Rx Assistance for Older Pennsylvanians	383,305	407,575
Protection for Children at Risk due to Abuse, Neglect and Delinquency	283,502	286,800
Cash Assistance (TANF, General Assistance and State Blind Pension)	228,400	226,690
Child Care for Low-Income Families	232,025	234,635
Children's Health Insurance Program	167,898	185,764
Community Mental Retardation and Autism Services	49,992	52,262

*Some people may receive services in more than one category.

Medical Assistance: Improving Health Care Services While Controlling Costs

The 2008-09 budget proposes an additional \$178 million in initiatives designed to reduce the growth in Medical Assistance health care costs while enhancing the quality of care. Key elements of this package include improving managed care, refining pharmacy oversight, and expanding fraud and abuse prevention so targeted payment and benefit improvements can be accomplished.

- The Department of Public Welfare will implement a new system to identify persons with chronic disease early and help them avoid unnecessary hospital care, saving \$4.5 million while improving patient outcomes.
- The department will make changes in pharmacy utilization management to ensure quality and value, saving \$11.9 million.
- Proposals designed to prevent fraud and abuse will save \$9.7 million in 2008-09.

The savings gained from improving the efficiency of the commonwealth's Medical Assistance program make investments in other programs possible. The department

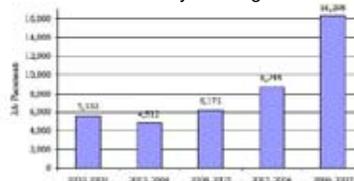
plans to provide selected increases for shift nursing care, home health services, and dental and primary care providers. The estimated cost of these fee increases is \$10.2 million.

The budget also includes \$11.3 million to provide prescription drug coverage to approximately 43,000 low-income adults who qualify for the Medical Assistance program but who are currently ineligible for pharmaceutical benefits.

Lower TANF Caseloads Benefit All

More people are working – job placements by employment and training contractors are on the rise.

Job Placements by Training Vendors



There are 60,500 fewer persons receiving cash assistance today than in October 2005. The reduction in the TANF caseload saved taxpayers more than \$117 million.

Fewer Pennsylvanians are receiving cash assistance than any time since 1961.

Caring for All Pennsylvanians

Improving Managed Care: HealthChoices Plus

- In 2008-09, the Department of Public Welfare will implement a new service delivery model known as “HealthChoices Plus” in 16 counties. Under this model, managed care organizations will operate side by side with the department’s ACCESS Plus enhanced primary care case management program.
- In addition, the department will introduce a new managed care model in the Southeast and Lehigh/Capital zones of the commonwealth in which bidders will be challenged to introduce innovative approaches to support the goals of Prescription for Pennsylvania.
- The department will also assume responsibility for managing the pharmacy benefit to simplify prescribing, dispensing and claims submission while maintaining access to quality health care. In addition, the department will become eligible to receive federal drug rebates, resulting in substantial savings.
- The 2008-09 budget includes \$41.2 million to support the pay-for-performance program for managed care organizations and providers.

Reforming the Long-Term Living System

Pennsylvania, with the third oldest population of any state, is experiencing demographic changes that many other states will not experience for another 10 to 15 years. In addition, an estimated 162,000 adult Pennsylvanians under the age of 60 need some level of long-term living support. To meet the needs of these different groups, the commonwealth has made a significant investment in home and community-based services, expanding the number of people who can be served in their homes. The commonwealth’s plan for long-term living services is based on three key principles:

- Consumers should have more options to receive appropriate long-term living services in cost-effective settings that promote quality care.



- The long-term living system should be balanced with the goal of achieving a balance of 50 percent institutional care to 50 percent home and community-based care.
- State and federal funds should be prudently managed and leveraged, and individual assets should be used to ensure that the commonwealth can meet the future needs of Pennsylvania’s aging population.

This Budget Recommends:

- \$29.2 million in state funds to invest in community-based infrastructure that expands long-term living options.
- \$3.1 million to increase adult day care capacity.
- \$2 million in state funds to expand the tenant-based rental assistance pilot to at least 10 additional counties.
- \$12.2 million in state funds for programs that serve people with physical disabilities. This increase will serve 1,169 additional people in 2008-09.
- \$10.2 million for the home and community-based services program to serve 2,100 additional older persons in 2008-09.
- \$1.3 million in administrative resources to begin licensing, certifying and inspecting assisted living residences, a new residential long-term living option created in 2007.
- \$150,000 to develop a new payment system for nursing facility services and an additional \$150,000 to develop standard rate-setting for home and community-based programs.

Expanding the Availability of Quality Early Childhood Services

Quality early childhood programs not only support families in their quest for self-sufficiency, they also support the development of children and their preparation for school and life success. In 2008-09, quality child care services will be provided to an additional 2,600 children on a monthly basis.

This Budget Recommends:

- \$4.8 million to maintain the Keystone STARS program to provide quality early learning experiences.
- \$1 million to expand the number of families participating in the Nurse Family Partnership program to 4,287.
- \$4 million for the Early Learning Network, an integrated information technology system that captures assessment data.

Caring for All Pennsylvanians

- \$13.8 million for Early Intervention to serve nearly 3,000 additional infants, toddlers and preschoolers who are experiencing developmental delays.

Protecting Children and Preserving Families

- This budget earmarks more than \$15 million to expand the use of evidence-based in-home services, including proven approaches that focus on the whole family, not just the child.
- This budget includes an increase of \$11.5 million to allow more children to be adopted and to continue to provide financial assistance to those who have already been adopted.
- This budget increases investment in child support enforcement by \$3.4 million.

Expanding Services for Individuals with Special Needs

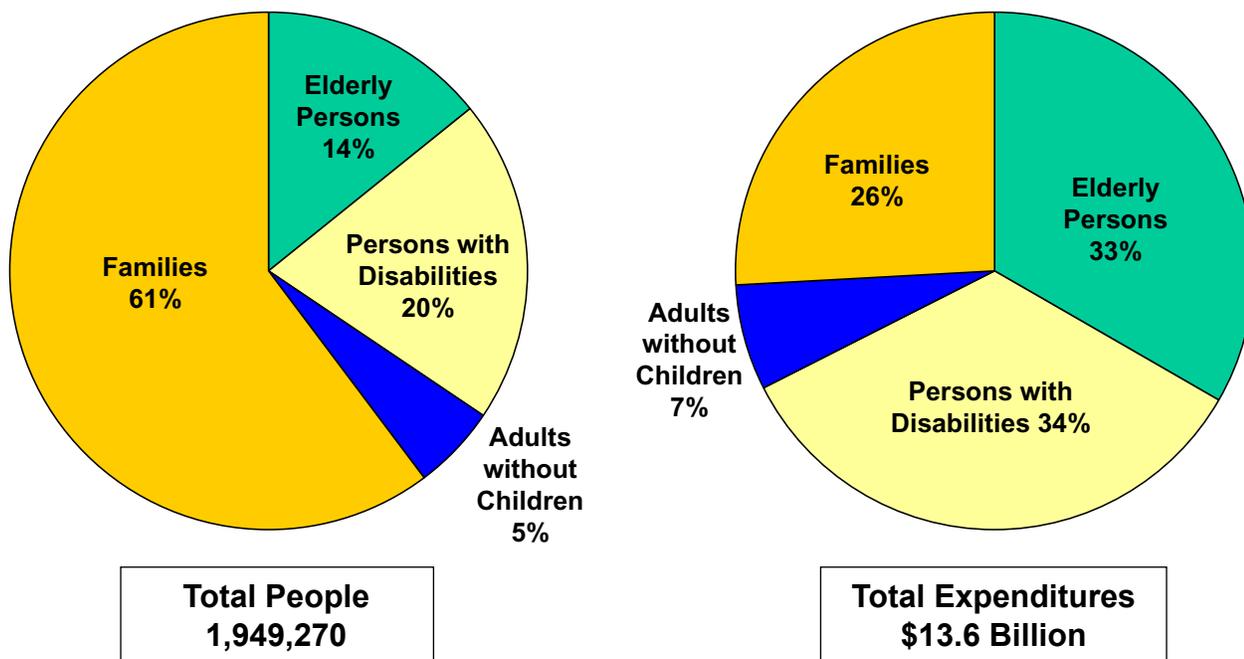
The 2008-09 budget continues to support independence for people with mental retardation and mental health disabilities.

- This budget includes sufficient funding to continue to support the discharge of individuals from Mayview State Hospital in Allegheny County, which is scheduled to close on December 31, 2008.

This Budget Recommends:

- \$4.4 million to provide home and community-based services to 91 people currently residing in state mental hospitals, 29 of whom will receive services through the Money Follows the Person initiative.
- \$28.3 million for community-based mental retardation services for 1,818 additional individuals, including 750 young people leaving the special education system.
- \$1.1 million to move 30 people currently living in state mental retardation centers into intermediate care facilities and another \$1.1 million to provide home and community-based start-up funding for 30 additional people currently living in state mental retardation centers to move into the community in 2009-10.
- \$7.6 million to provide services for 400 additional adults living with autism.

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



Elderly and disabled persons are only 34 percent of the total Medical Assistance population, but they account for 67 percent of the Medical Assistance expenditures. Families comprise 61 percent of the Medical Assistance population but account for just 26 percent of the expenditures. Seventy-five percent of all persons in families receiving Medical Assistance are children.

Making Pennsylvania Safer

Pennsylvania continues to take a comprehensive and proactive approach to creating stronger communities by making Pennsylvania safer.

This budget funds the highest number of state police troopers in Pennsylvania's history and doubles the funding for police officers going to cities and municipalities across the commonwealth that are struggling to contain gun violence. The commonwealth's public safety agenda and strategy also provide the tools necessary to ensure effective emergency preparedness.

Pennsylvania has a Record Commitment to Law Enforcement

4,660 Troopers by June 2008. Governor Rendell recognizes that Pennsylvania's State Police and our local police play the most critical role in keeping Pennsylvanians and their neighborhoods and communities safe. Under Governor Rendell's leadership, the number of state troopers has reached its highest level ever. Including this summer's cadet class, the number of troopers will reach nearly 4,660 by June 2008.

\$20 Million for Additional Police Officers to Fight Gun Violence. The 2008-09 budget provides \$20 million for the Police on Patrol program, doubling the size of last year's program. The additional funding will be made available to current program participants and any other city and municipality affected by rising gun violence, so they can hire another 200 police officers to fight crime.

Pennsylvania is Tough on Crime and Working to Reduce the Number of Repeat Offenders

Pennsylvania's prisons are 5,000 inmates over the point at which they can operate most efficiently. From December 1999 to December 2007, the number of people incarcerated in Pennsylvania prisons increased by 28 percent to more

than 46,000. In total, as much as \$800 million in taxpayer dollars could be required just to build prisons to incarcerate additional offenders if present trends continue.

Legislation is Needed to Keep Offenders from Returning to Prison

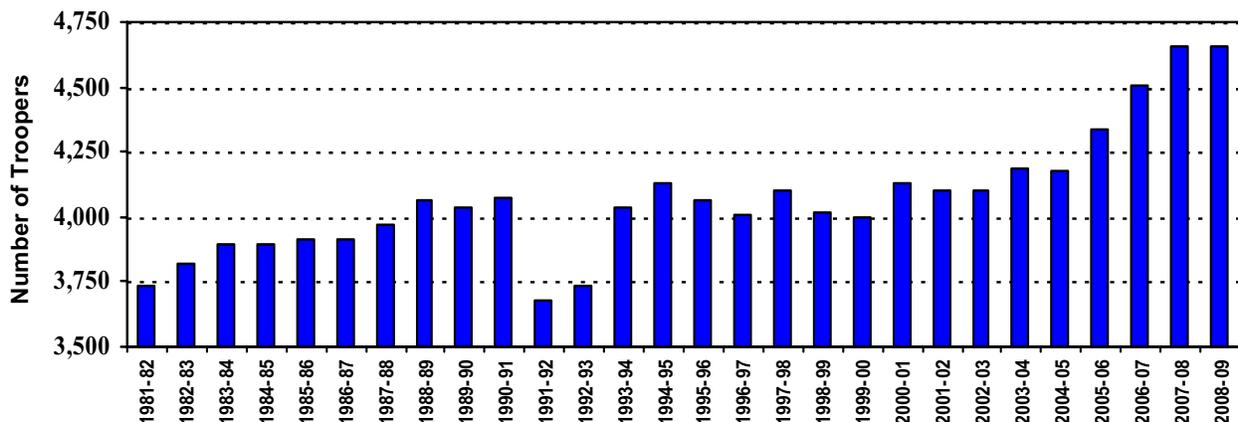
Reducing victimization and recidivism can be achieved by enactment of comprehensive legislation currently pending before the General Assembly. This legislative package will reduce victimization and recidivism rates by:

- providing increased offender access to drug treatment programs;
- providing incentives to less-violent offenders to complete programs that provide them with the tools to live crime free in society; and
- enhancing the Board of Probation and Parole's ability to focus more on offenders during their critical first year on parole.

Nearly \$22 Million in Savings for the Department of Corrections. The number of inmates in Pennsylvania prisons is projected to decrease by 753 inmates by 2010 if the pending public safety legislation is enacted, with a reduction of 605 inmates in 2013. Enactment of this legislation will generate estimated savings of \$2.6 million for the Department of Corrections in 2008-09, and additional savings of \$19 million over the next four years.

\$13 Million in Savings to the Board of Probation and Parole. The legislation will also result in projected financial savings of more than \$13 million over five years for the Board of Probation and Parole.

Filled Trooper Positions



Making Pennsylvania Safer

Projected Impact of Proposed Legislation if Enacted

	2008-09	2009-10	2010-11	2011-12	2012-13
Reduction in Offender Population (in number of inmates)	-371	-753	-732	-571	-605
Savings to Department of Corrections	-\$2,600,000	-\$4,320,000	-\$5,100,000	-\$4,900,000	-\$4,700,000
Change in Number of Offenders on Parole	145	1,044	-3	-111	267
Savings to Parole Board	\$0	-\$155,000	-\$2,100,000	-\$5,000,000	-\$6,000,000

As a result of more effective management and treatment of less violent offenders, there will be an initial increase in the number of parolees. After the legislative package is fully implemented there will be additional growth in the number of parolees beginning in 2012-13.

Another provision in this legislative package would require that most offenders with a minimum sentence of between two and five years be sentenced to the state Department of Corrections. Were only this provision to pass, the cost to the commonwealth would be \$4.5 million through 2012. Savings from the other parts of the package pay for this provision and still yield the net savings identified above.

Enhancing Supervision and Increasing Prison Capacity

\$2.4 million for the Pennsylvania Board of Probation and Parole. This budget will enhance the board's case-processing capabilities and maintain a favorable agent-to-parolee ratio.

\$3.6 million for three new prison housing units. This budget recommends \$3.6 million to open three new prison housing units at existing institutions to expand the department's capacity by 690 additional beds.



\$11.2 million for an additional 1,000 community corrections beds. These beds offer a less costly alternative to prison incarceration and improve offenders' chances of successfully reintegrating into their communities and staying out of prison.

Restructuring to Improve Emergency Preparedness Operations

An ongoing priority for the administration has been an all-hazards emergency preparedness response strategy, comprised of the three essential components of prevention, protection and response recovery. An aggressive review of the commonwealth's emergency response capabilities has resulted in a comprehensive blueprint to restructure the state's emergency preparedness operations. This budget recommends \$308,000 in 2007-08 funding to begin this transition immediately. Proposed changes include:

- Creating a new Cabinet-level agency – the Department of Emergency Management and Homeland Security – to coordinate all emergency management and response efforts across all state agencies.
- Launching a Citizen Preparedness Campaign to establish Pennsylvania as a leader in partnering with private business and individual citizens to prepare for and respond to disasters.
- Institutionalizing the National Incident Management System (NIMS), which was developed so that responders from different jurisdictions and disciplines work together to better respond to natural disasters and emergencies, including acts of terrorism.

Pennsylvania Is Preparing for Public Health Emergencies

\$5.6 million in state funds to procure antiviral medicine. This will allow the commonwealth to meet federal guidelines on antiviral medicine as part of the national pandemic preparedness strategy. These efforts will buttress the recent successes of the administration's pandemic and public health preparedness efforts that have resulted in Pennsylvania being recognized as one of only seven states to receive a perfect 10 score in the 2007 Trust for America's Health "Ready or Not?" report.



Making Government Work Smarter

One of Governor Rendell's highest priorities has been to significantly improve the quality of state services provided to Pennsylvania's residents while restraining the growth of administrative spending by state government. This approach allows the commonwealth to invest more resources in programs that directly benefit our citizens.

During his first term, Governor Rendell made good on his pledge to cut the cost of government by achieving annual recurring savings of \$1 billion. Building on this milestone, the Governor has instructed commonwealth agencies and the Governor's Office of Management and Productivity to save an additional \$500 million annually over the next four years and achieve \$1.5 billion in annual recurring savings by end of his second term.

The administration is well on its way to reaching that goal, with annual recurring savings projected to be \$1.2 billion by the end of 2007-08.



Governor Rendell's management and productivity initiatives are producing improved government services at lower cost, for the benefit of all Pennsylvanians. Improvements in technology have made it easier and less expensive for Pennsylvanians to access services like renewing driver's licenses and vehicle registrations and filing their taxes. The commonwealth also has expanded its use of the Internet to more efficiently and accurately detect and prevent fraud and abuse.

Reducing administrative spending also means cutting costs on items like utilities and insurance that are necessary to run the government but do not directly contribute to services received by Pennsylvania citizens. In addition, program operating costs are continually assessed to find ways that better-quality services can be delivered at lower cost.

The administration also considers ways technology can be used to develop more cost-effective contracts for the purchase of goods and services. Finally, the administration is committed to maximizing revenues by improving the methods used to collect money owed to the commonwealth.

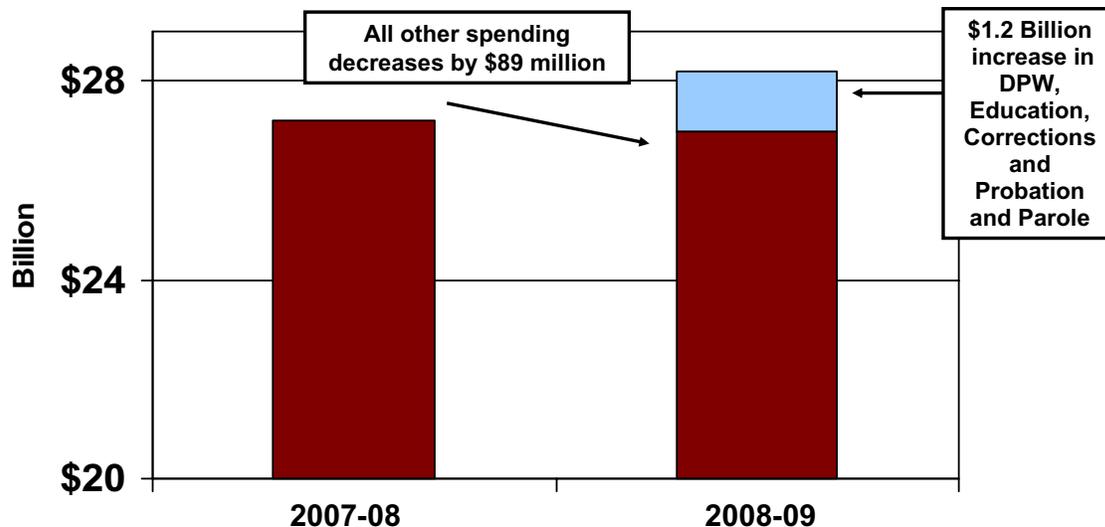
Significant Continued Reductions in Administrative Spending

By implementing common-sense initiatives – including eliminating unused phone lines, consolidating warehouses, reducing the size of the motor vehicle fleet and managing the employee complement – commonwealth agencies are spending 2.3 percent less on administrative costs in 2007-08 than they did in 2002-03. Had administrative spending increased at the rate of inflation, taxpayers would have paid \$342 million more this year for operating state government.

The decrease in spending is especially significant compared to the increase in administrative spending by many other states during the same time. In 2007, the Governor's Budget Office conducted a survey of all 50 states on administrative spending between 2002-03 and 2007-08. Of the 23 states that responded, the average change was a 28.5 percent increase in absolute dollars. During this same time period, Pennsylvania administrative spending decreased more than spending in all but two other states.

Making Government Work Smarter

Growth in 2008-09 Expenditures



Some examples of commonwealth administrative cost-savings:

- The Department of General Services continues to build on its Strategic Sourcing Initiative with an improved approach to negotiating contracts. This includes gathering detailed costing information and negotiating costs with suppliers so the commonwealth pays appropriate prices for the goods and services it purchases. This initiative has saved more than \$216 million.
- Since January 2003, the number of filled salaried positions in the commonwealth workforce has been reduced through attrition by more than 3,500. The administration's efforts to reduce the number of commonwealth employees through attrition are saving taxpayers \$200 million a year.

Ongoing Reductions in Operational Costs

In addition to reducing the administrative cost of operating state government, Governor Rendell is committed to decreasing the costs associated with delivering state services and programs. Among the examples:

- Competitive bidding and renegotiating vendor contracts for health care products and services purchased through the Pennsylvania Employees Benefit Trust Fund produced annual cost savings of more than \$68 million.
- At the Department of Public Welfare, implementation of a preferred-drug list and renegotiation of pharmacy reimbursement agreements will save \$82 million in pharmaceutical costs in 2007-08.

Generating New Revenues

In addition to controlling the cost of government, Governor Rendell's administration has focused on improving the collection of state revenues. Some examples include:

• Use Tax Revenues

The Department of Revenue has initiated a Use Tax Compliance program by educating taxpayers about Pennsylvania's Use Tax. The number of residents and businesses buying equipment and supplies from out-of-state vendors continues to increase. In many instances, however, out-of-state vendors do not collect Pennsylvania Sales Tax. When this occurs, the purchaser must report and pay Use Tax to the commonwealth. The program is focused on collecting Use Tax from businesses, which generally owe much larger amounts than individuals and have an audit trail of taxable purchases. This effort is expected to generate \$27 million in new revenue.

• Liquor Sales Revenues

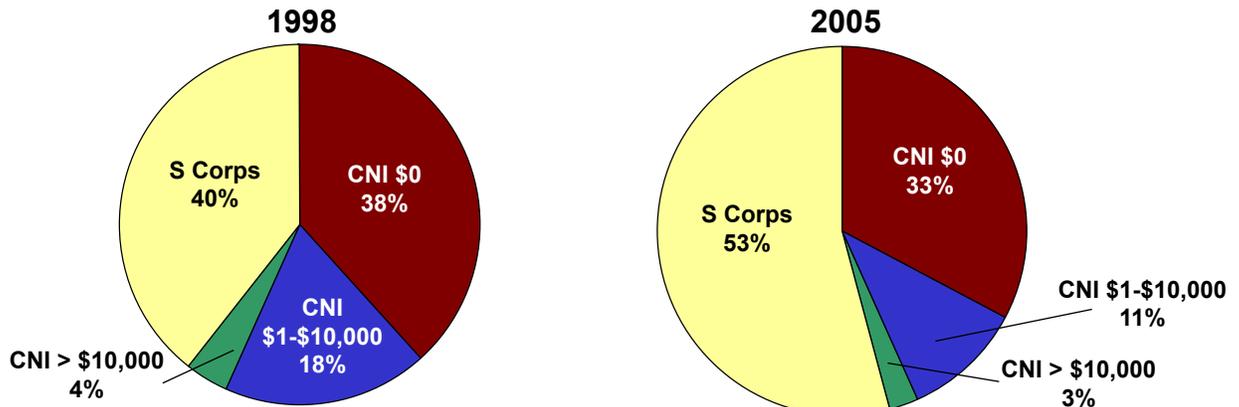
In 2006-07 the Pennsylvania Liquor Control Board began an agency-wide re-engineering and cost-containment program that led to a 7 percent increase in sales over 2005-06 and a record \$487 million in tax revenues and transfers for the General Fund. The board's cost-containment program has resulted in \$7 million in annual recurring savings. New efforts in the agency's marketing, licensing and alcohol education programs have begun as part of a new initiative, "PLCB 75," that coincides with the agency's 75th anniversary in 2008. This initiative is focused on new business and management programs to lower costs even further.

Pennsylvania's Tax Structure

Working for Businesses and Families

Over the last five years, the commonwealth has enacted cumulative tax relief of more than \$3 billion – including more than \$2.5 billion in cumulative business tax cuts and \$429 million in savings for Pennsylvania families. With one of the lowest personal income tax rates in the nation – paid both by residents and by Pennsylvania's many S corporations, LLCs and other "pass-through" businesses – Pennsylvania has been able to attract businesses and provide state services at a relatively low cost to the taxpayer.

Total Business Tax Filers



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

Pennsylvania's Tax Structure is Competitive

By virtually any measure, the level of taxes in Pennsylvania is in line with – and in many cases is better than – the tax climate in neighboring and competitor states:

- The non-partisan, business-funded Tax Foundation rates the commonwealth's business tax climate as more favorable than that of four of our neighboring states – New York, New Jersey, Ohio and West Virginia – and Pennsylvania's 2008 ranking is near the middle of the pack nationally, at 27th best out of 50 states.
- In 2006, Pennsylvania ranked 24th in the nation in annual per capita state taxes – with a lower burden of total state taxes than the national average. The commonwealth's per capita total tax burden is lower than Delaware, New Jersey, New York, Maryland and West Virginia.
- In 2006, Pennsylvania ranked 33rd in total state taxes as a percent of personal income – better than the national average and better than West Virginia, Delaware, New York and Ohio.

Business Taxes Have Dropped – and Continue to Decline

A 2007 study by the financial services firm Ernst & Young, in conjunction with the Council on State Taxation, revealed that Pennsylvania businesses pay a smaller share of total state and local taxes than the national average and pay lower taxes than businesses in three of our six neighboring states.

Cumulative business tax cuts since 2003 include:

- Successive annual reductions in the Capital Stock and Franchise Tax, saving businesses \$1.7 billion. Businesses will receive an additional \$1.1 billion in Capital Stock and Franchise Tax savings in 2008-09.
- Expanding the cap on Net Operating Losses and increasing the sales factor for Corporate Net Income Tax apportionment, saving businesses \$145 million.
- Expanding Research and Development Tax Credits, saving businesses \$80 million. An additional \$25 million will be saved in 2008-09.

Pennsylvania's Tax Structure

- Expanding the Educational Improvement Tax Credit program, saving businesses \$118 million and promoting expanded educational opportunities for students in the commonwealth. An additional \$45 million will be saved in 2008-09.
- Creating the Keystone Innovation Zone Tax Credits, saving businesses \$31 million. An additional \$25 million will be saved in 2008-09.
- Establishing the "Creativity in Focus" Film Production Tax Credit, saving businesses \$75 million annually.

Pennsylvania's Personal Income Tax is "One of the Best in the Nation"

At 3.07 percent, the commonwealth's personal income tax rate is the second lowest of the 40 states that levy this tax. Pennsylvania residents pay 11 percent less in per capita state income taxes than the national average, and less than all of our neighboring states except West Virginia. The commonwealth's low rate led the business-backed Tax Foundation to call Pennsylvania's income tax "one of the best in the nation."

The commonwealth's low income tax rate also puts many businesses in a strong competitive position. More than half of Pennsylvania businesses – especially small businesses – are pass-through entities. Under Pennsylvania law, these businesses pay the same income tax rate as workers, instead of the higher Corporate Net Income Tax. Pennsylvania has the lowest tax rate in the nation of the 42 states that tax pass-through entities. In 2008-09, this equates to \$1.1 billion in savings for these businesses. Also, since the 2006 tax year, families and individual taxpayers have been able to deduct contributions to qualified college savings plans from

their already-low personal income tax. This tax deduction lessens the burden of saving money for college and will save Pennsylvania taxpayers \$29 million in 2008-09.

Protecting Our Progress Tax Rebates for Working Families

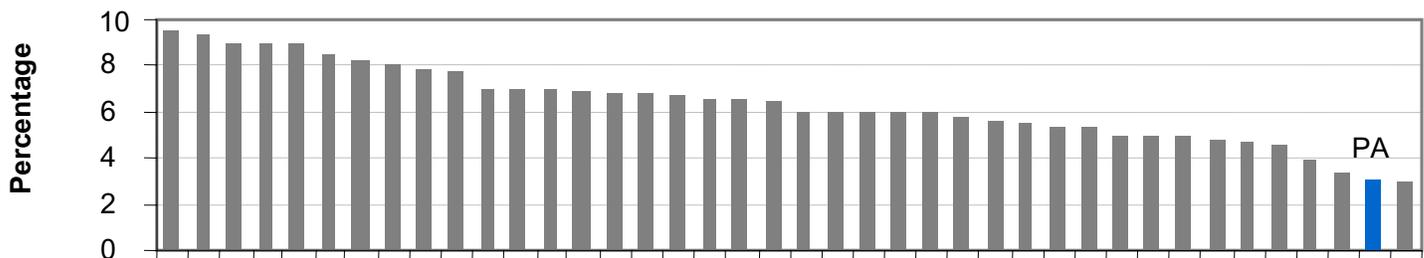
Recent concern about the national economy has led the federal government to take steps to implement a federal-level economic stimulus program. Governor Rendell proposes to augment the federal stimulus plan in Pennsylvania to lessen the odds that a recession will adversely affect the economic progress Pennsylvania has experienced over the last five years.

Short-term economic downturns are felt first and most painfully by lower-income working families. Putting money in the hands of those who need the most immediate help is therefore an essential component of any effective economic stimulus plan.

The Governor is proposing that all Pennsylvania families who file their 2007 Personal Income Tax return using the State Tax Forgiveness Credit receive a rebate on their taxes of \$200 for each individual filer and \$400 for each couple (to qualify, filers must have at least one dependent). This rebate plan will provide immediate financial relief to those who need it most. Under the plan, a family of four with an income of \$32,000 would qualify for a \$400 rebate.

This change will be effective for the 2007 tax year and will put nearly \$130 million into the hands of hard-working Pennsylvanians this spring. These rebates would be delivered to taxpayers less than 60 days after legislative authorization of the rebate.

Other State Income Tax Rates



40 States That Levy a Personal Income Tax, Ranked Highest to Lowest

Pennsylvania's Tax Structure

Tax cuts will save Pennsylvania's businesses and families more than \$3 billion since 2004.

Major Tax-Saving Initiatives

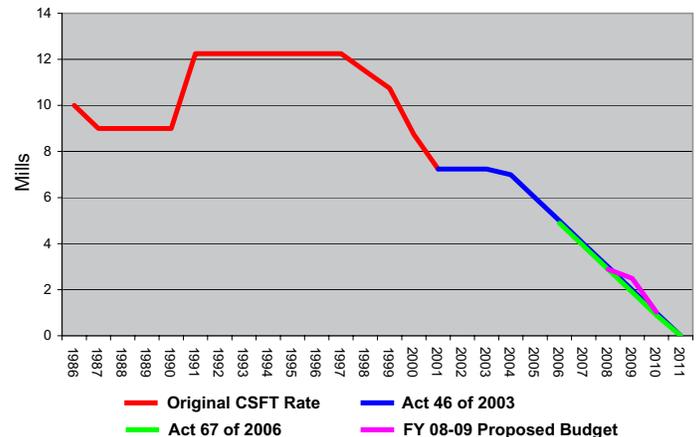
Dollars in Millions	2004-05	2005-06	2006-07	2007-08	2008-09
Continued CSFT Phase Out.....	\$ 77.0	\$ 266.2	\$ 522.1	\$ 818.3	\$ 1,081.3
Special Tax Forgiveness Expansion (\$500 per dependent).....	13.9	13.6	13.3	13.0	12.7
Research and Development Tax Credit Expansion.....	15.0	15.0	25.0	25.0	25.0
Sales tax credits (Call Centers).....	30.0	30.0	30.0	30.0	30.0
Sales tax credits (Telecommunications).....	40.2	42.6	45.3	48.8	52.6
Inheritance Tax (recouple to federal return basis).....	55.2	76.7	83.6	84.9	86.2
Education Improvement Tax Credits.....	15.0	19.0	29.0	45.0	45.0
Keystone Innovation Zone Tax Credits.....	-	-	6.0	25.0	25.0
Film Production Tax Credit.....	-	10.0	-	75.0	75.0
Keystone Opportunity Zones.....	2.9	2.9	0.9	0.9	0.9
Malt Beverage Investment Tax Credit.....	1.2	1.2	1.0	1.1	1.1
Expansion of NOL Cap and Increase Sales Factor.....	-	-	35.1	109.7	121.5
TAP & 529 Plan Contribution Deductions.....	-	-	25.5	27.2	29.1
Health Savings Accounts.....	-	-	4.0	4.6	5.4
CSFT Exemption for certain Restricted Professional Corporations.....	-	-	7.2	4.9	3.8
SUT Exemption for investment in metal bullion.....	-	-	2.1	2.2	2.4
CSFT Exclusion increase to \$150,000.....	-	-	1.6	4.7	4.2
Life Valuation Fees.....	-	-	1.9	1.9	1.9
Sub-Chapter S Elections.....	-	-	1.1	1.2	1.4
Agricultural Easement Valuation Reductions.....	-	-	0.1	0.2	0.2
Bank Shares Tax-Goodwill Deduction.....	-	-	-	12.6	14.9
Resource Enhancement and Protection Tax Credit.....	-	-	-	10.0	10.0
Powdered Metals Exemption.....	-	-	-	1.9	0.3
Remanufactured Locomotives Exemption.....	-	-	-	1.2	1.1
Protecting Our Progress Tax Rebate.....	-	-	-	130.0	-
Annual Total.....	\$ 250.4	\$ 477.2	\$ 834.7	\$ 1,479.3	\$ 1,631.0
Cumulative Total.....	\$ 292.8	\$ 770.0	\$ 1,604.7	\$ 3,084.0	\$ 4,715.0

This budget includes \$130 million in proposed tax rebates for hard-working Pennsylvanians. In addition, recurring tax cuts enacted since Governor Rendell took office will exceed \$3 billion by the end of fiscal year 2007-08. To date, taxpayers have already saved \$1.6 billion in taxes through June 30, 2007.

- The 2008-09 budget proposes Protecting Our Progress Tax Rebates totaling \$130 million. Taxpayers who qualify for the Special Tax Forgiveness Credit in tax year 2007 and have at least one dependent will receive a one-time rebate in fiscal year 2007-08. The rebate is \$200 for individuals and \$400 for couples.
- Effective with tax year 2004, the Capital Stock and Franchise Tax was reduced by a quarter mill from 7.24 mills to 6.99 mills. The rate was reduced an additional 1 mill on January 1, 2005. The 2006-07 enacted budget accelerated the rate reduction by an additional one-tenth of a mill in tax year 2006 by reducing the rate by 1.1 mills on January 1, 2006. Effective January 1, 2007 the rate was further reduced by an additional 1 mill, bringing the rate down to 3.89 mills for 2007. On January 1, 2008, the rate was reduced to 2.89 mills.

The 2008-09 budget proposes to modify the remaining rate reduction schedule. The proposed rate for 2009 is 2.49 mills and the proposed rate for 2010 is 1.02 mills. The tax would be eliminated on January 1, 2011. In the table above the tax savings are based on revisions to the rate versus the 7.24 mill 2004 base.

CAPITAL STOCK AND FRANCHISE TAX RATE



2008-09 General Fund Revenues

PA Revenue Sources			
Dollars in Millions	Actual Collections 2006-07	Estimated Collections 2007-08	Estimated Collections 2008-09
Personal Income Tax	\$10,261.6	\$11,096.5	\$11,670.0
Sales and Use Tax	\$8,590.8	\$8,556.0	\$8,843.7
Corporate Net Income Tax	\$2,492.5	\$2,521.7	\$2,520.0
Capital Stock and Franchise Tax ¹	\$999.9	\$890.5	\$730.0
Gross Receipts Tax	\$1,293.3	\$1,397.5	\$1,490.0
Cigarette Tax	\$778.6	\$774.7	\$759.1
Other Taxes	\$2,267.3	\$2,324.4	\$2,368.1
Non-Tax Revenues	\$765.3	\$626.8	\$653.7
Total	\$27,449.3	\$28,188.1	\$29,034.6
Difference from prior year	\$1,595.1	\$738.8	\$846.5
Percentage Difference	6.2%	2.7% ²	3.0%

¹ Effective with tax year 2004, the Capital Stock and Franchise Tax was reduced by a quarter mill from 7.24 mills to 6.99 mills. The rate was reduced an additional 1 mill on January 1, 2005. The FY 2006-07 enacted budget accelerated the rate reduction by an additional one-tenth of a mill in tax year 2006 by reducing the rate by 1.1 mills on January 1, 2006. Effective January 1, 2007 the rate was further reduced by an additional 1 mill bringing the rate down to 3.89 mills for 2007. The proposed budget for FY 2008-09 proposes to modify the rate reduction. Beginning January 1, 2009, the tax rate will be 2.49 mills and for 2010 the rate will be 1.02 mills. The tax will be completely eliminated on January 1, 2011.

² Beginning in 2007-08, 4.4 percent of the Sales and Use Tax receipts are transferred to the new Public Transportation Trust Fund. If not for this transfer, the revenue growth rate over 2006-07 would be 3.9%.

2008-09 Motor License Fund

INCOME

(Dollars in Millions)



Liquid Fuels Tax — \$1,270

Licenses and Fees — \$895

Turnpike Commission Payment — \$500

Other — \$141

Total Income	\$2,806
Beginning Balance....	97
TOTAL	\$2,903

OUTGO

(Dollars in Millions)



Highways & Bridges — \$1,818

State Police — \$511

Local Subsidy — \$246

Licensing & Safety — \$137

Other — \$137

Debt Service — \$37

Total Outgo	\$2,886
Ending Balance	17
TOTAL	\$2,903

2008-09 General Fund Expenditures

(dollar amounts in thousands)

Department	2006-07 Actual	2007-08 Available ¹	2008-09 Budget
Aging.....	\$ 19,950	\$ 250 ²	\$ 250 ²
Agriculture.....	85,399	81,206	82,476
Attorney General.....	95,955	93,836	95,662
Auditor General.....	53,779	54,018	54,833
Civil Service Commission.....	1	1	1
Community & Economic Development.....	673,663	643,290	507,215
Conservation and Natural Resources.....	104,499	116,736	116,114
Corrections.....	1,420,259	1,600,181	1,668,811
Education.....	10,461,041	11,073,499	11,537,477
<i>Basic Education (Pre K-12).....</i>	<i>8,773,297</i>	<i>9,341,365</i>	<i>9,810,052</i>
<i>Higher Education.....</i>	<i>1,562,893 ³</i>	<i>1,604,055 ³</i>	<i>1,595,993 ³</i>
<i>Public Library Subsidy.....</i>	<i>75,500</i>	<i>75,750</i>	<i>77,265</i>
<i>All Other.....</i>	<i>49,351</i>	<i>52,329</i>	<i>54,167</i>
Emergency Management and Homeland Security.....	34,026	30,776	21,828
<i>Disaster-Related Funding.....</i>	<i>16,268</i>	<i>12,400</i>	<i>3,450</i>
<i>All Other.....</i>	<i>17,758</i>	<i>18,376</i>	<i>18,378</i>
Environmental Protection.....	206,050	222,463	207,156
Executive Offices.....	238,848	260,747	274,786
Fish and Boat Commission.....	16	16	17
General Services.....	116,081	120,515	127,590
Governor's Office.....	7,359	7,559	7,899
Health.....	282,399	294,498	269,384
Higher Education Assistance Agency.....	451,647	451,968	463,554
Historical & Museum Commission.....	36,929	33,865	32,963
Infrastructure Investment Authority.....	0	0	2,200
Insurance.....	81,630	99,158	125,272
<i>Children's Health Insurance.....</i>	<i>47,557</i>	<i>63,531</i>	<i>85,100</i>
<i>All Other.....</i>	<i>34,073</i>	<i>35,627</i>	<i>40,172</i>
Judiciary.....	286,643	298,724	309,703
Labor & Industry.....	137,723	120,275	114,527
Legislature.....	341,516	333,600	334,759
Lt. Governor's Office.....	1,388	1,523	1,614
Military & Veterans Affairs.....	126,320	136,193	132,668
Probation & Parole Board.....	97,610	109,632	117,195
Public Television Network.....	13,951	13,498	11,772
Public Welfare.....	9,304,407	9,668,395	10,336,452
<i>Medical Assistance.....</i>	<i>5,144,938 ⁴</i>	<i>5,223,401 ⁴</i>	<i>5,680,295 ⁴</i>
<i>Mental Health.....</i>	<i>732,936</i>	<i>774,459</i>	<i>781,896</i>
<i>Mental Retardation.....</i>	<i>1,017,069</i>	<i>1,115,424</i>	<i>1,185,730</i>
<i>County Child Welfare -- Abuse, Neglect, Delinquency.....</i>	<i>962,140</i>	<i>1,007,762</i>	<i>1,061,721</i>
<i>Cash Grants.....</i>	<i>478,338</i>	<i>273,047 ⁵</i>	<i>266,946 ⁵</i>
<i>Child Care.....</i>	<i>216,484</i>	<i>479,917 ⁶</i>	<i>530,936 ⁶</i>
<i>All Other.....</i>	<i>752,502</i>	<i>794,385</i>	<i>828,928</i>
Revenue.....	179,261	194,491	204,963
Securities Commission.....	2,321	2,354	2,323
State.....	12,055	20,571	14,317
State Employees Retirement System.....	4	4	4
State Police.....	189,676	183,043	186,994
Tax Equalization Board.....	1,338	1,519	1,519
Transportation.....	334,351	13,862	13,736
<i>Public Transportation Funding.....</i>	<i>320,555</i>	<i>0 ⁷</i>	<i>0 ⁷</i>
<i>All Other.....</i>	<i>13,796</i>	<i>13,862</i>	<i>13,736</i>
Treasury.....	900,000	923,405	958,779
<i>General Obligation Debt Service.....</i>	<i>848,592</i>	<i>870,561</i>	<i>904,510</i>
<i>All Other.....</i>	<i>51,408</i>	<i>52,844</i>	<i>54,269</i>
GRAND TOTAL	\$ 26,298,095	\$ 27,205,671	\$ 28,336,813

¹ Includes recommended supplemental appropriations of \$30.705 million.

² Reflects transfer of General Government Operations and Family Caregiver appropriations to the Lottery Fund beginning in 2007-08.

³ Includes State System of Higher Education.

⁴ Medical Assistance is funded by a variety of state sources and federal funds; only a portion of the costs are supported by the General Fund.

For example, in 2008-09 total projected MA expenditures are \$15,242,525,000. Combined MA obligations from the General, Tobacco Settlement and Lottery Fund are as follows: 2006-07 Actual = \$5,551,277,000; 2007-08 Available = \$5,662,503,000; and 2008-09 Budget = \$6,149,249,000

⁵ Reflects transfer of child care funding for TANF and former TANF families to Child Care Assistance beginning in 2007-08.

⁶ Reflects transfer of child care funding for TANF and former TANF families from Cash Grants beginning in 2007-08.

⁷ Reflects transfer of public transportation funding to the new Public Transportation Trust Fund beginning in 2007-08 per Act 44 of 2007.

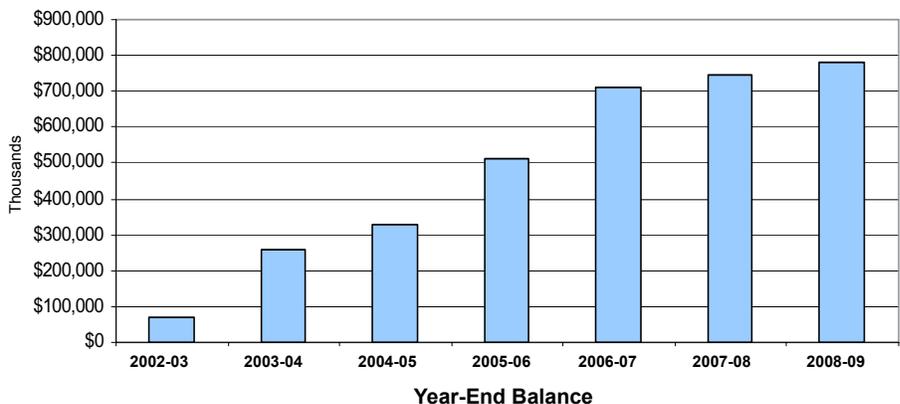
2008-09 General Fund Financial Statement

	Dollars in Millions		
	2006-07 Actual	2007-08 Available	2008-09 Budget
Beginning Balance	\$ 522	\$ 531	\$ 400
Revenues:			
Revenue Receipts.....	\$ 27,449	\$ 28,188	\$ 29,035
Transfer from Budget Stabilization Reserve Fund.....		130	
Protecting Our Progress Tax Rebates ...		(130)	
Less Refunds.....	(1,050)	(1,070)	(1,095)
Total Revenue	<u>\$ 26,339</u>	<u>\$ 27,118</u>	<u>\$ 27,940</u>
Prior Year Lapses.....	85	80	. . . .
Funds Available	<u>\$ 27,006</u>	<u>\$ 27,729</u>	<u>\$ 28,340</u>
Expenditures:			
Appropriations.....	\$ 26,298	\$ 27,175	\$ 28,337
Supplemental Appropriations.....	. . . .	31	. . . .
Less Current Year Lapses.....	. . . .	(10)	. . . .
Total Expenditures	<u>26,298</u>	<u>27,196</u>	<u>28,337</u>
Closing Balance.....	\$ 708	\$ 533	\$ 3
Less Transfer to Budget Stabilization Reserve Fund....	(177)	(133)	(1)
Ending Balance	<u><u>\$ 531</u></u>	<u><u>\$ 400</u></u>	<u><u>\$ 2</u></u>

- The Governor has proposed a General Fund Budget for 2008-09 that increases state spending by \$1.13 billion, or 4.2 percent.
- Increases in Pre K–12 and Higher Education of 4.1 percent, Public Welfare of 6.9 percent, Corrections of 4.3 percent and the Board of Probation and Parole of 6.9 percent are offset by a decrease of 2.1 percent in the remainder of the General Fund budget.

2008-09 Rainy Day Fund

The current balance in the commonwealth's Rainy Day Fund is \$730 million. In his 2008-09 budget, Governor Rendell has proposed a Protecting Our Progress Tax Rebate to provide immediate financial relief to lower-income working families. The \$130 million cost of the rebate program will be paid through short-term borrowing from the Rainy Day Fund in the final quarter of the current 2007-08 fiscal year. This loan will be repaid when the statutory transfer from the General Fund to the Rainy Day Fund is made at the close of the 2007-08 fiscal year.



The Economic Outlook for 2008-09

The Forecast is for Little or No Economic Growth Until the Second Half of 2008

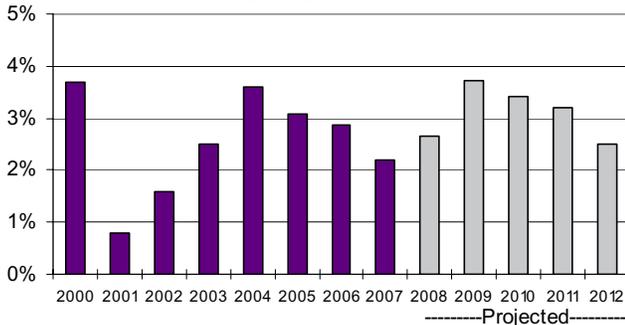
Economic forecasts are a key ingredient in constructing the budget's revenue forecasts and they also help the government project likely levels of demand for many public goods and services.

Recent Economic Trends

Despite the U.S. involvement in Iraq, a recession in the housing sector and the effects of soaring energy prices, the national economy continued to expand in 2007, but at a slower pace.

Demand for goods and services remained relatively solid, job growth slowed but still continued, household wealth and incomes rose, and real gross domestic product posted a gain of 2.2 percent for the year.

REAL GROSS DOMESTIC PRODUCT
Annual Growth



The moderate economic growth of 2007 built upon the expansion that started in 2001. Since that time, the U.S. economy has managed to grow at an average annual rate of 2.6 percent, with similar growth expected in the coming year. The economy grew at an average annual rate of 2.7 percent from 1998 through 2007.

Positive overall job growth continued through 2007. Job growth in 2004 added approximately 2 million jobs, and employment levels grew even faster, as approximately 2.6 million and 2.3 million jobs were added in 2005 and 2006, respectively.

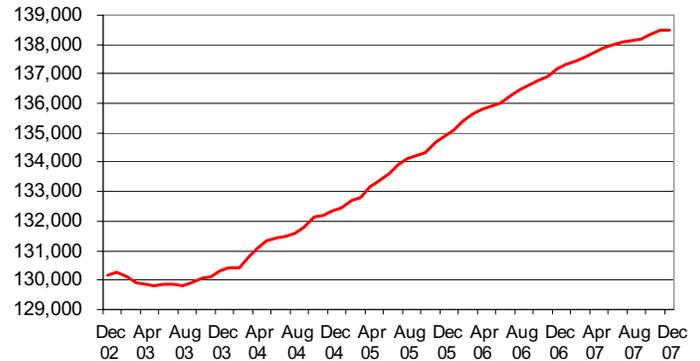
But job growth slowed significantly in 2007, with only approximately 1.3 million jobs added in the past year. However, the U.S. economy has generated significant growth in employment since January 2004, with at least 8.2 million jobs created.

The U.S. unemployment rate has risen in 2007 and currently stands at 5.0 percent through December 2007. The rise in the unemployment rate has occurred over the past year, as growth in employment has slowed from around 1.7 percent in 2006 to just over 1.0 percent in 2007.

Since peaking in 2002, the growth in productivity has slowed significantly. By 2006, productivity growth had slowed to only 1.0 percent before growing modestly in 2007.

U.S. EMPLOYMENT GROWTH

Non-Agricultural
(Jobs in Thousands)

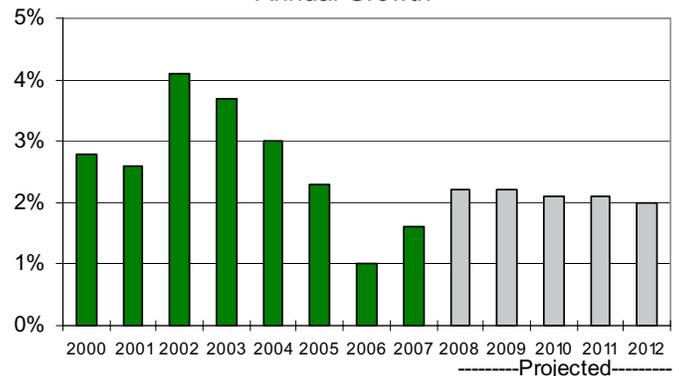


The slower rate of growth in productivity has led to lower real GDP growth.

Gains in productivity allowed businesses to accommodate moderately rising costs of labor, commodities and energy prices, as well as rising benefits expenses—especially health care costs. The gains in productivity through 2005 have helped to hold inflation relatively in check. But output gains have recently slowed significantly, and payrolls have been expanding for more than three years, which has resulted in upward pressure on wages and prices.

PRODUCTIVITY GAINS

Annual Growth



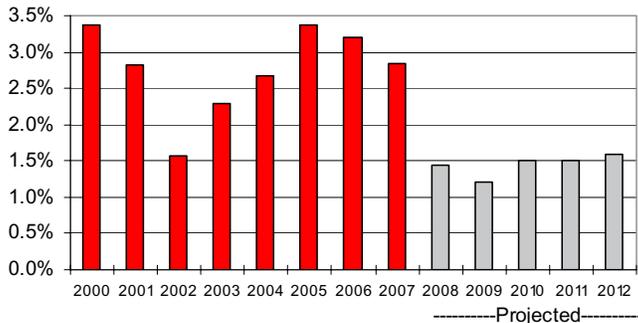
After dropping to 1.6 percent annual growth in 2002, inflation had been building over the past several years. A seemingly endless rise in energy costs, rising labor costs, increases in health care costs and a weak dollar combined to push inflation to a seasonally adjusted annual rate of 3.4 percent in 2005.

More recently, preliminary data from the U.S. Labor Department indicates that for all of 2007, the seasonally adjusted average annual rate of inflation was 2.9 percent. When measured on a year-over-year basis through December 2007, inflation rose dramatically to 4.1 percent, its highest level since 1990. This spike in inflation is attributable to soaring energy costs rippling through the broader economy.

The Economic Outlook for 2008-09

As the expansion gained traction in 2004 through 2006 and with the re-emergence of inflation attributed to strong demand and rising energy costs, the Federal Reserve began to raise interest rates.

INFLATION - CONSUMER PRICE INDEX
Annual Growth



Since that time, a slowing economy, lower job growth and a significant recession in the housing market have led the Federal Reserve to restart its interest rate cuts in an attempt to keep the broader U.S. economy out of recession.

In 2007, the Federal Reserve lowered the federal funds rate by a full percentage point late in the year. The Fed started with a half point reduction in the federal funds rate in September, followed by quarter point reductions in October and December. These reductions were combined with corresponding reductions in the discount rate – the rate the Federal Reserve charges to make direct loans to banks. Further, the Federal Reserve and the European Central Bank have injected tens of billion of dollars and euros into the world financial markets to ease liquidity constraints.

On January 22, 2008, in a surprise move, the Federal Reserve dramatically lowered the federal funds rate by three-quarters of a point, in response to the deepening housing recession, the continued credit crunch and plunging global financial markets. The same day, the Federal Reserve also lowered the discount rate by a corresponding three-quarters of a point.

The surprise reductions are the largest single interest rate cut since 1984 and came ahead of the regularly scheduled meeting of the Federal Open Markets Committee scheduled for January 29th. The surprise rate cut is the first monetary policy action taken by the FOMC between scheduled meetings since September 17, 2001.

Finally, in cutting interest rates on January 22nd, the Federal Reserve indicated that further reductions could be announced at the January 29th meeting. While timely, the dual rate cuts are illustrative of growing concerns that the U.S. economy may be tipping toward a recession.

The slowdown in the housing market has turned into a recession in that sector, one that is beginning to ripple through the broader economy in the form of lower growth in jobs, wages and income, and consumer expenditures.

The acceleration of the housing slump has been substantial since 2006. It is estimated that the housing recession sliced 1.2 percent from overall economic growth in the latter part of 2006 and early 2007. New housing starts plunged 13 percent in 2006.

In 2007 new home construction saw its largest decline in nearly three decades, off 24.8 percent from 2006 levels. The 2007 decline in new home construction was the second-largest decline since 1980, when the new home market plunged 26 percent in the wake of double-digit inflation and 21 percent interest rates. The current housing slump has already surpassed the housing slump of 1990 and is rivaling the 1979-1980 housing crash.

Existing home sale prices fell in 2007, the first time on record, and building permits fell 25.2 percent. New home starts of 1.353 million in 2007 were nearly half the level of 2005, when there were more than 2.3 million new home starts.

Forecast for 2008

After several quarters of sub-par economic growth in late 2007 and early 2008, the economy is expected to grow moderately in later 2008 and beyond, according to a combination of data from both Global Insight and Moody's Economy.com economic forecasts.

Forecast Change in Key US Economic Indicators Annual Percentage Growth*				
Indicator	2006	2007	2008p	2009p
Nominal GDP	6.1	4.8	3.5	4.5
Real GDP	2.9	2.2	2.7	3.7
Real Personal Consumption	3.1	2.8	2.4	3.6
Corporate Profits (After Tax)	13.9	3.7	-3.1	0.5
Unemployment Rate (Rate)	4.6	4.6	4.9	4.5
CPI	3.2	2.9	1.4	1.1
Federal Funds (Rate)	5.0	5.0	4.3	4.4

*Assumptions in this chart, as well as other assumptions, are incorporated in the 2008-09 fiscal year revenue estimates.
p=projected

The current forecast anticipates that, because of the U.S. economy's underlying strength and the expected stimulative actions by the Federal Reserve, Congress and the Executive Branch, growth will remain positive – though weak – in the early part of 2008 and then become stronger in the latter part of 2008 and into 2009.

Declines in the housing sector are expected to continue to shave approximately a full 1.0 percent off of real GDP in 2007

The Economic Outlook for 2008-09

and the first two quarters of 2008, before stabilizing later in 2008. The drop-off in housing experienced since 2005 (down 50 percent) is expected to continue in early 2008.

In 2008, it is likely that the job market will have a greater influence on household spending decisions, as more wealth will be derived from income gains than from real estate appreciation.

Job growth is expected to decline significantly to approximately 97,000 jobs per month during 2008, before rebounding to approximately 143,000 jobs per month in 2009. Slow job growth is expected to push the national unemployment rate to around 5.1 percent in 2008 and 2009.

Inflationary pressures will continue in 2008, as wages and salaries grow moderately and energy prices remain elevated. Overall, inflation is projected to rise by just 1.4 percent in 2008, the lowest level this decade.

With moderate core inflation and a slowing economy, forecasters predict that the Federal Reserve will continue to reduce interest rates in 2008, with at least three additional quarter-point reductions to the federal funds rate. Additional reductions to the discount rate are also projected to continue, which will add liquidity to financial markets in the face of the current credit crunch.

The Outlook for Pennsylvania

Improvement in the commonwealth's economic performance is dependent upon continued job growth.

Continued job creation, combined with somewhat slower growth in the overall labor force during 2005 and 2006, produced a decline in Pennsylvania's unemployment rate, to a low of 3.8 percent in March 2007. Pennsylvania's unemployment rate has now been equal to or below the national average for 50 of the past 60 months.

Pennsylvania's 2007 projected job growth of 0.8 percent, while less than the projected national average of 1.0 percent, was still better than the surrounding states of New Jersey, Delaware and Ohio.

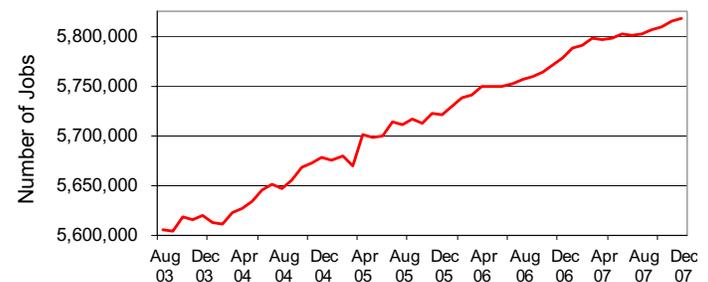
After reaching the recent low of 3.8 percent in March 2007, unemployment has inched up in the commonwealth to 4.7 percent in December 2007.

Pennsylvania ranked 26th in the U.S. during 2007 in terms of its unemployment rate, was below the national average and had the third lowest unemployment rate of the 10 largest states in the nation, trailing only Texas and Florida. Employment growth in the commonwealth during 2007 resulted in a 33rd place ranking among the 50 states – an improvement on Pennsylvania's typical ranking of 40th or below in employment growth in prior years.

The Pennsylvania economy has generated nearly 200,000 new jobs in the past five years. By December 2007, total non-farm jobs reached a record high of more than 5,817,000.

Housing construction slowed in Pennsylvania in 2007, down from a high of 45,000 new units in 2005. Further, while home prices have been falling nationally, home prices in Pennsylvania simply slowed in their rate of growth during 2007. Prices grew 4.1 percent through the third quarter of 2007, good for 21st in the nation in this category.

PENNSYLVANIA EMPLOYMENT
(Non-Agriculture)



Annual employment growth in Pennsylvania is forecast at around 0.4 percent in 2008, while longer-term job growth through 2012 is forecast to be 0.6 percent. Further, the state's unemployment rate is projected to remain moderate at 4.6 percent from 2008 through 2010, or just below the national average.

Personal income growth in Pennsylvania has remained strong and positive. In fact, the commonwealth narrowed the gap with the U.S. average in terms of annual percent growth in real personal income in 2006, and Pennsylvania exceeded the national average in 2007. This performance is the result of both a strengthening state economy and a tight state labor market.

Growth in health care, business services and tourism employment, along with recent above-average overall job growth in Pennsylvania during 2004 through 2006, are projected to result in moderate growth of real personal income during calendar years 2008 and 2009, with more modest growth forecast for 2010 through 2012.

Over the long term, Pennsylvania's economy continues to diversify significantly, and this should enable the state to better cope with cyclical downturns.

This continued diversification of the state's economy, combined with improvements in the business climate, is projected to support a moderate economic expansion, even as the relatively large non-working elderly population and substantial aging infrastructure present continuing challenges to economic expansion in Pennsylvania.

2008-09 Capital Budget

	Millions
From Bond Funds	
Conservation and Natural Resources.....	\$ 14.5
Corrections	43.3
Education.....	261.4
Emergency Management and Homeland Security.....	3.5
Environmental Protection	24.0
General Services	16.7
Historical and Museum Commission	17.4
Military and Veterans Affairs	26.0
Public Welfare	18.0
Transportation-Local Transportation Assistance	339.2
Subtotal Bond Funds	<u>\$ 764.0</u>
From Current Revenues	
Conservation and Natural Resources.....	\$ 28.0
Historical and Museum Commission	0.6
Transportation-Highways & Bridges	858.6
Subtotal Current Revenues	<u>\$ 887.2</u>
TOTAL CAPITAL PROJECTS TO BE AUTHORIZED.....	<u><u>\$ 1,651.2</u></u>

The Capital Budget process provides for the acquisition, design, construction and renovation of new or existing commonwealth buildings, facilities, physical betterments or improvements.

Conservation and Natural Resources

Provides for construction and renovation of support, day use, camping facilities and utility systems at the state parks; construction of district offices, central garages, radio communications systems and rehabilitation of forest roads in forest districts.

Corrections

Provides for construction and renovation of administrative, industrial, educational and housing facilities, and utilities at the state-owned correctional institutions.

Education

Provides for construction, expansion, renovation and conversion of classrooms and auxiliary buildings, utilities and recreational facilities for the State System of Higher Education, state-owned schools and for the state-related universities.

Emergency Management and Homeland Security

Provides for construction and renovation at the State Fire Academy, Emergency Operations Centers around the state and other emergency facilities.

Environmental Protection

Provides for construction and improvement projects to protect the environment and the health and safety of citizens using state lands and waterways. These projects include flood protection construction and flood control projects.

General Services

Provides for the construction, renovation and improvement of state office buildings and facilities.

Historical and Museum Commission

Provides for restoration and renovation of historic facilities, installation of fire and security systems, development of fixed exhibits and miscellaneous building and utility improvements at commonwealth-owned museums and historic sites.

Military and Veterans Affairs

Provides for land acquisition, renovations, additions and replacement at the state armories and veterans' homes. Also may include original furniture and equipment authorizations.

Public Welfare

Provides for construction and renovation of patient buildings, support facilities and utilities at the state institutions for the mentally ill and mentally retarded, restoration centers and youth development centers.

Transportation

Provides for improvements for local mass transit agencies, rail freight and air transportation projects. Also provides for the construction, and reconstruction of highways and bridges on the commonwealth road system and major federally-designated safety projects.