



COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE GOVERNOR
HARRISBURG

THE GOVERNOR

March 8, 2011

To the People of Pennsylvania:

It is my great honor to present to you the first budget of my administration. With this budget, our state is set to once again be the standard of excellence that other states are measured against in providing individual opportunity through business growth, job creation, agriculture, transportation, tourism, energy production and education.

Our commonwealth's financial challenges provide an opportunity to reassess our state government and choose a course that will renew the principles upon which that government was founded. This budget refocuses the investment of tax dollars in the core functions of government. Those functions include protecting public safety, maintaining the human services safety net, providing educational opportunities and supporting free enterprise.

Fiscal discipline is the guiding principle for this budget: It was crafted with honesty and restraint. Many historic programs that were not critical, essential or did not have a statewide impact have been proposed for elimination. What remains is a more limited but vigorous government.

Limiting the size and scope of government allows the public a better understanding of their investments. In addition, the details of this budget and future budgets will be more transparent and citizens will be able to judge the value and return on their investments.

In education, this budget supports an agenda for excellence, a world-class education that enables all Pennsylvania children to achieve to their full potential. Components of the education reform agenda include expanding quality educational options, maximizing flexibility and providing mandate relief for local school districts, and raising the quality of publicly supported education.

This budget also reflects the compassionate nature of Pennsylvanians. It supports programs that provide a helping hand to our most vulnerable citizens and those most in need. However, the national economy continues to exert significant pressures on the state budget. This budget supports critical programs to move people toward self-sufficiency while redirecting and resetting all programs to achieve that mission.

This budget unleashes the potential for Pennsylvania innovation. It provides no increase in taxes and shrinks the size of government, easing the burdens on families and businesses. It also reinstates the phase-out of the Capital Stock and Franchise Tax, supports the use of tax credits for economic development, and revamps the Department of Community and Economic Development to better support free enterprise and attract and retain entrepreneurs and job creators.

Pennsylvania is facing a protracted economic recovery that will take considerable time and effort to work through. This budget is responsive to fiscal realities and addresses our challenges head on. This budget demonstrates our commitment to taking ownership of our financial burdens and not passing them on to the next generation. This budget embraces the great opportunity we have before us to reset state government and choose a course that will renew the founding principles of our democracy's covenant.



Sincerely,

Tom Corbett



Commonwealth of Pennsylvania

2011-12 Budget in Brief

For a complete copy of the ***Governor's Executive Budget, Budget in Brief***
and additional budget information, visit our website:

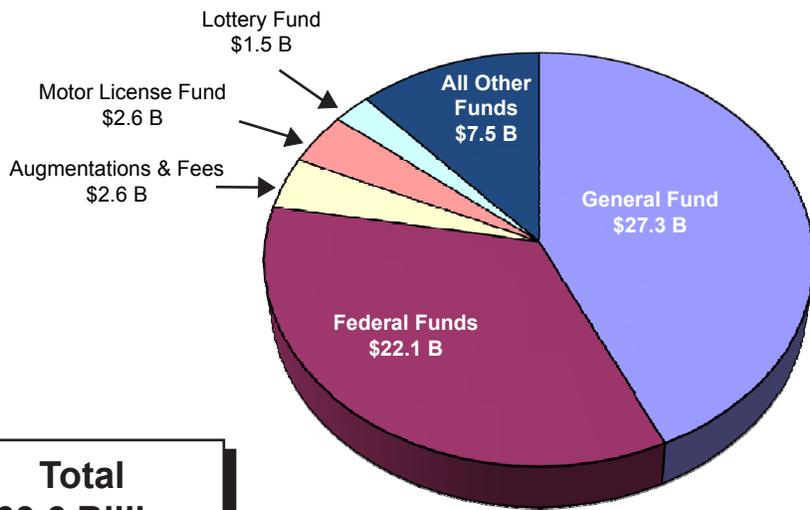
www.budget.state.pa.us

Click on Current and Proposed Commonwealth Budgets.

TABLE OF CONTENTS

2011-12 Budget Overview	4
2011-12 Budget Highlights	5
Setting the Commonwealth on a Path to Prosperity.....	7
Free Enterprise – An Agenda for Jobs.....	9
A World-Class Education That Enables All Pennsylvania Children to Achieve Their Full Potential.....	11
Protecting Public Safety	13
Helping Pennsylvanians Achieve Self-Sufficiency Through Sensible Reforms	14
General Fund Financial Statement.....	15
General Fund Revenue Sources	15
General Fund Expenditures by Agency	16
2011-12 Motor License Fund.....	17
The Economic Outlook for 2011-12.....	18
2011-12 Capital Budget.....	20

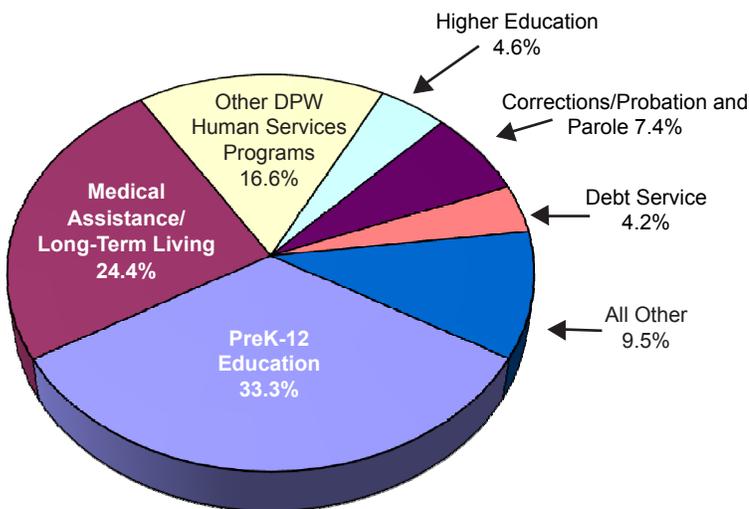
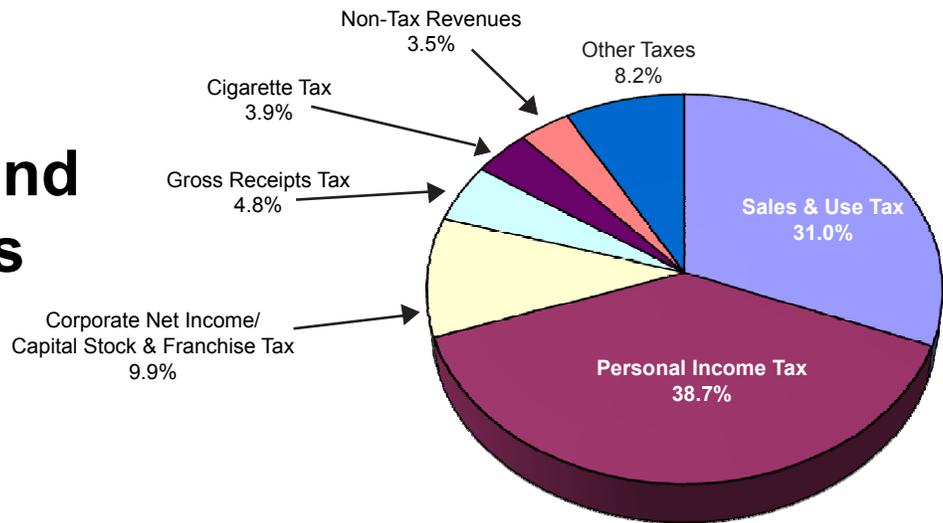
2011-12 Budget Overview



Total Operating Budget

**Total
\$63.6 Billion**

General Fund Revenues



General Fund Expenditures

\$27.3 Billion

2011-12 Budget Highlights

- The 2011-12 Governor's Budget is balanced with no tax or fee increases.
- The budget refocuses the investment of tax dollars in the core functions of government, including:
 - ✓ adhering to fiscal discipline;
 - ✓ promoting limited, transparent and effective government;
 - ✓ supporting free enterprise and job creation;
 - ✓ funding students and promoting educational excellence;
 - ✓ protecting public health and safety; and
 - ✓ maintaining the human services safety net.
- The 2011-12 General Fund budget is \$27.3 billion – a decrease of \$866 million, or 3.1 percent, from 2010-11. Overall, state spending is reset to near 2008-09 levels.
- To address the withdrawal of monies from the Tobacco Settlement Fund in 2009-10 and 2010-11, this budget maintains the operation of programs supported by tobacco funds by shifting the funding for those programs to the General Fund. Excluding this \$324 million shift, spending in the General Fund is actually reduced by 4.2 percent.
- The budget eliminates 103 appropriation line items – cutting nearly \$850 million in annual spending. It reduces funding for more than 150 appropriations and consolidates an additional 55 appropriations to streamline government.
- Administrative spending in the budget is reduced by more than 2 percent and over 1,500 complement positions are eliminated.
- This budget consolidates and streamlines economic development programs to focus on job creation and attracting businesses to Pennsylvania.
- The budget maintains important tax credit programs at 2010-11 levels, including the Job Creation and Film Production tax credits, and increases the cap on the Research and Development Tax Credit from \$40 million to \$55 million.
- The budget reinstates the phase-out of the Capital Stock and Franchise Tax – providing over 100,000 job creators with more than \$70 million of tax relief in 2011-12. The phase-out of this tax will continue until it is completely eliminated in 2014.
- The Basic Education Funding subsidy is reset to the 2008-09 level, the last year before federal stimulus funds were available, which results in an average annual increase of 2.8 percent in this funding over the last ten years. In addition, the budget proposes initiatives to give school districts increased flexibility and tools to improve student performance.
- The budget increases funding for the Department of Corrections and the Board of Probation and Parole and provides funding for two State Police cadet classes to maintain trooper strength on our highways and in our communities.
- The budget helps individuals achieve self-sufficiency through sensible welfare reforms while it preserves services for those in need who are eligible.

2011-12 Budget Highlights

A World-Class Education That Enables All Pennsylvania Children to Achieve Their Full Potential

PreK-12 Education – More than \$8.6 billion in state funding for direct support of public education.

Basic Education Subsidy – \$5.2 billion in state funds, including \$104.8 million to implement a student-focused funding approach to assist districts to advance student achievement.

Special Education – \$1.03 billion in state funding for special education programs.

Pennsylvania Pre-K Counts – \$83.6 million for pre-kindergarten.

Early Intervention – \$198.1 million in state funding, which is a \$16 million, or 9 percent, increase to serve an additional 1,500 children.

Higher Education Programs – \$1.25 billion in total funds, including \$381 million in the Pennsylvania Higher Education Assistance Agency for the Grants to Students program for students seeking financial assistance for higher education opportunities.

National Guard Tuition Assistance – \$7.2 million in new funding to continue Educational Assistance Program tuition grants for members of the Pennsylvania National Guard enrolled at degree-granting colleges.

Protecting Public Safety

Correctional Institutions – \$186 million in additional state funding, an 11 percent increase, including the replacement of \$172.9 million of federal American Recovery and Reinvestment Act (ARRA) funding.

Correctional Institutions Capacity – This budget provides 1,260 new beds within existing institutions and community corrections centers. In addition, this budget returns more than 2,100 inmates temporarily housed in two institutions in Virginia and Michigan to the Pennsylvania corrections system.

Probation and Parole – \$128 million in total state funds, a 6.3 percent increase, including \$3.4 million for additional parole agents to enhance supervision and case-processing capabilities.

State Police – This budget funds a total of 4,429 State Troopers by the close of 2011-12.

Helping Pennsylvanians in Need

Children's Health Insurance Program – \$438.7 million in total funds to provide health insurance coverage for 201,330 uninsured children, an increase of \$6.2 million while serving 7,330 more children.

Long-Term Living Services – \$4.5 billion in total funds to provide home and community-based services as well as nursing home care to persons with disabilities and older Pennsylvanians.

Medical Assistance Services – \$13.5 billion in total funds to provide inpatient, outpatient and capitation services for nearly 2.3 million Medical Assistance recipients.

Intellectual Disabilities – Community Programs – \$2 billion in total funds to provide home and community-based services to more than 50,000 individuals with intellectual disabilities, including \$3.7 million in new state funds to provide home and community-based services for 85 individuals currently residing in state institutions.

Mental Health Services – \$993 million in total funds to provide mental health treatment services, including \$5 million in new state funds to provide home and community-based services for 90 individuals currently residing in state hospitals.

Child Welfare Services – \$1.4 billion in total funds to provide child welfare services to children and youth in need of care and protection.

PACE/PACENET – \$262.3 million in Lottery funds to provide prescription drug coverage for 360,185 older Pennsylvanians, an increase of 1,950 individuals.

Early Intervention Services – \$192 million in total funds to provide early intervention services to more than 35,000 children from birth to age 3.

Autism Services – \$29.3 million in total funds to support individuals living with autism spectrum disorder, including home and community-based services for 400 adults.

Setting the Commonwealth on a Path to Prosperity

With this budget, Pennsylvania is set to once again be the standard of excellence that other states are measured against in providing individual opportunity through business growth, job creation, agriculture, transportation, tourism, energy production and education. Our commonwealth's financial challenges provide an opportunity to reassess our state government and choose a course that will renew the principles upon which that government was founded. In reflecting upon those principles, this budget moves to realign government spending and priorities to those core functions of government that protect our life and liberty, allow for the pursuit of happiness and support the educational needs of our citizens and communities.

This budget focuses the public investment of tax dollars in the core functions of government: protecting the public, supporting the education of our citizenry, protecting our most vulnerable populations and supporting free enterprise. Limiting the size and scope of government allows the public a better understanding of their investments. In addition, the details of this budget and future budgets will be more transparent, and the public can judge the value and return on those investments. This transparency will result in greater accountability on the investment and how we manage those investments.

Fiscal Discipline

Central to maintaining fiscal discipline is recognizing that our citizens know best how to spend their own money and refraining from imposing any additional tax burdens. To that end, this budget contains no increase in taxes. It reinstates the phase-out of the Capital Stock and Franchise Tax, easing a significant burden for industries in the commonwealth and allowing them to create jobs and greater economic opportunities for our citizens. Respected national studies consistently conclude that those states that are fiscally well-managed and constrain spending and cut taxes are also the leaders in economic performance and job creation. This fiscally responsible budget lays the foundation for additional job-creating tax cuts in future years, such as the reduction in the Corporate Net Income Tax, elimination of the Inheritance Tax, and elimination of the cap on the Net Operating Loss allowance.

Further, this budget eliminates 103 budget line items, cutting nearly \$850 million in annual spending. Many of these line items could be characterized as legislative initiatives, discretionary accounts, earmarks or "walking around money" (also known as WAMs). Total spending in this budget is reduced 3.1 percent from the previous year's enacted budget, and this budget resets overall state spending near 2008-09 levels.

Government Reform and Limited Government

Pennsylvanians deserve to have confidence in their government. To that end, Pennsylvania's taxpayers deserve to know how their tax dollars are being spent and what the return is on their investment. As part of this year's budget introduction, we unveil an online budget dashboard on the commonwealth website. This dashboard provides budget information by revenue source and department spending by appropriation and program. This is the first step in making virtually all state financial information available online to our citizens. The governor's entire budget is also available online.

The development of the 2011-12 budget entailed a line-by-line review of every expenditure and appropriation from a zero base. This zero-based approach will be used year after year to ensure that programs do not simply grow with inflation but are actually achieving their desired purpose while building in improvements and efficiencies. Further, all programs are expected to prove their effectiveness, and that effectiveness will continue to be reported through our performance measures. This budget reduces the cost of doing business by more than 4 percent and begins the effort to reduce the overall cost of doing business by 10 percent over the next four years.

As promised, this budget launches efforts to streamline state government and achieve efficiencies. The commonwealth is already eliminating per diems for state employees; a number of complementary services have been consolidated; reviews of existing boards and commissions have begun; and the vehicle fleet is being reduced. These efforts, however, are only the beginning. Our plans to refocus and improve government investments and operations will need to accelerate in the years ahead.

Core Functions of State Government

This budget refocuses the investment of taxpayer dollars in the core functions of government, which will result in private-sector job creation and economic opportunities. Those core functions of government include: supporting free enterprise in the commonwealth, providing educational opportunities for our youth, protecting public safety, and providing a helping hand to those most in need and moving people toward self-sufficiency. Budget initiatives addressing these core functions are discussed more fully in the following sections of the Budget in Brief.

Setting the Commonwealth on a Path to Prosperity

Setting the Commonwealth on a Path to Prosperity

Pennsylvania, like most other states, is facing a protracted economic recovery and one that will take considerable time and effort to work through. We arrived at our current place after years of spending at a rate greater than our revenue. During that time, we relied on one-time funding gimmicks and non-recurring federal funds to feed our desire to spend. That approach has brought us to a defining moment where we can continue as we have done or choose to reset government to focus on its core functions and responsibilities and lay the foundation for future growth and prosperity.

Through fiscal discipline, this budget begins the climb to economic prosperity. This budget reduces the size of state government, it does not raise any taxes, and it protects the public safety and Pennsylvania's most vulnerable citizens.

However, this budget is only a first step and will not eliminate all of our challenges. Throughout the next year, we will aggressively analyze all of our spending, assess if all of our assets are achieving the greatest efficiency and return on our investment and implement innovative approaches to providing government products and services.

This budget is responsive to fiscal realities and addresses our challenges head on. This budget demonstrates our commitment to taking ownership of our financial burdens and not passing them on to the next generation. This budget is presented with honesty and transparency, and we will be accountable for the results. This budget embraces the great opportunity we have before us to reset state government and choose a course that will renew the founding principles of our democracy's covenant.

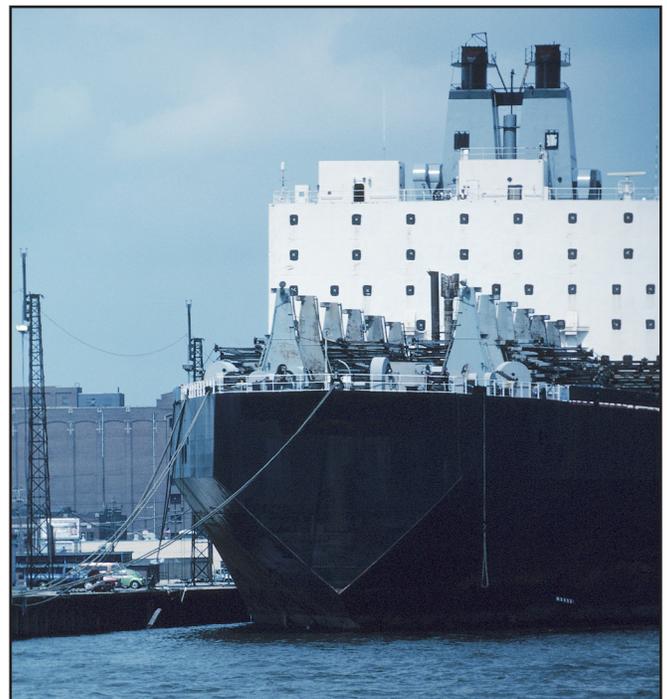


Free Enterprise – An Agenda for Jobs

The 2011-12 Governor's Budget embraces five core components to create jobs: expanding Pennsylvania's economy through innovation, reforming Pennsylvania's job climate, developing a world-class workforce, growing small business in Pennsylvania and expanding Pennsylvania worldwide. This budget restructures the Department of Community and Economic Development, including new initiatives designed to support businesses and communities and create new jobs.

The Governor's 2011-12 Economic Development and Job Creation Agenda:

- **CSFT – Setting the Foundation for Future Tax Cuts and Improved Economic Climate** – This budget reinstates the phase-out of the Capital Stock and Franchise Tax, improving the economic climate for 101,000 job creators throughout the commonwealth. This budget assumes the phase-out will continue on schedule until it is completely eliminated in 2014.
 - **Discovered in PA, Developed in PA** – \$10 million for small business and entrepreneurial assistance. Regional experts will proactively seek out businesses and direct them to the technical or financial assistance they need.
 - **Liberty Loan Fund** – A new economic development financing partnership, created by pooling the commonwealth's existing economic development financing resources (loan funds and Commonwealth Financing Authority assets) to leverage new private dollars and create flexible financing tools that will quickly adjust with changing economic conditions.
 - **Ben Franklin Technology Development Authority** – \$14.6 million to continue to advance technology-based and technology-intensive industries in Pennsylvania. The authority funds a series of programs that work together to create a flexible, dynamic framework that is proactive to markets and changing industry sectors.
 - **Tax Credits to Incentivize Business Investment and Growth** – To facilitate the expansion of research and jobs, this budget increases the Research and Development Tax Credit to \$55 million, a \$15 million increase from the current program.
- Other tax credits included in this budget for job creators:**
- ✓ Film Production Tax Credit – \$60 million
 - ✓ Neighborhood Assistance Tax Credit – \$18 million
 - ✓ Coal Waste Removal and Ultra Clean Fuels Tax Credit – \$18 million
 - ✓ Job Creation Tax Credit – \$10.1 million
 - ✓ Resource Enhancement and Protection Tax Credit – \$10 million
- **Pennsylvania First** – \$25 million for this program, the primary economic development tool for the department and the Governor's Action Team, for competitive grants for job creation or retention, infrastructure projects and workforce development.
 - **Legal and Tort Reform** – Excessive and frivolous lawsuits hinder job growth and hurt Pennsylvania taxpayers by increasing costs for businesses, healthcare, and consumer goods and services. Legal reform is critical to improving Pennsylvania's job climate and allowing entrepreneurs to focus on creating jobs. Addressing legal and tort reform issues will help protect innovative entrepreneurs and businesses and lower the cost of doing business in Pennsylvania, improving the state's global competitiveness and creating jobs.
 - **Regulatory Reform** – Friction-free processes for state government interaction with job creators are critical to maintain economic momentum and competitiveness. To address permit approval and backlog issues, PennDOT and the Department of Environmental Protection have begun auditing all of their permit processes to make them more responsive to the needs of job creators. In addition, the secretary of the Department of Community and Economic Development is empowered to expedite any permit or action pending in any agency where the creation of jobs may be impacted.
 - **World Trade PA** – \$6.3 million to promote Pennsylvania goods and services in key international markets.
 - **PennPORTS** – \$3.7 million for the operation and maintenance of the commonwealth's ports.



Free Enterprise – An Agenda for Jobs

- **Industry Partnerships** – \$1.6 million in continued funding for Industry Partnerships, consortiums of companies or industry clusters with similar workforce needs, to develop the human capital required to support our growing industry sectors.
- **Partnerships for Regional Economic Performance** – \$12 million to encourage regional coordination in economic development efforts, yielding improved customer service to the business community, especially small businesses.
- **Keystone Communities** – \$12.5 million for consolidated community revitalization activities, with a focus on creating thriving downtowns as places of commerce, recreation, culture and entertainment.
- **Infrastructure and Facilities Improvement** – \$23.4 million to continue grants for infrastructure and facility improvement projects.
- **Life Sciences Greenhouses** – \$3 million in continued operational support for these programs, which have created approximately 6,000 new life sciences jobs.

Key Environmental Programs:

- **Oil and Gas/Marcellus Shale Oversight** – This budget maintains current permit fees, fines and penalties for DEP's oversight to ensure that oil and gas continue to be produced in an environmentally responsible manner. This budget maintains current staffing at 202 positions. The new oversight offices in Williamsport and Scranton will remain open and fully functional.
- **Oil and Gas Drilling Oversight** – This budget maintains the current staffing level in the Department of Conservation and Natural Resources to plan and monitor Marcellus Shale drilling, protecting the important balance of uses of the forest and ensuring forest health for future generations. It also maintains the 27 new positions added to the Bureau of Forestry in 2010-11 for monitoring and field work.



- **All State Parks Will Remain Open** – This budget maintains Department of Conservation and Natural Resources parks funding at current levels so that all parks will remain open to our citizens for affordable getaways and to attract visitors. It provides \$65 million in Oil and Gas Lease Fund revenue generated from gas leases on state forest lands to offset State Parks and Forests operating costs.
- **Black Fly and West Nile Virus Programs** – This budget provides targeted funding to continue these valuable programs. The black fly spray season will be adjusted to ensure adequate spraying in July and August 2011 to treat 1,600 stream miles. The West Nile Virus program will aggressively treat targeted areas that have the highest infected mosquito counts.



- **Farmland Preservation** – \$28 million from the Agricultural Conservation Easement Purchase Fund to continue Pennsylvania's ongoing commitment to save farmland.
- **Pennsylvania Fairs** – \$981,000 to continue support for fair events across the commonwealth.
- **Youth Shows** – \$128,000 to continue support for the Junior Dairy Shows, 4-H Club Shows and Future Farmers for Pennsylvania's young agriculturalists.

A World-Class Education That Enables All Pennsylvania Children to Achieve Their Full Potential

The tremendous fiscal pressures weighing on Pennsylvania's budget and the budgets of nearly every family across the commonwealth have forced a new fiscal discipline on state government and a rethinking of old spending habits and assumptions. This is no less the case with education and education spending. The presumption of a steady, unbroken stream of revenue increases is no longer a valid organizing principle. Funding systems must be realigned to more directly support students and their learning needs and education dollars made more portable, as well as unbundled, to put greater control and decision-making into the hands of students and families. Educational choices are expanding as are new ways to train, compensate and measure the effectiveness of teachers and leaders.

Shifting as well is state government's traditional command and compliance mindset as the focus instead turns to standard and goal setting coupled with efforts to empower schools and districts with greater freedom and flexibility to more effectively manage during this period of disruptive change. Eliminating wasteful spending practices and mandates that drive unnecessary spending serves to increase available funding by freeing up dollars that can then be redirected to support students and classrooms. Likewise, new accountability systems that provide taxpayers greater transparency into performance and control over spending can only improve the quality of our public schools and public support for them.

Expand Quality Educational Options for Families and Students

- **Provide Choices for Students Attending Failing Public Schools** – Make funding available for students trapped in failing schools to enroll in achieving schools.
- **Improve Dual Enrollment Opportunities** – Unbundle education funding in order for high school students to have the opportunity to use a portion of their basic education dollars to earn post-secondary credit through dual enrollment.
- **Grow the Education Improvement Tax Credit (EITC)** – Restore the cuts made to the EITC and raise the total credits available to \$75 million to increase the amount of scholarships, programs and advanced learning opportunities this resource provides to Pre-K through 12th grade students in public and private schools.
- **Enhance Charter School Quality and Accountability** – Strengthen ethical and performance standards and establish an independent charter school board to enhance the performance of charter schools and provide more students with the ability to pursue learning opportunities that are better suited to meet their needs.

Maximize Flexibility and Mandate Relief for Local School Districts

- **Allow Economic Furloughs** – Allow districts to retain the most effective instructional personnel without regard for seniority when economic furloughs are necessary.
- **Increase Bid Size Limits** – Restructure the current thresholds for competitive bidding requirements to alleviate excessive processes and reduce costs.
- **Restructure Advertising Requirements** – Permit school districts to advertise via the Internet and community-based newspapers in lieu of the more expensive legal notices in broad-circulation newspapers to help control costs.
- **Revise School Nurse Requirements** – Change the current mandate that school nurses be certified by completing an additional certification course at a Pennsylvania college or university to permit districts to hire nurses who complete a program of in-service training in school nursing approved by the Pennsylvania Department of Education.
- **Align Public School Requirements with Charter Schools** – Relieve additional mandates placed on public school requirements to allow the schools to operate with increased efficiency.
- **Embrace Performance-Based Accountability** – Reduce barriers to improvement and innovation and reward instead of penalize achieving schools for reducing costs and increasing productivity.

Promote Effective Teachers and Leaders

- **Launch Merit-Based Pay Systems** – Incentivize excellence for teachers by incorporating student achievement data and results into evaluations that are tied to compensation received in addition to base pay.
- **Initiate Tenure Reform** – Review benchmarks that measure long-term teacher effectiveness and implement a permanent rating system.
- **Create Alternative Certification Options** – Expand alternative pathways to teaching by allowing field professionals and other qualified individuals to enter the profession through approval by the Department of Education.

A World-Class Education That Enables All Pennsylvania Children to Achieve Their Full Potential

Accountability and Greater Control of Education Spending for Local Taxpayers

- **Voter Approval for Property Taxes** – Reform must seek to rebuild the faith of Pennsylvania taxpayers in our education finance system. Under current law, exceptions for local school districts to avoid a taxpayer vote on school budgets have become the rule and real voter control over education spending the rare exception. School spending and budgets must be made more transparent and more clearly demonstrate the effective use of precious tax dollars. This budget proposes subjecting local school budgets to voter approval for any spending increases required above increases for inflation.
- **Property Tax Relief** – \$781 million in continued property tax relief in 2011.

Commonwealth Appropriations in Direct Support of Public Education

(Dollar amounts in thousands)

	2011-12 Budget
Basic Education Funding.....	\$ 5,226,142
Career and Technical Education.....	62,000
Authority Rentals and Sinking Fund Requirements.....	299,190
Pupil Transportation.....	546,758
Nonpublic and Charter School Pupil Transportation.....	76,640
Special Education.....	1,026,815
Tuition for Orphans and Children Placed in Private Homes.....	57,227
Payments in Lieu of Taxes.....	194
Education of Migrant Laborers' Children.....	907
PA Charter Schools for the Deaf and Blind.....	39,401
Special Education - Approved Private Schools.....	98,098
School Food Services.....	30,525
School Nutrition Incentive Program	3,327
School Employees' Social Security.....	530,040
School Employees' Retirement.....	615,086
TOTAL.....	\$ 8,612,350

The 2011-12 budget includes new strategies and initiatives that will streamline school processes and increase efficiency, while improving student achievement. Through increased flexibility in the use of available funds, schools will be able to tailor programs and initiatives to meet the needs of their students.

Total Funding in Direct Support of Public Education

	State Funds	Federal* Funds	Local* Funds	Total Funds
Revenues (dollar amounts in thousands)	\$ 8,612,350	\$ 893,611	\$ 13,697,282	\$ 23,203,243
Revenues per Student.....	\$ 4,952	\$ 514	\$ 7,877	\$ 13,343

*Federal and local revenue amounts are taken from the 2009-10 school district annual financial report.

Protecting Public Safety

This budget reflects the public health and safety priorities of the commonwealth. This budget increases funding for Pennsylvania's correctional institutions to manage a population of 51,000 inmates and to provide for the safety of our communities, and it increases funding for inmate education and training to reduce recidivism and thereby lower corrections costs. Funding for additional parole officers is included in this budget to address the backlog of eligible parolees and to transition them into productive opportunities, relieving cost pressures on our state correctional system.

This budget maintains support for two Pennsylvania State Police cadet classes in 2011-12, increasing the number of State Police troopers to approximately 4,400.

This budget seeks to expand the reach and effectiveness of a number of crime and violence prevention efforts through greater alignment and consolidation of programs within the Pennsylvania Commission on Crime and Delinquency. Aligned programs include several intermediate punishment programs that should serve to more effectively address the root cause of criminal behavior. These programs will help prevent crime from occurring in the first place, provide treatment of causes so crimes are not repeated, and provide support for reentry into the community. In addition, more than \$2 million is allocated specifically for the safe schools initiative. Successfully addressing all of these issues will make our communities safer and ease the pressure on our corrections system.

Pennsylvania police departments often face violent situations that require medical support. Law enforcement and military services have long recognized that tactical emergency medical support of special operations can enhance the probability of mission success. This type of support requires a unique expertise, which is complementary

to the basic qualifications of emergency medical services providers. To support these operations, the Department of Health will launch a Tactical Emergency Medical Support (TEMS) program to develop law enforcement and medically trained personnel who have the ability to assess medical threats, render immediate medical care in hazardous environments, and provide logistical support that will further the health and safety of law enforcement personnel and reduce the incidences of injury, illness, disability and death associated with training and tactical operations. TEMS is an investment in the health and well-being of law enforcement and the citizens of Pennsylvania.

- **Additional State Police Troopers on Patrol**

Recognizing the vital role played by Pennsylvania's State Troopers in protecting communities across the commonwealth, this budget includes funding for State Police cadet classes in 2011-12 comprising 237 cadets.

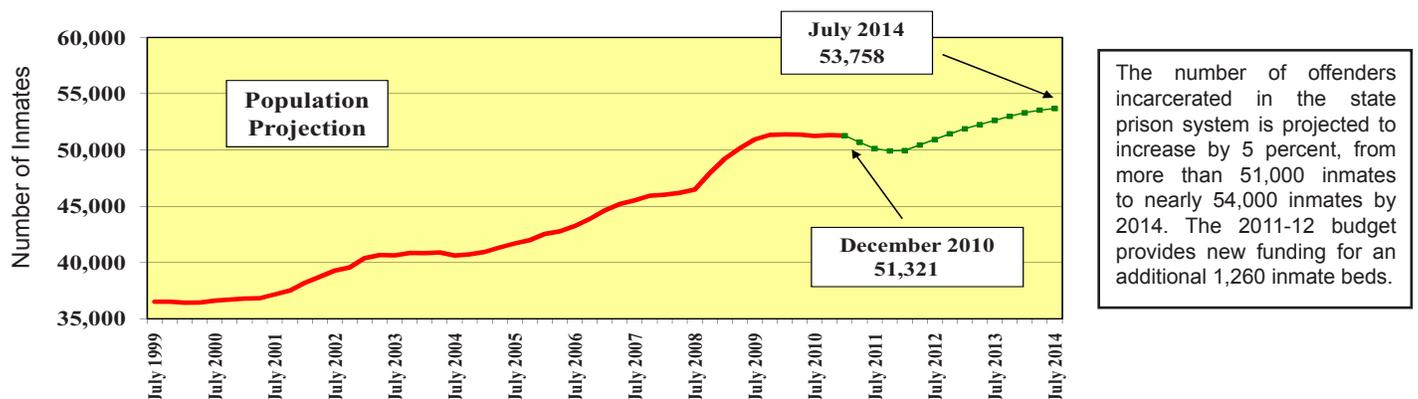
- **Expanded Capacity to Safely House Inmates**

Pennsylvania's prison population continues to rise, although the rate of growth is projected to be lower than in previous years. The budget provides funding to the Department of Corrections for more than 1,260 additional beds in new housing units at existing correctional institutions and additional community corrections centers. The projected lower rate of growth will allow the return of more than 2,100 inmates temporarily housed in two institutions in Virginia and Michigan.

- **Probation and Parole**

This budget also provides \$3.4 million for additional parole officer positions to improve parolee supervision and to reduce parole agent caseloads.

Offenders Incarcerated in the State Prison System



Helping Pennsylvanians Achieve Self-Sufficiency Through Sensible Reforms

Although Pennsylvania's economy has fared better than the economies of many other states, the commonwealth's social safety net needs to be protected to help children, families and vulnerable adults in tough economic times.

The agencies that deliver human services to the citizens of the commonwealth continue to meet their needs, but entitlement programs continue to see caseload growth as a result of the current economic climate.

- **Supplemental Nutrition Assistance Program.** The demand for nutrition assistance (food stamps) is at an all-time high in Pennsylvania and across the nation. In December 2010, the number of Pennsylvania children and adults eligible for SNAP reached approximately 1.7 million, a 46 percent increase from 2007, when the recession officially started.
- **Cash Assistance.** The number of people receiving Temporary Assistance for Needy Families cash assistance increased by 2.3 percent between December 2009 and December 2010, reversing an almost four-year trend of caseload declines. Although approximately 1,700 individuals continue to leave cash assistance each month, the recent caseload increases reflect the acute impact of the national economic climate on the ability of low-income Pennsylvanians to obtain and keep jobs.
- **Medical Assistance.** Medical Assistance is a comprehensive source of medical and long-term living coverage for low-income families, older Pennsylvanians and people with disabilities. In 2011-12, the Medical Assistance program will provide health care and long-term care services to more than 2.2 million Pennsylvanians, a 4.5 percent increase over the prior year.

Maintaining Services for Those in Need Depends on Additional Cost Containment

The 2011-12 budget includes several broad-based cost containment reforms to save millions of state dollars with minimal impact on our most vulnerable citizens. A key component to controlling costs is the overhaul of our public welfare system. Reform is necessary to create an integrated, coordinated and seamless service delivery system that addresses consumer needs. This budget takes the first step towards the goal of reforming the public welfare system through the following cost-containment initiatives:

- **Rebalancing the Long-Term Living System** – \$40.5 million in savings from home and community-based service reforms to improve service coordination, expand consumer-directed care, and maximize federal funds.
- **More Effective Care Management** – \$55.9 million in savings from redesigns of the health care plan to broaden service options, focus on personal responsibility, prevention and wellness, and optimize health outcomes.
- **Promoting Smart Purchasing** – \$165.5 million in savings from strategies to promote competition, incentivize cost containments and link payment to quality outcomes.
- **Ensuring Program Integrity** – \$46.6 million in savings through increased use of financial controls, fiscal accountability and tools to prevent and detect fraud, abuse and waste.
- **Stressing Fair Share Payments** – \$56.1 million in savings from a fair, accountable public welfare system where recipients, whenever possible, pay their fair share for services and providers charge fair competitive rates.

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

PROGRAM	People Served 2010-11*	People Served 2011-12*
Medical Assistance – Health Care for Low-Income Elderly, Disabled, Children, Adults and Chronically Ill Adults	2,176,010	2,273,555
Protection for Children at Risk Due to Abuse, Neglect and Delinquency	147,939	147,432
Cash Assistance (TANF, General Assistance and State Blind Pension)	250,380	256,005
Child Care for Low-Income Families	263,985	266,072
Community Intellectual Disability and Autism Services	54,507	54,638

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

General Fund Financial Statement

	Dollars in Millions		
	2009-10 Actual	2010-11 Available	2011-12 Budget
Beginning Balance	\$ - 2,025	\$ - 294	\$ 586
Revenues:			
Receipts	\$ 27,648 ¹	\$ 26,790	\$ 27,945
Refunds	- 1,125	- 1,125	- 1,195
Prior Year Lapses.....	150	180	. . . . .
Funds Available.....	<u>\$ 24,648</u>	<u>\$ 25,551</u>	<u>\$ 27,336</u>
Expenditures:			
Total Appropriations	\$ 27,640 ²	\$ 28,198 ²	\$ 27,331
Enhanced Medical Assistance Percentage.....	- 1,777	- 1,746	. . . . .
State Fiscal Stabilization Fund.....	- 921	- 921	. . . . .
Education Jobs Fund .....	. . . . .	- 388	. . . . .
Current Year Lapses .....	. . . . .	<u>- 178</u>	. . . . .
Total State Expenditures	<u>\$ 24,942</u>	<u>\$ 24,965</u>	<u>\$ 27,331</u>
Preliminary Balance	\$ - 294	\$ 586	\$ 5
Transfer to Rainy Day Fund.....	. . . . .	. . . . . ³	<u>- 1</u>
Ending Balance	<u><u>\$ - 294</u></u>	<u><u>\$ 586</u></u>	<u><u>\$ 4</u></u>

¹ Includes various one-time transfers, including the transfer of \$755 million from the Budget Stabilization Reserve (Rainy Day) Fund.

² Includes State General Fund appropriations and Federal Fiscal Relief (ARRA) funds appropriated from the enhanced Federal Medical Assistance Percentage, the State Fiscal Stabilization Fund, and the Education Jobs Fund (in 2010-11).

³ This budget proposes the suspension of the 25 percent transfer to the Budget Stabilization Reserve (Rainy Day) Fund for the 2010-11 fiscal year.

General Fund Revenue Sources

Source	Dollars in Millions		
	2009-10 Actual	2010-11 Estimated	2011-12 Estimated
Personal Income Tax	\$ 9,969	\$ 10,134	\$ 10,812
Sales and Use Tax	8,029	8,504	8,659
Corporate Net Income Tax	1,791	1,854	2,031
Capital Stock and Franchise Tax	761	822	756
Gross Receipts Tax	1,287	1,220	1,336
Cigarette Tax	976	1,082	1,082
Other Taxes	2,097	2,140	2,291
Non-Tax Revenues	2,738 ¹	1,034	978
Total Receipts	<u>\$ 27,648</u>	<u>\$ 26,790</u>	<u>\$ 27,945</u>
Difference from prior year	\$ 2,118	\$ - 858	\$ 1,155
<i>Percentage Difference</i>	8.3%	- 3.1%	4.3%

¹ 2009-10 non-tax revenue includes various one-time transfers, including the transfer of \$755 million from the Budget Stabilization Reserve (Rainy Day) Fund.

General Fund Expenditures by Agency

(dollar amounts in thousands)

<u>Department</u>	<u>2009-10 Actual</u>	<u>2010-11 Available</u>	<u>2011-12 Budget</u>
Agriculture.....	96,257	93,039	87,711
Attorney General.....	86,522	83,007	82,199
Auditor General.....	48,303	46,245	45,075
Civil Service Commission.....	1	1	1
Community & Economic Development.....	269,068	337,938	223,553
Conservation and Natural Resources.....	90,622	82,480	58,342
Corrections.....	1,765,848 ¹	1,867,230 ¹	1,880,810
Education.....	11,335,581 ¹	11,511,261 ¹	10,040,143
<i>Basic Education (Pre K-12)</i>	9,744,062 ¹	9,928,137 ¹	9,114,550
<i>Higher Education</i>	1,493,387 ¹	1,491,786 ¹	835,561
<i>Public Library Subsidy</i>	60,000	54,549	53,507
<i>All Other</i>	38,132	36,789	36,525
Emergency Management Agency.....	19,865	12,844	9,690
<i>Disaster-Related Funding</i>	5,000	-	-
<i>All Other</i>	14,865	12,844	9,690
Environmental Protection.....	155,950	147,064	139,968
Ethics Commission.....	1,980	1,786	1,786
Executive Offices.....	195,068	168,997	158,975
Fish and Boat Commission.....	17	17	-
General Services.....	118,149 ¹	120,282 ¹	120,453
Governor's Office.....	6,831	6,400	6,228
Health.....	235,401	233,705	295,225
Health Care Cost Containment Council.....	2,844	2,710	2,710
Higher Education Assistance Agency.....	457,922	441,199	411,557
Historical & Museum Commission.....	21,162	18,467	17,881
Insurance.....	122,425	121,880	121,099
<i>Children's Health Insurance</i>	96,112	97,365	97,365
<i>All Other</i>	26,313	24,515	23,734
Judiciary.....	276,860	276,860	276,860
Labor & Industry.....	89,340	86,200	72,269
Legislature.....	299,026	300,285	296,012
Lt. Governor's Office.....	1,075	995	1,359
Military & Veterans Affairs.....	110,173	110,334	129,992
Probation & Parole Board.....	114,902	120,578	128,115
Public Welfare.....	10,353,647 ²	10,604,374 ²	11,212,103
<i>Medical Assistance</i>	5,782,574 ²	6,018,296 ²	6,687,765
<i>Mental Health</i>	764,998	748,589	769,886
<i>Intellectual Disabilities</i>	1,220,573 ²	1,251,490 ²	1,279,056
<i>County Child Welfare</i>	1,037,890	1,045,607	1,024,019
<i>Cash Grants</i>	268,579	278,175	249,025
<i>Child Development</i>	509,753 ²	492,066 ²	491,833
<i>All Other</i>	769,280	770,151	710,519
Revenue.....	186,382	189,731	197,661
Securities Commission.....	1,386	1,145	1,131
State.....	9,825	8,496	10,242
State Employees Retirement System.....	4	4	4
State Police.....	180,150	175,568	185,578
Tax Equalization Board.....	1,147	1,009	1,068
Transportation.....	10,499	2,187	2,226
Treasury.....	976,221	1,023,234	1,113,193
<i>Debt Service</i>	932,587	977,544	1,061,912
<i>All Other</i>	43,634	45,690	51,281
TOTAL APPROPRIATIONS	\$ 27,640,453	\$ 28,197,552	\$ 27,331,219
Less Federal Fiscal Relief Funds:			
Enhanced Medical Assistance Percentage.....	\$ (1,776,682)	\$ (1,745,792)	
State Fiscal Stabilization Fund.....	\$ (921,384)	\$ (921,384)	
Education Jobs Fund.....		\$ (387,816)	
STATE APPROPRIATIONS	\$ 24,942,387	\$ 25,142,560	\$ 27,331,219

¹ Includes federal ARRA State Fiscal Stabilization Fund and Education Jobs Fund appropriations.

² Includes enhanced ARRA Federal Medical Assistance Percentage appropriations.

2011-12 Motor License Fund

INCOME

(Dollars in Millions)

OUTGO

(Dollars in Millions)



Liquid Fuels Tax — \$1,232

Licenses and Fees — \$894

Turnpike Commission Payment — \$200

Other — \$84

Total Income	\$2,410
Beginning Balance....	278
TOTAL	\$2,688

Highways & Bridges — \$1,460

State Police — \$565

Local Subsidy — \$240

Other — \$165

Total Outgo	\$2,580
Ending Balance	108
TOTAL	\$2,688

Licensing & Safety — \$125

Debt Service — \$25



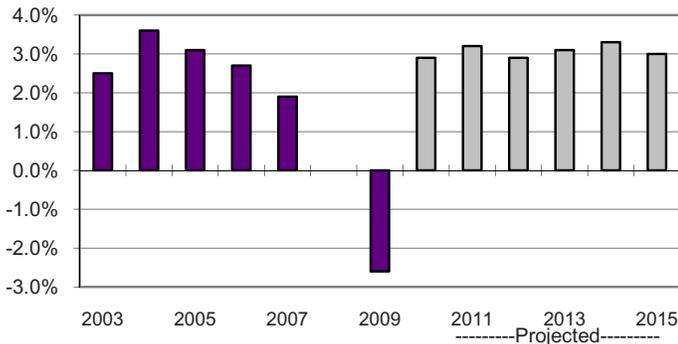
The Economic Outlook for 2011-12

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

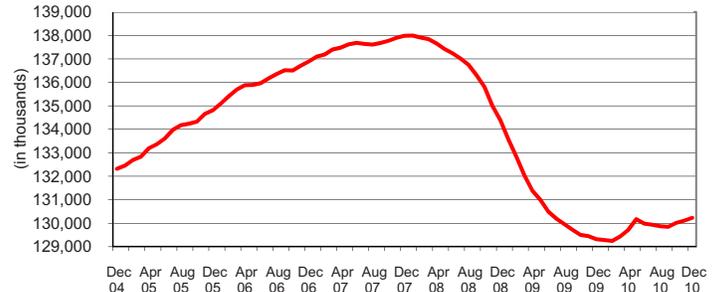
The U.S. economy, which had been slowing since 2004, officially entered recession in December 2007. At 19 months, the most recent recession was the longest recession since the Great Depression, which lasted 43 months. It was also nearly double the 10-month length of the average postwar recession. Furthermore, the depth of the recession was much steeper than the two most recent recessions of 2001 and 1991, as peak-to-trough declines in real Gross Domestic Product exceeded those of the 1973-75 and 1980-82 recessions, when the peak-to-trough declines in real GDP were 3.1 percent and 2.6 percent, respectively. Furthermore, in the most recent recession the economic downturn was not confined to just the U.S. During 2009, the economic output of the entire world declined for the first time since the Great Depression.

REAL GROSS DOMESTIC PRODUCT
(Annual Growth)



The recovery from the 2001 recession created nearly 7.2 million jobs. After peaking in December 2007, employment levels began declining significantly. By the summer of 2008, job losses were occurring more frequently. Monthly claims for unemployment compensation were averaging 625,000 nationally from September 2008 through June 2009. All told, the U.S. economy lost nearly 7.5 million jobs during the most recent recession. These losses wiped out employment gains for the entire past decade. The growth in the U.S. unemployment rate accelerated significantly during 2009, rising from 7.4 percent in January 2009 to 10.1 percent by October 2009. Since that time, the unemployment rate has improved only minimally, remaining as high as 9.8 percent as late as November, 2010. Employment gains during December 2010 and January 2011 have reduced the unemployment rate to its current level of 9.0 percent.

U.S. EMPLOYMENT
(Non-Agricultural)



The Forecast

In June 2009, the U.S. economy emerged from the longest and most severe economic recession since the Great Depression, according to the National Bureau of Economic Research. During 2009, the economy contracted 2.6 percent – the largest such contraction in the post-war period. Annual growth in real GDP is projected to have been 2.9 percent in 2010. Strong economic growth of 4.1 percent is forecast for the first quarter of 2011. Further, modest to healthy economic growth is forecast for the national economy through at least the second quarter of 2013, according to a combination of data from both IHS Global Insight and Moody's Analytics economic forecasts.

Declines in housing construction and housing finance led the economy into recession and, as the housing markets have likely bottomed out and begin to stabilize, the recovery is expected to continue to gain traction. U.S. median existing housing prices rose 0.1 percent in 2010 but are expected to fall again by 2.3 percent in 2011 before growing minimally in 2012 and 2013, at annual rates of 2.1 percent and 7.1 percent, respectively.

The lingering effects of losses in the stock markets and declining home values, combined with declining real wages and persistently elevated unemployment, caused U.S. consumers to drastically reduce their spending during 2008 and 2009. Consumer spending began to gain traction during 2010, rising to an annual rate of 4.3 percent by the fourth quarter of 2010. The forecast for 2011 includes projected growth of 3.2 percent in real consumer expenditures. Beyond 2011, real consumer spending is expected to grow moderately, in the mid 2.0 percent range through 2015.

Personal income growth experienced a similar annual slide in 2009, declining 1.9 percent. Despite elevated unemployment, growth in real personal income is expected to have returned in 2010, growing 1.3 percent annually. Stronger personal income growth is forecast from 2011 through 2015.

The Economic Outlook for 2011-12

Forecast Change in Key US Economic Indicators Annual Percentage Growth*

Indicator	2009	2010p	2011p	2012p
Nominal GDP	-1.7	3.8	4.3	4.1
Real GDP	-2.6	2.9	3.2	2.9
Real Personal Consumption	-1.2	1.8	3.2	2.5
Corporate Profits (After Tax)	3.6	32.6	-23.6	4.9
Unemployment Rate (Rate)	9.3	9.7	9.3	8.7
CPI	10.6	1.8	1.6	1.8
Federal Funds (Rate)	0.2	0.2	0.2	1.3

* Assumptions in this chart, as well as other assumptions, are incorporated in the 2011-12 fiscal year revenue estimates.

p = projected

The U.S. unemployment rate peaked in October 2009 at 10.1 percent. Since that time, the unemployment rate has improved only minimally, remaining as high as 9.8 percent as late as November 2010. Employment gains during December 2010 and January 2011 have reduced the unemployment rate to its current level of 9.0 percent.

Economists agree that additional and sustainable gains in employment will be needed to ensure that U.S. consumers continue their recently elevated levels of spending. As during the previous recovery in 2003-2004, job growth will likely be minimal during the recovery. Unemployment rates are expected to remain elevated at 9.3 percent and 8.7 percent in 2011 and 2012, respectively. December 2007 saw peak employment at 138 million people and economists estimate that it will be at least until 2013 before that figure is reached again.

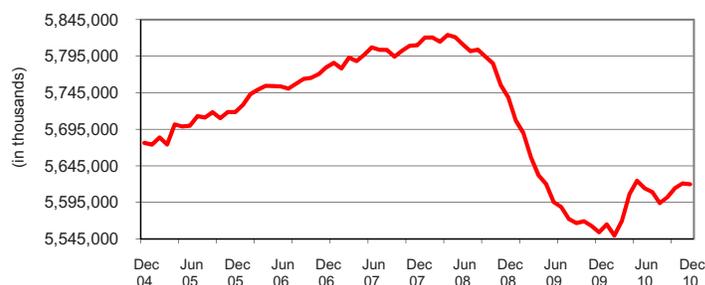
Pennsylvania Outlook

The commonwealth's economic performance is largely dependent upon job growth. Pennsylvania's labor market, specifically the non-agricultural sectors, experienced considerable growth from January 2004 through December 2007 as nearly 200,000 jobs were created within the commonwealth. As the U.S. and state economies entered into recession in late 2007, employment in the

commonwealth peaked in January 2008 at 5.811 million non-agricultural jobs. During the most recent recession, which officially lasted from December 2007 until June 2009, Pennsylvania lost nearly 214,000 jobs. In December 2009, the commonwealth's unemployment rate was 8.9 percent, its highest level since August 1984, while the national unemployment rate for December 2009 was 10 percent. Since that time, the commonwealth's unemployment rate has risen as high as 9.3 percent in July 2010 and the national unemployment rate has topped out at 10.1 percent in October 2010.

As the national economic recovery gains strength, the annual growth in employment levels in Pennsylvania is forecast at 1.5 percent in 2011, while the U.S. employment growth is expected to be 1.3 percent in 2011. Slightly more robust job growth of 1.8 percent is forecast for the commonwealth in 2012.

PENNSYLVANIA EMPLOYMENT
(Non-Agricultural)



Escalating oil and natural gas prices have contributed to increased exploration for new energy reserves. The Marcellus Shale natural gas field could be the second-largest natural gas field in the world and producers are spending billions in the commonwealth to increase production. Over 1,000 drilling permits have been granted in Pennsylvania in 2010, more than double the rate approved in 2008. Estimated job creation tied to the expanded natural gas industry is forecast to add upwards of 200,000 jobs and more than \$18 billion in output to the state economy by the end of the decade.

2011-12 Capital Budget

	<u>Millions</u>
<u>From Bond Funds</u>	
Conservation and Natural Resources.....	\$ 36.5
Corrections	42.5
Education.....	108.0
Environmental Protection	17.8
General Services	11.1
Historical and Museum Commission	31.5
Military and Veterans Affairs	68.4
Public Welfare	30.8
Transportation-Local Transportation Assistance	338.4
Subtotal Bond Funds	<u>\$ 685.0</u>
<u>From Current Revenues</u>	
Conservation and Natural Resources.....	\$ 38.6
Transportation	1,459.2
Subtotal Current Revenues	<u>\$ 1,497.8</u>
TOTAL CAPITAL PROJECTS TO BE AUTHORIZED.....	<u><u>\$ 2,182.8</u></u>

The Capital Budget provides for the acquisition, design, construction, and/or 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 state-related universities.

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 improvements to 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.

Public Welfare

Provides for construction and renovation of patient buildings, support facilities and utilities at state institutions for the mentally ill and intellectually disabled, 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.