



COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE GOVERNOR
HARRISBURG

THE GOVERNOR

February 9, 2005

To The People of Pennsylvania:

When I took office in January 2003, I inherited a \$2.4 billion budget deficit and a state ranked 47th in job creation and among the highest in the percentage of young people moving out of state. In my inaugural address, I proposed several reforms designed to build on Pennsylvania's awesome potential and restore its economic vitality. These included the creation of a statewide economic stimulus program, targeted investments to raise student achievement in our public schools, aggressive efforts to reduce waste and increase efficiency in state government and property tax relief for Pennsylvania homeowners.



I am pleased to report that since then, working in partnership with the General Assembly, we have been able to fulfill many of these promises. We have enacted a \$2.3 billion economic-stimulus package that will leverage at least \$5 billion in private investment. Thanks to the largest one-year increase in public education funding in more than two decades, Pennsylvania school districts now provide thousands more young people with quality pre-K education, full-day kindergarten, smaller classes and after-school tutoring. With the passage of legislation to allow for a limited expansion of gaming, Pennsylvanians will soon see substantial reductions in their onerous school property taxes.

We have begun to see evidence that our reforms are making a difference. At the end of December 2004, half-way through the current fiscal year, our revenue collections were \$250 million over estimate. Pennsylvania employment grew by 2.7 percent last year, while employment nationally rose by only 1.3 percent. The Pennsylvania unemployment rate averaged 5.4 percent in 2004 – the lowest average annual level since 2001.

Equally important, our administration has saved money for our taxpayers, fulfilling a campaign promise I made to spend taxpayer dollars wisely and cut state government operating costs wherever possible. Over the past two years my administration has transformed the way our government works, through improved revenue collection, better use of technology, renegotiation of contracts and a reduction in the state labor force of nearly 2,900 positions. Savings thus far total more than \$475 million.

We take pride in these accomplishments, but we recognize there are still serious challenges ahead. Chief among these is finding affordable ways to maintain vital health care and social services for our most vulnerable citizens – our children, the elderly, those with physical and mental disabilities and people who have lost jobs. Helping those in need is a key responsibility of our Commonwealth, and the number of those in need is on the rise.

Demography is a factor here: Compared to many other states, Pennsylvania has a high percentage of older citizens. In fact, the elderly are the fastest-growing group of people participating in our Medical Assistance program. The economy also plays a part: Many Pennsylvanians who have lost jobs have had trouble finding work that pays as well, and they and their families must sometimes turn to the Commonwealth for help with health care and other basic needs until they can get back on their feet.

In an era of explosive growth in health care costs, the fiscal pressure on public health and social service agencies is increasing dramatically. Our Commonwealth now spends more than \$14.2 billion a year in federal and state funds on our Medical Assistance program, and Medical Assistance alone accounts for nearly 20 percent of the State's \$23.8 billion in General Fund expenditures. Health care costs are growing twice as fast as state revenues, while many sources of federal aid for medical and social service programs are decreasing.

In this regard, Pennsylvania is hardly unique. Many other states face an identical challenge, so much so that the National Governors Association has called Medicaid reform its top priority.

With this budget, my administration has chosen to respond to these pressures in a way that protects those in need while preserving the Commonwealth's fiscal integrity. By restructuring and reforming our social welfare programs, we can make them more efficient and effective while maintaining coverage for all who currently receive it. If this budget is adopted as proposed:

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

Protecting the most vulnerable in our society is of utmost importance to my administration. But our ultimate goal is to ensure that in the future fewer Pennsylvanians will need to ask for help from the Commonwealth. That is why this budget contains important initiatives to promote economic growth and training for high-quality, well-paying jobs. These initiatives address several key areas: business tax reform, expanded workforce development programs and adequate, dedicated funding for public transit.

Under the Commonwealth's existing tax system, too many businesses pay little or no tax while others face high tax burdens. Currently, Pennsylvania's Corporate Net Income (CNI) tax is the third highest in the nation. Last March, I created a **Business Tax Reform Commission** to recommend improvements, so we can become more competitive with other states. This budget adopts many of the commission's recommendations and includes a tax reform package that permits a full two percentage point reduction in the CNI tax, to 7.99 percent. If adopted, this package will help reduce the heavy tax burden so many of our businesses face

As we strive to attract new businesses, workforce development must also be a priority, so our citizens will have the training they need to compete for 21st-century jobs. In this budget, I am proposing a coordinated set of initiatives called **Job Ready Pennsylvania**. This new program invests \$101 million in new state dollars in education and workforce training programs and will leverage \$2 billion in additional funding to improve workforce development. Job Ready Pennsylvania includes new high school programs focused on preparing both academic and technical students for the work force, and it provides for a \$22.8 million increase in community college funding.

Public transportation plays a crucial role getting employees to work, but it is in desperate need of a stable funding source. Without it, our public transit systems are in danger of a collapse that will ripple through our entire economy. This budget makes a modest down payment on the need for increased State funding for public transportation by recommending a two percent, \$5.8 million increase in the General Fund Mass Transportation Assistance program. But my administration also recognizes that the real solution to our public transportation crisis must be a reliable, long-term, dedicated funding plan. My administration is committed to working with the General Assembly to enact such a program this Spring.

This budget also contains funding to restore, preserve and protect our environment – another essential element in our campaign to revitalize Pennsylvania's economy and attract and retain businesses. Last year, I proposed a comprehensive initiative, **Growing Greener II**, to preserve and expand important programs that link economic and community development together with environmental improvement. Waiting any longer to pass this important piece of legislation will only worsen current environmental burdens all across the Commonwealth.

Over the past two years, we have done much to revitalize Pennsylvania's economy, invest in our children's education and improve the quality of life for all our citizens. Now is the time to build upon this foundation. My budget for Fiscal Year 2005-06 provides the blueprint. With it, we can ensure that all Pennsylvanians are afforded every opportunity to succeed, while at the same time we maintain our strong commitment to support and aid our most vulnerable citizens. A responsible government should do nothing less.

Pursuant to Article VIII, Section 12 of the Constitution of Pennsylvania, and Section 613 of the Administrative Code of 1929 (71 P.S. Section 233), I am transmitting to your representatives in the General Assembly my proposed budget for Fiscal Year 2005-06.

Sincerely,



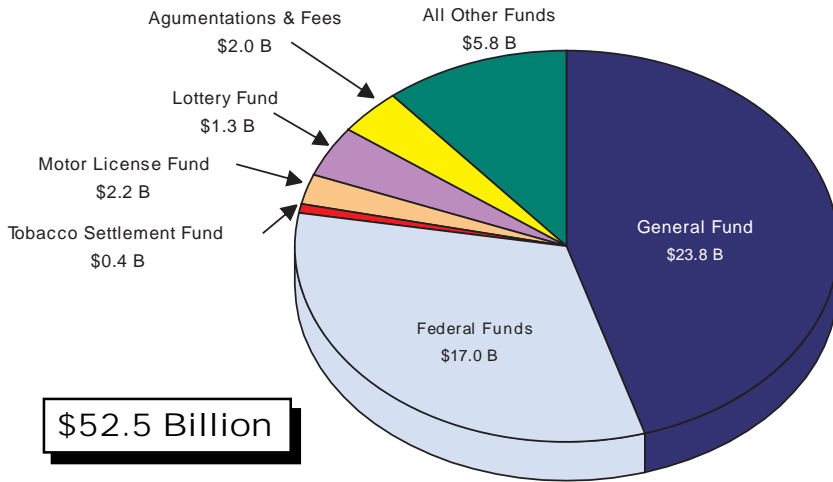
Edward G. Rendell

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This *Budget in Brief* and more budget
information can be found on our web site
<http://www.state.pa.us/>
PA Keyword: Budget

2005-06 Budget Overview

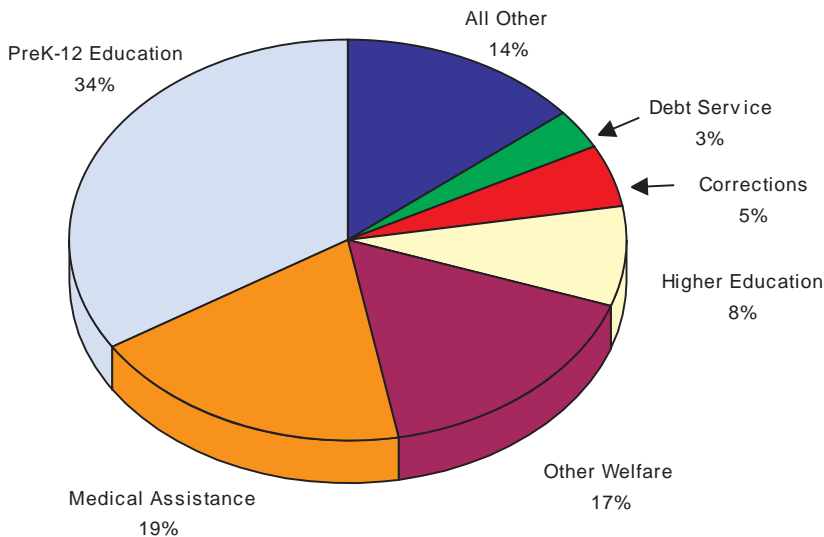
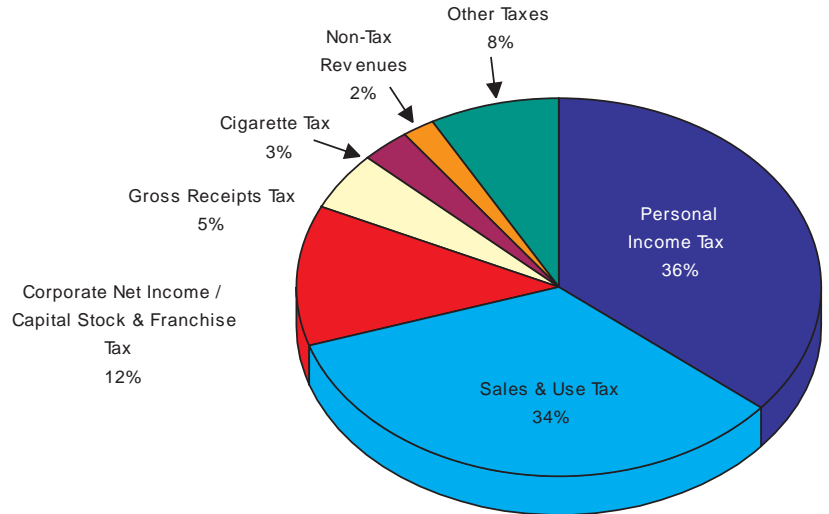


Total Operating Budget

- The total 2005-06 operating budget, including all Commonwealth funds, is \$52.5 billion. The General Fund represents over 45% of this amount.

General Fund Revenues

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



General Fund Expenditures

- Spending on Education, Medical Assistance, other Public Welfare Programs, Corrections and Debt Service comprises 86% of General Fund expenditures.

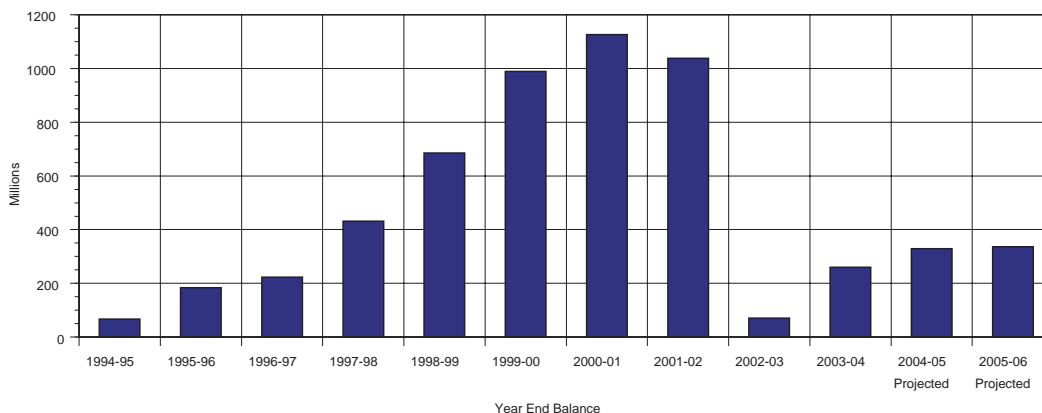
General Fund Financial Statement

In Millions

	2003-04 Actual	2004-05 Enacted	2004-05 Updated	2005-06 Budget
Beginning Balance	\$ 196	\$ 77	\$ 77	\$ 201
Revenue:				
Revenue Receipts	22,828	\$ 23,867	\$ 24,157	\$ 24,734
Less: Refunds	-1,015	-1,061	-1,061	-1,085
Total Revenue	\$ 21,813	\$ 22,806	\$ 23,096	\$ 23,649
Prior Year Lapses	143	75
Funds Available	\$ 22,152	22,883	23,248	23,850
Expenditures:				
Appropriations	\$ 22,395	\$ 23,254	\$ 23,254	\$ 23,845
Supplemental Appropriations	154
Less: Current Year Lapses	-41	-50
Subtotal Expenditures	\$ 22,354	\$ 23,254	\$ 23,358	\$ 23,845
Balance	-202	-371	-110	5
Non-recurring Federal Fiscal Relief	469	378	378	0
Preliminary Balance	\$ 267	\$ 7	\$ 268	\$ 5
Less: Transfer to Budget Stabilization Reserve Fund	-190	-2	-67	-1
Ending Balance	\$ 77	\$ 5	\$ 201	\$ 4

- The Governor has proposed a General Fund Budget for 2005-06 that increases State spending by \$815 million, or 3.5 percent. Part of this increase is to replace \$378 million of non-recurring Federal Fiscal Relief. The net increase in General Fund obligations of \$437 million represents an increase in spending of only 1.9 percent.
- In addition to the 90 percent increase in debt service, increases in the Departments of Education of 2.5 percent and Public Welfare of 7.8 percent are offset by a decrease of 6.6 percent in the remainder of the General Fund budget.

Rainy Day Fund



- The Rainy Day fund balance at the end of 2001-02 was nearly \$1.04 billion. To balance the 2001-02 and 2002-03 budgets the entire \$1.04 billion balance was transferred to the General Fund in 2002. Transfers to the Rainy Day fund at the end of 2002-03 and 2003-04 brought the fund balance to over \$260 million. This budget projects statutory year-end transfers to the fund of \$67.1 million from 2004-05 and \$1.2 million from 2005-06. These transfers will put the fund's balance at a level approaching the balance at the end of the 1997-98 fiscal year.

THE ECONOMIC OUTLOOK FOR FY 2005-06

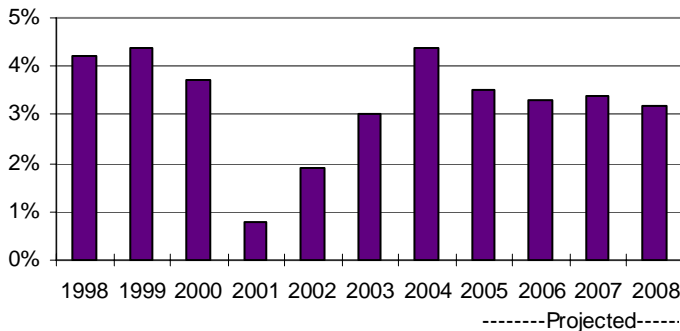
The Forecast is for Slower Economic Growth

Economic forecasts are a key ingredient in constructing the budget's revenue forecasts, and they also help the government to project likely levels of demand for many public goods and services. The Commonwealth of Pennsylvania uses two main sources of economic forecast data: Global Insight, Inc. (formerly known as DRI-WEFA) of Lexington, Massachusetts, and Economy.com, Inc. of West Chester, Pennsylvania.

Recent Economic Trends

- The recovery of the national economy has been steady from 2002 through 2004 despite repeated external shocks in the years since the 2001 recession.
- The first two years of the post-recession recovery (2002-2003) were characterized by unabated job losses in which over 3 million jobs were lost despite a moderately growing national economy.

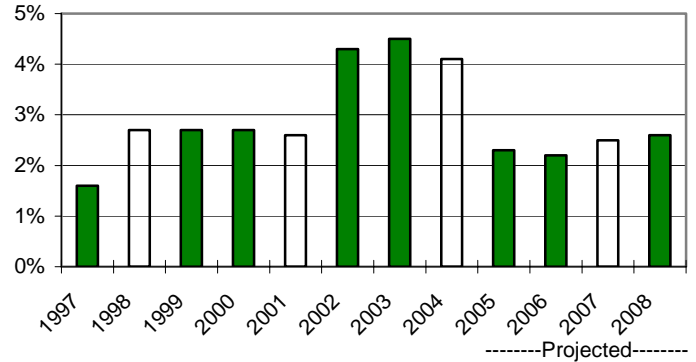
REAL GROSS DOMESTIC PRODUCT
Annual Growth



- The economy has managed to grow at an average annual rate of 3.5 percent since late 2001 and approximately 4.4 percent during 2004.
- Positive overall job growth in the broader economy returned in 2004 as the economy added 2.2 million jobs during the year, or approximately 180,000 per month.
- Recent gains in productivity over the past three years helped businesses to accommodate moderately rising costs of labor, commodity prices, energy and rising benefits expenses. However, future growth in productivity will be lower than that achieved in the past three years.
- Inflation dropped to 1.6 percent annual growth in 2002. Inflationary pressures have been building over the past two years and have pushed inflation to 2.7 percent in 2004, the second highest rate in at least the past seven years (3.4 percent in 2000).

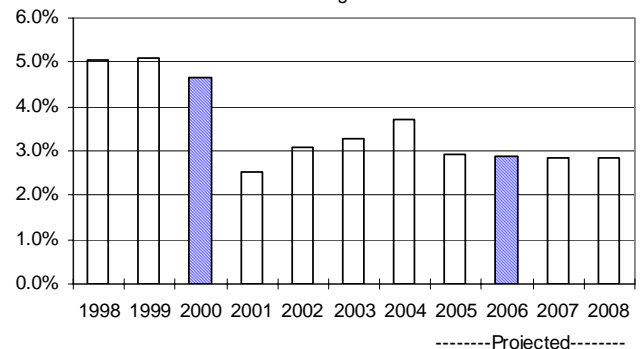
- The U.S. dollar continued its nearly three year slide, dropping 15 percent in value since 2001.

PRODUCTIVITY GAINS
Annual Growth



- Fueled by personal income growth, low interest rates, rising employment and increasing household wealth, personal consumption grew for the fourth straight year in 2004. However, due to fading fiscal stimuli, personal consumption growth is expected to wane in 2003 and stay below its 2003 and 2004 levels through at least 2008.

REAL PERSONAL CONSUMPTION EXPENDITURES
Annual Average Growth



- Improvements in demand and strong financial positions led to an increase in capital investment during 2004.

THE ECONOMIC OUTLOOK FOR FY 2005-06

The Forecast is for Slower Economic Growth

Forecast For 2005

- After experiencing broad-based growth in 2004, as evidenced by 4.4 percent annual growth in real GDP during 2004, the economy is expected to slowly throttle down over the next three years as annual growth in real GDP is projected to moderate to 3.5 percent, 3.3 percent and 3.2 percent in those years.
- Fading monetary and fiscal stimuli are primary causes for slightly lower growth rates in the forecast.

Forecast Change in Key US Economic Indicators Annual Percentage Growth*				
Indicator	2003	2004p	2005p	2006p
Nominal GDP	4.9	6.6	5.6	5.2
Real GDP	3.0	4.4	3.5	3.3
Real Personal Consumption	3.3	3.7	2.9	2.9
Corporate Profits (After Tax)	11.4	14.2	34.6	0.7
Unemployment Rate (Rate)	6.0	5.5	5.3	5.4
CPI	2.3	2.7	2.3	1.6
Federal Funds (Rate)	1.1	1.3	3.0	3.6

*Assumptions contained herein as well as others are incorporated in the 2005-06 fiscal year revenue estimates.

p=projected

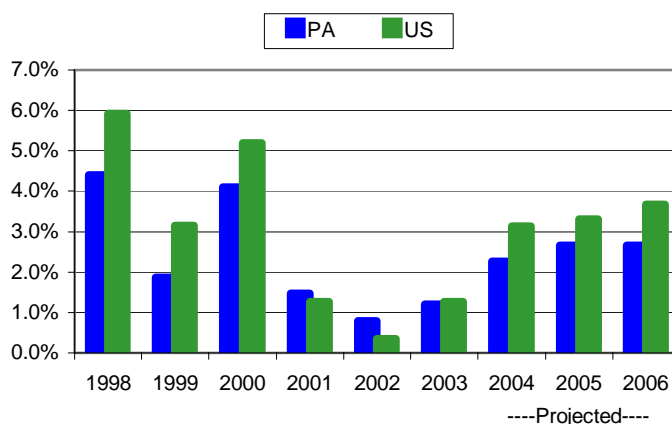
- The forecasts anticipate that the recovery will continue in 2005 with its shift, started in 2004, from a consumer-led recovery to a business-led recovery as consumer spending is expected to grow more slowly. Increased business investment has been an increasing driver of growth, generally in the form of higher capital spending and inventory rebuilding during 2004.
- Moderate job growth of approximately 190,000 per month is expected to continue during 2005, and growth in the labor force is expected to increase as previously discouraged workers are lured back to work.

The Outlook for Pennsylvania

- As the recovery from the recession of 2001 has gained traction nationally in 2004, the recovery to date in Pennsylvania has been more moderate. A pattern of partial disconnect between portions of the Pennsylvania economy and the national economy is re-emerging.

- Growth in real personal income within Pennsylvania lagged the national rate during the period when the economy was expanding in the late 1990's while the Commonwealth's growth in real personal income outperformed the national average in 2001 and 2002 and nearly matched the growth nationally in 2003.
- However, as the national economy gained traction in 2004, the divergence between the state and national growth rates in real personal income has begun to reappear.

PA AND US REAL PERSONAL INCOME
Annual Percent Growth



- Improvements in the Commonwealth's economic performance will be largely dependent upon job growth, which has been rebounding in 2004.
- Beginning in January 2004, the Commonwealth began to experience positive job creation that actually outperformed the national average during all of 2004.
- Pennsylvania's labor force has grown 2.9 percent from November 2003 to November 2004 while the national labor force has only grown at a rate of 0.8 percent.
- Over the long term, Pennsylvania's economy continues to diversify significantly.
- Thanks to enhanced economic development efforts, an improving business climate (with business costs now roughly equal to the national average), and improving job growth, Pennsylvania's economy is poised for moderate growth in the near term, but at a declining rate.

GENERAL FUND REVENUES

PA Revenue Sources			
Dollars in Millions	Actual Collections 2003-04	Estimated Collections 2004-05	Estimated Collections 2005-06
Personal Income Tax ¹	\$ 7,733.8	\$ 8,595.2	\$ 8,967.7
Sales and Use Tax	7,728.5	8,001.3	8,266.8
Corporate Net Income Tax	1,678.0	1,950.6	2,082.0
Capital Stock and Franchise Tax ²	984.3	957.8	869.3
Gross Receipts Tax ³	1,012.4	1,206.0	1,138.1
Cigarette Tax ⁴	856.4	804.0	788.1
Other Taxes	2,052.7	2,061.6	2,088.0
Non-Tax Revenues ⁵	782.0	580.9	534.1
Total	\$ 22,828.1	\$ 24,157.4	\$ 24,734.1
Difference from prior year	\$ 1,513.6	\$ 1,329.3	\$ 576.7
Percentage Difference	7.1%	5.8%	2.4%

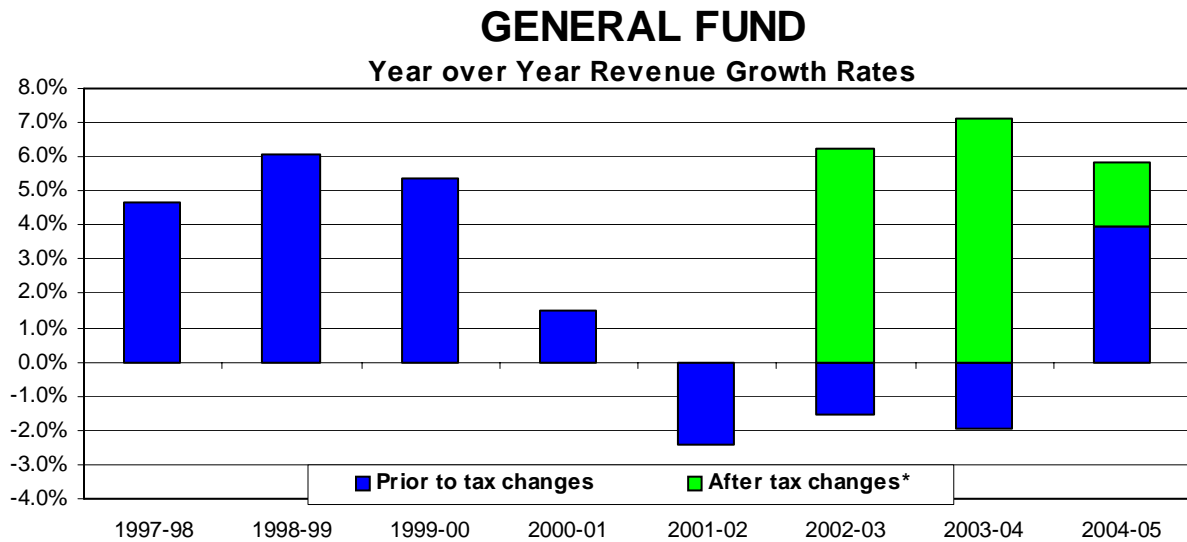
¹ Act 46 of 2003 increased the Personal Income Tax rate from 2.8% to 3.07%.

² Act 46 of 2003 modified the scheduled phaseout of the Capital Stock and Franchise Tax. For tax year 2003 the rate was set at 7.24 mills which reduced to 6.99 mills in tax year 2004. For tax year 2005 the rate is 5.99 mills which will then be reduced annually by one mill until the tax is eliminated in 2011.

³ Act 46 of 2003 imposed the Gross Receipts Tax on cellular and interstate telecommunications.

⁴ Act 46 of 2003 increased the Cigarette Tax from \$1.00 to \$1.35 per pack with \$0.25 of the increase deposited in the Health Care Provider Retention Account and the balance in the General Fund.

⁵ The enacted Fiscal Year 2003-04 budget include several revisions to the Escheats (unclaimed property) program that produced one time revenues within fiscal years 2003-04 and 2004-05.



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

Without the various revenue enhancements enacted in FY 2002-03 and FY 2003-04, General Fund Revenues would be approximately \$2.44 billion lower in FY 2004-05.

GENERAL FUND REVENUES

Major Tax Reduction Initiatives

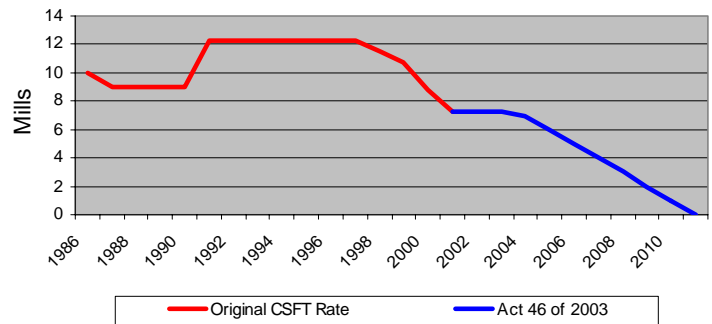
Dollars in Millions

	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Continued CSFT Phase Out	\$ 8.8	\$ 66.7	\$ 199.5	\$ 361.6
Low Income Exemption Expansion	-	13.9	13.6	13.3
Research and Development Tax Credit Expansion	-	15.0	15.0	15.0
Sales Tax Credits (Call Centers)	-	30.0	30.0	30.0
Sales Tax Credits (Telecommunications)	-	40.2	42.6	45.3
Inheritance Tax (recouple to federal return basis)	22.1	55.2	76.7	83.6
Education Improvement Tax Credits	10.0	15.0	15.0	15.0
Keystone Innovation Zone Tax Credits	-	-	-	25.0
Film Production Tax Credit	-	-	10.0	10.0
Green Sales Tax Holiday*	-	-	2.6	4.8
Total	\$ 40.9	\$ 236.0	\$ 405.0	\$ 603.6

*Includes additional items proposed in Governor's FY 2005-06 Budget

- The previously scheduled phaseout of the Capital Stock and Franchise Tax (CSFT) was modified so that the rate remained at 7.24 mills for tax year 2003. Effective with tax year 2004, a quarter mill reduction from 7.24 mills to 6.99 mills occurred. An additional one mill reduction to the rate occurred on January 1, 2005, reducing the current rate to 5.99 mills. For each additional tax year, the rate will decline by one mill. Tax savings are based on revisions to the rate versus a 7.24 mill base. It is estimated that the Commonwealth will have foregone a cumulative total of \$2.76 billion through fiscal year 2006-07 as a result of CSFT rate reductions since 2000.
- For calculation of tax forgiveness under low income provisions, the dependent allowance has been increased from \$9,000 to \$9,500. Exemptions remain at \$6,500 for single claimants and \$13,000 for married claimants with no dependents so that a family of four with two claimants and two dependents will now pay no state income tax on taxable income up to \$32,000.
- Research and Development Tax Credit was increased from \$15 million to \$30 million in Act 46 of 2003.
- Sales and Use Tax Credits were established in Act 46 of 2003 for call centers, and SUT Credits for certain telecommunications equipment.
- Revisions were made to the Inheritance Tax to provide that transfers of estates of decedents will be exempt from PA estate taxes to the same extent that they are exempt from federal estate taxes.
- Education Improvement Tax Credits were expanded in Act 48 of 2003 by \$10 million to \$40 million for donations

CAPITAL STOCK AND FRANCHISE TAX RATE



An additional \$744.7 million in revenue would be collected in FY 2005-06 if the tax rate had remained at 10.99.

to scholarship organizations that provide personal tuition grants to private schools and non-profit organizations that fund innovative education programs in public schools. A further change permits up to \$5 million in EITC tax credits for donations to pre-school scholarship organizations.

- Keystone Innovation Zone Tax Credits were established in Act 12 of 2004 to foster growth in targeted industry segments, namely research and development and other high technology businesses.
- Film Production Tax Credits were established in Act 95 of 2004 in order to provide up to \$10 million annually in the form of tax credits in the amount up to 20 percent of qualified film production expenses incurred in Pennsylvania
- In this budget, the Administration proposes a green sales and use tax holiday for qualifying residential purchases of Energy Star appliances within two specifically designated periods within the fiscal year.

GENERAL FUND EXPENDITURES

Recommended Appropriations by Agency

<i>Department</i>	<i>2003-04 Actual</i>	<i>2004-05 Available ¹</i>	<i>2005-06 Budget</i>
Aging.....	\$ 33,458	\$ 36,280	\$ 19,518 ²
Agriculture.....	71,908	81,427	67,590
Attorney General.....	73,842	74,977	74,977
Auditor General.....	49,560	50,179	48,179
Civil Service Commission.....	1	1	1
Community & Economic Development.....	439,636	521,824	360,213
Conservation and Natural Resources.....	95,714	98,223	94,279
Corrections.....	1,298,500	1,337,766	1,345,590
Education.....	8,753,845	9,407,780	9,639,649
<i>Basic Education (Pre K-12).....</i>	<i>7,250,283</i>	<i>7,836,638</i>	<i>8,053,042</i>
<i>Higher Education.....</i>	<i>1,406,094</i>	<i>1,464,063</i>	<i>1,479,098</i> ³
<i>Public Library Subsidy.....</i>	<i>47,789</i>	<i>57,914</i>	<i>59,362</i>
<i>All Other</i>	<i>49,679</i>	<i>49,165</i>	<i>48,147</i>
Emergency Management Agency.....	43,654	49,669	17,057 ⁴
Environmental Protection.....	193,334	192,803	172,153
Executive Offices.....	255,482	271,906	254,010
Fish Commission.....	13	14	14
Gaming Control Board.....	0	7,500	0 ⁵
General Services.....	111,443	111,552	108,423
Governor's Office.....	7,619	7,320	7,400
Health.....	248,548	270,352	232,553
Higher Education Assistance Agency.....	407,841	419,473	428,441
Historical & Museum Commission.....	32,757	37,761	29,148
Insurance.....	58,447	82,904	78,086
<i>Children's Health Insurance.....</i>	<i>34,296</i>	<i>45,423</i>	<i>45,423</i>
<i>All Other</i>	<i>24,151</i>	<i>37,481</i>	<i>32,663</i>
Judiciary.....	246,263	264,053	259,180
Labor & Industry.....	96,763	98,365	101,860
Legislature.....	303,117	316,132	315,065
Lt. Governor's Office.....	1,097	1,559	1,363
Military & Veterans Affairs.....	107,396	117,136	120,859
Probation & Parole Board.....	98,863	97,644	99,954
Public Television Network.....	11,940	12,367	10,423
Public Welfare.....	7,439,650	7,860,921	8,472,674
<i>Medical Assistance Program</i>	<i>3,982,794</i>	<i>4,214,235</i>	<i>4,499,421</i>
<i>Mental Health.....</i>	<i>701,635</i>	<i>713,291</i>	<i>725,262</i>
<i>Mental Retardation.....</i>	<i>917,917</i>	<i>1,011,869</i>	<i>1,050,089</i>
<i>County Child Welfare.....</i>	<i>610,213</i>	<i>632,547</i>	<i>883,526</i>
<i>Cash Grants.....</i>	<i>330,772</i>	<i>381,656</i>	<i>377,331</i>
<i>All Other</i>	<i>896,319</i>	<i>907,323</i>	<i>937,045</i>
Revenue.....	196,315	222,177	176,382 ⁶
Securities Commission.....	2,110	2,395	2,300
State.....	6,583	5,500	5,434
State Employees Retirement System.....	2	4	4
State Police.....	173,622	186,841	154,250 ⁷
Tax Equalization Board.....	1,295	1,330	1,330
Transportation.....	311,762	334,821	341,832
<i>Mass Transportation Assistance.....</i>	<i>270,014</i>	<i>287,815</i>	<i>293,571</i>
<i>All Other</i>	<i>41,748</i>	<i>47,006</i>	<i>48,261</i>
Treasury.....	712,986	449,919	805,389
General Obligation Debt Service.....	668,977	399,925	758,673 ⁸
All Other.....	44,009	49,994	46,716
GRAND TOTAL	\$ 21,885,366	\$ 23,030,875	\$ 23,845,580

¹ Includes recommended supplemental appropriations of \$154.036 million.

² Includes transfer of PACE claims processing cost to the Pharmaceutical Assistance Fund and Pre-admission Assessment to the Lottery Fund.

³ Includes State System of Higher Education.

⁴ The Volunteer Company Grants program will be funded from the State Gaming Fund beginning in 2005-06.

⁵ Two-year continuing appropriation in 2004-05 will be available for expenditure in 2005-06.

⁶ Includes transfer of Lottery operations to the Lottery Fund.

⁷ Assumes an updated methodology increasing the Motor License Fund share.

⁸ Federal Fiscal Relief funds of \$377.6 million were appropriated in lieu of State General Funds for General Obligation Debt Service in 2004-05.

Increasing Economic Opportunity for Pennsylvanians

When Governor Rendell took office, Pennsylvania was ranked 47th among all the States in job creation and among the highest in the percentage of young people leaving the State. The Governor has made promoting economic growth his highest priority, focusing on targeted loans, grants and guarantees; business tax relief; and workforce training.

Jump-starting the Economy

Last April, the Governor signed into law the final pieces of an unprecedented Economic Stimulus Package that will provide \$2.3 billion in loans, grants and guarantees over the next four years. These innovative programs, created in partnership with the Legislature, are designed to leverage at least \$5 billion in private investment.

• Economic Stimulus Program — Loans and Grants:

- Business in Our Sites - \$300 Million
- Building PA - \$150 Million
- New Pennsylvania Venture Guarantee Program - \$250 Million
- New Pennsylvania Venture Capital Investment Program - \$60 Million
- First Industries Fund - \$150 Million
- 2nd Stage Loan Program - \$50 Million
- Tax Increment Financing (TIF) Guarantee Program - \$100 Million
- Redevelopment Assistance - \$640 Million
- Water and Waste Water Infrastructure Program - \$250 Million
- Section 108 Housing and Urban Development (HUD) Loan Pool - \$288 Million
- Core Industries - \$75 Million

• Economic Stimulus Program — Annual Operating Budget Allocation:

- Infrastructure & Facilities Improvement Program - \$5 Million
- Elm Street - \$5 Million
- Main Street - \$5 Million
- Keystone Innovation Zones - \$10 Million in grants; \$25 Million in tax credits
- Expanded Research and Development Tax Credit - \$30 Million
- Base Retention and Conversion Program - \$3.3 Million
- Homeownership Choice Program - \$15 Million
- Housing & Redevelopment Assistance - \$30 Million

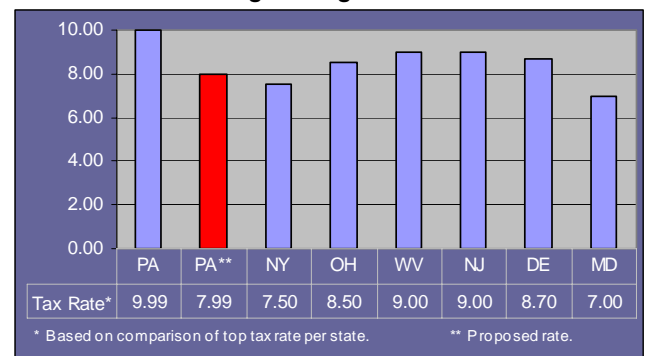
Business Tax Relief

In Pennsylvania, too many businesses pay little or no Corporate Net Income Tax (CNI) while others face high burdens that make the Commonwealth unattractive to new businesses and uncompetitive with other states. At 9.99 percent, Pennsylvania's CNI Tax rate is the third highest in the nation and is widely viewed as the Commonwealth's primary business tax problem. Last March the Governor created a Business Tax Reform Commission to recommend changes. The Administration proposes to adopt many of the commission's recommendations.

The Governor's business tax reform package includes the following major components:

- **Reduce the CNI Tax rate to 7.99 percent.** This historic reduction will lower the CNI Tax rate two full percentage points from its current rate of 9.99 percent.
- **Eliminate the \$2 million annual cap on Net Operating Losses.** Eliminating the cap for losses will create new incentives for economic development, especially for technology-based and biotech companies.
- **Continue the phase-out of the Capital Stock and Franchise Tax on its current schedule.**
- **Change the weighting of the sales factor of the CNI Tax apportionment formula from the present 60 percent to 100 percent.** Giving a greater weight to the sales factor will encourage employers to locate or expand production in Pennsylvania.

Corporate Income Tax Rates in Pennsylvania and Neighboring States



- **Shift to market-based sourcing in the CNI Tax apportionment formula for the sale of services.** This will encourage growth in service-related industries.
- **Reform Pennsylvania's tax appeals process and related administrative procedures.** Current procedures are too inefficient and confusing to businesses and are detrimental to the business climate.
- **Implement a mandatory unitary combined reporting system.** This would require members of a unitary group of businesses to combine their income and expenses for tax purposes creating a tax base that is less susceptible to manipulation.
- **Business Tax Clearance.** This budget recommends expansion of the Commonwealth's business tax clearance process to include licensees of the Departments of Banking, Environmental Protection, Insurance, State and the Pennsylvania Securities Commission. This expansion will require that the appropriate tax returns be filed with the Departments of Revenue and Labor and Industry before business or professional licenses can be granted or renewed by any of these State agencies. The new system will generate \$16.5 million in net General Fund revenues annually after the initial year of implementation.

Job Ready Pennsylvania

If Pennsylvanians are to benefit from future economic growth, they must be ready to take on the jobs that will be created. Right now, too many Pennsylvania employers report having trouble finding the skilled workers they need. When businesses can't hire the workers they need, the entire economy suffers.

This budget creates new economic opportunity for Pennsylvania employers and workers through a set of initiatives called "Job Ready Pennsylvania." This program invests \$101 million in new State dollars in education and workforce programs, combined with targeted reinvestment of \$71 million of existing State resources and \$26 million in private sector match. This \$198 million total investment is expected to leverage \$2 billion in additional funding to improve job readiness in Pennsylvania. Job Ready Pennsylvania will help meet the hiring needs of employers by boosting the skills of high school graduates, preparing students for good careers and ensuring that workers have the skills they need to compete in the global economy.

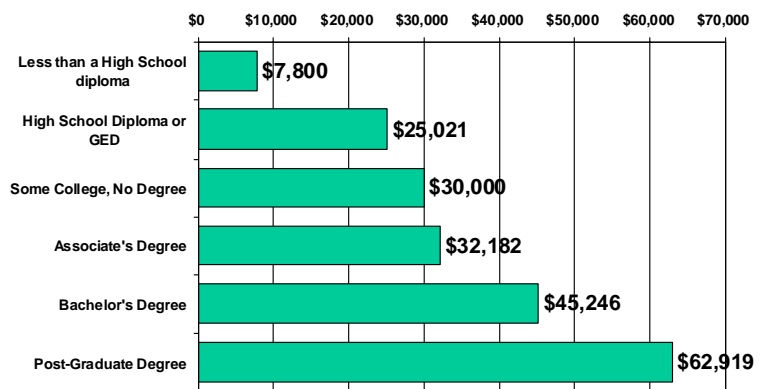
The principal components of Job Ready Pennsylvania include:

- **A \$47.7 million investment in High School Reform, Dual Enrollment for High School Students and Expanded Tutoring.** Please see the *Investing in Our Children, Increasing Academic Achievement* section for details.
- **Transforming Career and Technical Education.** During the next five years, \$80 million in public and private resources will be redirected to state-of-the-art Career and Technical Education (CTE) programs, the successor to yesteryear's "vo-tech" courses. These reforms are aimed at improving CTE student math scores and results on skills tests in the areas in which students are being trained.
- **Community College Funding.** A \$22.8 million increase in funding for community colleges – the largest State funding increase for community colleges in 15 years. This initiative also recommends the creation of funding incentives to encourage community colleges to develop and offer courses in well-paying, high-demand occupations.
- **Investing for Pennsylvania's Prosperity Awards.** Includes \$22 million in rewards and incentives for workforce boards to ensure that local actions are consistent with the statewide goal of improving Pennsylvania's economic competitiveness. Included in this amount is funding for:
 - **Partnering with Employers to Close Workforce Gaps.** Includes \$5 million in funding for technical assistance and workforce assessments to seed-fund additional partnerships and \$15 million in new

funding for employer-driven training developed through Industry Partnerships.

- **Building Education and Training Capacity in Specific Occupations.**
 - \$10 million to increase the number of qualified nurse educators, expand the number of clinical training opportunities for student nurses and implement a plan to improve the pass rate for RN and LPN candidates.
 - \$3 million in redirected funding and a dollar-for-dollar match by colleges and universities for Starter Kits to help recruit top faculty researchers to Pennsylvania colleges and universities with funding for labs, equipment and research staff.
 - redirect resources to develop updated curriculum at the CTE and Community College level, so workers graduate with technical skills that match manufacturers' needs.
 - create 75 new Child Development Associate programs in secondary schools and develop a new registration and certification process for direct care workers.
- **Helping Workers Train for Better Jobs.** Includes a new \$10 million Pennsylvania Higher Education Assistance Agency (PHEAA) grant program for adult students to help them obtain certificates or degrees in high priority occupations.

More Education Means Higher Earnings



Average Annual Earnings

- **Credentialing Workers.** A \$60,000 investment to develop a system for credentialing adult workers for knowledge gained outside the classroom.
- **Adult Literacy.** Redirect \$7.5 million to improve the literacy skills of single parents going back to work.

Environment / Growing Greener II

Last year's budget recommended Growing Greener II, a set of interlocking investments designed to preserve, create and expand critical programs to improve the quality of Pennsylvania's communities and natural environment. This far-reaching program still awaits approval by the General Assembly, and so the 2005-06 budget once again anticipates passage of an \$800 million bond authorization by the voters, now targeted for May 2005, as well as the authorization of additional fees on waste disposal to support the costs of preserving and expanding Pennsylvania's environmental programs. These investments will be crucial to ensuring Pennsylvania's future competitiveness. The types of companies and industries that Pennsylvania needs to retain and attract often have a choice of where to do business. Increasingly, they judge a location on its ability to offer their workers a place they want to call home — a place that has a clean and safe environment, lively town centers and neighborhoods and abundant green space. The investments made possible by the Growing Greener II program will protect open space, clean up abandoned industrial sites, clear our streams of acid mine drainage, upgrade natural habitat for wildlife, restore mine lands and protect working farms and forests.

The redesigned Growing Greener II proposal contains the following major components:

- **Protect existing Growing Greener Resource Renewal Programs**

An additional \$21 million would be provided to maintain the existing Growing Greener programs in fiscal year 2005-06 through a new fee of \$1.00 per ton on the disposal of municipal solid waste, for the sole benefit of the Environmental Stewardship Fund. This fee would also provide a permanent funding source for the Agricultural Conservation Easement Purchase Fund.

- **Increase the impact of Growing Greener II with a Voter Approved Expansion**

An \$800 million voter-approved Growing Greener bond issue would enhance Pennsylvania's investment in existing Growing Greener efforts. Bond proceeds would be spent over a period of four years on parks, improving Fish and Game Commission facilities, open space and farmland (\$330 million), environmental cleanup (\$300 million) and revitalization of older communities (\$170 million).

- **Implement a Home Town Streets Program at PennDOT**

Last year, the Department of Transportation proposed a new program to use \$200 million in existing funds to invest in hometown streets and safe routes to schools. A total of \$83 million has already been invested in 266 projects. Additional projects will be identified and funded in this coming fiscal year.

- **Increase Funding for Recycling and Other Resource Renewal Programs**

\$25 million per year in increased State support for recycling programs in communities of all sizes. \$2 million per year to allow the Commonwealth to purchase 20 percent of its electricity from renewable and other preferred sources of energy. \$7.5 million per year to help communities plan more comprehensively and cooperatively for future growth.

- **Targeted Historic Preservation Grants**

\$11.5 million for a Historic Preservation Grant program to help small businesses, developers and some homeowners rebuild the fabric of hundreds of older communities.

- **Green Sales Tax Holiday**

A twice-per-year Green Tag sales tax holiday on the purchase of energy efficient appliances is also proposed to encourage the purchase of these products, thus conserving natural resources.

In addition, this budget provides for the preservation of the Hazardous Sites Cleanup Fund:

- **Preserving Our Ability To Clean Up Hazardous Sites**

Absent new revenues, the Hazardous Sites Cleanup Fund will no longer have the ability to clean up the worst of our hazardous sites. The 2005-06 budget therefore includes a new 15 cent per pound fee on the release of toxic chemicals listed on the Federal government's Toxics Release Inventory list to preserve this Fund. A \$2 million annual cap on this fee would be imposed for any one company and a \$5 million annual cap on the combined total of the toxic release fee and new residual waste fee would apply to any one company. In addition, a transfer from the Environmental Revitalization Account would supplement the Hazardous Sites Cleanup Fund.

Selected Program Measures:

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Farm acreage preserved* **	23,017	20,780	21,240	19,838	18,569	18,073	17,597
Farm acreage preserved	23,017	20,780	13,956	13,035	12,201	11,875	11,563
Cleanups completed at sites contaminated with hazardous substances*	282	300	300	300	300	300	300
Cleanups completed at sites contaminated with hazardous substances	282	300	0	0	0	0	0

* Assumes enactment of Growing Greener II.

** Farm Acreage preserved is declining due to higher per acre costs.

Investing in Our Children, Increasing Academic Achievement

This budget recognizes the impact that early childhood learning, education and care have on school readiness and academic success, and recommends a program of targeted investments for Pennsylvania's youngest citizens. A focus on high quality early childhood programs will help Pennsylvania address and mitigate social and educational disparities of young children that influence their ability to be prepared to begin school, achieve academic success, and attain economic independence and self-sufficiency as adult citizens.

Improving and Expanding Early Education and Child Care

All of Pennsylvania's children deserve the opportunity to receive high-quality early learning experiences. Backed by strong evidence of both immediate and long-term benefits to children and families from early childhood programs, the 2005-06 budget continues to build on Pennsylvania's progress in 2004-05.

Budget Highlights include:

- **Head Start Supplemental Assistance Program.** \$15 million targeted to match the federally funded Head Start program to serve an additional 2,500 children and to encourage Head Start providers to establish partnerships with school districts and other child care providers in order to provide the most effective and comprehensive services for Pennsylvania children.
- **Child Care Services.** \$565 million in total funds, an increase of \$33.1 million, to provide child care services to an additional 1,540 children, bringing the total to 196,215 children of low-income working families, TANF recipients and former TANF recipients. Included in this amount is funding for the following three initiatives:
 - **Accessibility of Child Care to Low-income Families.** \$3.5 million to help ensure that low-income families do not face lengthy waiting periods to receive subsidized child care.
 - **Payment Levels for Child Care.** \$9 million to help stabilize the payment levels per child for programs serving vulnerable infants, toddlers and preschoolers,
 - **Continuation of Keystone Stars & T.E.A.C.H.** Continuation funding to provide incentives for child care providers to improve and to fund scholarships for child care staff to receive training through early childhood education college courses.

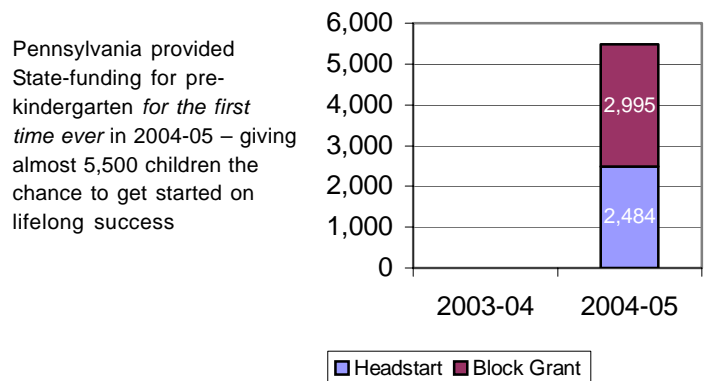
- **Early Intervention.** \$247 million in total funds, an increase of \$16.3 million, to provide Early Intervention services for children with a disability or developmental delay from birth through age five to enhance learning, minimize developmental delays and the need for special education and assist families in meeting their children's special needs.
- **Partnership for Quality Pre-Kindergarten.** A new public-private partnership will support local communities in developing and strengthening their quality pre-kindergarten programs.

Providing Pennsylvania's children with quality learning improves Pennsylvania's capacity to improve its economic performance. In order to ensure that Pennsylvania's future graduates have the skills they need to be successful in today's economy, the budget recommends over \$228 million in targeted educational investments that are proven to boost student achievement.

Assessing the Impact of the Accountability Block Grant

In 2004-05, Pennsylvania launched the landmark Education Accountability Block Grant in all 501 school districts to fund programs that have been conclusively demonstrated to help students learn. School districts invested \$200 million in a menu of proven educational programs – building on broad-based evidence of what works in increasing academic achievement while maximizing local flexibility. Communities chose to invest more than \$2 out of every \$3 received in Block Grant funding on three early childhood programs: quality pre-kindergarten, full-day kindergarten and class-size reduction in the early elementary grades.

Number of Children in State-Funded Pre-K



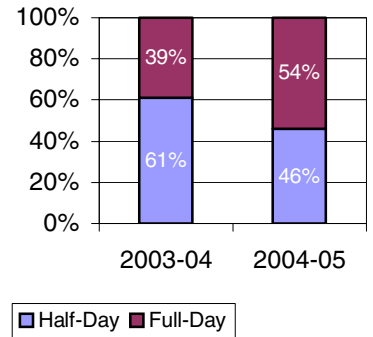
2005-06 BUDGET HIGHLIGHTS

More than 91,000 students are now benefiting from pre-kindergarten, full-day kindergarten, reduced class size and tutoring through the Block Grant.

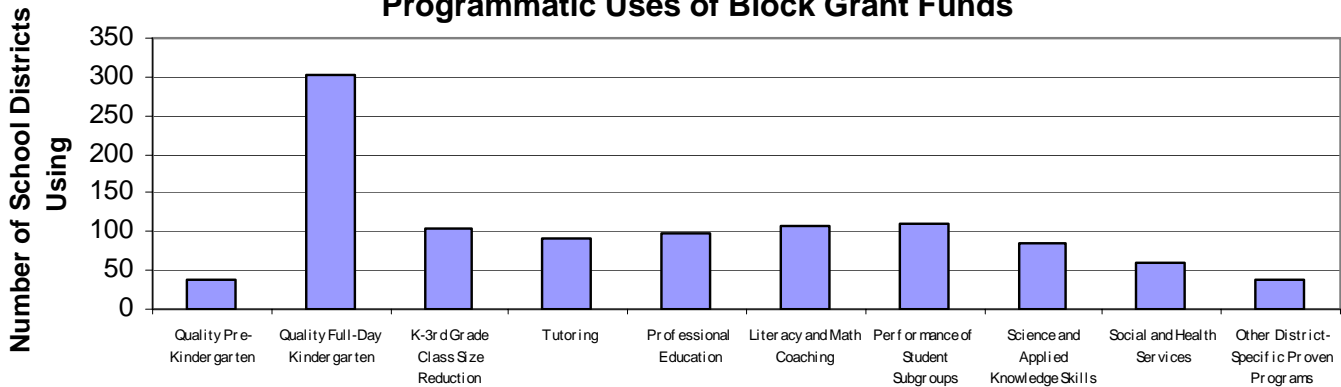
More districts are participating in full-day kindergarten than in any other Block Grant program. In fact, more than half of Pennsylvania school districts are using at least a portion of their Block Grant funding to invest in full-day kindergarten.

Percentage of Children in Full and Half-Day Kindergarten

Thanks to the Accountability Block Grant, more than half of Pennsylvania kindergarteners are in full-day programs – for the first time ever



Programmatic Uses of Block Grant Funds



Increasing Academic Achievement

Increasing educational achievement is a fundamental State responsibility and an economic development imperative. The 2005-06 budget builds on strategic investments in our public schools that are designed to increase student achievement in Pennsylvania.

Budget Highlights include:

- **Tutoring.** \$38 million for tutoring for students in grades K-12 who are less than proficient, with a focus on high school students and students in Career and Technical Education, and to extend tutoring to districts currently not on the Average Yearly Progress list but in danger of joining its ranks.
- **School Improvement Strategies.** \$10 million to develop new initiatives that offer targeted, high-quality support for school districts that are struggling and boost the skills of our educators Statewide. A centerpiece of this initiative is the Distinguished Educator Program, aimed at providing intensive support for struggling schools and a leadership development program to ensure effective school and district leaders.
- **Dual Enrollment for High School Students.** \$5 million to allow high school students to earn college credit while completing their high school requirements and to allow

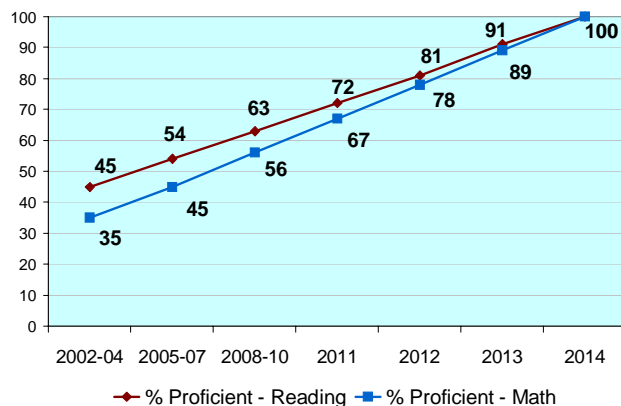
at-risk students and out-of-school youth to get the skills and credentials necessary to become successful and productive members of the workforce.

- **High School Reform.** \$4.7 million for Project 720 to ensure that Pennsylvania students graduate from high school with the knowledge and skills necessary to be successful in the 21st century and to help high schools increase the rigor of educational programs and enhance post-secondary opportunities for their students.
- **Career and Technical Education.** \$8 million reallocated towards competitive grants for up-to-date Career and Technical Education (CTE) equipment and curriculum for the next five years – with a dollar-for-dollar local matching requirement. This initiative will ensure that CTE programs provide quality training based on industry standards in the high-skill jobs of the future.
- **Basic Education Funding.** \$109 million, a 2.5 percent increase, for basic education funding in 2005-06. School districts will receive a share of the increase based on their number of students and district wealth, with the most State resources directed to communities needing the most help. In addition, a new foundation supplement will help school districts where per-student spending is inadequate to deliver a quality education.

2005-06 BUDGET HIGHLIGHTS

Across our Commonwealth, inspired and talented teachers and administrators are helping our students achieve. As a result, the majority of Pennsylvania students are meeting State standards. But in spite of the best efforts of our public schools, nearly 40 percent of our elementary age children still cannot read or do math at appropriate levels; by high school, fewer than half of our students are proficient in math. With the passage of No Child Left Behind in 2001, Pennsylvania must ensure that all of its current elementary school students will be proficient by the time that they reach high school. Providing Pennsylvania's children with quality learning improves Pennsylvania's capacity to improve its economic performance.

No Child Left Behind Reading & Math Targets



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

Selected Program Measure:	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Education / Basic Education							
Percent of students proficient/advanced in reading *	64%	65%	68%	70%	72%	74%	76%
Percent of students proficient/advanced in math	57%	57%	59%	61%	63%	64%	66%

* Projections for 2004-05 through 2009-10 are based on the rate of progress over the last four years.

The budget also includes:

- A 2.5 percent increase for on-going programs —
 - \$109 million for Basic Education Funding.
 - \$23.2 million for Special Education.
 - \$1.5 million for Career and Technical Education.
- \$29.3 million increase for School Employees' Retirement and \$9.7 million increase for School Employees' Social Security to fund the State's share of these local education payroll costs.
- \$15.3 million increase for Pupil Transportation services.

Higher Education

- \$22.8 million, a 10.1 percent increase for Community Colleges through the Job Ready Pennsylvania Initiative. These funds will also provide a more predictable operating and capital funding stream to community colleges.
- \$9.8 million, a 2.25 percent operating increase for the State System of Higher Education
- A 2 percent operating increase for each of the state-related universities-
 - \$4.8 million for the Pennsylvania State University

- \$3 million for University of Pittsburgh
- \$3.2 million for Temple University
- \$0.3 million for Lincoln University
- Net Increases from Federalizing payments to academic medical centers.
 - \$2.2 million for the Pennsylvania State University
 - \$2.2 million for University of Pittsburgh
 - \$2.2 million for Temple University
- A \$9.0 million, a 2.5 percent increase is also included for the Grants to Students program in the Pennsylvania Higher Education Assistance Agency.
- \$1.2 million increase for non State-related universities and \$0.8 million for Institutional Assistance Grants to other higher education institutions

Libraries

- \$1.4 million, a 2.5 percent increase, for the Public Library Subsidy program.

Preserving and Reforming Pennsylvania's Safety Net

One of the primary responsibilities of the Commonwealth is to help its most vulnerable citizens. The poor, the elderly, those who have lost jobs, children in need, those with disabilities and people with mental illness or mental retardation all should be able to turn to the Commonwealth for assistance with medical costs and social services.

But these are challenging times for the Commonwealth. The number of people in need of help has grown sharply in recent years, while Federal aid for medical and social service programs is not keeping pace with the growth in need and cost. Medical Assistance costs are now growing more than twice as fast as State revenues. The elderly are the fastest growing group on Medical Assistance in Pennsylvania; on average, their care is the most expensive.

The Commonwealth will spend more than \$14.2 billion in FY 2005-06 on Medical Assistance, using both Federal and state revenues. The previous two Commonwealth budgets contained generous State fund increases for the Department of Public Welfare (DPW): 13.9 percent in the 2003-04 fiscal year and 5.7 percent in the 2004-05 fiscal year. The 2005-06 budget proposes an additional 7.8 percent increase in the DPW budget. But even this level of support has not been sufficient to keep pace with the growth in need.

Faced with all these pressures, the Commonwealth has had to find a way to keep its commitment to those in greatest need while remaining fiscally responsible. To that end, the Commonwealth has begun to restructure and reform its social welfare programs to make them more efficient and effective while maintaining coverage for all who currently receive benefits.

In DPW change is already under way, including: aggressive efforts to combat waste, fraud and abuse; more rigorous Medical Assistance case-management review; and more thorough review before approving expensive medical procedures.

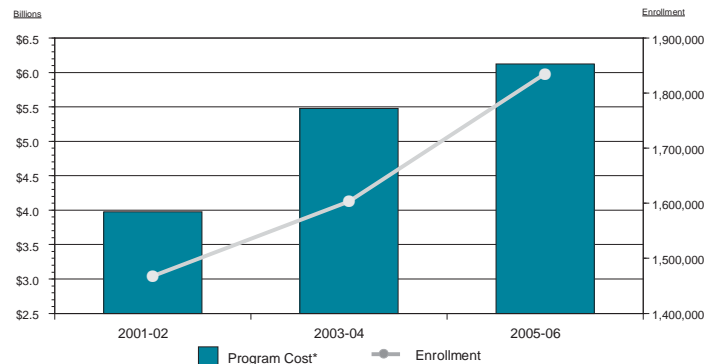
Yet even as the DPW becomes more efficient and effective in delivering services in the face of rising costs and limited funds, the Administration has made it a priority to protect vulnerable Pennsylvanians who need the Commonwealth's assistance. The budget proposal for the 2005-06 fiscal year includes the following broad provisions:

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

Redesigning Medical Assistance Services

- The 2005-06 budget provides \$4.5 billion in State funds to maintain comprehensive Medical Assistance coverage for 1.85 million children, pregnant women, older Pennsylvanians, and people with disabilities who meet income eligibility guidelines. This amount assumes \$383.8 million in State savings from redesigning the Medical Assistance Program.

Medical Assistance Program



*Outpatient, Inpatient, Capitation and Long-Term Care

The physical health care benefit packages for the adult Medical Assistance and General Assistance recipients will continue to preserve core medical benefits and set utilization maximums at levels consistent with current recipient usage patterns.

Selected Program Measures:

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Public Welfare							
Persons participating in Medical Assistance (monthly average)	1,621,901	1,752,990	1,850,005	1,928,000	1,928,000	1,928,000	1,928,000
Persons currently receiving benefits that will no longer be eligible as a result of redesigning the Medical Assistance Program	0	0	0	0	0	0	0

Preserving and Reforming Pennsylvania's Safety Net

The 2005-06 Budget also contains the following:

Medical Assistance

- \$460.1 million in total funds for increased utilization in managed care programs.
- \$285.2 million increase, or 6.8 percent, in State funds for Medical Assistance that will serve an additional 97,000 individuals.
- \$194.5 million in total funds to annualize prior year rate increases and provide for additional rate increases in managed care programs.
- \$76 million in added State funds to reflect increased caseloads and utilization of Medical Assistance Outpatient services.
- \$23.5 million in additional funding to provide for caseload increases for acute care, rehabilitation and psychiatric inpatient services.
- \$22.2 million in new State funds to reflect the increased cost of premiums for persons participating in Parts A and B of the Medicare Program.

Human Services

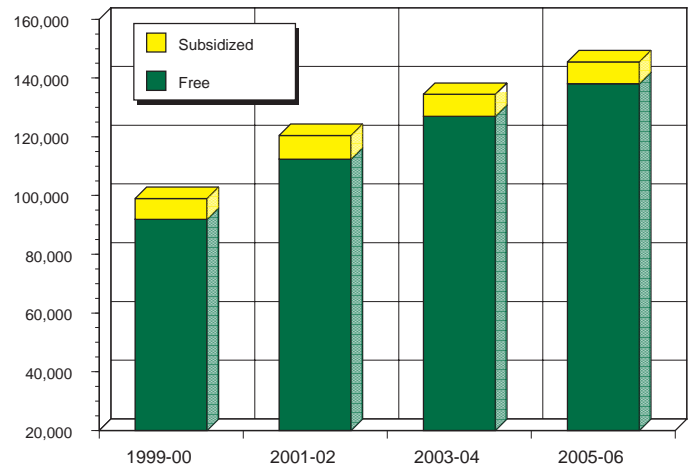
- \$688.4 million in total funds to provide cash benefits, child care and supportive services to current welfare recipients.
- \$182.5 million in total funds for vocational rehabilitation services through the federal program.
- \$128.2 million in total funds for assistance to Drug and Alcohol programs to provide funding to counties for prevention, intervention and treatment services.
- \$34.2 million in total funds for quality assurance inspections of health care facilities to determine compliance with state and federal standards.
- \$20 million in new State funds to improve worker training and increase jobs through business partnerships.
- \$3.6 million in State funds to provide vocational rehabilitation services to individuals who are not eligible to receive services through the Federal program.
- \$1.6 million in total funds for Centers for Independent Living to provide referral services, peer counseling, and independent living training.

Children's Services

- \$231 million in total funds to serve over 146,000 children through the Children's Health Insurance Program, an increase of 10,000 children, or 7.4%, over this year.

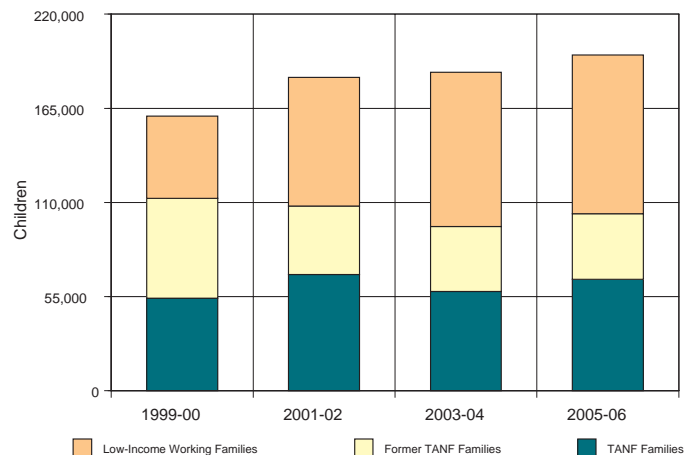
Children's Health Insurance Program

Children Served



- \$251 million in additional funding for County Child Welfare Services to bring the total amount to \$883.5 million.
 - \$206 million in additional funding for County Child Welfare needs-based requirements as mandated by Act 30 of 1991, including a shift from Federal Temporary Assistance for Needy Families (TANF) funding to State funding.
 - \$45 million in State funds for non-mandated County Child Welfare services to offset the shift of Federal TANF funds.
- \$12.5 million in increased funding to provide subsidized child care services for 1,540 more children and increased payment rates for child care providers serving infants, toddlers and preschoolers.

Child Care



Services for Older Pennsylvanians

- \$291.7 million in total funds to provide home and community-based waiver services to 22,680 older Pennsylvanians as an alternative to nursing facility care. This includes \$15 million to expand services to an additional 4,948 older Pennsylvanians.
- \$79.6 million in total State funds to operate six veterans homes with 1,600 beds.
- \$60.7 million in total funds for projected per diem rate increases in long-term care facilities.
- \$4.2 million in increased funding to provide for a 2 percent cost of living adjustment for direct care workers providing services through PENNCARE.
- \$1.2 million increase in State funds to provide services to an additional 136 persons in the PENNCARE Attendant Care Program.

Services for Persons with Disabilities

- \$1.428 billion in total funds to provide home and community-based services for 66,000 persons with mental retardation. This represents a 5.7 percent increase in funding. This initiative includes:
 - \$35.5 million in total funds to provide home and community-based services for 955 additional persons with mental retardation, including 45 individuals currently residing in Altoona State Mental Retardation Center.
- \$547.9 million in total funds to provide home and community-based services to 210,484 persons with mental illness. This represents a 3.2 percent increase in funding. This initiative includes:
 - \$15.9 million increase in total funds to provide home and community-based services for 185 individuals currently residing in State mental hospitals, including 135 residents of Harrisburg State Hospital.
- \$124 million in total funds to provide home and community-based services to 7,140 Attendant Care consumers. This represents a 15 percent increase in funding.
- \$115.5 million in total funds to provide for home and community-based services for 2,840 individuals with various developmental and trauma related disabilities. This represents a 21.3 percent increase in funding.
- \$26.9 million in total funds to provide home and community-based services to 1,500 additional persons with disabilities.

Updating the Health Investment Plan

- Restructuring the allocation of the Tobacco Settlement revenue to fulfill its two primary objectives of providing health care to uninsured adults and home and community-based services to older Pennsylvanians. The 2005-06 proposed allocation percentages will provide:
 - \$127.8 million for health insurance for approximately 41,500 uninsured adults on an annual basis. This represents an increase of 15 percent over the annual number of uninsured individuals that can be served this year.
 - \$51.9 million for home and community-based services for 5,800 older Pennsylvanians on an annual basis. This represent an increase of 24 percent over the annual number of older Pennsylvanians that can receive home and community-based services provided with Tobacco Settlement revenue this year.
 - \$20 million for medical assistance for workers with disabilities which will provide health care coverage to approximately 5,800 low-income workers with disabilities on an annual basis. This represents an increase of 54 percent over the annual number of uninsured workers with disabilities that can be served this year.

Protection of Persons and Property

Homeland Security

- \$236.4 million in Federal funds for homeland security initiatives to strengthen state and local emergency preparedness and response plans and public health readiness and response capabilities.
- \$14 million in State funds for radio communication systems used by emergency response organizations at all levels of government.
- \$25 million for grants to assist volunteer fire and emergency medical service companies.

Natural Disasters

- \$40.5 million in Federal funds and \$17.6 million in State funds to enable individuals, businesses and local governments to rebuild following the flooding disasters during the fall of 2004.
- \$5.5 million in Federal funds and \$1 million in State funds to support the Hazard Mitigation program.
- \$50 million in State funds for damages that occurred to State roads and bridges.

Corrections/Probation and Parole

- Funding supports the State Intermediate Punishment Program, a new sentencing option to improve public safety and decrease costs by providing for incarceration and intensive drug and alcohol treatment for those who commit less serious crimes and who were motivated by consumption of or addiction to drugs or alcohol.

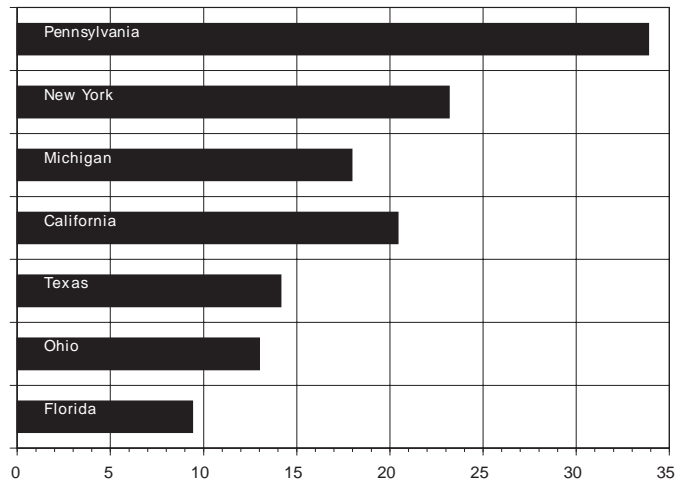
- \$2.5 million for increased county intermediate punishment drug and alcohol programming.

State Police

- \$22.3 million increase in State Police operating funds to support the largest number of Troopers ever - 4,338 Troopers.

State Police Per 100,000 Population

Full-time Law Enforcement Officers
as of October 2003



Program Measures:

Commission on Crime & Delinquency

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Average number of offenders participating in a drug & alcohol based Intermediate Punishment Program	2,868	2,868	3,040	3,040	3,040	3,040	3,040
Average number of offenders participating in the Intermediate Punishment Program ..	3,200	3,200	3,200	3,200	3,200	3,200	3,200

Operational Efficiency / Cost Containment

Over the past two years, the Rendell Administration has transformed the way that Commonwealth government works. The results have been exceptional, generating savings for Pennsylvania taxpayers of more than \$475 million through reduced expenditures, avoidance of costs and new revenues. The government is smaller, private sector business practices are in place, agencies are cooperating like never before, taxpayers are served better and innovative new efforts are ongoing across the enterprise. Given the financial challenges outlined in this budget, these efforts will continue to play a central role in the Governor's agenda. The savings secured through these efforts allow the continuation of programs that matter to Commonwealth citizens and mitigate the need to generate additional revenues through increased taxes and other means. The following items highlight examples of some of the completed and on-going cost savings strategies and management improvement efforts.

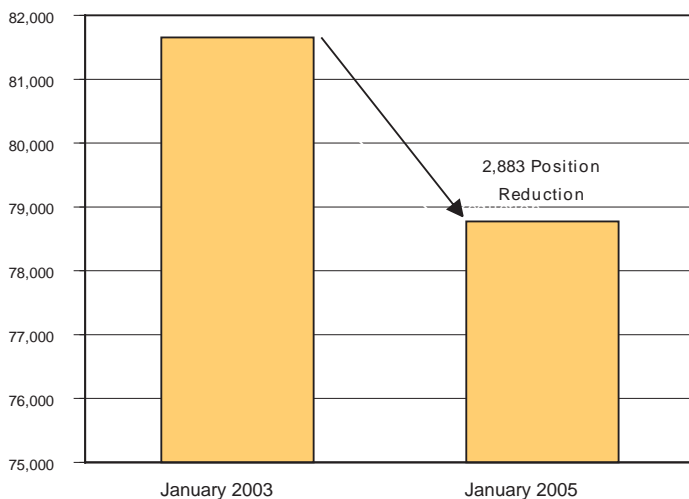
- **Creating a Smaller and More Efficient Government**

- Produced annual savings exceeding \$160 million, including pay and benefit changes, through a 2,883-position reduction in filled salaried positions since the day Governor Rendell took office.

- **Using Private Sector Business Practices**

- Anticipate \$130 million in annual savings by the end of the 2004-05 fiscal year from strategic sourcing for procurement of goods and services.
- Saved more than \$15 million through two major fleet management initiatives for State vehicles.
- Will save \$4 million by consolidating warehouses in the Harrisburg area and reducing warehousing positions by 50 percent through attrition.

Filled Salaried Complement



- Reduced telecommunications expenditures by \$5 million by renegotiating contracts and implementing demand management measures.

- **Innovation by Commonwealth Agencies**

- Will realize approximately \$30 million in annualized savings by implementing the Supplemental Security Income check-writing initiative.
- Saved \$11.4 million through maintenance efficiency gains due to the Department of Transportation's Maintenance Efficiency and Cost Effectiveness effort.
- Expected to generate \$3 million in commissions under the Department of Corrections' new contract for commissary services, offsetting 85 percent of commissary staffing costs.
- Saved \$4 million in the past year through increased efficiency at State mental health and mental retardation facilities.

- **Agencies Working Together**

- Reduced spending by more than 45 percent and improved customer service by consolidating call centers for human services lines at the Departments of Health, Aging, Public Welfare and Insurance.
- Saved more than 500,000 documents annually by centralizing document and check processing with the Department of Revenue, allowing other agencies to eliminate their processing efforts.

- **Improving Taxpayer Service and Revenue Collection**

- Saved more than \$4 million per year by closing seven Department of Revenue field offices.
- Achieved a 14 percent increase in the number of Pennsylvania taxpayers who filed their 2003 State returns electronically.

- **Serving Citizens Better Through Technology**

- Increased by 40 percent the number of driver and vehicle services transactions conducted online through improvements to the Department of Transportation web site.
- Reduced costs of renewal applications for Department of State boards and commissions by increasing the percentage of on-line renewals from 20 percent to 58 percent.

Transportation

State Highway and Bridge Construction

- \$594 million in State and \$1.2 billion in Federal funds, for new construction and major repairs of highways and bridges.

State Highway and Bridge Maintenance

- \$1.3 billion in State and \$264 million in Federal funds, for the maintenance of the Commonwealth's bridges and highways.

Mass Transportation

- \$755 million in State and \$62 million in Federal funds, for operating and capital assistance to mass transit agencies, including a \$5.8 million increase in State funding, which represents a modest down payment for a public transportation system that is in desperate need of a stable, reliable, adequate funding source.

Transit Assistance for Older Pennsylvanians

- \$136.9 million in State Lottery Funds in support of Older Pennsylvanian's Free and Shared Rides.

Local Road Maintenance and Construction Payments

- \$313 million to municipal governments for local road maintenance and construction.

Rail Freight Assistance

- \$8.5 million to provide maintenance and capital support for non-State owned rail lines.

Air Transportation

- \$7 million in State aviation funds to provide airport development grants for public use airports.

Other Transportation

- \$28 million to provide preventative maintenance and repair on State-owned bridges to improve their condition and prolong their useful life. An additional \$5 million is recommended to provide emergency highway and bridge repairs.
- \$10 million to provide a Statewide program for low cost safety improvement projects for Commonwealth highways.

2005-06 Motor License Fund

INCOME

(Millions)



Liquid Fuels Tax — \$1,234
 Licenses and Fees — \$860
 Other — \$101

Total Income	\$2,195
Beginning Balance	144
TOTAL	\$2,339

OUTGO



Maintenance — \$902
 Improvement, Design — \$377
 State Police — \$419
 Other — \$204
 Local Subsidy — \$196
 Licensing and Safety — \$128
 Debt Service — \$23

Total Outgo	\$2,249
Ending Balance	90
TOTAL	\$2,339

CAPITAL BUDGET

Fiscal Year 2005-06

	<u>Millions</u>
<u>From Bond Funds</u>	
Conservation and Natural Resources	\$ 20.3
Corrections	26.6
Education	47.8
Environmental Protection	14.8
Historical and Museum Commission	2.6
Public Welfare	24.3
Transportation-State Facilities	49.5
Transportation-Local Transportation Assistance	139.6
Subtotal Bond Funds	<u>\$ 325.4</u>
<u>From Current Revenues</u>	
Conservation and Natural Resources	\$ 20.3
Education	2.5
Emergency Management	2.0
Transportation-Highways	56.8
Subtotal Current Revenues	<u>\$ 81.6</u>
TOTAL CAPITAL PROJECTS TO BE AUTHORIZED	<u><u>\$ 407.0</u></u>

The Capital Budget process 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 classroom 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 Agency

Provides for construction and renovations 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.

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.

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 construction of and additions to highway maintenance and district office buildings, driver examination facilities, and welcome centers. Includes improvements for local mass transit agencies, rail freight and air transportation projects as well as major highway rehabilitation projects. Also provides for the construction, and reconstruction of highways and bridges on the Commonwealth road system and major Federally designated safety projects.