

Commonwealth of Pennsylvania

2008 Mid-Year Briefing

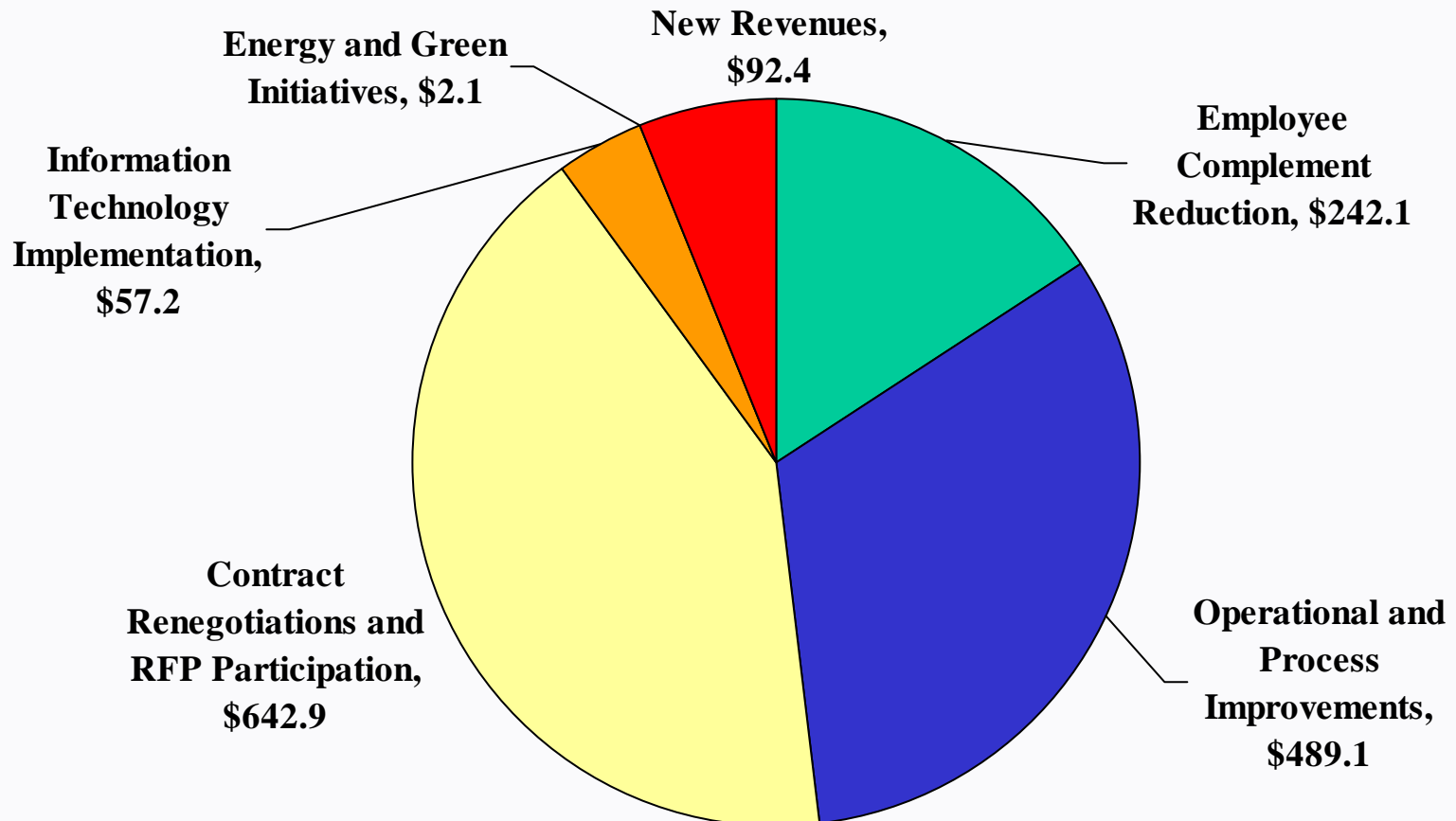
Edward G. Rendell
Governor

Mary A. Soderberg
Secretary of the Budget

December 9, 2008

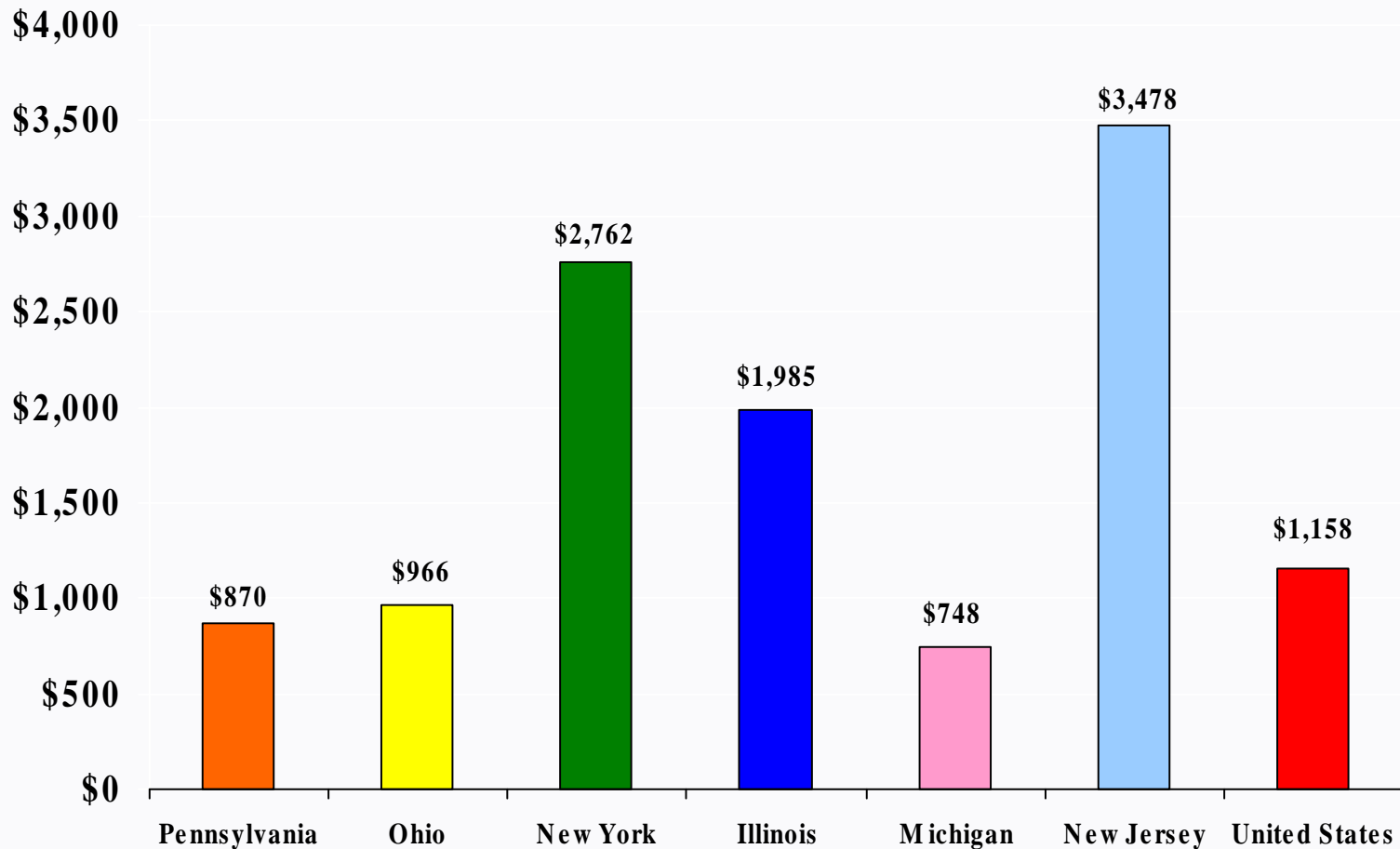
Components of the \$1.5 Billion in Management and Productivity Savings for 2007-08

Dollars in Millions



Commonwealth Debt Per Capita

Pennsylvania compares favorably with other large, competitor states.



Pennsylvania Retains Double-A Bond Rating

In connection with a \$300 million General Obligation bond sale the commonwealth has scheduled for Dec. 9, the top Wall Street credit rating agencies – Moody's, Standard & Poor's and Fitch – all reaffirmed the commonwealth's double-A credit rating, which is the second-highest level of credit.

According to Moody's, the commonwealth's credit strengths include:

- **An established record of good financial management, reflected in strong actions to preserve budget balance in recent years.**
- **The state's debt position is moderate and well-controlled, with tax-supported debt ratios close to national average levels, and a well-funded state pension system.**
- **Per capita wealth levels close to the national average.**

2008-09 Budget Highlights

- The 2008-09 enacted General Fund budget is \$28.3 billion, an increase of \$1.1 billion, or 3.98 percent, over 2007-08. The 2008-09 budget has no tax increases.
- The budget provides for:
 - \$800 million to begin rebuilding water and sewer infrastructure and upgrading unsafe dams. It also includes an additional \$400 million for PENNVEST.
 - \$1.7 billion for the Rebuild Pennsylvania initiative to repair and rebuild structurally deficient bridges across the commonwealth.
 - \$665.9 million in alternative and renewable energy deployment, conservation and efficiency, and innovative research and development.
- The enacted 2008-09 General Fund budget is \$72.4 million less than the Governor's proposed budget.
- The 2008-09 General Fund budget increases spending by just 1.3 percent in all areas other than education, public welfare, corrections and probation/parole, while improving many vital state-funded services.

2008-09 Budget Enactment

- One-time 2008-09 revenue and expenditure adjustments
- Suspended the transfer to the Rainy Day Fund
- Maximized 2007-08 and prior-year lapses
- 1.3 percent across-the-board expenditure reductions, with additional targeted expenditure reductions

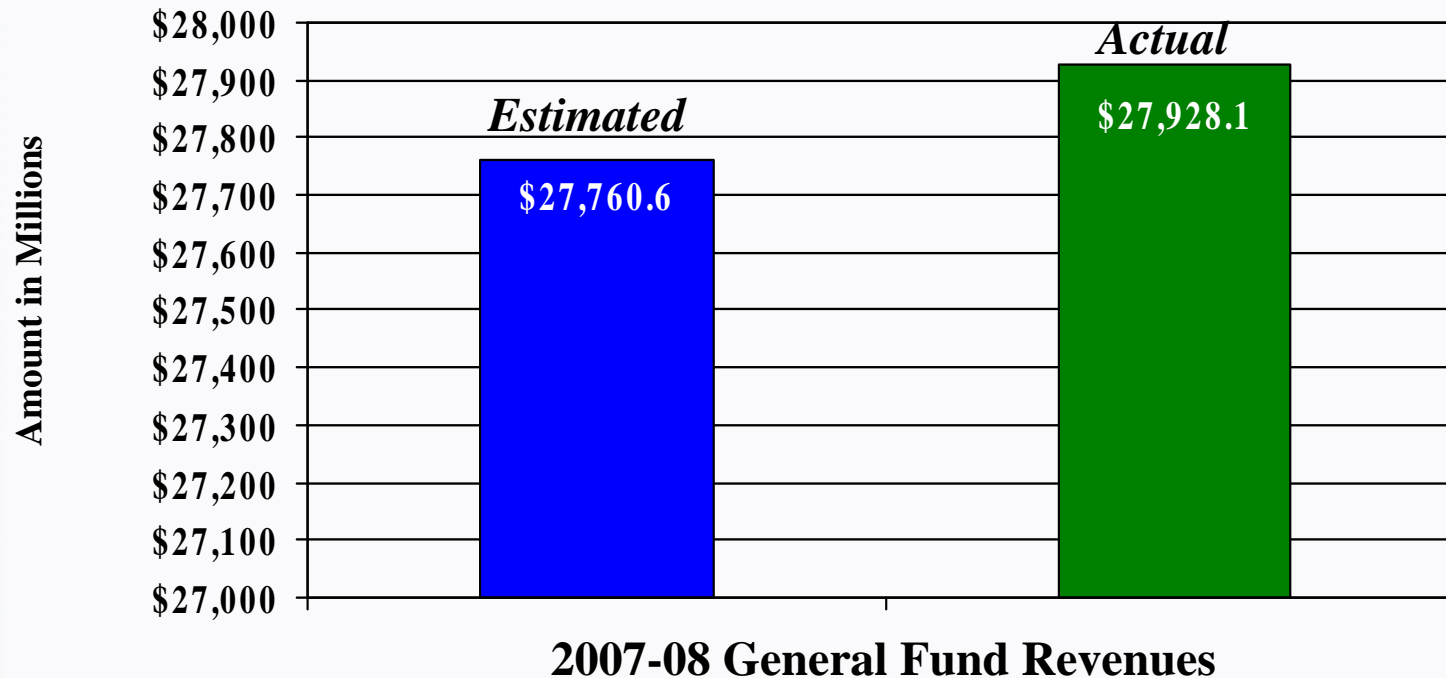
2008-09 Enacted General Fund Budget

Dollars in Millions

	<u>2007-08</u> <u>Actual</u>	<u>2008-09</u> <u>Enacted</u>
Beginning Balance	\$ 531	\$ 583
Receipts	26,878	27,689
Prior-Year Lapses	142	0
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Funds Available	\$ 27,551	\$ 28,272
Expenditures	\$ (27,175)	\$ (28,264)
Supplemental Appropriations	(7)	0
Current-Year Lapses	214	0
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Total Expenditures	\$ (26,968)	\$ (28,264)
Preliminary Balance	\$ 583	\$ 8
Transfer to Rainy Day Fund	0	(2)
	<hr/>	<hr/>
Ending Balance	<u>\$ 583</u>	<u>\$ 6</u>

2007-08 General Fund Revenues *Estimated versus Actual Revenue Collections*

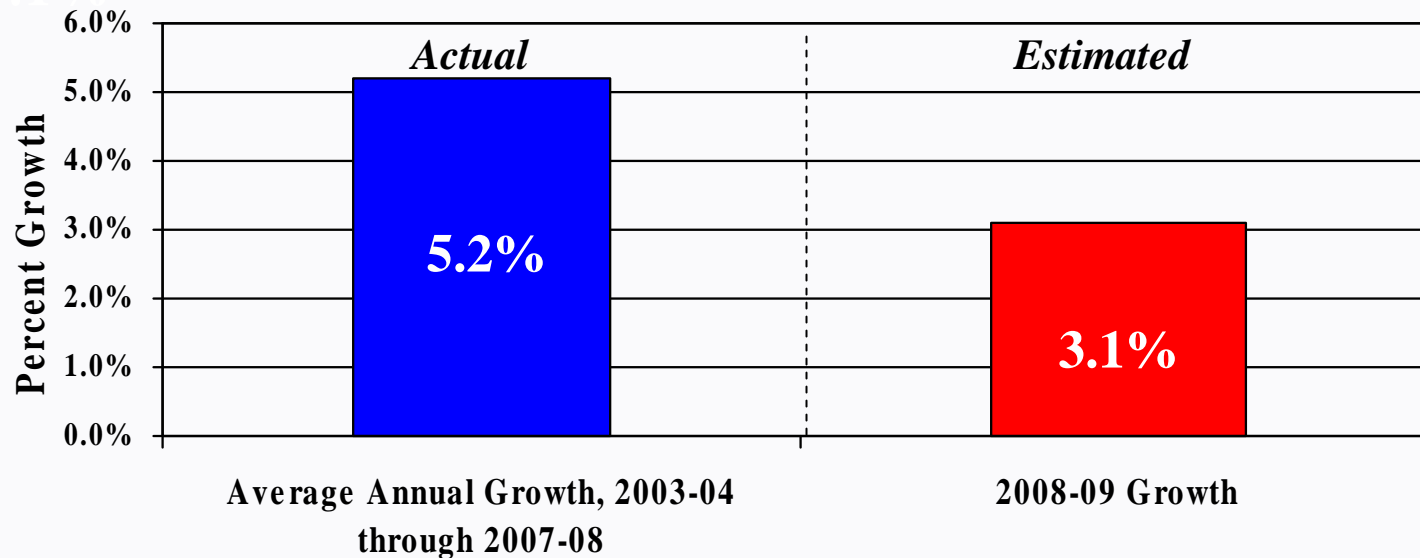
General Fund revenue collections for the fiscal year ending June 30, 2008 were \$27.9 billion, which was \$167.5 million above the official estimate.



General Fund Revenue Growth *2003-04 through 2008-09*

When the 2008-09 budget was enacted in July, Pennsylvania had still not felt the effects of the national economic slowdown. Nevertheless, at that time revenues were not projected to grow as much in 2008-09 as they had in the past few years.

General Fund Revenue Growth *Four-Year Average vs. Projected 2008-09*



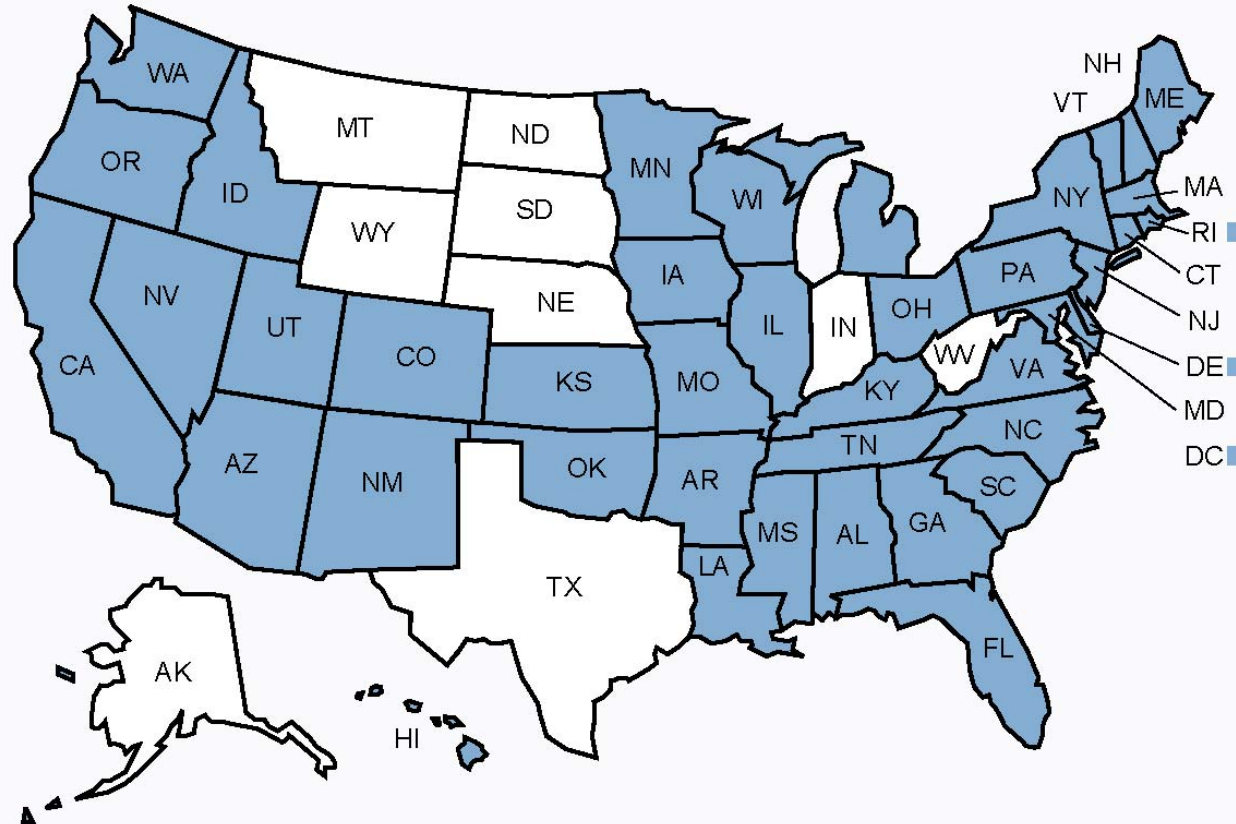
Economic Downturn

“Economic activity declines, investment is lower, the number of jobs decreases, income tax receipts are down, and so state fiscal pictures begin to deteriorate.”

“Democrats in House Plan a Package of Up to \$500 Billion to Help States”

The New York Times, December 1, 2008

41 States Face Budget Shortfalls*



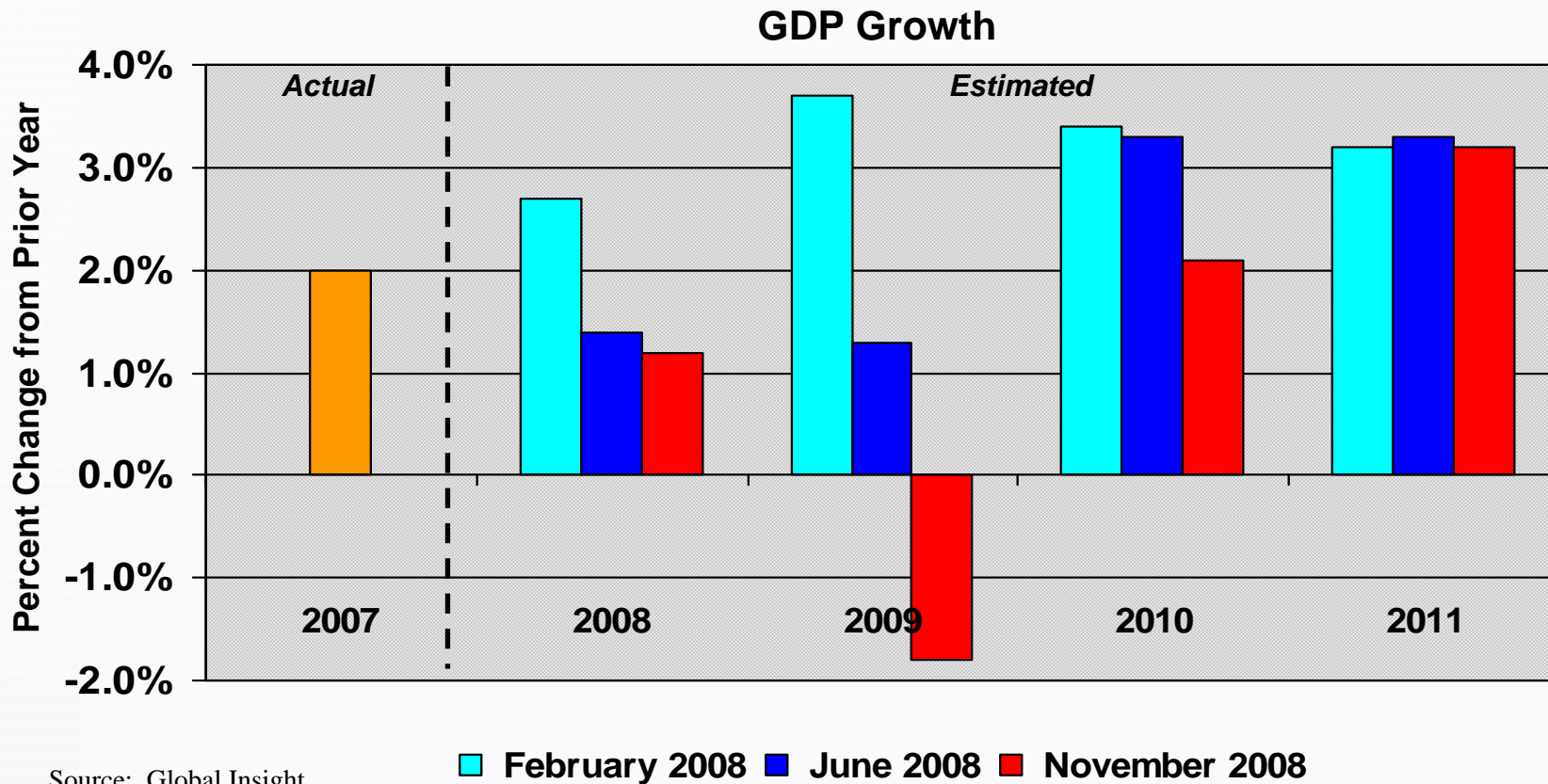
*Includes states with shortfalls in fiscal year 2009 or projected shortfalls for fiscal year 2010

Source: Center on Budget and Policy Priorities
"State Budget Troubles Worsen"
November 12, 2008

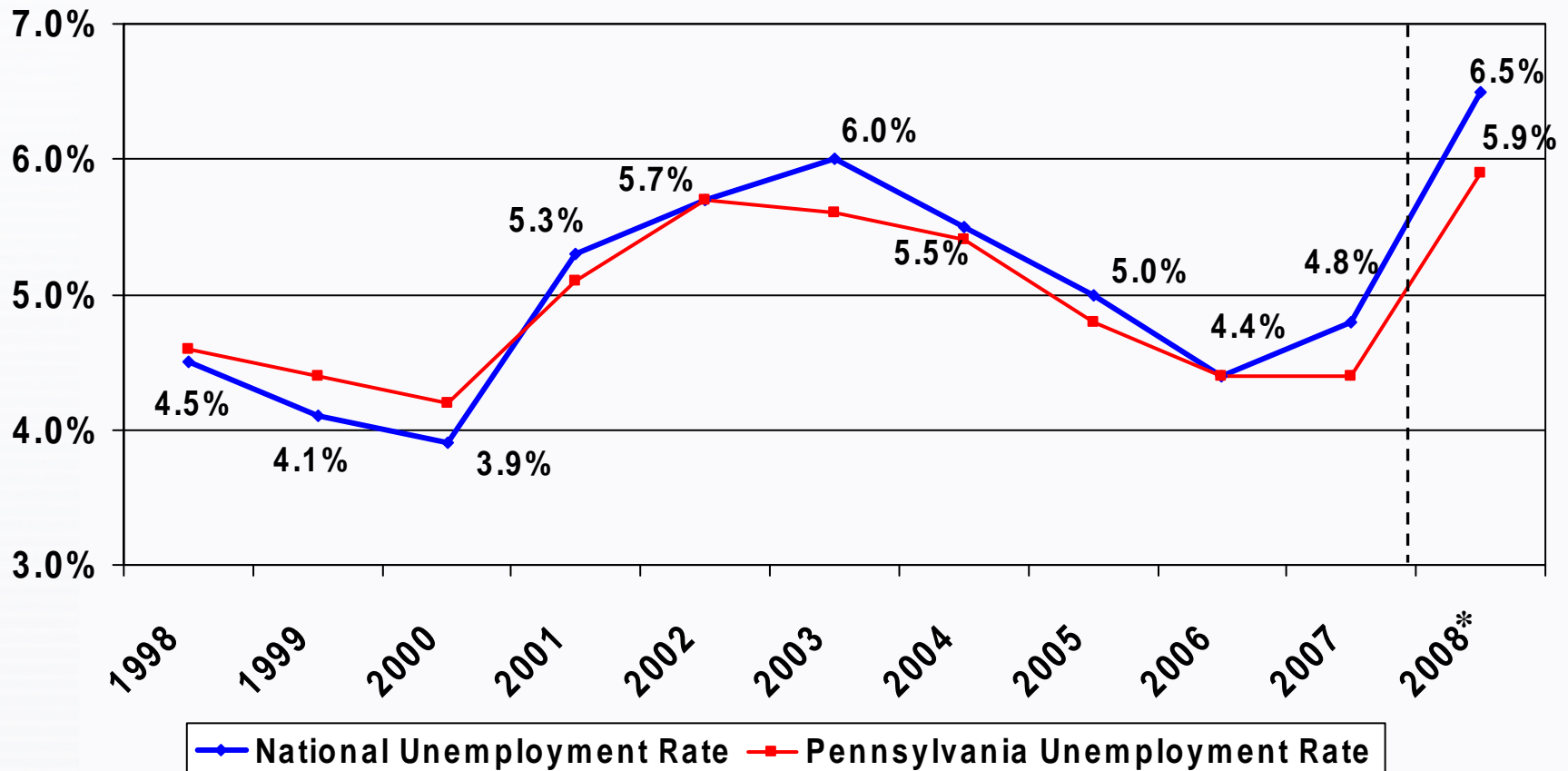
U.S. Real Gross Domestic Product Growth

Projected Annual Growth

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



National and State Unemployment Rates at Five-Year Highs

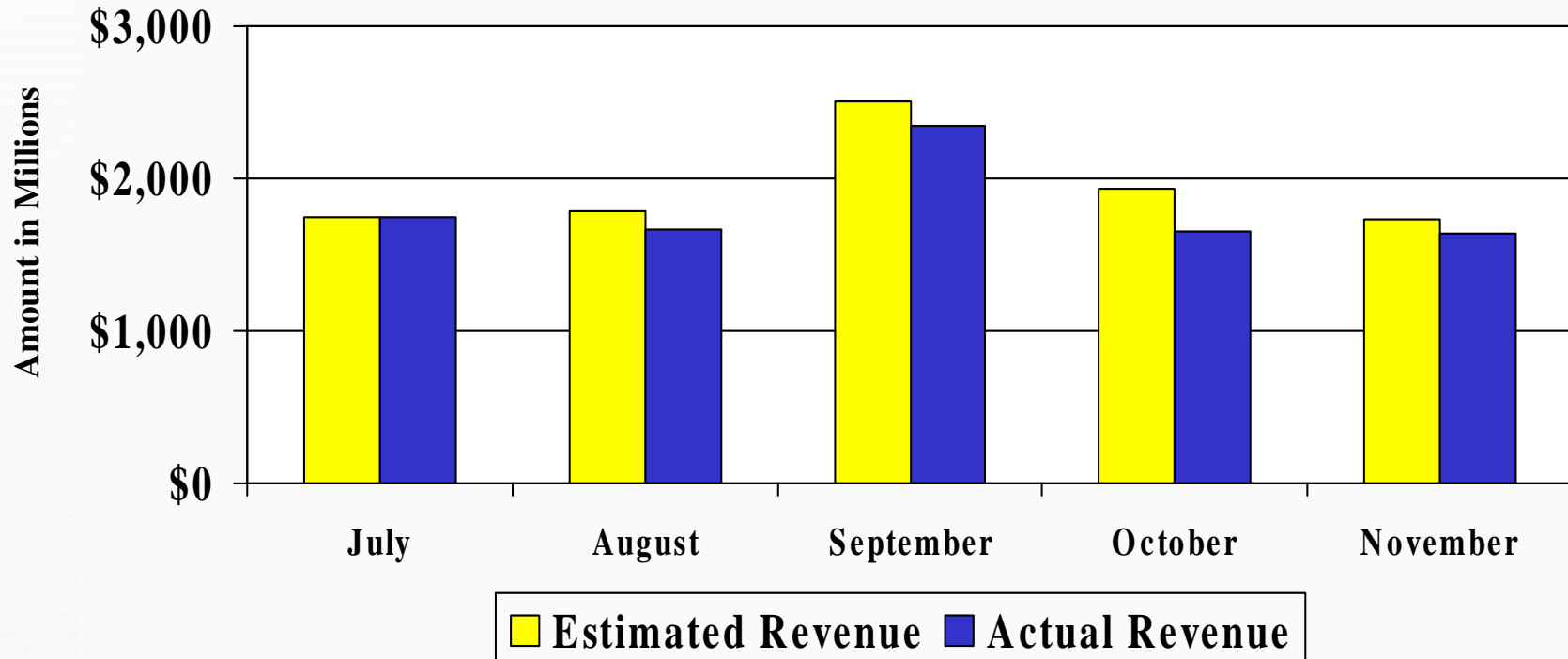


* 2008 rates represent October 2008 monthly data.

Revenue Shortfall

2008-09 General Fund Revenues *Estimated versus Actual Revenue Collections*

In the first five months of 2008-09, revenue collections were \$657.9 million lower than estimated (down 6.8 percent).



2008-09 General Fund Revenues *Stemming Investment Losses*

In October, General Fund revenues were \$283 million below estimate, more than half of which was the result of realized investment losses. By working with the State Treasurer, realized investment losses were mitigated in November to only \$10 million.

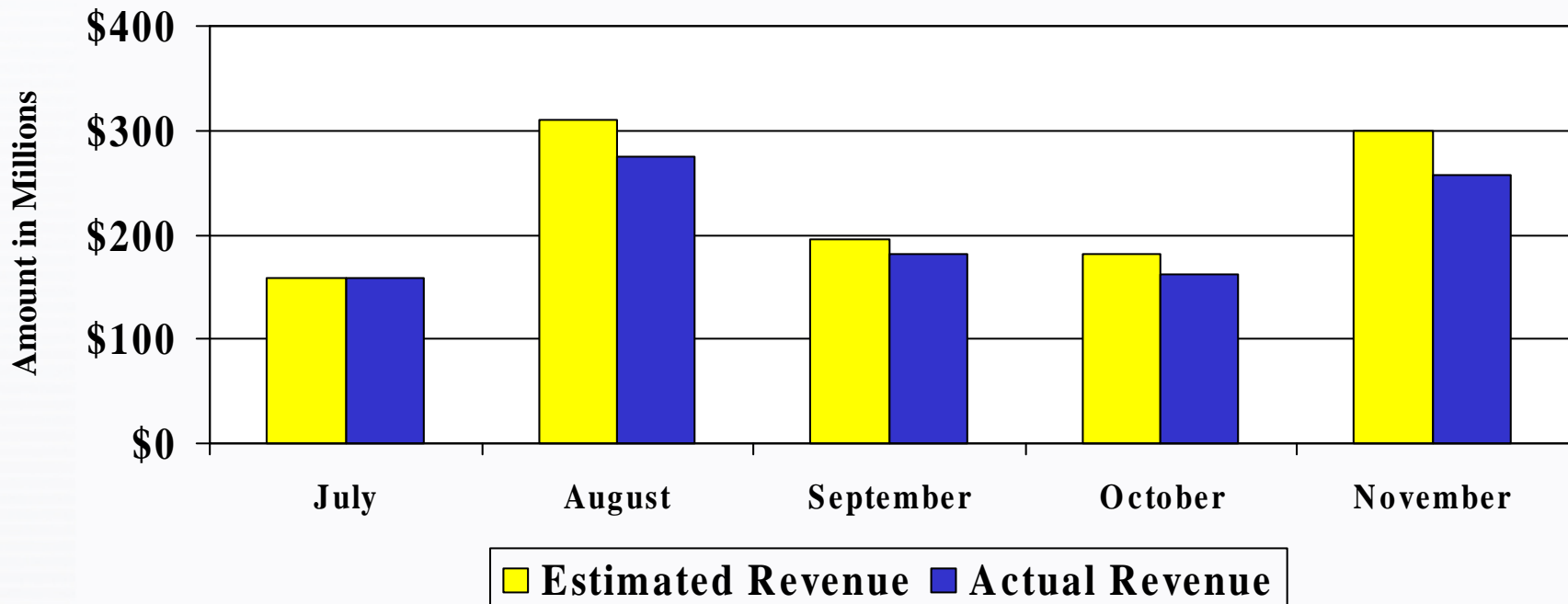
Dollars in Millions

	October 2008	November 2008	Year-to- Date
Revenue Shortfall	\$283.4	\$93.1	\$657.9
Investment Losses	\$143.6	\$10	\$187
Percent Below Estimate	14.7%	5.4%	6.8%

2008-09 Motor License Fund Revenues

Estimated versus Actual Revenue Collections

In the first five months of 2008-09, revenue collections were \$112.5 million lower than estimated (down 9.8 percent).



Budgetary Freeze Measures

Budgetary Freeze

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

(In Millions)

\$ 311	First round of General Fund budget cuts
128	Second round of General Fund budget cuts
25	Third round of General Fund budget cuts
36	Independent Agency General Fund budget cuts
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\$ 500	Total - General Fund budget cuts
\$ 41	Motor License Fund budget cuts

Administrative Actions

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

- Implementing a general hiring freeze
- Eliminating out-of-state travel
- Banning the purchase of new vehicles
- Freezing cabinet and non-union employees' salaries

Making Government Work Smarter

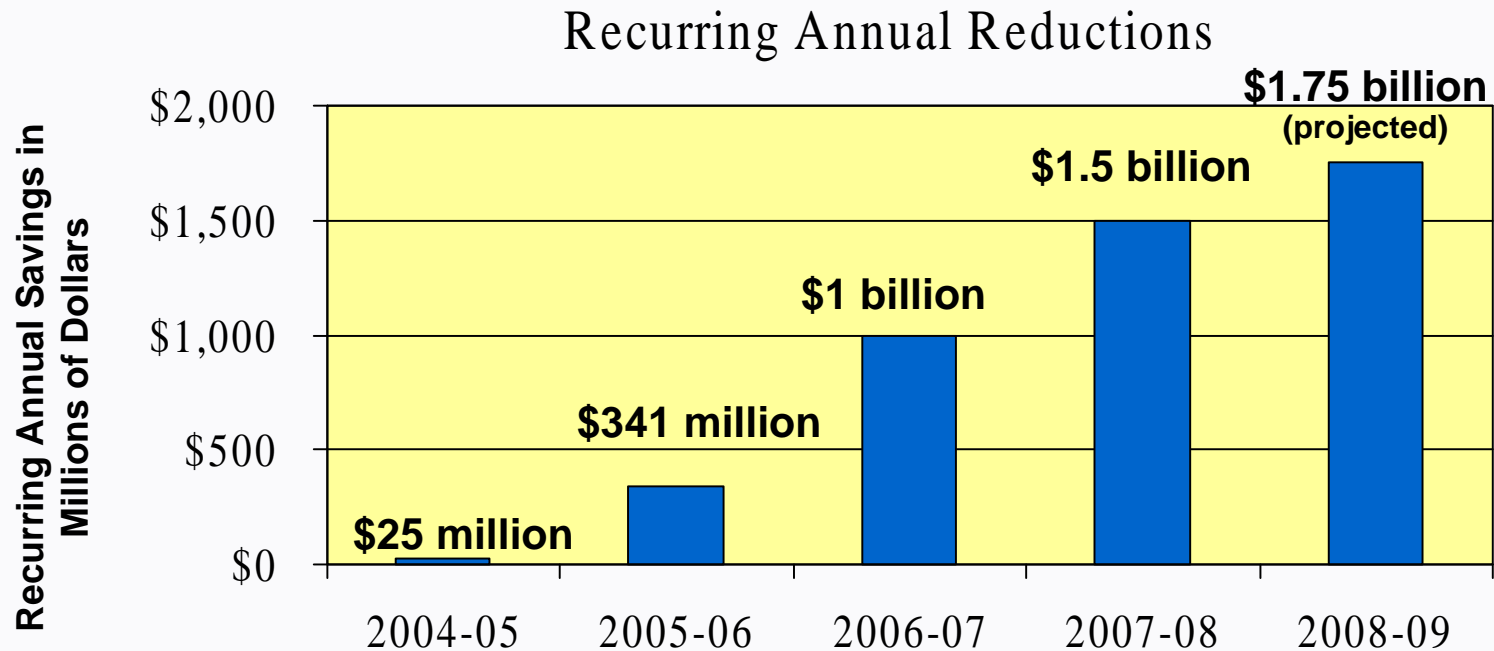
Examples of Making Government Work Smarter

Because it is the largest state agency, the Department of Public Welfare has been a major focus of the administration's management and productivity efforts. Other areas of focus have been reducing the size of the commonwealth's fleet and increasing revenues from the Liquor Control Board and the state Lottery.

- ✓ **Implementing a Preferred Drug List**
- ✓ **Developing the Strategic Sourcing Initiative**
- ✓ **Using Electronic Payments Instead of Paper Checks**
- ✓ **Eliminating Unused Phone Lines and Consolidating Warehouses**
- ✓ **Reducing Fleet Costs**
- ✓ **Controlling Construction Costs with Energy-Efficient Materials**
- ✓ **Increasing Liquor Control Board Revenue through Consumer-Oriented Business Practices**

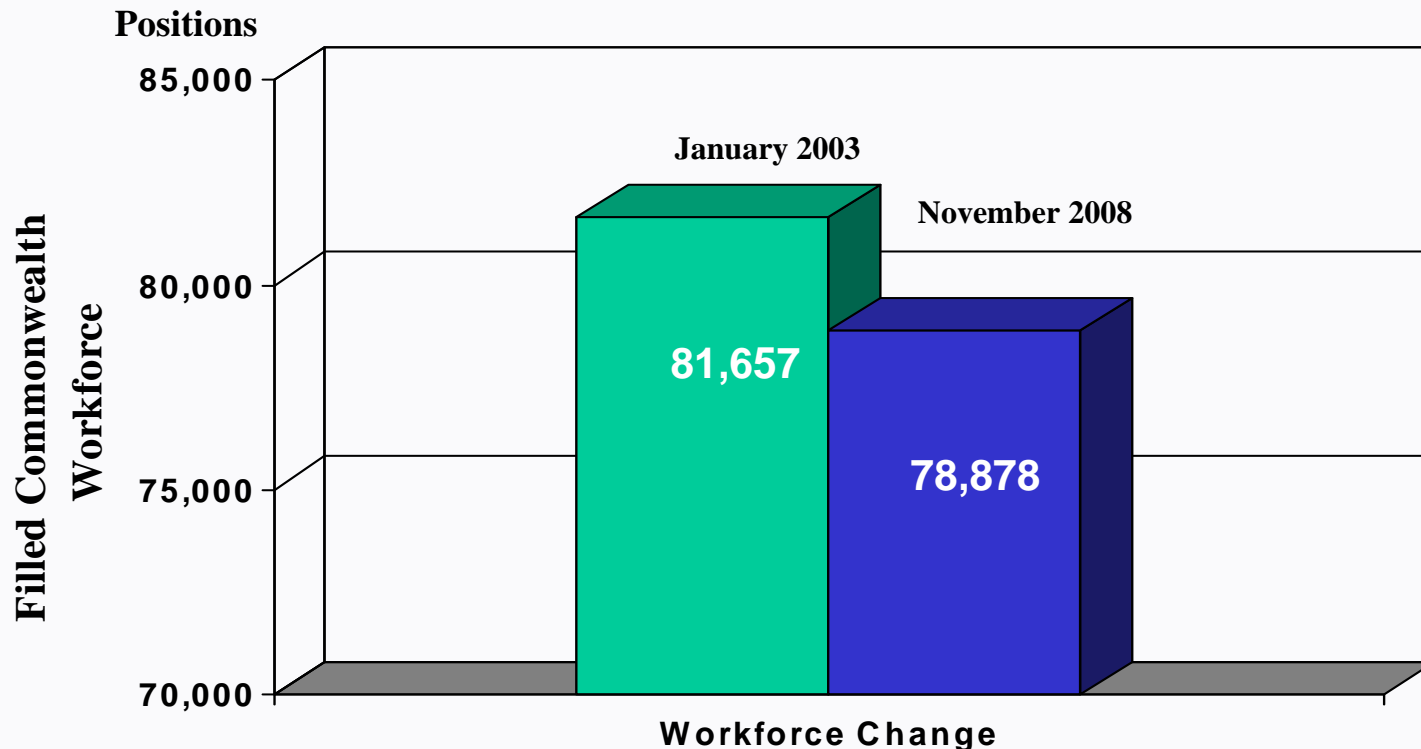
Management & Productivity Improvements Are Projected to Reach \$1.75 Billion in 2008-09

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



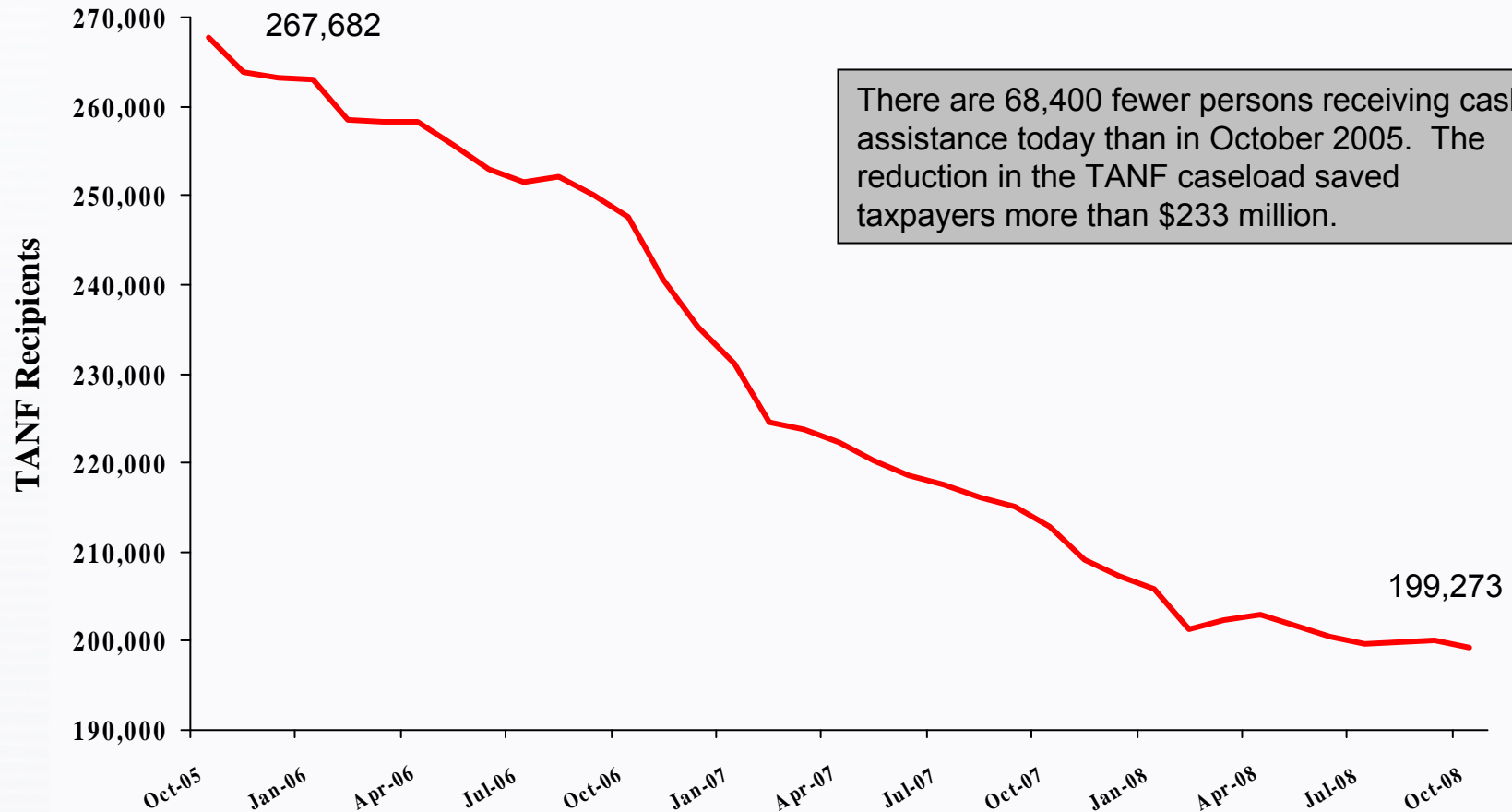
Percentage Change in Filled Complement *2002-03 versus 2007-08*

Between January of 2003 and November of 2008, agencies under the Governor's jurisdiction reduced the commonwealth's filled workforce by 3.4 percent or 2,779 positions. By enacting a general hiring freeze in October 2008, the commonwealth has avoided adding about 450 employees to the commonwealth workforce, saving approximately \$8 million so far.



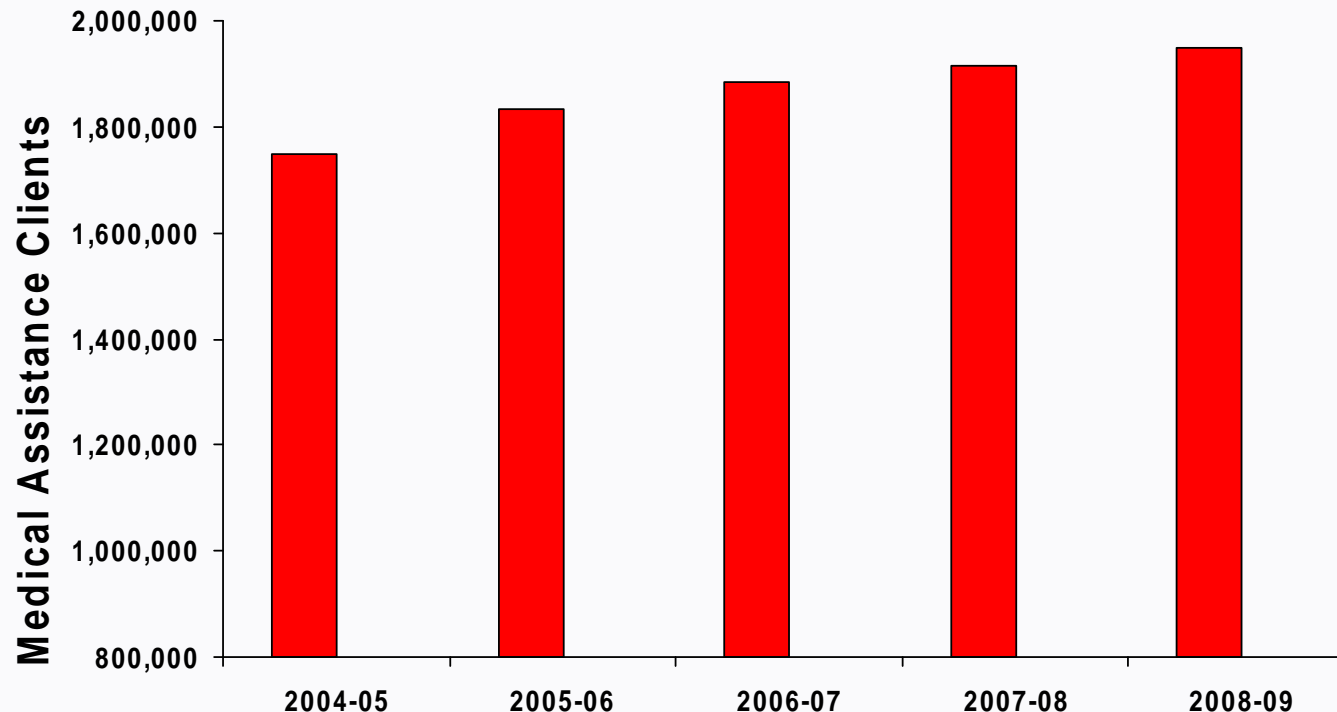
TANF Caseload Declines

Fewer Pennsylvanians are receiving cash assistance than at any time since 1961. As of October 2008, there has been a 26 percent decrease in the number of people receiving Temporary Assistance for Needy Families (TANF) benefits since October 2005. The 2008-09 budget continues this trend, projecting an additional 2 percent decline in the TANF caseload.



Medical Assistance *Serving More People in Need*

The Medical Assistance program is projected to provide services to an additional 34,478 clients during 2008-09, for a total of 1.9 million clients. Growth in the Medical Assistance caseload comes primarily from serving additional elderly people, persons with disabilities and the chronically ill.



2008-09 Medical Assistance Cost-Containment

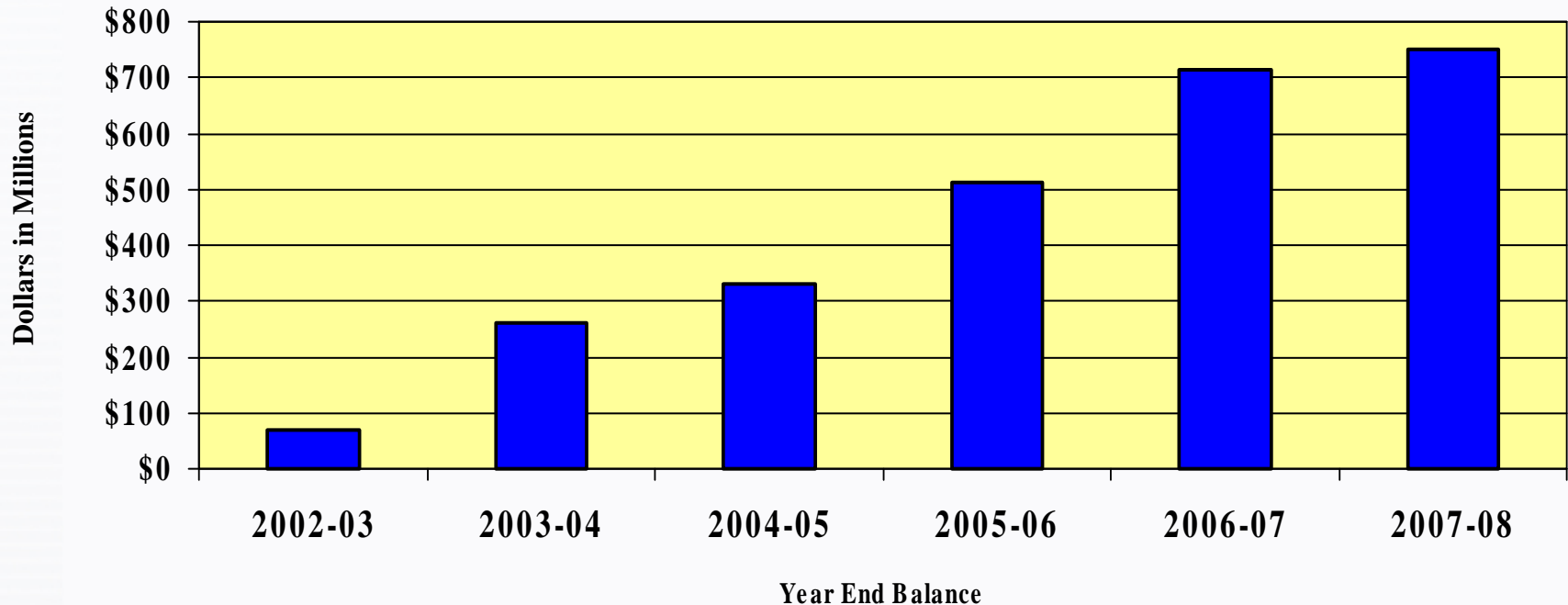
Building upon prior-year initiatives that saved hundreds of millions of dollars by reforming the commonwealth's safety net and increasing the efficiency and integrity of the Medical Assistance program, the 2008-09 enacted budget includes cost-containment measures estimated to save an additional \$40.9 million in state funds.

Initiatives	Savings In Millions
Managed Care	\$ 15.2
Quality Care Enhancements	4.5
Refine Pharmacy Services	11.9
Realign Benefits	1.1
Expedite New Technology	1.9
Expand Fraud and Abuse Prevention	6.4
Total	\$ 40.9

Status of Pennsylvania's Rainy Day Fund

Through disciplined budget management, the balance in the Rainy Day Fund has increased from \$70 million in 2002-03 to more than \$750 million today – a more than ten-fold increase.

RAINY DAY FUND BALANCES



Revised Expectations for the U.S. Economy

- The fallout from the financial crisis is becoming ever more severe, and on a global scale.
- Real U.S. consumer spending dropped 3.7 percent in the third quarter of 2008 – the worst decline in 28 years.
- The economic forecasting firm Global Insight now expects real U.S. gross domestic product to decline for four quarters in a row, beginning with third quarter 2008.
- GDP is expected to decline by nearly 2 percent in 2009.

2008-09 Revised General Fund Budget

Dollars in Millions

	<u>2007-08</u> <u>Actual</u>	<u>2008-09</u> <u>Enacted</u>
Beginning Balance	\$ 531	\$ 583
Receipts	26,878	27,689
REVENUE SHORTFALL		(1,600)
Prior-Year Lapses	142	0
Funds Available	<u>\$ 27,551</u>	<u>\$ 26,672</u>
Expenditures	\$ (27,175)	\$ (28,264)
Supplemental Appropriations	(7)	0
Current-Year Lapses	214	0
Total Expenditures	<u>\$ (26,968)</u>	<u>\$ (28,264)</u>
Preliminary Balance	\$ 583	\$ (1,592)
Transfer to Rainy Day Fund	0	0
Ending Balance	<u><u>\$ 583</u></u>	<u><u>\$ (1,592)</u></u>

Plan to Balance Pennsylvania's Budget

President-Elect Obama Promises Quick Relief for Governors

“To solve this crisis and to ease the burden on our states, we need action, and action swiftly. That means passing an economic recovery plan to help both Wall Street and Main Street, and this administration does not intend to delay in getting you the help that you need.”

The New York Times, December 2, 2008

2008-09 General Fund

Budget-Balancing Measures

This plan includes a transfer to the General Fund of \$174 million the commonwealth is projected to receive for natural gas drilling on state-owned lands.

	(in millions)
Revenue Shortfall	\$ -1,600
October Budgetary Freeze	\$ 311
December Budgetary Freeze	153
Additional Reductions from Independent Agencies	36
Additional Lapses	101
Rainy Day Fund (<i>one-half of current balance</i>).	375
Transfer of Marcellus Shale Revenues	174
Federal Fiscal Relief	450
Total	\$ 1,600

Summary

- Pennsylvania has made strategic economic investments to help us weather this storm.
- The Rendell administration has increased efforts to improve our management and productivity to make the most effective use of the taxpayer dollar.
- Pennsylvania has a long history of sound financial management, as evidenced by our double-A bond rating.

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