



COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE GOVERNOR
HARRISBURG

THE GOVERNOR

February 5, 2013

The 2013-14 budget I present today is borne of the tough choices of the past two fiscal years. Fiscal discipline and continued self-refinement remain guiding principles for this budget. These principles have served Pennsylvania well. We have lived within our means and have not raised taxes on families or businesses. We have put Pennsylvania on a more solid financial footing than when I took office.

The rebuilding of the commonwealth's programs and services begins today. It takes the form of continued investment in job creation, of a world-class education system for our children, of a substantial support system for our vulnerable and aging populations, of a renewed transportation infrastructure, of strengthened public safety services, and of modernized business practices.

The 2013-14 budget seeks to make job creation and business growth more successful and accessible for Pennsylvania companies by consolidating resources and leveraging private dollars to create a more flexible financing tool that can quickly adjust to ever-changing economic conditions. It invests in the workforce development system to support business and train workers for family-sustaining jobs that are growing in Pennsylvania.

This budget commits a \$90 million increase to basic education funding. This is the first increase in two years and brings the total basic education funding to the highest level in Pennsylvania history. Additionally, the commonwealth will implement the new four-year Passport for Learning Block Grant for school districts with \$1 billion in revenues realized from the privatization of Pennsylvania's state stores system for enhancements to school safety, school readiness, and science and math programs.

With this budget, the commonwealth will begin tackling the growing waiting lists through an additional \$20 million in funding for individuals with intellectual disabilities. Because of the commonwealth's Private Management Agreement for the Pennsylvania Lottery, programs for older Pennsylvanians will now receive an additional \$50 million from a reliable, predictable and enhanced source of funding.

Pennsylvania's transportation infrastructure is critical to our economic future, and the current aged and inadequate system must be improved. This budget presents a new transportation funding initiative that will provide the commonwealth with long-term solutions for its roads, bridges and public transit systems.

In public safety, the commonwealth will continue to leverage savings realized through both the Justice Reinvestment and Juvenile Justice Reinvestment Initiatives for strategies that can decrease crime and strengthen the safety of our communities. Three cadet classes, with the potential of 290 new State Police troopers, are planned for the upcoming fiscal year.

Finally, with this budget, the commonwealth will reform its public pension system. We must take action to provide budgetary relief, to prevent these costs from consuming the commonwealth's ability to fund core programs and services, and to institute lasting change to ensure the commonwealth does not face this problem in the future.

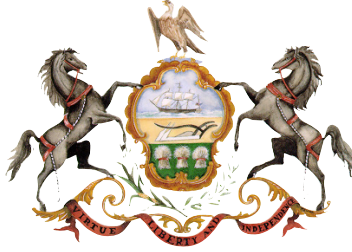
Thank you for the opportunity to lead the commonwealth through change. The road has been long, but we now see our destination. I look forward to the renewal and rebuilding of Pennsylvania in the upcoming year.

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 2013-14.

Sincerely,

Tom Corbett





Commonwealth of Pennsylvania

2013-14 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

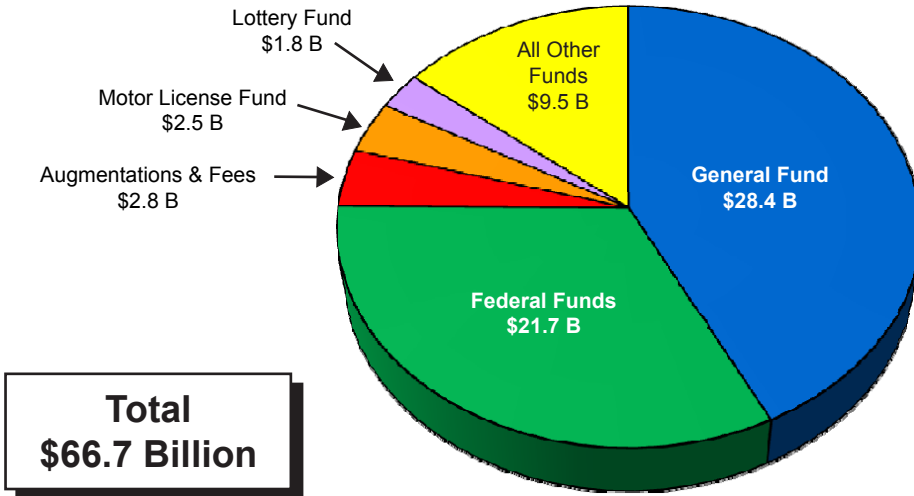
Click on Current and Proposed Commonwealth Budgets.

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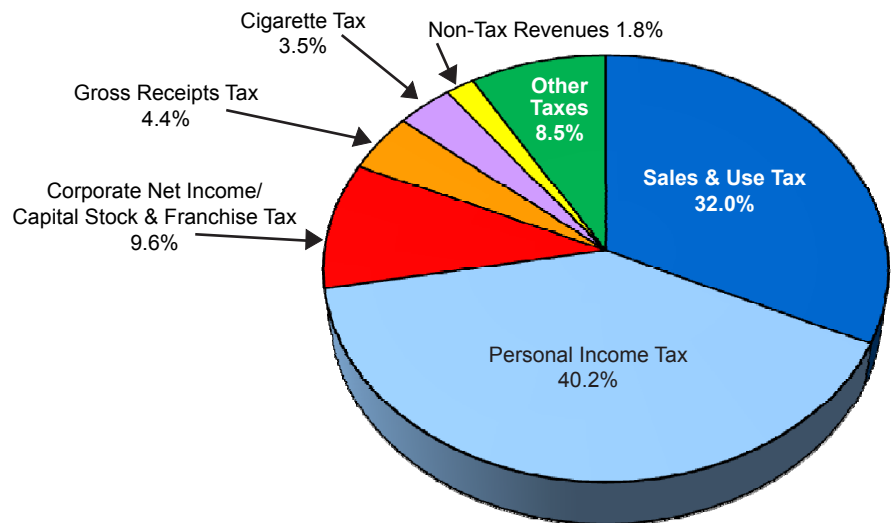
2013-14 Budget Overview

Total Operating Budget

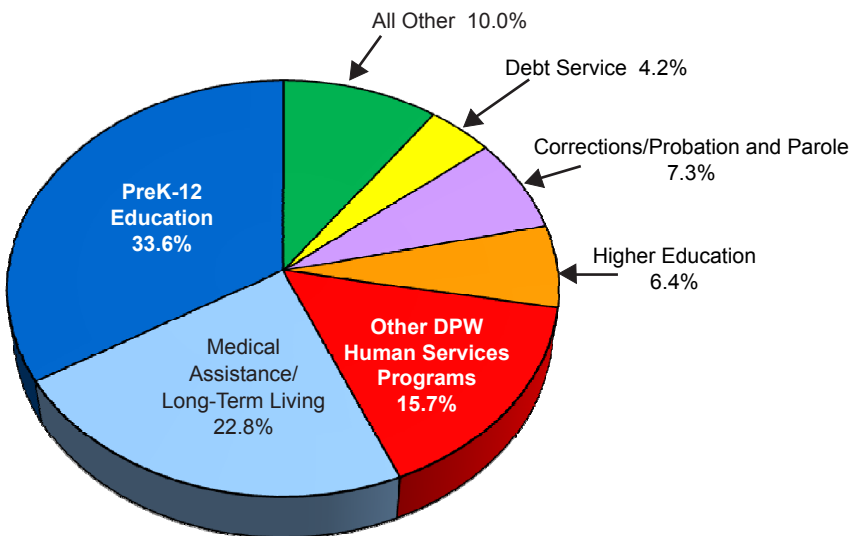


**Total
\$66.7 Billion**

General Fund Revenues



General Fund Expenditures



\$28.4 Billion

2013-14 Budget Highlights

The 2013-14 budget reinvests in Pennsylvania by aligning commonwealth resources with the core functions and priorities of government: education, public safety, and individual responsibility and opportunity.

- The 2013-14 Governor’s Executive Budget is balanced with no tax 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 General Fund budget is \$28.4 billion – an increase of nearly \$679 million, or 2.4 percent, from 2012-13.
- The budget eliminates the Capital Stock and Franchise Tax effective January 1, 2014.
- The budget proposes a tax reform plan that will increase the cap on Net Operating Losses from \$3 million to \$5 million. In 2014, the cap will increase to \$4 million. This plan also includes a multi-year reduction in Corporate Net Income Tax to 6.99% that will begin in tax year 2015 and extend through 2025.
- Governor Corbett has reduced administrative spending by 6.3 percent over the last three years.
- Since Governor Corbett took office in January 2011, filled staffing levels have declined by more than 2,000 positions or 2.6 percent. The 2013-14 budget eliminates 900 additional positions.
- The budget consolidates and streamlines economic development programs to attract businesses to Pennsylvania and invest in job creators through innovative entrepreneurial initiatives. It also supports new workforce development efforts focused on job-matching and employer-driven training.
- The budget includes a \$90 million, or 1.7 percent, increase in basic education funding, the first increase in two years. This funding will bring the commonwealth’s investment to nearly \$5.5 billion, the highest level of state funding ever provided to school districts.
- The budget includes more than \$1.6 billion in total funds for Higher Education programs, including \$345 million in the Pennsylvania Higher Education Assistance Agency for the Grants to Students program for students seeking financial assistance for higher education opportunities.
- The budget includes \$14.7 million for three new State Police cadet classes that will train 290 troopers and \$6 million for 90 new civilian police communications operators allowing additional trooper investment in patrols and law enforcement activities.

Reinvesting in Pennsylvania

Program Priorities

During the past two fiscal years, the Corbett Administration focused on realigning state government to put the commonwealth on more solid financial footing to spur economic growth and job creation. The commonwealth is now operating more efficiently. Over the past two years, commonwealth agencies have closely examined their operations, aligned workforces and embarked upon innovative initiatives that have produced real savings. State government is leaner. Productivity is up. Non-mission critical programs have been eliminated and programs offering similar services have been combined. Fiscal discipline and continued self-refinement remain guiding principles for this budget as Pennsylvania looks to the future.

This budget provides resources to invest in job creation, educate our children, support our vulnerable and older populations, bolster our infrastructure, strengthen our public safety services, modernize our business practices and workforce, and align our services with citizen demand. More importantly, it resets programs to be relevant and meaningful to the taxpayers.

Through innovation, hard work and fiscal discipline, the commonwealth continues to transform the way government delivers programs and services and is now poised to begin modest, prudent investments to better serve the people of Pennsylvania.

Economic Development

This budget seeks to make job creation and business growth more successful and accessible for Pennsylvania companies. Since 2010, more than 100,000 private sector jobs have been created. Tax reforms and incentive programs have enabled businesses, large and small, to set up shop within our borders and grow burgeoning companies into industry leaders. Workforce development and retraining programs continue to provide Pennsylvania workers with the skills and know-how to meet the changing face of industry and service delivery in the commonwealth.

Education

This budget continues to transform the commonwealth's investment in basic education by providing greater flexibility in funding to local school districts and creating the ability to focus that funding on students and student achievement. More money will be available to programs for our youngest students in pre-kindergarten and day care, as well as for programs that support young children with learning support needs. In addition, the budget supports programs that measure student performance and demonstrate instruction excellence. The implementation of teacher and principal evaluation tools will provide educators with targeted

resources, support and feedback in order for them to improve their instruction and school leadership. The commitment to higher education remains strong. The commonwealth will support our institutions of higher learning through level-funding. Eligible students will continue to receive financial support from student grants and special programs dedicated to certain areas of study or student populations.

Human Services

This year, a significant investment has been made in home and community-based services, greatly expanding the number of people who can be served. The commonwealth will address the growing waiting lists for individuals with intellectual disabilities and older Pennsylvanians in need of home and community-based services. Pennsylvania will modernize its public health delivery system to better meet the changing needs of the people it serves. With the development of new community-based health care clinics, the commonwealth will better serve Pennsylvanians with front line health services and education, as well as provide increased funding for the loan repayment program, supporting health care professionals in underserved areas. Savings from the closure of a youth development center will be made available for the Juvenile Justice Reinvestment Initiative, an initiative to reinvest in evidence-based violence prevention and intervention programs with the goal of reducing recidivism through risk assessment and targeted interventions for high-risk juvenile offenders. This budget increases funding for rape crisis and domestic violence programs to provide much needed services that help adults and children rebuild their lives.

Public Safety

The commonwealth will be putting more state troopers on the highways. Three cadet classes, with the potential of 290 new troopers, are planned for the upcoming fiscal year. In addition, the budget provides funding for 90 new civilian communications operators to relieve troopers from this responsibility and allow them to focus on law enforcement functions. Since its inception last year, the Justice Reinvestment Initiative (JRI) is helping to reduce corrections spending and generate savings to reinvest in strategies and programs that increase public safety. JRI is expected to reduce the prison population by more than 1,200 inmates and save the commonwealth \$139 million over the next five years. Initial savings will provide funding to enhance victim services and to develop an offender risk assessment instrument.

Reinvesting in Pennsylvania

State Government Innovation

Governor Corbett's innovation initiatives are producing improved government services at lower cost, for the benefit of all Pennsylvanians. Pennsylvania is redesigning the delivery of services to residents, as well as aligning aspects of its workforce to mirror private business: meeting consumer demand, maximizing productivity and improving the quality of services provided.

The Governor's Advisory Council on Privatization and Innovation

The council was formed in 2011 to review government operations and recommend areas of refinement to more efficiently and effectively deliver programs and services to the residents of Pennsylvania. Recognizing that a good government is one that adapts to change, looks to increase productivity and efficiency, and leverages the creativity and best practices of other public, private and nonprofit organizations, the council identified several areas of state government that would benefit from deeper exploration and redesign. The commonwealth has begun to move forward in these areas. Privatization will provide a sufficient, predictable source of funding now and in the future.

Governor's Innovation Office

The Governor's Innovation Office works with state agencies on ways to reduce costs, increase efficiencies and improve service. At the close of the 2012 calendar year, agencies participating in the Governor's Innovation Initiative completed 25 projects with a total of \$84 million in cost savings and productivity gains.

Highlights from 2012:

- Vehicle Fleet Management and Employee Travel Expense Policy Improvements – Office of Administration, Office of the Budget, and Department of General Services projected annual savings of \$2 million.
- Consolidated Mail Operations – Department of Labor and Industry annual savings of \$400,000.
- Consolidated Licensing Operations – potential Department of Public Welfare savings of \$7 million.

Priority projects for 2013-14 will include: streamlining print, imaging, and mail operations, saving \$7 million; coordinating commonwealth vehicle fueling operations and fuel purchases, saving \$1 million; and implementing electronic grants processing, with the potential to save millions of dollars.

PennDOT's Next Generation Initiative

PennDOT Next Generation's goals are to modernize and optimize processes, policies, and procedures to strengthen the department, shorten project delivery and improve

internal and external customer service while looking for ways to cut costs and realign current resources. It also involves external partners, federal and state government counterparts, industry stakeholders, local governments and department employees, all working to create an atmosphere of collaboration toward continuous improvement.

An extension of the Next Generation initiatives is an ongoing effort called Mapping the Future. The objective of this initiative is the coordination among PennDOT, the Pennsylvania Turnpike Commission, the Department of Conservation and Natural Resources and other agencies to conserve resources and avoid duplicative efforts.

Between Next Generation and Mapping the Future, PennDOT expects to realize \$50-75 million in ongoing annual savings that will be reinvested in transportation projects.

Operational Efficiencies

As important as it is to look to the outside, it is equally important for the enterprise to look within. Is state government operating efficiently enough? Can it do things faster and better? Is it positioned correctly to meet the future needs of those it serves? Over the past two years, the commonwealth has reduced general governmental operations by more than 6 percent. The number of public employees has been reduced by more than 2,000 to better align with program delivery demands. Per employee productivity has increased. This year, the commonwealth will also transition its management workforce to a 40-hour workweek. This move will align its workforce with private industry, increase productivity and assist in enhanced service delivery to the residents of Pennsylvania.

Managing Capital and Debt Programs

This budget maintains the capital funding levels introduced in the 2012-13 budget, to just less than \$200 million in Public Improvement Projects for commonwealth-owned buildings and facilities, and continues to focus on the priority infrastructure needs of the commonwealth. Higher Education project releases provided to the State System of Higher Education and the state-related universities – the University of Pittsburgh, Penn State University, Temple University and Lincoln University – will remain level at approximately \$155 million a year. The budget also reflects reforms in the Redevelopment Assistance Capital Program, including setting releases at a much lower level than in previous years to reduce RACP debt by more than \$1 billion in the relatively short term. The new process prioritizes projects, approving funding for projects that will have the greatest impact on Pennsylvania's economy.

Reinvesting in Pennsylvania

Key Program Reforms and Initiatives

This section summarizes key program reforms and initiatives recommended in the 2013-14 Governor's Executive Budget.

Privatizing Lottery Management

- The Pennsylvania Lottery is the major source of funding for program services for older Pennsylvanians so it is critical that a sufficient, predictable source of funding is available now and in the future.
- The commonwealth is pursuing a contract with a private manager to maximize Pennsylvania Lottery revenue.
- The private management agreement would assure more than \$34 billion in annual profit commitments over the next 20 years.

Pennsylvania Business Development Authority

- The Pennsylvania Business Development Authority will consolidate eight existing revolving loan programs into one large pool of assets totaling \$1.1 billion, creating a single point of contact for job creators seeking capital to grow their businesses.
- This consolidation not only will streamline the process for applicants, but also leverage additional private dollars and create a more flexible financing tool that can quickly adjust to ever-changing economic conditions.

Justice Reinvestment Initiative

- The Justice Reinvestment Initiative is a data-driven approach to reduce spending in the Department of Corrections that will generate savings and enable the commonwealth to reinvest savings into programs that will enhance public safety.
- Five-year savings are projected at \$139 million with a corresponding reduction of 1,260 in the inmate population.

Pension Plan Reform

- Pennsylvania will reform its two public pension plans in the 2013-14 fiscal year.
- Absent meaningful structural pension reform, the commonwealth's budget is on a predictable path that will force a choice between either fully funding pension obligations or making cuts to the core functions of government on which our residents rely.
- The Pension Reform Plan is a long-term solution for overall stability of the pension systems.

Selling the State Stores – Investing in Education by Getting out of the Liquor Business

- Privatizing the Pennsylvania Liquor Control Board's State Stores System will end the 80-year state monopoly.
- The plan invests \$1 billion in proceeds in Pennsylvania schools through the Passport for Learning Block Grant to make schools safer and improve classroom education.
- The plan allows Pennsylvanians the same convenience and selection that virtually every other American has today.

Transportation Investment Initiative

- Pennsylvania's transportation infrastructure is critical to our economic future, but is aging and increasingly more fragile due to decades of underinvestment.



- This underinvestment is due in large part to rising construction costs and the limits of revenues based on fuel consumption.
- The initiative removes the Oil Company Franchise Tax cap over a phased-in five-year period to allow collections to more closely follow market fluctuations.
- The initiative also redirects certain motor vehicle fees to public transit and multimodal transportation programs.
- Over its first five years, the initiative will provide more than \$5.3 billion in new revenue.

The Pension Challenge and Reform Opportunity

The pension challenge has become a key topic of discussion, news reports and debate in nearly every corner of the commonwealth. It is a question on the minds of many, from members of the General Assembly, public and school employees, school district directors and administrators, to retirees, business leaders, and even state and municipal finance rating agencies. As well, it is a question increasingly on the minds of Pennsylvania taxpayers who ultimately bear the cost of the system through their tax dollars. All of these stakeholders, while representing diverse interests, recognize the crisis facing our state – that the commonwealth’s growing pension obligations are crowding out funding for basic and higher education, public safety, health, human services, maintenance and repair of roads and bridges, environmental protection and other core governmental programs.

The fiscal reality is that absent meaningful structural pension reform, the state’s budget is on a very predictable path that will force a choice between either fully funding pension obligations or making cuts to the core functions of government on which our citizens rely.

Just as it impacts at a state level, increasing pension contribution obligations will claim a greater and greater share of school district budgets, crowding out funding for direct classroom instruction, extra-curricular activities, facilities and/or maintenance. District officials will need to make tough decisions that include either cutting services or raising taxes to balance their budgets.

Unfunded Pension Liability

Pennsylvania has two public pension systems: the Public School Employees’ Retirement System (PSERS) and the State Employees’ Retirement System (SERS). Total liabilities of the two systems (future retirement benefits to be paid) exceed the total assets of the combined plans by \$41 billion. This unfunded liability is essentially a state debt owed to state workers and public school employees.

Actuarial valuations show that SERS is 65.3 percent funded, while PSERS is 69.1 percent funded. Combined, the two pension plans are less than 68% funded.

Growing Total Commonwealth Employer Contributions

To fund the current cost of pension benefits as well as the unfunded liability, Pennsylvania’s total required employer contribution rates have and will continue to rise. The employer contribution rate for SERS, which was just 5 percent of payroll in 2010-11, is now 11.5 percent, and will grow every year until it reaches 32.5 percent in 2017-18. Likewise, the PSERS rate, which stood at 5.64 percent of payroll in 2010-11 is at 12.36 percent for the current fiscal year and is expected to increase every year until it peaks at 28.04 percent in 2019-20. Both rates will remain at these high levels for several years before declining.

As the employer contribution rates for both systems grow, so do the total dollar amounts of required employer contributions, more than doubling every two years. Absent reform, contributions will rise to nearly \$5.2 billion in the coming decade.

Contribution requirements have more than doubled in the past two years. Without change, total contributions are expected to increase by more than \$500 million in 2013-14.

Commonwealth Employer Contributions as a Share of Available Revenue

The effort to meet employer contribution obligations is made more difficult by the fact that pension costs will claim a significantly larger share of all available new revenues in every budget cycle for the foreseeable future. Rising pension costs threaten to overwhelm the budget and the vital programs and services that it funds. If pensions alone were the only area of state government growing, the challenge posed here might be less acute. But, of course, pensions are not the only area of state government seeing substantial cost growth and putting pressure on the commonwealth’s budget.

The Pension Reform Plan – A Framework for Success

The plan recognizes that the commonwealth cannot correct its pension problem all at once. Significant changes are required to make real and lasting pension reform. The commonwealth will institute and taper employer contributions.

Components of the pension reform plan:

- New employees will be enrolled in a 401(a) plan. Enrollment in the plan will be automatic and employees will be required to contribute at least 6.25% (7.5% for PSERS members) of their salary to the plan.
- Current employees will not see any changes to any benefits already accrued.
- Future pension benefits for current employees will be reduced through pension compensation reforms, making contribution withdrawals actuarially neutral and reducing the multiplier by .5% for all employees currently above the 2% multiplier level.
- Current employees will be able to contribute a higher amount in order to retain the 2.5 multiplier.
- Retirees will not lose or have any changes to benefits.
- Pension collars will be reduced to 2.25% in 2013-14, increasing by 0.5% per year until the collars reach 4.5% or the collared rate is equal to the annual required contribution rate.

Selling the State Stores

Investing in Education by Getting out of the Liquor Business

Ending the state liquor monopoly gives Pennsylvania the unique opportunity to invest more dollars where we need them most...in our children and their future. The Governor's plan gives consumers choice and convenience, while making a historic investment in Pennsylvania children and schools.

Customer Choice and Convenience in the Purchase of Wine, Spirits and Beer

The plan will fully divest the Pennsylvania Liquor Control Board (PLCB) of its retail and wholesale functions in a two-step process taking not more than four years. Highlights of the plan:

- Private entrepreneurs will own the entire liquor retail and wholesale system.
- Pennsylvanians will enjoy the convenience and selection available to virtually every other American.
- 1,200 retail licenses for wine and spirits will be auctioned by county.
- Grocery stores, convenience stores, pharmacies, large retailers, and beer distributors can apply to sell beer and wine and/or bid on one of the 1,200 licenses for wine and spirits.
- Businesses may be a one stop retail shop where beer, wine, and spirits are sold under one roof.
- Six packs of beer may be sold by local beer distributors.
- Pennsylvanians will be able to ship wine to their homes.
- Fines for selling to minors and visibly intoxicated persons will be significantly increased.
- State Police and PLCB liquor law enforcement programs will receive a \$5 million, or 22 percent, funding increase.
- Alcohol treatment and prevention efforts will receive a \$1.5 million, or 75 percent, increase in funding.
- Measures for affected PLCB employees, including tax credits for businesses that hire separated workers, educational credits, civil service credits, individual employment plans and a multi-agency committee to help displaced workers find employment will be put into place.

Investing in Education

Selling the Pennsylvania State Stores System will generate \$1 billion. Proceeds will fund, without raising taxes, a Passport for Learning Block Grant for school districts. A total of \$200 million will be available in the 2014-15 school year. Districts will determine which of the following uses are appropriate for their students and schools:



School Safety. Children cannot learn where they do not feel safe. Grant funding may be used for school safety and security program efforts, such as training for educators and administrators, enhanced security measures and partnerships with local law enforcement.

“Ready by 3”. Enriching K-3 programming is critical to a solid academic foundation for Pennsylvania students. Use of the funds may include, but is not limited to, improvements to quality kindergarten programs aligned with the current academic standards and enriching programs that promote enhanced academic achievement in elementary reading and mathematics, with a focus on “Ready by 3.”

Individualized Learning. Every child in Pennsylvania learns differently and at his or her own pace. Funding from this grant may be used for start-up costs related to implementing competency-based education – with a focus on self-paced mastery of a customized learning plan based on student proficiency in the academic standards for each subject area.

STEM Initiatives. Enhancing access to STEM programs (science, technology, engineering and mathematics) in our schools is critical to preparing our students for the jobs of tomorrow. This grant will provide funding to public schools to enrich programs that support STEM in grades 6-12, including career exploration activities, opportunities for technical skill attainment and partnerships with postsecondary education and training programs.

The Governor's plan will allow substantial new investments in public schools without raising taxes; strengthen the PLCB's role as regulator and enforcer of the alcohol sales business; provide Pennsylvanians with the same convenience, selection and pricing available to every other American; and create a wave of new, private sector jobs.

JOBFirst PA and Economic Development

Creating Robust Employment – Growing Industry – Revitalizing the Economy

Pennsylvania has abundant natural resources, a skilled workforce and world class academic institutions and research facilities. Its agriculture and manufacturing base, as well as emerging technology industries such as nanotechnology and life sciences, secure it as a leader in industry. Pennsylvania is in proximity to nearly one-half of the nation's population and markets. All of these factors contribute to endless possibilities for job creation.

Governor Corbett launched JOBFirst PA last year as a comprehensive road map to economic recovery that harnessed the state's resources and talents to prioritize private-sector job creation and retention.

With a challenging fiscal climate, Pennsylvania must continue to be creative, tapping into resources and opportunities to support Pennsylvania's job creators. It also must seek partnerships with the private sector, leveraging its investments to increase the flow of private dollars, not taxpayer dollars, into the economy.

A foundation of Pennsylvania's economic recovery begins with retooling how state government operates and instituting necessary changes to make government more customer-focused, responsive and accountable to the citizens it serves. From deploying strategic technology solutions to permitting and regulatory reforms to enhanced interagency cooperation, this budget continues the commitment to making state government a true partner in job creation and supporting a business climate that positions Pennsylvania job creators to compete nationally and globally.

Creating and maintaining an environment in which good, family-sustaining jobs can grow continues to be a top priority. The administration is focused on the following initiatives: improving our business tax system through reform; investing in business development programs; building a trained and skilled workforce, promoting Pennsylvania as a business and recreation destination and protecting communities that are financially struggling.

Business Tax Reforms

Supporting business growth through broad-based tax reform is the keystone of the strategy to put hard working Pennsylvanians back to work and reform our overall economic climate.

This budget focuses on improving Pennsylvania's position in the national marketplace. Pennsylvania's job creators continue to be among the most taxed in the nation according to leading national state-by-state comparisons – hurting our jobs climate and economic growth momentum. Comprehensive change is needed to better enable Pennsylvania to compete for jobs nationally and to push our economy in a positive direction.

- **Capital Stock and Franchise Tax (CSFT) Elimination.** With this budget, Pennsylvania will no longer be the only state in the nation to tax both business income and business assets. The completion of the phase-out of the CSFT finally eliminates a long standing job inhibitor.
- **Corporate Net Income (CNI) Tax Reduction.** This budget proposes the beginning of a multi-year phase down of the Corporate Net Income Tax from 9.99 percent to 6.99 percent to improve Pennsylvania's competitiveness among states. Beginning in calendar tax year 2015, the rate will drop to 9.89 percent.
- **Net Operating Loss (NOL) Cap Increase.** Attracting technology, bioscience, research and large manufacturers, like steel and chemical companies, to the state can be accomplished by allowing these job creators to smooth the large losses they incur from current to future tax years. This multi-year proposal will increase that cap from \$3 million to \$5 million. In 2014, the cap will increase to \$4 million.
- **Like-Kind Exchanges and Start-Up Business Deductions.** Entrepreneurs looking to create a small business will be able to deduct \$5,000 of business startup costs from their taxes. This initiative will align Pennsylvania with a similar federal government program.
- **Corporate Loans Tax (CLT) Repeal.** Businesses that take loans to grow or simply to pay employees on a monthly basis are penalized in Pennsylvania. This budget will remove this barrier and encourage growth and job expansion.
- **Tax Simplification.** Current state tax law places a number of anti-job growth restrictions on businesses and individuals conducting economic activity within the commonwealth. Nuisance taxes, as well as out-of-date taxation and administrative provisions, will be repealed with this budget.

Increasing Pennsylvania's Competitive Edge

- This budget seeks to make job creation and business growth more successful and accessible for companies located in or seeking to locate in Pennsylvania by providing a \$10 million increase to the PA First program.

Small Business Development

- This budget proposes to launch the **Small Business Champion Network** – a team of business experts with extensive Department of Community and Economic Development (DCED) and partner program knowledge that will enable companies to achieve continued, if not accelerated, success.

The Small Business Champion Network will ensure that job creators are fully aware of and can fully benefit from

JOBSFirst PA and Economic Development (continued)

the assistance that is supported by public, private, state, local and federal investments. It will also help to improve the success rate of our businesses that are discovered and developed in Pennsylvania by connecting them with our vast network of experts and resources.

Pennsylvania Business Development Authority (PBDA). Common-sense principles are being infused into the administration of state government through the establishment of the PBDA as a one-stop-shop for business financing.

The Pennsylvania Business Development Authority will consolidate eight existing revolving loan programs into one large pool of assets totaling \$1.1 billion, creating a single point of contact for job creators seeking capital to grow their businesses.

The authority will consolidate the following business financing programs to form a true public/private partnership – Pennsylvania Industrial Development Authority; Pennsylvania Minority Business Development Authority; Machine and Equipment Loan Fund; Small Business First Fund; First Industries; Second Stage Loan program; The Community Economic Development program; and the Export Financing program. This consolidation not only will streamline the process for applicants, but also leverage additional private dollars and create a more flexible financing tool that can quickly adjust to ever-changing economic conditions.

A Trained and Skilled Workforce

With over 280,000 businesses facing myriad challenges in Pennsylvania, including access to a trained and skilled workforce, the following comprehensive job training agenda will help prepare Pennsylvanians for family-sustaining jobs that are growing in Pennsylvania.

Strengthening the Job Creation System. The budget continues to demand performance and accountability from the commonwealth's workforce development system. The next priority is to create a tighter system and standardized best practices that require a quality management system framework that must be regularly audited to ensure implementation and compliance. The Pennsylvania Workforce Investment Board (WIB), a diverse group of representatives of business, organized labor, and education, should work with commonwealth agencies to develop a performance measurement system.

Strengthening the Connection between Education and Workforce Development. Enhanced partnerships between the departments of Labor and Industry and Education will provide tomorrow's workforce with a

clear understanding of available training and education options. The following initiatives reflect the inter-agency commitments to workforce development:

- **Workforce Data Quality Initiative.** This program links workforce, welfare and education data to gauge whether the welfare, workforce development and education systems are succeeding in preparing and placing individuals in jobs, and determining the efficiency of the workforce system.
- **Career Opportunity Exploration.** The PA Career Coach, an online career exploration tool, provides up-to-date local employment data, such as current and projected job openings; recent job growth areas; estimated earnings and occupations that match with a user's current skills and knowledge; and educational programs that will prepare an individual for a given occupation.
- **Increase Academic Rigor in Career and Technical Education.** Integrating academic standards into daily instruction increases student performance and better prepares students to be both college and workforce ready.



Connecting Job Creators and Job Seekers. This budget continues to address the existing disconnect between job creators and Pennsylvanians who are striving to attain family-sustaining jobs in the commonwealth.

- **Support Employer-Driven Training Programs.** This budget continues funding for Keystone Works – a program that provides on-the-job training opportunities for unemployed workers while at the same time gives businesses incentive to hire unemployed individuals.

JOBFirst PA and Economic Development (continued)

- **Pennsylvania Targeted Industry Program.** PA-TIP is a program jointly administered by the Pennsylvania Higher Education Assistance Agency, that provides need-based awards to students enrolling in certificate programs up to two years in length for certain High Priority Occupations in the energy, agriculture, and manufacturing clusters.
- **Continue Implementation of the Comprehensive Job Matching System.** Pennsylvania has begun instituting a job-matching system, www.jobgateway.pa.gov, which provides specific information about job seekers, increases the quality and quantity of job postings, integrates with other job search systems, and increases employer screening and recruitment capabilities.
- **Recruitment Hubs.** Hubs will be designed to identify employment barriers, including any existing skill gaps, and implement specific solutions to lift barriers so that employment results are obtained.
- **Integration of EARN Centers and PA CareerLink®.** The departments of Labor and Industry and Public Welfare are joining together to take a closer look at the PA CareerLink® locations and EARN Centers to determine how they can better serve Pennsylvania job seekers. Integration would be uniquely tailored to fit each location area in order to better meet the needs of jobseekers, businesses and the community. The move to integrate statewide would happen in five phases, culminating in 2015.
- **Youth with Disabilities.** The Office of Vocational Rehabilitation (OVR) will continue to engage in statewide and local initiatives to help youth with disabilities successfully transition from school to work. OVR will also update its transition policy to ensure that youth with disabilities have appropriate Individualized Plans for Employment as they leave the K-12 system and enter postsecondary education or the workforce.
- The **ProjectSEARCH** program serving young people with significant disabilities will be continued. Education services are provided on site at a large host employer and 80 percent of each day is spent working on a rotation in various departments.

Streamlining the Welfare to Work System. Over the past 13 months, the commonwealth's Welfare Employment and Training (E&T) programs have been thoroughly assessed. All E&T programs have been re-tasked to focus exclusively on helping welfare recipients find jobs by establishing accountability performance standards for both provider agencies and recipients. A

restructured Office of Income Maintenance is focused on helping people find work, placing jobs experts in each County Assistance Office capable of promoting welfare recipients in the workforce and establishing stricter sanction policies. These changes will help more individuals access necessary job training, find work and, ultimately, achieve self-sufficiency.

Promoting Pennsylvania as a Business and Tourism Destination

The commonwealth's marketing efforts are designed to develop an actionable, cohesive, results-oriented public relations and limited print campaign that highlights Pennsylvania's unrivaled resources and improved business climate. The Department of Community and Economic Development will continue to proactively share the message that Pennsylvania's success in helping communities thrive and businesses expand is a direct result of our focus on tax competitiveness, innovation, competition and workforce development.

- **This budget will expand Pennsylvania's ability to market itself through a \$5 million increase to the Marketing to Attract Business program and a \$2.4 million increase to the World Trade PA program.**

This budget facilitates the creation of a public-private partnership that will engage industry partners in promoting the state to domestic and international travelers. The Pennsylvania Tourism Partnership (Partnership) will consist of representatives from DCED's Tourism Office, the Department of Conservation and Natural Resources, and members of the industry from every region and representing the state's many diverse attractions. The mission of the Partnership is to restore and solidify Pennsylvania's position as a preeminent destination for domestic tourists to boost visitation and Pennsylvania's economy.



JOBFirst PA and Economic Development (continued)

PA Online

To provide a single face of government and a central resource and access point for job creators seeking information or transacting business with commonwealth agencies, the Department of Community and Economic Development and the Interagency Coordination Advisory Group for Economic Development will launch an initiative to improve the commonwealth's online portal. www.PaBizOnline.com will allow for a streamlined user-friendly experience that eliminates duplication of effort and unnecessary data entry for businesses that are starting in Pennsylvania.

Protecting Financially Struggling Communities

This budget proposes to implement an early warning system to identify potentially distressed municipalities and work to prevent them from becoming financially distressed. Through the early warning system, the system will either push the municipality toward the Early Intervention program (at a total cost of only \$150,000, just five percent of the average lifetime cost of Act 47) or avoid both programs all together. The early warning system would also produce data and regional help to allow those municipalities already in Act 47 to make an early exit from the program.

Base Realignment and Closure Support

This budget provides an additional \$200,000 for Base Realignment and Closure support activities for communities competing to justify maintaining U.S. military facilities in the commonwealth.

Other Budget Highlights:

- **Keystone Works** – \$2.5 million to provide employer-driven training opportunities for unemployed workers.
- **Pennsylvania First** – \$39.5 million, an increase of \$10 million, so the commonwealth can rapidly respond to companies' needs, thus facilitating increased investment in the state and enabling Pennsylvania to compete more effectively with neighboring and competitor states.
- **Partnerships for Regional Economic Performance (PREP)** – \$12 million for PREP to encourage the regional coordination of economic development efforts.
- **Discovered in PA, Developed in PA** – \$10 million to build capacity to better support Pennsylvania businesses and to spur creativity and innovation in the provision of economic development services – from business incubating, to mentoring, to marketing and beyond.
- **Infrastructure & Facilities Improvement Grants** – \$19.4 million for multi-year grants to debt-issuing authorities for the payment of debt service and related costs for economic development projects.



- **Ben Franklin Technology Partnership** – \$14.5 million for this proven, innovation-focused economic development program.
- **Municipalities Financial Recovery Revolving Fund** – \$7 million to assist municipalities in distressed fiscal status.

The administration's job creation and economic development efforts are strategically aligned with its fiscal and policy priorities, with the ultimate goal of building a skilled workforce, supporting existing Pennsylvania businesses, attracting businesses to Pennsylvania, protecting our struggling communities and ultimately growing Pennsylvania's economy.

Education Innovation in Pennsylvania

Today's students live in a world that is rapidly changing. Technology is transforming at such swift speeds that what is new today becomes obsolete tomorrow. Information availability is growing at a faster rate than at any time in history and continues to impact the way we live and work and the way our children play and learn. Technology continually evolves and Pennsylvania schools must keep pace. Many educators and school leaders across the commonwealth recognize the need to transform the way educational services are delivered in order to meet the needs of a new generation of students. Innovative school leaders are moving beyond the traditional education paradigms and integrating emerging technologies and new research on learning to increase student achievement and prepare students for postsecondary opportunities.

Basic Education Funding

Basic education funding provides school districts with the resources to invest in educational programs at the local level to increase student achievement. School districts use these funds to ensure that their students have appropriate academic opportunities. This budget recommends:

- **\$90 million, or a 1.7 percent, increase in Basic Education Funding.** This is the first funding increase in two years, and will bring the commonwealth's investment to nearly \$5.5 billion, the highest level of state funding ever provided to school districts.

Passport for Learning Block Grant

The budget proposes the Passport for Learning Block Grant, a four-year block grant that will invest \$1 billion in Pennsylvania public schools funded through the proceeds from the divestiture of the Pennsylvania Liquor Control Board's State Stores System.

- **\$200 million available by the 2014-15 school year; \$1 billion in total over four years.**

Districts will have maximum flexibility in determining which uses are most appropriate for their students and schools. School districts may use block grant funds for the following eligible activities:

School Safety. Children cannot learn where they do not feel safe. Grant funding may be used for school safety and security program efforts, such as training for educators and administrators, enhanced security measures and partnerships with local law enforcement.

"Ready by 3". Enriching K-3 programming is critical to a solid academic foundation for Pennsylvania students. Use of the funds may include, but is not limited to, improvements to quality kindergarten programs aligned with the current academic standards and enriching programs that promote enhanced academic achievement in elementary reading and mathematics, with a focus on "Ready by 3."

Individualized Learning. Every child in Pennsylvania learns differently and at his or her own pace. Funding from this grant may be used for start-up costs related to implementing competency-based education – with a focus on self-paced mastery of a customized learning plan based on student proficiency in the academic standards for each subject area.

STEM Initiatives. Enhancing access to STEM programs (science, technology, engineering and mathematics) in our schools is critical to preparing our students for the jobs of tomorrow. This grant will provide funding to public schools to enrich programs that support STEM in grades 6-12, including career exploration activities, opportunities for technical skill attainment and partnerships with postsecondary education and training programs.

Pension Relief for School Districts

The budget proposes meaningful pension reform to provide necessary relief to our taxpayers and our public school districts, enabling districts to reinvest savings into student achievement and academic excellence.

- **\$138 million in school district and other local Education Agencies pension savings as a result of pension reform.**

Investment in Early Childhood Education

The budget affirms Governor Corbett's commitment to ensuring that young children will have access to programs that will prepare them for school and life success.

- **\$87.3 million for Pre-K Counts.** The budget recommends an additional \$4.5 million, or 5 percent increase, for Pre-K Counts. These programs have consistently delivered high-quality pre-kindergarten education to Pennsylvania's three- and four-year olds who are at risk of academic failure. The \$4.5 million increase will serve 580 additional children in full and part-day programs and provide 2,000 children with the opportunity to participate in a two-week summer kindergarten readiness program for at-risk children transitioning to kindergarten.
- **\$39.2 million for Head Start Supplemental Assistance.** The budget recommends an additional \$1.9 million, or 5 percent, for the Head Start Supplemental Assistance program. This program supplements federal Head Start funding which provides economically challenged children and their families resources and support services to prepare children for school success. The \$1.9 million increase will serve an additional 210 children and provide 500 children with the opportunity to participate in a two-week summer kindergarten readiness program for at-risk children transitioning to kindergarten.

Education Innovation in Pennsylvania (continued)

Other Budget Highlights:

- **Early Intervention Program** – \$222 million in state funds, a \$5.0 million, or 2.3 percent increase to provide Early Intervention services to approximately 1,500 additional children from ages 3 through 5.
- **PA Assessment** – \$56 million in state funds, a \$3.8 million, or 7.2 percent increase to support state and federal testing that ensure high school graduates are college- and career-ready.
- **Accountability Block Grant** – \$100 million to fund proven educational programs, including quality pre-kindergarten and full-day kindergarten.
- **Higher Education Programs** – Over \$1.6 billion in total funds, including \$345 million in the Pennsylvania Higher Education Assistance Agency for the Grants to Students program for students seeking financial assistance for higher education opportunities.

Mandate Relief

School districts regularly review operations and programs to determine how best to deliver educational services to their students in the most cost-effective manner. As districts seek to implement new initiatives and methods of educational delivery to achieve efficiencies and to raise student achievement, they are often hampered in those efforts by state laws and regulations.

- Innovative school districts will have an opportunity to apply to the Department of Education for a waiver from certain requirements of Pennsylvania's Public School Code if the district can demonstrate that the waiver will allow it to improve its instructional program or operate in a more effective, efficient or economical manner.

Effective School Leaders and Educators

Research shows that the performance of an educator has a direct impact on students. Act 82 of 2012 authorized a new educator effectiveness system in Pennsylvania to provide educators with targeted resources, support and feedback in order for them to improve their instruction and school leadership. The budget provides:

- \$6.6 million in state and federal funds for continued support for this initiative. Of this amount, \$3.9 million is allocated for a teacher effectiveness tool that will be fully implemented in the 2013-14 school year. Approximately 3,150 schools will be evaluating all professional educators holding an instructional certificate by using the clinical observation/practice portion of the tool.
- \$2.7 million to continue the development of a new specialist evaluation tool and principal evaluation tool. Full implementation of the principal evaluation tool will occur in the 2014-15 school year. This tool will provide

data regarding the practices of principals, including strategic and cultural leadership, managerial leadership, leadership for learning, and school and community leadership as well as various outputs involving student and building achievement.

Safe Learning Environment

In addition to the funding included in the Passport for Learning block grant, the budget recommends \$775,000 to protect school students from potentially dangerous individuals through the establishment of a dedicated division within the Department of Education's Office of Chief Counsel to prosecute misconduct by professional educators. This new initiative will enhance the efficiency with which complaints of educator misconduct can be reviewed and resolved. Funding will be provided through a \$25 increase to the \$100 certification fee that educators pay to the Department of Education for certification.

Competency-Based Learning

A focus on competency-based education will provide school districts with the flexibility to meet the diverse education needs of students by providing students an opportunity to earn credit at their own pace, rather than by seat time, and to earn credit in settings other than traditional classrooms.

A key component of this initiative is giving school districts the opportunity to apply for waivers from requirements of Pennsylvania's Public School Code and regulations that interfere with a district's plan for implementing competency-based education. In addition, the Department of Education will establish a comprehensive catalog of online course options that are aligned with Pennsylvania Common Core State Academic Standards that can assist districts in providing more options to students.

Digital Learning Opportunities

The budget proposes an Online Course Choice program to expand education beyond the physical walls and limitations of the classroom and provide educators and school districts additional educational options for the delivery of rigorous, high-quality courses in all subject matters. The Department of Education will accept and approve applications from providers that offer rigorous, high-quality instruction through an online delivery system. Local school districts will be responsible for establishing student eligibility requirements, policies and procedures related to their specific district Online Course Choice program to maintain the integrity of locally designed graduation requirements. Given the growing importance of improving STEM education, Pennsylvania will focus on the development, identification and implementation of rigorous digital learning opportunities in STEM content areas in 2013-14 and will expand to other content areas in the future.

Human Services and Health Care



Improving Health and Human Services – Serving Pennsylvanians Better

As a result of the targeted reforms undertaken during the last two years, the commonwealth's health and human services programs are more efficient and better able to provide the services upon which our most vulnerable citizens rely. The budget reaffirms Governor Corbett's commitment to preserving the safety net for individuals with intellectual and physical disabilities, seniors, children and low income families and dedicates additional resources to increase the accessibility of health care and other valuable human services. By improving the delivery of and accessibility to these needed services, this budget will continue to reduce the barriers currently facing individuals to achieve better health outcomes and a pathway to independence.

The budget provides resources to serve more individuals who have been waiting to access needed services, and it will begin to modernize the delivery of health care throughout the state – increasing access to care for Pennsylvanians in underserved and rural areas. In addition, it will continue to focus on making sure that Pennsylvanians in need of long-term care services and supports are served in the right setting and provides the ability for them to stay at home or in the community, and it will give the commonwealth a reliable, predictable and enhanced source of funding to meet the growing needs of older Pennsylvanians by increasing Lottery revenues.

Helping Individuals

This budget provides the departments of Public Welfare and Aging with the necessary resources to strengthen its commitments to serve Pennsylvania's most vulnerable adults by improving and expanding access to essential human services programs including:

Expanding Services for Individuals with Intellectual and Physical Disabilities. The budget provides nearly

\$40 million to expand home and community-based services for individuals with disabilities. This includes \$18.5 million to provide services to young adults who are graduating from the special education system to enable them to continue to live independently in the community, and to adults who are at risk of institutionalization because they are being cared for by aging parents who may not be able to continue to provide that level of care. Also included is \$1.5 million to serve an additional 118 individuals with autism spectrum disorder in home and community-based settings and nearly \$20 million to serve an additional 1,680 individuals with physical disabilities in community settings through the services to persons with disabilities waiver and the attendant care program.

Moving Individuals From Institutional Care to Community-based Care. The budget includes an additional \$6.1 million to increase community placement for individuals currently in state mental hospitals and state intellectual disability facilities, resulting in the transition of 90 clients from state mental hospitals to progressive mental health treatment in home-like settings, and 100 clients from state intellectual disability facilities to home and community-based settings.

Expanding Services for Older Pennsylvanians. As Pennsylvania's older population continues to grow, meeting the increased demand for services requires a predictable and enhanced funding source, which will be achieved by contracting for the private management of the Lottery that will be effective July 1, 2013. The increased revenue that will be generated by the private manager will be used to meet the needs of older Pennsylvanians and will be directed towards enhancing care, including home and community-based services so that older adults may continue to live in their homes and communities.

The administration is committed to increasing the quality of and access to all long-term care services again focusing on a range of services including those that are delivered in a home and community-based setting.

- The budget provides an additional \$50 million in Lottery Funds, including \$20 million to serve an additional 5,400 people in the Options program, \$5 million to increase support to the Area Agencies on Aging (AAA), \$2 million for Attendant Care Services for 193 individuals transitioning to the Department of Aging from the Department of Public Welfare at age 60, and \$2 million to modernize facilities and programs at senior centers. In addition, \$21 million is provided to annualize increased services provided in the current year and to serve an additional 1,550 older Pennsylvanians through the Medicaid Home and Community-Based Aging Waiver.

Human Services and Health Care (continued)

There is an additional \$9 million in state funds provided to increase the number of older Pennsylvanians served through the long-term care LIFE program. In addition the Departments of Public Welfare and Aging will continue to work together to improve coordination between the agencies to better serve Pennsylvania's seniors. As part of this effort, there will be increased and improved dialogue with stakeholders and the establishment of an open, collaborative, outcome-driven process to discuss how the commonwealth can best serve the needs of our seniors. Understanding that the demand for these services continues to grow, the departments will be working together towards sustainable long term solutions to ensure high-quality, cost-effective services can continue to be provided to Pennsylvania seniors.

Helping Children and Families

Child Care Assistance and Improving the Quality of Child Care Programs. The budget continues the commitment to high quality child care and provides \$7 million to enable 1,400 children currently waiting for services to receive child care assistance. In addition, this budget includes \$3 million to further enhance the quality of programs for children in the Rising Stars child care programs.

Juvenile Justice Reinvestment Initiative. Pennsylvania is engaged in a Justice Reinvestment approach that seeks to reduce Pennsylvania's juvenile justice population by promoting better outcomes for youth, reducing spending and reinvesting a portion of the savings into strategies that work.

- The budget reinvests \$10 million in savings, generated by the closing of the New Castle Youth Development Center this year, into research-based prevention and intervention programs for at-risk children; statewide implementation of Pennsylvania's Juvenile Justice System Enhancement Strategy; and training programs that will assist juvenile offenders in obtaining the skills necessary for getting and maintaining employment.

Improving and Increasing Access to Health Care Services

The administration is committed to ensuring access to affordable, quality health care in Pennsylvania. This budget addresses accessibility head-on, by modernizing the delivery of health care services throughout the state to increase access for those Pennsylvanians in underserved and rural areas and providing additional resources to help increase the number of medical care providers serving those communities.

Having consistent and reliable access to quality preventive health care services is essential to maintaining and improving health care and is a key asset to enable individuals to move down a path to independence.

Ensure Coverage for all Pennsylvania Children.

Pennsylvania remains a leader in health care coverage for children. The budget provides more than \$8 million in additional resources to provide health care coverage to more than 9,300 new children anticipated to be enrolled through the expanded outreach efforts. In addition, this budget provides \$3.8 million to reduce barriers to enrollment, and to decrease enrollment errors.



Increase Funding for Community Health Centers. The budget provides \$4 million to establish the Community-Based Health Care Subsidy program as a new and additional way for the commonwealth to fund community-based health care clinics. Funds from the program will be dedicated to sustainable medical clinics, including those that focus on providing mental health services that are positioned to use start up state funding and then continue providing care on a self-sustaining basis without government resources over the long term. This represents a true partnership with communities to increase access and outcomes.

Expand Access to Primary Care Services in Rural and Underserved Areas of Pennsylvania.

The budget provides \$1 million in increased funding to the Primary Health Practitioner Loan Repayment program to increase the amount of the current loan repayment awards and to provide an additional 24 awards to physicians, dentists and other practitioners. In order to help address the growing primary care physician shortage in our rural areas, the Department of Health will ensure that increased residency slots be matched only to medical school graduates who are either legal Pennsylvania residents or who have completed their medical school education in

Human Services and Health Care (continued)

Pennsylvania and would commit to provide primary care in a rural Pennsylvania community upon completion of residency training.

Modernize State Health Centers. A year-long analysis by the Department of Health reveals that to meet community needs and maintain effectiveness of the public health system, a more mobile and collaborative system must be developed. This will assist in increasing accessibility and the innovation of service delivery as well as the reduction of service duplication. The budget includes a modernization initiative that will provide more mobility and visibility to the public, thus increasing the services able to be provided to those populations who may not have access to transportation to a state health center facility.

Medicaid Program

At this time, analysis continues on the financial sustainability related to potential expansion of the Medicaid program. The Department of Public Welfare continues to have a dialogue with the U.S. Department of Health and Human Services (HHS) in an effort to obtain clarification and answers on a number of issues, including whether essential reforms of the Medicaid program can be accomplished to improve the health of our citizens and the effectiveness of the program. The department is currently reviewing the recently released proposed regulations on eligibility and benefits from HHS. While due diligence continues, no decision has been made at this time.

The administration intends to engage in an informed dialogue with the public and the legislature on whether expansion of the Medicaid program is prudent, affordable and the right choice for the commonwealth. When a final decision is made, it will be done in consultation with the Legislature and it may require modifications to be made and accounted for in the budget.

Other Budget Highlights

- **Medical Assistance Services** – \$14.2 billion in total funds to provide inpatient, outpatient and capitation services for nearly 2.3 million Medical Assistance recipients.
- **Long-Term Living Services** – \$5.2 billion in total funds to provide home and community-based services as well as nursing home care to persons with disabilities and older Pennsylvanians.

- **PENNCARE** – \$275.2 million in Lottery Funds to provide an array of home and community-based services for older Pennsylvanians.



- **Children's Health Insurance Program** – \$451.2 million in total funds to provide health insurance coverage for 200,000 uninsured children.
- **Intellectual Disabilities: Community Programs** – \$2.3 billion in total funds to provide home and community-based services to more than 53,000 individuals with intellectual disabilities.
- **Child Welfare Services** – \$1.54 billion in total funds to provide child welfare services to children and youth in need of care and protection.
- **PACE/PACENET** – \$227.6 million to provide prescription drug coverage for 295,700 older Pennsylvanians.
- **Early Intervention Services** – \$204.4 million in total funds to provide early intervention services to 36,900 children from birth to age 3.
- **Autism Services** – \$29.1 million in total funds to support individuals living with autism spectrum disorder, including home and community-based services for approximately 550 adults.
- **Child Care Services** – \$717.6 million in total funds, including \$7 million to provide services to 1,400 additional children and \$3 million to increase program quality through the Rising Stars initiative.

Criminal Justice and Enhanced Public Safety

Ensuring the safety of all Pennsylvanians is the first priority of government. The commonwealth has reprioritized evidence-based guidance in public safety policy and planning to address crime prevention, safely reduce the prison population and improve community reintegration methods. The budget provides critical funding for public safety programs to enable collaborative, multi-agency best practices to keep Pennsylvanians safe and ensure that a strong foundation exists for safeguarding future generations. In addition, the budget ensures that the commonwealth is equipped to respond to severe weather, natural disasters and other events that put Pennsylvanians at risk.

Pennsylvania State Police

The budget provides resources for comprehensive State Police services in communities within their primary jurisdiction and assistance to municipal police departments.

- The budget includes \$14.7 million for three new State Police cadet classes that will train a total of 290 new troopers. In addition, the budget includes \$6 million to support 90 new civilian police communication operators in order to free up a similar number of troopers for patrol and law enforcement activities.

Justice Reinvestment Initiative

Under Governor Corbett's direction, the commonwealth partnered with the Council of State Governments' Justice Center to develop the Justice Reinvestment Initiative (JRI) to assist our criminal justice leaders in analyzing data from multiple agencies in an effort to develop sound policies and monitor the impact of these policies through effective performance measures. Justice reinvestment is a data-driven approach to reducing corrections spending and reinvesting savings in strategies that can decrease crime and strengthen the safety of our communities.

As a result of the Justice Reinvestment Initiative, the population of the Department of Corrections is anticipated to decline by more than 1,200 inmates over the next five years. That population reduction is expected to generate \$139 million in savings, a portion of which will be reinvested in victim services, local policing, county-based offender treatment and county and state probation services to better serve Pennsylvanians. Resources made available through cost-savings at the state level may be reinvested in county-level alternatives, improving outcomes and effectiveness as well as greater efficiency.

- In the current fiscal year, JRI is projected to save the commonwealth \$1 million, with 75 percent of that amount reinvested in victim services programs and a risk assessment instrument for the Pennsylvania Commission on Sentencing.

- This budget recommends an additional \$456,000 of General Funds to enhance victim programs.

As noted on the chart below, savings and future funding allocations will increase over the next year.

Justice Reinvestment Initiative Summary

Dollars in Millions

| Fiscal Year | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|----------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Savings Year | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
| Estimated Population Reduction | -399 | -538 | -175 | -104 | -44 |
| Total Estimated Savings | \$1 | \$18.4 | \$36.0 | \$40.3 | \$43.0 |
| Percentage of Savings to be Reinvested | 75% | 100% | 25% | 25% | 25% |
| Cap on Savings Reinvestment | None | \$21 | None | None | None |
| Distributions | \$0.8 | \$18.4 | \$9.0 | \$10.1 | \$10.8 |

Legislative Corrections Reforms

Acts 122 and 196 of 2012 implemented important recommendations of Pennsylvania's Justice Reinvestment Initiative that fundamentally changed how Pennsylvania's corrections system is managed. Act 122 barred low-risk offenders from being incarcerated in state prison by requiring such offenders to be effectively managed at the county level. "Pre-release," a program allowing inmates to be released to community corrections centers prior to serving their minimum sentence, was eliminated – resulting in true "truth in sentencing" and addressing priorities of victims' organizations and prosecutors. Act 122 also requires the Department of Corrections and the Board of Probation and Parole to work more collaboratively and with community-based reentry organizations. Another Act 122 provision restructured parole violator management. This provision requires the board to immediately address violation behavior and gives the board greater capability to manage parole violators in secure settings, rather than incarcerating them in a state correctional institution.

Risk Assessment Instrument

Act 196 also allocated funding to complete a statutorily mandated risk assessment instrument for use at sentencing. Explicitly examining the risk of the offender to re-offend at sentencing will provide for sentences that specifically fit the needs of the offender and society. Through this assessment, judges will have more information to make decisions about county probation and parole and referrals to diversion programs. Identifying offenders with the greatest probability of successful reentry into the community will ultimately reduce recidivism and keep communities safer.

Community Corrections and Reentry

With more than 90 percent of offenders eventually returning to their communities after incarceration, it is imperative to provide offenders with the tools they need to transition back to society and become productive, law-abiding citizens. The Department of Corrections and the Board of Probation and Parole are continuing to work together to improve the process of enabling offenders to successfully return to their communities. Programs such as Day Reporting Centers, GPS monitoring, mentoring programs and the use of technical parole violator centers will enable the criminal justice system to continue to address offenders' specific needs and reduce their chances of re-offending. Act 122 refocused parole violator management to place more emphasis on community-based treatment. Now, only parolees who have committed a new crime or whose violation involves a direct, high risk to public safety will be returned to prison. All other violators will be sent to secure parole violator centers for targeted interventions.

Parole Supervision

As the number of offenders returning to the community grows, the Board of Probation and Parole will need additional parole agents trained to supervise and assist offenders making this transition. In addition, it is important to ensure that parole agents have manageable caseloads that will enable them to properly supervise parolees, thus ensuring the safety of the community.

The budget provides resources to maintain caseload ratios and to implement the Justice Reinvestment Initiative.

- \$2.1 million and 27 positions to aid supervision efforts.
- A total of \$792,000, including \$300,000 to provide Global Positioning System 24/7 monitoring capability for 195 offenders, and eight positions for case management.

Operational Efficiencies

The Department of Corrections and the Board of Probation and Parole have committed to reducing costs by creating a more efficient system of case management. Efficiencies achieved in both agencies have resulted in the department's inmate population stabilizing and experiencing the largest decrease for any calendar year since 1971. Simultaneously, the board experienced a population increase of nearly 1,000 parolees within the first half of 2012-13. The budget incorporates even greater integration of criminal justice research that will lead to better and more reliable data and information analysis. This analysis, in turn, will improve policy and program evaluation and decision-making, ultimately saving the commonwealth money and leading to productive and law-abiding futures for former offenders.

The department and board are working collaboratively on reentry initiatives, placement of offenders in community correction centers, approved home plans for hard-to-place offenders, and management of technical parole violators and case management. Working in partnership on case management and other operational efficiencies saves both time and resources and helps the department and the board accomplish mutual public safety objectives.

These efforts, combined with the completion of a new state-of-the-art prison in Centre County, have allowed the department to announce the closing of SCI Greensburg and SCI Cresson, two older, high-cost prisons, which is expected to save \$22 million in 2013-14. These two institutions are less efficient and more difficult to operate safely for both inmates and staff. SCI Benner Township will be completed in February 2013 with a capacity of approximately 2,000 beds.

Disaster Assistance

This budget also includes funding to enable the Pennsylvania Emergency Management Agency (PEMA) to prepare for and respond to natural disasters or other serious events. This budget includes:

- A total of \$35 million for PEMA to provide additional summer 2011 storm disaster relief, ensuring that funds are available to help recover from the worst flooding in decades (includes \$30.9 million in 2012-13 with supplemental funding).
- Funding to assist with disaster recovery efforts of Hurricane Sandy last fall.
- A total of \$14.7 million for the Hazard Mitigation program to lessen the likelihood of damage during future flooding events (includes \$11.7 million in 2012-13 funding).

Other Budget Highlights:

- **Military and Veterans Affairs** – \$241,000 for additional security personnel at Fort Indiantown Gap; \$300,000 for software that will streamline payroll processing of PA National Guard members when ordered into active duty status; \$50,000 to re-establish the American Battle Monuments program; and \$2.3 million for grants to veterans service organizations maintains the increased level of support provided in 2012-13 through the Veterans' Trust Fund.

Transportation – Building Toward our Future

The commonwealth's transportation infrastructure is critical to our economic future. Pennsylvania's roads, airports, rails and ports not only move millions of people each day to work, school and home, but they also carry our goods and services to communities here and around the world.

Safety, convenience and economic development must guide transportation policy decisions. The Transportation Funding Advisory Committee provided recommendations to help guide the modernization efforts of PennDOT and identified options to help ensure that the necessary improvements to our infrastructure are properly funded for the foreseeable future.

Current Financial Challenges

Today, much like the rest of our nation, Pennsylvania's transportation infrastructure is aging and increasingly more fragile due to decades of under investment. This under investment is due in large part to rising construction costs and the limits of revenues based on fuel consumption. With an emphasis on energy preservation, Corporate Average Fuel Economy (CAFE) standards have led to improved vehicle fuel efficiency, driving fuel consumption down and with it, liquid fuels-based revenues.

This increase in vehicle fuel economy has meant that, on average, Pennsylvania vehicles are using less gas per mile traveled. As the amount of gasoline purchased has declined, so has fuel tax revenue per vehicle. Pennsylvania now collects less fuel tax revenue per mile traveled than it has at any time in history. This has led to a serious decline in the amount of revenue available for improvements to the transportation system.

If something is not done now to increase revenue and improve efficiencies, the gap between transportation funding needs and revenues available to address those needs will continue to grow, more than doubling to \$7.2 billion by 2020. As inflation increases the price of most goods and services by about 3 percent each year, buying power will also continue to decline. Therefore, purchasing the same amount of asphalt, steel, concrete and other materials and services in 10 years would require an additional 33 percent in funding.

Non-highway modes of transportation such as transit, aviation, rail freight, ports and waterways face similar financial challenges. Rising capital and operating costs, years of budget deficits, and deferred maintenance have taken their toll on each of these systems, which are critical pieces of the commonwealth's transportation network.

TRANSPORTATION INVESTMENT INITIATIVE

The key tenants to Governor Corbett's transportation investment initiative are that it must be fair to Pennsylvanians – all users pay – not just residents of the commonwealth; fees must reflect usage of the system, not simply access to it; it needs to be a long-term solution rather than another short term band-aid; engage the private sector in public-private-partnerships and other innovative financing approaches to project delivery bringing private sector innovation and resources to our transportation system; and every new dollar must be spent as efficiently as possible, taking advantage of the latest modernizations and innovations both at PennDOT and also from private industry.

The five-year total of the transportation investment initiative will be more than \$5.3 billion.

Components of the plan:

- **Oil Company Franchise Tax.** Phase in the uncapping of the average wholesale price used to calculate the Oil Company Franchise Tax over five years. This tax is applied to the average wholesale price of gasoline at a defined millage rate (153.5) and collected at the distributor level. An artificial cap is set at a wholesale price of \$1.25 per gallon, while current wholesale prices have consistently remained above the defined limit.
- **Liquid Fuels Tax.** Reduction of the flat liquid fuels tax assessed at the pump by one cent in 2013-14 and another reduction of one cent in 2014-15. This will reduce the current liquid fuels tax from 12 cents to 10 cents, a 17 percent reduction.
- **Multimodal Funding.** Make investments in our non-highway modes of transportation to ensure the continued economic growth and competitiveness of Pennsylvania for years to come. Transit, freight railroads, airports, ports and waterways are just as important to the efficient movement of goods and people as our highways. Predictable and sustainable funding in those facilities will ensure their successful operation as part of our larger transportation network.
- **Motor Licenses and Fees.** Redirect certain motor vehicle fees to public transit and multimodal transportation programs and authorize a fee option in lieu of suspension for driving without insurance. Move vehicle registration renewals to a biennial cycle rather than the current annual cycle and move driver license renewals to a six-year cycle rather than the current four-year cycle.
- **Act 44 Payments and Motor License Fund Fines.** Restructure Act 44 payments from the Turnpike Commission and redirect vehicle code fines revenue and distributions to the General Fund.

General Fund Financial Statement

Dollars in Millions

| | 2011-12 Actual | 2012-13 Available | 2013-14 Budget |
|--------------------------------------|-------------------------------|-------------------------------|---------------------|
| Beginning Balance..... | \$ 1,073 | \$ 659 | \$ 544 |
| Adjustment to Beginning Balance..... | 20 | 14 | |
| Revenues: | | | |
| Receipts | \$ 27,678 | \$ 28,822 | \$ 29,251 |
| Refunds | -1,275 | -1,300 | -1,325 |
| Prior Year Lapses..... | <u>194</u> | <u>100</u> | <u>.</u> |
| Funds Available | \$ 27,690 | \$ 28,295 | \$ 28,470 |
| Expenditures: | | | |
| Total Appropriations..... | \$ 27,031 | \$ 27,761 | \$ 28,440 |
| Current Year Lapses..... | <u>.</u> | <u>-10</u> | <u>.</u> |
| Total State Expenditures..... | <u>\$ 27,031</u> | <u>\$ 27,751</u> | <u>\$ 28,440</u> |
| Preliminary Balance..... | \$ 659 | \$ 544 | \$ 30 |
| Transfer to Rainy Day Fund | <u>.</u> ¹ | <u>.</u> ² | <u>-7</u> |
| Ending Balance | <u><u>\$ 659</u></u> | <u><u>\$ 544</u></u> | <u><u>\$ 23</u></u> |

¹ Act 87 of 2012 suspended the 25 percent transfer to the Budget Stabilization Reserve (Rainy Day) Fund for the 2011-12 fiscal year.

² This budget proposes the suspension of the 25 percent transfer to the Budget Stabilization Reserve (Rainy Day) Fund for the 2012-13 fiscal year.

General Fund Revenue Sources

Dollars in Millions

| Source | 2011-12 Actual | 2012-13 Estimated | 2013-14 Estimated |
|---------------------------------|--------------------|----------------------|----------------------|
| Personal Income Tax | \$ 10,800.5 | \$ 11,471.7 | \$ 11,764.8 |
| Sales and Use Tax | 8,772.3 | 8,968.1 | 9,372.6 |
| Corporate Net Income Tax | 2,022.4 | 2,491.7 | 2,567.6 |
| Capital Stock and Franchise Tax | 837.2 | 604.2 | 242.6 |
| Gross Receipts Tax | 1,330.0 | 1,325.8 | 1,295.9 |
| Cigarette Tax | 1,069.9 | 1,041.3 | 1,013.7 |
| Other Taxes | 2,316.2 | 2,377.1 | 2,465.2 |
| Non-Tax Revenues | 529.5 | 542.1 | 528.8 |
| Total Receipts | <u>\$ 27,678.0</u> | <u>\$ 28,822.0</u> | <u>\$ 29,251.2</u> |
| Difference from prior year | \$ 180.8 | \$ 1,144.0 | \$ 429.2 |
| <i>Percentage Difference</i> | <i>0.7%</i> | <i>4.1%</i> | <i>1.5%</i> |

General Fund Expenditures by Agency

(dollar amounts in thousands)

| <i>Department</i> | 2011-12 Actual | 2012-13 Available | 2013-14 Budget |
|-------------------------------------------|---------------------------|------------------------------|---------------------------|
| Agriculture..... | \$ 130,436 | \$ 129,535 | \$ 117,878 |
| Attorney General..... | 81,392 | 78,121 | 78,121 |
| Auditor General..... | 44,624 | 42,393 | 42,393 |
| Banking and Securities..... | 1,000 | 1 | 0 |
| Civil Service Commission..... | 1 | 1 | 1 |
| Community and Economic Development..... | 204,839 | 229,495 | 245,593 |
| Conservation and Natural Resources..... | 53,720 | 52,723 | 52,760 |
| Corrections..... | 1,856,348 | 1,867,022 | 1,927,609 |
| Drug and Alcohol Programs..... | 40,698 | 41,698 | 41,698 |
| Education..... | 10,491,335 | 10,970,950 | 11,309,054 |
| <i>Basic Education (Pre K-12)</i> | 9,230,446 | 9,681,545 | 10,019,449 |
| <i>Higher Education</i> | 1,172,436 | 1,200,969 | 1,201,169 |
| <i>Public Library Subsidy</i> | 53,507 | 53,507 | 53,507 |
| <i>All Other</i> | 34,946 | 34,929 | 34,929 |
| eHealth Partnership Authority..... | 780 | 804 | 2,200 |
| Emergency Management Agency..... | 32,890 | 63,606 | 17,977 |
| <i>Disaster-Related Funding</i> | 22,600 | 52,671 | 7,100 |
| <i>All Other</i> | 10,290 | 10,935 | 10,877 |
| Environmental Protection..... | 134,236 | 126,814 | 127,618 |
| Ethics Commission..... | 1,768 | 1,768 | 1,768 |
| Executive Offices..... | 153,696 | 156,969 | 181,253 |
| General Services..... | 117,055 | 117,590 | 118,740 |
| Government Support Agencies..... | 41,898 | 44,500 | 40,970 |
| Governor's Office..... | 6,309 | 6,429 | 6,429 |
| Health..... | 186,944 | 189,867 | 188,312 |
| Health Care Cost Containment Council..... | 2,683 | 2,683 | 2,683 |
| Higher Education Assistance Agency..... | 422,950 | 386,125 | 386,125 |
| Historical and Museum Commission..... | 16,999 | 17,800 | 18,474 |
| Insurance..... | 119,975 | 123,195 | 122,570 |
| <i>Children's Health Insurance</i> | 97,365 | 101,608 | 115,101 |
| <i>All Other</i> | 22,610 | 21,587 | 7,469 |
| Judiciary..... | 298,860 | 309,288 | 308,188 |
| Labor & Industry..... | 70,664 | 72,590 | 71,785 |
| Legislature..... | 272,784 | 271,984 | 271,984 |
| Lt. Governor's Office..... | 1,237 | 1,278 | 1,317 |
| <i>Lt. Governor's</i> | 765 | 802 | 802 |
| <i>Board of Pardons</i> | 472 | 476 | 515 |
| Military and Veterans Affairs..... | 127,606 | 123,757 | 120,778 |
| Probation and Parole Board..... | 124,383 | 131,667 | 142,677 |
| Public Utility Commission..... | 250 | 0 | 0 |
| Public Welfare..... | 10,495,322 | 10,654,602 | 10,970,244 |
| <i>Medical Assistance</i> | 4,886,131 | 5,053,178 | 5,012,987 |
| <i>Long-Term Living</i> | 1,244,760 | 1,344,940 | 1,472,402 |
| <i>County Child Welfare</i> | 990,470 | 1,040,029 | 1,063,333 |
| <i>All Other</i> | 3,373,961 | 3,216,455 | 3,421,522 |
| Revenue..... | 187,616 | 185,136 | 178,844 |
| State..... | 10,331 | 9,109 | 9,109 |
| State Employees Retirement System..... | 4 | 4 | 0 |
| State Police..... | 193,205 | 195,254 | 205,284 |
| Transportation..... | 15,582 | 17,212 | 6,909 |
| Treasury..... | 1,090,119 | 1,138,996 | 1,122,389 |
| <i>Debt Service</i> | 1,041,497 | 1,094,392 | 1,071,079 |
| <i>All Other</i> | 48,622 | 44,604 | 51,310 |
| STATE APPROPRIATIONS | \$ 27,030,539 | \$ 27,760,966 | \$ 28,439,734 |

2013-14 Motor License Fund

INCOME

(Dollars in Millions)



Liquid Fuels Tax — \$1,363

Licenses and Fees — \$885

Turnpike Commission Payment — \$145

Other — \$54

| | |
|-----------------------|----------------|
| Total Income | \$2,447 |
| Beginning Balance.... | 84 |
| TOTAL | \$2,531 |

OUTGO

(Dollars in Millions)



Highways & Bridges — \$1,348

State Police — \$619

Local Subsidy — \$250

Other — \$151

Licensing & Safety — \$127

Debt Service — \$18

| | |
|----------------------|----------------|
| Total Outgo | \$2,513 |
| Ending Balance | 18 |
| TOTAL | \$2,531 |

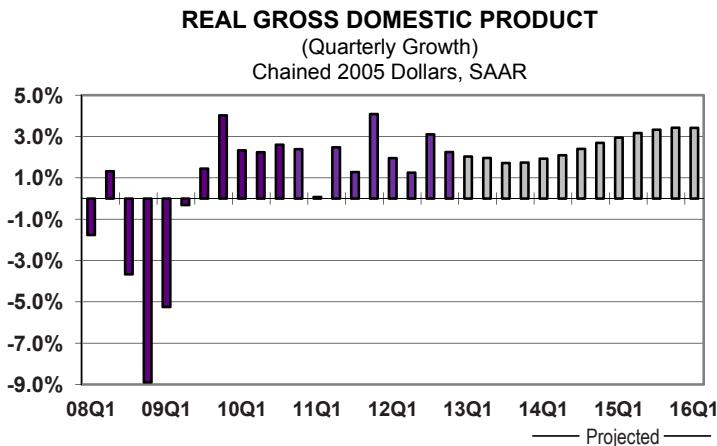


2013-14 Economic Outlook

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.

Current Economic Conditions

The national economic expansion continued in 2012. Growth in the economy accelerated during the third quarter of 2012. The national economy, as measured by growth in constant real GDP, increased at an annual average rate of 3.1 percent during the third quarter of 2012. This growth rate was the third highest since the end of the Great Recession. Economic growth in the fourth quarter of 2012 is estimated to have slowed to an annual rate of 2.3 percent, no doubt on concerns of the impending "fiscal cliff" (a self-imposed combination of expiring federal tax cuts and automatic federal spending cuts), corrections on defense spending and inventories along with the negative impacts of Superstorm Sandy.



However, the Advance Estimate of real GDP, released by the U.S. Commerce Department on January 30, 2013, indicates that the national economy contracted 0.1 percent during the fourth quarter of 2012. This estimate is based on real GDP as measured in current dollars, rather than in constant dollars, which adjusts for the effect of inflation. According to the Commerce Department, the 0.1 percent contraction during the fourth quarter of 2012 was the weakest quarter of economic growth since the second quarter of 2009, which marked the official end of the Great Recession. The decline in real GDP reflected a decrease in inventory investment, decreases in federal government spending, state and local government spending and exports.

Consumer spending increased modestly during the first half of 2012 at annual rates of 2.2 percent and 2.0 percent in the first and second quarters. This growth slowed during the second half of 2012, slowing to 1.8 percent during the third and fourth quarters of the year.

The housing sector continued to improve in 2012 driven by low interest rates and low inventories. Housing is now a key driver of the recovery. According to Global Insight, housing starts climbed 3.6 percent in October 2012, reaching levels not seen since July 2008. Single family housing starts were at the second highest level since August 2008 and multifamily housing starts are increasing as well. Home prices in general are also climbing according to the Case-Shiller survey which indicates that prices are on the rise in 17 of the 20 cities surveyed. Overall, housing prices rose in 44 states during the third quarter of 2012 as measured on a year over year basis.

After slowing during the second quarter of 2012, employment growth in the U.S. averaged 153,000 jobs per month for all of 2012. Overall, employment is up 1.8 million jobs since December 2011 with non-farm employment growth of 1.4 percent for 2012.

As employment levels have been rising modestly, the U.S. unemployment rate has been steadily declining. In December 2011, the U.S. unemployment rate stood at 8.5 percent. Since then, the rate has incrementally declined to 7.8 percent as of December 2012.

The Forecast

Fairly subdued economic growth is forecast for the national economy from the first quarter of 2013 through at least the second quarter of 2014, with stronger growth forecast to occur from the third quarter of 2014 through at least 2017, according to a combination of data from both IHS Global Insight and Moody's Economy.com economic forecasts.

| Forecast Change in Key US Economic Indicators | | | | |
|-----------------------------------------------|------|-------|-------|-------|
| Annual Percentage Growth* | | | | |
| Indicator | 2011 | 2012p | 2013p | 2014p |
| Nominal GDP | 4.0 | 4.1 | 3.3 | 4.4 |
| Real GDP | 1.8 | 2.3 | 1.7 | 1.7 |
| Real Personal Consumption | 2.5 | 1.9 | 1.8 | 2.6 |
| Corporate Profits (After Tax) | 2.2 | 15.6 | -4.2 | 8.7 |
| Unemployment Rate (Rate) | 9.0 | 8.1 | 7.6 | 7.3 |
| CPI | 3.2 | 2.0 | 1.4 | 1.8 |
| Federal Funds (Rate) | 0.1 | 0.1 | 0.2 | 0.2 |

* Assumptions in this chart, as well as other assumptions, are incorporated in the 2013-14 fiscal year revenue estimates.
p=projected

2013-14 Economic Outlook (continued)

Declines in housing construction and housing finance led the economy into recession. During 2012, new home construction ramped up significantly and grew by 162,000 units to 774,000 units or nearly 27 percent. New housing starts are estimated to grow another 25 percent in 2013, followed by continued robust growth of 32.1 percent in 2014 and 25.8 percent in 2015. The combined effect of the annual projected growth rates would add 1 million new housing starts per year to the 2012 base of 612,000 units by 2015. The growth in new housing starts during 2012-2015 indicates that the housing sector is in full scale recovery mode.

Consumer spending began to gain traction during 2010, rising at an annual rate of 1.8 percent. Consumer spending continued to grow during 2011 from the pace set at the end of 2010. Overall, real consumer spending grew at an annual rate of 2.5 percent during 2011. Consumer spending pulled back to roughly 1.9 percent during 2012. The forecast for 2013 includes sustained but subdued projected growth of real consumer expenditures at 1.8 percent and 2.6 percent growth is forecast for 2014. Beyond 2014, real consumer spending is expected to grow moderately, in the upper two percent range through 2017.

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 and to ensure that the housing recovery continues. As during the previous recovery in 2003-04, job growth will likely continue to be minimal during this recovery. Unemployment rates are expected to improve only modestly, dipping to 7.6 percent and 7.3 percent in 2013 and 2014, respectively. December 2007 saw peak employment at 138 million people, and economists project that it will be at least until mid-2014 before that figure is reached again.

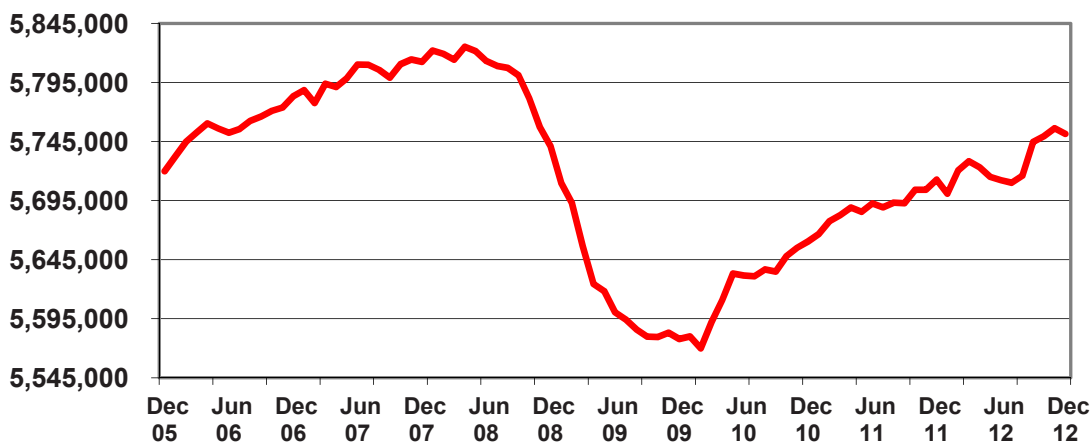
Pennsylvania Outlook

In Pennsylvania, the Great Recession was shorter and less severe than it was in many other states or in the nation in general. During the most recent recession, U.S. unemployment peaked at 10.1 percent while the commonwealth unemployment rate peaked at 8.7 percent. Following the end of the Great Recession, Pennsylvania's economy has been steadily recovering.

Job growth in Pennsylvania returned in 2010, albeit at modest levels. During 2010, approximately 82,500 net new jobs were produced in the commonwealth. Job growth slowed during 2011 as approximately 52,400 jobs were created through December 2011. During 2012, the commonwealth experienced a further slowing in employment growth as a net 38,700 jobs were created. Since the end of the Great Recession, Pennsylvania has added nearly 174,000 jobs. According to Global Insight, through the mid-point of 2012, the commonwealth had recovered 62 percent of the jobs it lost during the Great Recession while the U.S. had only recovered 44 percent of its lost jobs through the same time period.

Employment growth is expected to accelerate in the commonwealth during 2013 as total growth in employment is forecast to be nearly 80,000 during 2013, an annual growth rate of 1.4 percent. Over the next four years, the commonwealth can expect to add jobs at an average annual rate of 1.2 percent while the broader U.S. economy is estimated to add jobs at an average annual rate of nearly 2 percent. The lower projected rate of growth in the commonwealth's employment levels would place Pennsylvania among the bottom tier of states in terms of employment growth.

PENNSYLVANIA EMPLOYMENT
(Non-Agricultural)



2013-14 Capital Budget

| | <u>Millions</u> |
|-----------------------------------------------------|--------------------------|
| <u>From Bond Funds</u> | |
| Conservation and Natural Resources..... | \$ 76.3 |
| Corrections..... | 166.1 |
| Education..... | 182.5 |
| Emergency Management Agency..... | 1.0 |
| Environmental Protection..... | 10.0 |
| General Services..... | 22.6 |
| Historical and Museum Commission..... | 8.7 |
| Military and Veterans Affairs..... | 46.7 |
| Public Welfare..... | 36.9 |
| State Police..... | 9.3 |
| Transportation-Local Transportation Assistance..... | 309.2 |
| Subtotal Bond Funds..... | <u>\$ 869.3</u> |
| <u>From Current Revenues</u> | |
| Conservation and Natural Resources..... | \$ 26.1 |
| Fish and Boat Commission..... | 127.2 |
| Transportation..... | 591.9 |
| Subtotal Current Revenues..... | <u>\$ 745.2</u> |
| TOTAL CAPITAL PROJECTS TO BE AUTHORIZED..... | <u>\$ 1,614.5</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.

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.

Fish and Boat Commission

Provides for acquisition of property, construction of new capital assets and renovation of existing facilities for the development of fisheries and recreational boating facilities.

General Services

Provides for 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.

State Police

Provides for renovation, expansion and construction of troop headquarters and station facilities and driver examination facilities.

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.