

News for Immediate Release

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Governor Rendell Proposes Budget With No Tax Increase, More Money for Public Schools, Strategy for Jobs, Plan to Address Future Deficits

Health Care Funding for Seniors, Disabled and Children Remains Intact

Harrisburg – With Pennsylvania finances still suffering the effects of the most stubbornly challenging national economy since the Great Depression, Governor Edward G. Rendell today proposed a fiscal year 2010-11 General Fund budget that spends \$26.3 billion in state money, augmented by more than \$2.7 billion in federal stimulus funds.

Requiring no tax increases to balance, the plan holds the line on spending in most areas where cost increases are not mandated by law. It keeps the state on pace to meet its adequate school funding targets, and it continues Pennsylvania's commitment to meet the health care needs of seniors, those with disabilities, and children.

It provides a blueprint to close the budget gap expected when federal stimulus funds are no longer available in 2011. Toward that objective, Governor Rendell proposed a plan to cut the state sales tax while broadening the tax base, to help cure a potential budget deficit beyond 2011.

At \$29 billion, the size of the General Fund in 2010-11 would increase by \$1.15 billion, or 4.1 percent, over the current year. Spending of state dollars, however, would still be \$2 billion less than in the 2008-09 fiscal year.

"The budget that I introduce today is a budget that works. It keeps the cost of state government down while still investing in our future," Governor Rendell said. "It balances the needs of our citizens with the financial pressures that the national economic downturn has imposed. It readies our young people and businesses for the opportunities a reviving economy will bring."

The Governor's 2010-11 budget contains administrative spending that is four percent lower than it was the year before he took office in 2002-03. If it had grown at the rate of inflation since that time, it would cost \$458 million more to operate state government next year.

Overall, Governor's Rendell's new budget reduces spending by an average of one percent in all areas other than Education, Aging and Long Term Living, Public Welfare, Corrections, Probation and Parole, and debt service.

"We eliminated nearly 4,500 positions from the state payroll, and last year alone

we reduced the size of the Commonwealth's fleet by 500 vehicles in the last year alone. We reduced government's energy consumption by 20 percent, a year ahead of schedule, and we are purchasing our energy smarter so that the state budget is not burdened by spikes in energy costs," Governor Rendell said.

A Pew study of state finances, as reported in the *Wall Street Journal* recently ranked Pennsylvania seventh in the nation for fiscal stability. It was the only large industrial state and the only state in the Northeast to appear in the top 10.

"Because of our success in keeping Pennsylvania's financial house in order, the recession is taking less of a toll here than in many other states," the Governor said. "Pennsylvania's unemployment rate is running below the national average and even further below that of other large industrial states. The tailspin of government revenue projections – the clearest indicator nationwide of the catastrophic effects that the recession has had on state governments – may finally be under control. Here in Pennsylvania, for example, state revenues are now running only two percent below estimate."

Last year, the commonwealth faced a \$3.2 billion revenue shortfall during the recessionary national economy. The Governor today estimated the gap for the end of the current year at \$525 million.

Investing in the Pennsylvania's People

The proposed 2010-11 budget includes \$12.3 billion for education, or about 42 percent of General Fund spending. More than \$9.5 billion would go toward basic education, an increase of \$448 million, or 4.9 percent. The basic education subsidy to school districts would grow by \$354.8 million, or 6.4 percent, to \$5.9 billion, as Governor Rendell maintains his commitment to the six-year phase in of adequate statewide education funding called for in the General Assembly's costing out study.

The Governor noted that over the last seven years, the commonwealth has increased annual state spending for public education by more than \$3 billion. In the process, it has enacted a school funding formula that is closing the "adequacy gap."

Education Week recently said that in just six years, Pennsylvania moved from 24th place to 10th place in percentage of kids performing on grade level in 8th grade math. In reading it moved from 16th to 6th in the nation for the percentage of fourth graders reading at grade level. The Center for Educational Policy – a highly respected think tank in Washington -- found that from 2000-2008, Pennsylvania was the only state to show significant improvement in reading and math in every grade tested.

"We have invested in our children, and they are rewarding us with rising achievement levels that are the envy of the

nation," he said.

Public safety, including soaring prison costs, continues to consume a rising share of the state budget. Governor Rendell proposed a \$137 million, or 7.7 percent, increase for Correctional Institutions, plus a 7 percent boost for Probation and Parole. His budget also contained enough funding for a total of 4,400 State Police Troopers by the end of 2010-11.

The difficult economic times also put mounting stress on the social safety net. The demand for Food Stamps is at an all-time high, with the number of Pennsylvania children and adults eligible increasing 19 percent to approximately 1.5 million people. The number of families receiving cash assistance grew by nine percent between December 2008 and December 2009, and in 2010-11 the Medical Assistance program will provide health care to more than 2.1 million Pennsylvanians, a 3 percent increase. The number of adults seeking adultBasic health insurance coverage more than doubled to 370,000 between January 2009 and January 2010.

Cover All Kids would receive \$437 million to provide health care for 208,555 uninsured children, an increase of \$26.8 million and 10,300 children.

In total, Medical Assistance and Long-Term Living would make up 21.7 percent of General Fund Expenditures, while other Public Welfare and Human Services programs would comprise 16.1 percent.

While serving more people, the administration continues efforts to control costs with several proposed savings initiatives, including Increased Pharmaceutical Rebates (\$102.5 million) Increased Pharmacy Efficiencies (\$4.6 million) and Reduced Fraud and Abuse and Expanded Third Party Liability (\$4.4 million.)

Growing Jobs, Keeping Pennsylvania Competitive

The proposed budget invests money in job creation and economic development strategies that have helped keep Pennsylvania's unemployment rate lower than the national average. Last year, Governor Rendell insisted on adequate funding for key job creation programs, despite the tight budget.

"While our unemployment numbers are better in Pennsylvania than in many other states, job creation is still sluggish at best, and personal income tax revenues are not meeting our projections. We have much more to do to bring jobs to Pennsylvania and create a more prosperous economic future for our state," he said.

He focused on alternative energy as one important area where Pennsylvania can achieve employment growth through the creation of green jobs. The state already ranks among the national leaders in that category, but the Governor called for enactment higher alternative energy standards to remain competitive and attract future investment.

"It's not just about energy, it's about jobs, and we must protect these opportunities by raising our alternative energy requirements as soon as possible," he said.

He told legislators that he is eager to work with them to adopt the recommendations recently submitted by the Climate Change Advisory Group that they established.

The proposed budget also continues to invest \$650 million to help state companies and consumers lower their energy costs and develop renewable energy industries.

It would dedicate \$537 million to public infrastructure such as bridges, rail freight lines, small airports, high-hazard dams

and flood related projects, in addition to basic Motor License Fund spending on highways and bridges.

It also hikes funding for other job creation programs such as Opportunity Grants, Customized Job Training, Infrastructure Development and Infrastructure Facilities and Improvement Grants.

On the subject of employment, he asked lawmakers to take advantage of the federal government's willingness to give the state hundreds of millions in additional funds to end its antiquated method of calculating unemployment. Nearly 30,000 Pennsylvanians would benefit from swift passage of Work Sharing legislation.

Addressing the State's Long-Range Financial Challenges

In addition to a balanced 2010-11 budget, the Governor also offered ideas to deal with the long-term financial problems facing the commonwealth, including the loss of federal stimulus money and sharp future increases in state and school district pension costs.

For the Public School Employees Retirement System (PSERS) the commonwealth's contribution is expected to jump from \$758 million in 2011-12 to \$1.88 billion in 2012-13. Similarly, the requirements of the State Employees Retirement System (SERS) will climb from \$531 million in 2011-12 to \$1.77 billion in 2012-13, a combined one-year increase of \$2.37 billion. Costs are forecast to continue growing over the subsequent decade, creating more than a \$5 billion problem.

The spike will result from retirement benefit enhancements approved before Governor Rendell took office, actuarial changes enacted in 2002-03, and steep declines in the investment markets beginning in the fall of 2008.

Governor Rendell is proposing a plan to even out the skyrocketing future costs. The plan would return the systems to actuarial soundness with a "fresh start" by increasing employer contributions above the 2009-10 levels, and mitigating the 2012-13 contribution spike with a schedule of funding increases that are more incremental and predictable, much the way a homeowner would refinance a mortgage.

To cope with the anticipated loss of federal stimulus money in 2011-12 and with the long-term uncertainties of a slowly recovering national economy, Governor Rendell proposed a restructuring of several taxes to begin in September, with the extra revenue to be directed toward a Stimulus Transition Reserve Fund. None of the additional taxpayer money raised between September 2010 and June 2011 would be used in the 2010-11 fiscal year, but would instead be set aside until at least July 2011.

. The state Sales Tax rate would decline from six percent to four percent, but 74 items currently exempt would become subject to the tax. This would raise \$531 million.

. The Tobacco Tax would extend to cigars and smokeless tobacco, producing \$41.6 million.

. A new Natural Gas Severance Tax would raise \$160.7 million.

. Elimination of the one percent bonus that businesses receive for forwarding collected sales taxes to the state on time would produce \$73.6 million.

. A business reform tax package would generate \$66.6 million. Pennsylvania would eliminate a loophole that currently permits three quarters of the corporations operating in the state to shield their profits from the corporate net income tax. In

exchange for making the CNI fairer by applying it to all companies, Governor Rendell seeks to lower the rate from 9.99 percent to 8.9 percent. Pennsylvania would also lift the cap on the amount of net operating losses that businesses are allowed to carry forward into future years, and would adopt the single sales factor, charging companies tax on the amount of sales they have in Pennsylvania rather than the size of their workforce or their physical presence within the state.

Changing the Way Government Works

To help reduce the influence of special interests that have often opposed common-sense efforts at making the state tax code more equitable, the Governor called upon the General Assembly in his budget address to enact campaign contribution limits. He also pressed for a citizen commission that would oversee nonpartisan legislative redistricting every 10 years, and for replacing the election of state appellate judges with a judicial appointment system.

He renewed his request to the General Assembly to create a quality unified health care plan for public school employees.

"Such a plan is good for teachers and school employees, but it's also good for taxpayers because it gives us the opportunity to contain the annual growth in school districts' health care costs and ensure that tax increases for this purpose are kept to a minimum," the Governor said.

Noting that many Pennsylvania electric utility customers are in line for hefty bill increases now that caps on rates are expiring after 10 years, he expressed a desire to see a fair plan in place to phase in those increases gradually.

Governor Rendell emphasized the necessity of enacting a state budget on time by the end of the fiscal year on June 30, in the wake of last year's 101-day delay. He extended an invitation to legislative leaders to meet with him soon and often to discuss budgetary matters, and he urged them to begin negotiations in earnest by at least the beginning of May.

"Ladies and gentlemen, we can disagree about what's *in* the budget, but let's agree today that we will get *on* with the budget and get it done on time for the people of Pennsylvania," he said.

For more information, visit www.pa.gov.

Media contact: Gary Tuma; 717-783-1116