

News for Immediate Release

July 6, 2010

Governor Rendell Signs Budget That Restrains Spending in Difficult Economy, but Invests More in Education and Job Creation

No Taxes Will Increase; Vital Public Health and Safety Funding Continues

Mechanicsburg, Cumberland County – Governor Edward G. Rendell today signed a \$28 billion General Fund budget for the 2010-11 fiscal year that holds down spending as the state strives to live within its means using existing resources.

While not increasing taxes, the budget makes substantial new investments in education and job creation programs that are critical to Pennsylvania's ongoing efforts to recover from the national recession.

Hampered by a U.S. economy that is still struggling to grow, Governor Rendell had to trim \$1 billion from the proposed budget that he presented five months ago. In spite of these cuts, the budget absorbs cost increases mandated by law, over which the state has no control, which total more than \$650 million for line items that fund Medical Assistance for the poor, prisons, debt service and school employees' Social Security.

To offset those rising and unavoidable costs, most other agencies of state government had to absorb deep cuts, as budget negotiators fought to contain spending while still covering state government's core functions. Since the national economic downturn began in the fall of 2008, Governor Rendell and the General Assembly have eliminated \$3 billion in annual spending. These cuts have touched almost every area of programs and services that the state provides to its citizens.

As just one example, the budget for the Governor's Office was cut by another 7.5 percent below last year's reduced sum, bringing it to approximately the funding level of 1996-97. Many other departments' budgets have also been scaled back to where they stood five, 10 or even 15 years ago.

State government's overall administrative operating costs in the 2010-11 budget are 14 percent lower than in 2002-03, the year Governor Rendell took office.

"The cuts simply reflect the economic realities that all states now face -- when you have less money, you have to reduce spending," Governor Rendell said while signing the General Appropriations bill at Elmwood Elementary School in Mechanicsburg. "Everyone dislikes something about this budget. There are many spending cuts that I would much rather have avoided. We had to reduce spending on many programs that are important to me and to millions of other Pennsylvanians, but there is simply no way to balance our budget without pain.

"Given the drop in state revenues, this is a good budget for the people of Pennsylvania, despite a difficult economic climate that has adversely impacted every state in the nation. At a time when most other states are either cutting funding for education or keeping it the same, we are investing in the future by providing additional funds to continue the strong academic progress that our students have made over the past seven years. Furthermore, the increase in state aid will help keep down local school district property taxes," Governor Rendell said. "This budget also provides additional funds to bring more good jobs to our state."

The state will boost the basic education subsidy to school districts by \$250 million, an increase of 4.5 percent, to \$5.8 billion. State-related universities, the State System of Higher Education and community colleges will receive the same funding amounts as last year.

Adequate education funding was the Governor's chief priority in the new budget, the final one

of his eight-year tenure in office. He also focused on economic development programs to create jobs by attracting and keeping businesses in Pennsylvania. This funding includes \$27 million for Infrastructure and Facilities Improvement Grants, \$15 million for the Infrastructure Development Program, \$18 million for Opportunity Grants, \$6 million for World Trade PA and \$18 million for Housing and Redevelopment Assistance projects. Such programs have helped Pennsylvania gain more than 76,000 jobs over the last three months for which employment statistics have been reported, second only to Texas.

The General Assembly also complied with the Governor's request to boost by \$600 million, from \$3.45 billion to \$4.05 billion, the Redevelopment Assistance Capital Program (RACP) to further enhance employment growth by supporting business development.

"Our expanded capital program will pump money into the economy, creating jobs and leveraging additional private investment," Governor Rendell said. "It will continue the wise strategic investments we have made over the past several years in economic development, which has allowed Pennsylvania to weather the worst recession of the past 70 years in better financial shape than any other large industrial state in the country."

The 2010-11 budget maintains essential funding for public health and safety. It includes money to pay for health care and other vital social services for more than 2.1 million of Pennsylvania's most vulnerable citizens, including low-income children, families, people with disabilities and older Pennsylvanians.

Legislation accompanying the budget will also create a new assessment that will ensure that the state's hospitals can provide high-quality care for those on Medical Assistance, including seniors and indigent children. The agreement will allow the state to draw down significantly more federal funds that will help keep the financial condition of hospitals stable. The net gain for the General Fund is \$121 million.

Regarding another issue of medical funding, the General Assembly and Governor have agreed to consult on any budget shortfall caused by the failure of Congress to enact much-needed supplemental Medical Assistance for the states. Pennsylvania is relying on \$850 million in such funding that President Obama included in his proposed budget.

The new budget provides \$5.1 million for the Pennsylvania State Police to initiate a new class of 100 cadets beginning in October 2010.

While the budget does not raise taxes, the General Assembly and the Governor agreed to enact by October 1 a new levy on the extraction of natural gas. It would take effect by January 1, 2011. Details, including rates and structure, will be worked out over the summer.

Revenue that the new natural gas tax produces over the final six months of the fiscal year is not counted in the new budget, but will help guard against a continued weak economy and several looming financial challenges with which the state must cope in the next few years. Among those are sharply rising contributions required to maintain the financial integrity of the state's two major public pension systems, the expiration next year of federal stimulus aid to states, and billions of dollars in critically needed funding for the state's transportation infrastructure and public transit systems.

The Governor was disappointed that the General Assembly walked away from several other revenue proposals that he had offered to both avoid some of the harshest budget cuts and to prepare the state for the financial concerns of 2011-12 and beyond.

Legislators refused to eliminate the tax break for retailers who forward sales tax to the state on time (a potential 2010-11 revenue gain of \$73.6 million) and extend the tobacco products tax to cigars and smokeless tobacco (a potential 2010-11 revenue gain of \$41.6 million). They also rejected a number of common-sense business tax reforms, such as closing a loophole that permits nearly 75 percent of the companies doing business in the state to avoid paying the Corporate Net Income Tax (a potential 2010-11 revenue gain of \$66.6 million).

Legislators also failed to reach an agreement on a Rendell administration proposal to begin addressing the rising public pension costs. Projections indicate that by 2012-13, the commonwealth's contribution to the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS) will be \$3.7 billion, which represents a \$2.4 billion increase over 2011-12.

The Governor has called for a special session on transportation funding, to reconvene over the summer.

"With a \$3 billion shortfall in funds needed to keep Pennsylvania's roads and bridges safe in the coming years, elected officials should work this summer in a productive manner to address transportation funding – our citizens deserve nothing less than our best efforts to solve this challenge," he said.

As the Governor signed a budget that is fiscally responsible and keeps Pennsylvania on sound financial footing for the coming year, he warned that additional difficult decisions will be necessary in the future, and promised to use the remaining six months of his final term to put the state in the best fiscal position possible.

"The state will face significant financial challenges in the years ahead. The longer we wait to face them, the more difficult the solutions will be," Governor Rendell said. "I implore the legislature to work hard on these essential issues that remain before us in the summer and fall."

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Editor's Note: A budget fact sheet is available at this link:
http://www.portal.state.pa.us/portal/server.pt/document/852504/enacted_budget_10-11_facts-070310_pdf

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