

Governor: Text of Gov. Ed Rendell's 2008-09 Budget Address.

Budget Address, Fiscal Year 2008-2009 Edward G. Rendell, Governor February 5, 2008

Good morning. I am pleased to be with you today to present my proposed Fiscal Year 2008-2009 state budget.

We are gathered once again to begin the fundamental task of governing: setting priorities, making choices, and allocating resources in the budget to keep Pennsylvania moving forward. Today marks my seventh budget address - counting 2003, of course, when it was so much fun that we did it twice. Working together, we turned the many crises that we faced into tremendous opportunity for the people of Pennsylvania, and I am proud of the bipartisan spirit that has -- in the end -- always prevailed and allowed our Commonwealth to move decisively ahead.

Now, it's true that we don't agree on everything, and our bipartisanship can be pretty spirited at times. But make no mistake; it has been the key to the success that we have enjoyed over the last five years.

Back in 2003, when it was clear that we needed to take dramatic action to jump-start the Pennsylvania economy, we enacted an Economic Stimulus Program that resulted in the investment of nearly \$3 billion in Pennsylvania's economy - investments that, when combined with the Commonwealth's other economic development programs, have helped provide assistance to more than 78,000 Pennsylvania businesses; attracted more than \$19 billion in private capital; and helped create 189,600 net new jobs - and so today we have the highest number of jobs in the Commonwealth's history and an unemployment rate at or below the national average for 51 of the last 60 months. All of this was achieved in just five years.

While other states were maintaining the status quo, we made the difficult choice together to invest in Pennsylvania's future. Today, at a time when the national economy seems to be spiraling into a recession and many other states are struggling to deal with the impact of the national downturn on their budgets, Pennsylvania is in much better shape.

As you will see, the budget that I present today is tight, but we are not nearly confronted with the overwhelming budgetary problems that challenge many other states. California is facing a deficit of \$14 billion, our neighbor New Jersey is trying to close a gaping \$3.5 billion hole in their budget; Florida has a \$2 billion deficit, Illinois \$2.5 billion, New York \$4.4 billion, Arizona \$1.3 billion, Virginia \$1.2 billion, Ohio \$733 million and the list goes on. At least 24 states face state budget deficits that total \$34 billion. At the end of January, Pennsylvania's general fund revenues are \$199.4 million over the estimate and we are projecting that at the end of this fiscal year our revenues will exceed the estimate by \$427.5 million. Think of that - while those other states are facing these daunting deficits, we in Pennsylvania will have an end of the year surplus of more than \$400 million.

That we are positioned to protect Pennsylvania's progress is no accident. It is the result of hard work, tough choices, and a willingness to focus not just on the challenges that we face, but to

think about the road ahead. I commend you for that vision, and I look forward to continuing in that spirit this year.

Sadly, over the last five years we have honored another, far more solemn "tradition" as well - paying homage to the thousands of Pennsylvanians who stand in harm's way in Iraq, Afghanistan, and throughout the world. It's worth remembering that what we say and do about the budget has important consequences for all of us in Pennsylvania; but for the Pennsylvania service women and men on duty in Iraq and Afghanistan, their actions and their decisions each and every day can mean the difference between life and death.

No other state in the nation has sent more National Guardsmen and women to serve in the Global War on Terror: 16,000 members of the Pennsylvania Guard have served, and 39 have died, including four in the last year alone. Since the start of the war, thousands of Pennsylvania soldiers from all branches of the service have answered the call in the war torn regions of the world, and 195 have given their lives.

They deserve our deepest thanks, and I ask you now to join me in a moment of silence to honor those who have given the ultimate sacrifice; we should remember them and their families in our prayers. Let us keep the Pennsylvanians currently serving abroad in our hearts each day, and let us pray that they will be back home in Pennsylvania, safe and sound, one day soon.

Despite our progress, we face uncertain economic times both in Pennsylvania and throughout the nation. While the talk of recession alone may make it inevitable, I am heartened that both parties in Washington are working together to spur the economy with hopes that a recession never takes hold. The White House and the Congress appear close to finalizing an economic stimulus package. It is an important step that, when combined with the emergency interest rate reductions enacted by the Federal Reserve Bank, may yet rally the nation's flagging economy. Coming on the heels of the biggest national spike in unemployment since 911 1, and growing crises in both the housing and banking industries, we should commend our leaders in Washington for working to try to head off this downturn.

But we should do more, and do our part, here in Pennsylvania.

It is incumbent on us to follow the Congress' bipartisan example by doing all that we can to help those who will be hurt by the downturn in the nation's economy. I believe that we must act here at home to help the thousands of Pennsylvania working families who are being hit the hardest. We have come too far in the last five years to allow the national economic trends to stop US now.

That is why the budget that I am presenting today incorporates a comprehensive plan called Protecting Our Progress, one that calls for immediate action to stimulate the Commonwealth's economy and keep us moving forward. This budget outlines a series of steps to achieve this goal. Just as the economic stimulus program we created in 2003 has worked to revitalize and strengthen our economy, this short-term economic stimulus program will protect that progress and will keep us strong.

First and foremost, I am asking that we immediately follow Washington's lead by enacting a one-time Protecting Our Progress tax rebate of up to \$400 per household for 475,000 working families in Pennsylvania. We can issue this tax rebate within eight weeks of your action because we know who these families are - they are the hard working families who currently take advantage of our Tax Back program. While they don't pay any state personal income taxes, they do pay a disproportionate amount of their income in sales, gas and local taxes and they need our help NOW.

Lending a hand to our fellow citizens in need helps all of us in two very important ways. First, it will bring stability to these households, which have been hit hard by recent increases in the cost of energy, fuel, health care, and even food. Helping them pay their bills will keep their credit sound, and that keeps the economy stable. Second, the families we're targeting have limited resources, and they are more likely to spend these funds in the consumer sectors of the economy. When they do, that spending will help stimulate our economy, and that helps us all. It is my hope that this one-time rebate will be the precursor of a Pennsylvania Earned Income Tax Credit to be created in next year's budget.

In addition to this critically important short-term relief for working families, the Protecting our Progress initiative also includes the following elements, all designed to pump new momentum into Pennsylvania's economy:

- First, encourage businesses that are nervous about the economy to proceed with their plans to add jobs by increasing the Job Creation Tax Credit from \$1,000 to \$3,000 for each employee hired for one year;
- Next we will lower the cost of business expansion by substantially cutting the interest rates on Commonwealth loans offered through the Small Business First, Machinery and Equipment Loan Fund, and Industrial Development programs. It is my intention to enact this component of the plan immediately, and I will order the interest rate reduction effective tomorrow;
- We will boost funding for the Infrastructure Development Program to provide urgently needed infrastructure upgrades to help businesses expand or reduce the costs of operation. At least 30 projects are currently in the pipeline that could apply for Infrastructure Development Program (IDP) assistance if we had the funds – including two new corporate headquarters, two new manufacturing facilities and the expansion of two existing manufacturing facilities all of which could break ground this year;
- Next we will invest our resources to clear old industrial sites and make them ready for planned business development. We must re-fund our enormously successful Business In Our Sites program. Right now we have \$50 million in applications for site preparation which could begin almost immediately and pave the way for business expansion;
- We need to extend the successful Keystone Opportunity Zone program to accelerate the reuse of abandoned land and former industrial sites. For existing land within a Zone that has not been developed, we should extend the tax abatement period for another seven years. This extension will do for other cities what the Keystone Opportunity Zone did for Towanda. Had it not been for

the KOZ incentives, the DuPont Corporation would have closed its plant in Bradford County and moved those jobs to Asia. That KOZ saved 600 Bradford County jobs.

- We should immediately pass legislation that will release \$750 million in capital funds to help hospitals expand, construct new community-owned facilities and improve our towns and cities. Right now there are \$200 million in projects that could break ground before the end of this calendar year if the Redevelopment Assistance Capital Program legislation is passed. Projects like the new Emergency Department at St. Clair Hospital in Allegheny County, or the great Union Station redevelopment project so critical to the revitalization of Pottsville.

- Not only is it long past the time for action on these and the many other worthy projects; we can use these redevelopment funds to stimulate our economy and put more Pennsylvanians to work. To ensure that these funds will impact our economy quickly, of this \$750 million, \$250 million will be awarded only to projects that can begin construction before the end of 2008.

- We need to enact the Pennsylvania Energy Independence Strategy, which will permit the investment of \$850 million in one of the most promising sectors of our economy: the emerging new technologies and innovative ideas that can help us lower our energy bills and reduce America's dependence on foreign oil. Our investment will attract \$3.5 billion in new private capital, and it will create 13,000 new jobs in a true growth sector. Last Spring, Senator Brubaker introduced me to Seth Obetz and Herb Flosdorf who hoped to build an ethanol plant in Coney Township in Lancaster County. This project is ready to go, right now. Pennsylvania has the potential to be a major player in the alternative fuels sector if we invest our resources wisely to attract companies just like this one to our Commonwealth.

- At long last, we should pass the Jonas Salk Legacy Fund to provide \$500 million in seed capital and support for Pennsylvania's nationally-renowned health science research centers. These funds include support for \$1 billion in health-related research and treatment facilities such as the Penn State Cancer Research Center and the Children's Hospital Disease Center in Philadelphia. It is money that will create jobs and ultimately save lives, and it is available at no expense to state taxpayers because it will be funded by redirecting a portion of the Tobacco Fund revenues. At a time when it is critically important to stimulate the Pennsylvania economy, the Salk Fund can provide bricks and mortar support for the \$750 million in planned medical research facilities that are shovel-ready right now.

- We need to launch Rebuild Pennsylvania - a plan to speed up the revitalization of our infrastructure - with over \$270 million to repair our aging bridges, address our unsafe high-hazard dams, expand capacity at several regional airports, improve the state's rail lines, and complete scores of critically-important flood mitigation projects throughout the Commonwealth. Over three years, Rebuild Pennsylvania will take 1,000 bridges off the structurally deficient list and within ten years cut by almost half the number of bridges in need of repair. It will remediate every state-owned high hazard unsafe dam and help counties and local government repair their unsafe dams as well. The repair of these dams is a moral and physical imperative that I am determined to get done before I leave office.

· Finally, we must find a way to repair our infrastructure at the lowest cost to the taxpayers. To those who want to repeal the authority to impose tolls on I-80, I want to be clear that I will not sign any repeal unless we replace the vital funding those tolls will provide. Leasing the Turnpike may achieve this goal, and for that reason I believe this concept deserves very serious consideration. Let me also acknowledge the efforts of Senate President Pro Tem Joe Scarnati, who has made it clear that he is committed to finding new ways to work together on this important issue. I will continue to work with him and others to make sure funding is in place to address the urgent repair and upgrade needs of our roads, highways and bridges.

The economic stimulus initiatives that I have set forth represent a comprehensive effort to move forward in spite of the economic challenges that confront us. Some of these initiatives are new, particularly those that call for immediate short-term help for working families. But several of these ideas - the Salk Fund, for example, and the Energy Independence Strategy - have been introduced before. And, in many cases, Redevelopment Assistance projects that will have an immediate positive impact on the economy have languished on the drawing board for years. We have discussed and debated many of these ideas for months and months, and it is now time to act. Our state's economy, and the millions of lives that are tied to it, demand that we take these necessary steps as quickly as possible.

Now I realize some of you have staked out a position that the commonwealth should do nothing that increases its debt. This stimulus plan, including the Redevelopment Assistance Capital Program, Rebuild Pennsylvania and the Business in our Sites will add, by 2010, \$11.7 million to the debt service expense in the General Fund budget, an amount that is less than 1% of our total General Fund debt service expense. And I ask that all of you keep in mind that Pennsylvania ranks lower than 26 other states in terms of its ratio of state General Fund debt to personal income ranks. Our debt service is equal to 3.3% of all state revenues. Standards and Poor's considers any debt level under 5% of revenues to be a "low debt burden". And, remember as Ben Bernanke said, with the lowest interest rates in years, it is truly a propitious time to invest in the future.

I urge you to act right away to provide the tax rebates to the working families who today are finding it difficult to make ends meet. I propose that we immediately borrow the necessary \$130 million to pay for these rebates from the nearly three quarters of a billion dollar balance of the Rainy Day fund. Upon final budget passage we can repay the Rainy Day Fund and restore the balance to exactly where it stands today. The Job Creation Tax Credit threshold can be changed immediately without any impact on our budget. And of course Jonas Salk, our Energy Fund, and raising the debt limit on our Redevelopment Assistance Capital Program are all worthy of your immediate action, and will start energizing our economy prior to the passage of our budget.

In many ways this plan offers a more strategic targeting of stimulus resources than the federal program because this approach stimulates our economy by creating jobs that cannot be outsourced and will result in orders for construction and related materials from Pennsylvania and American suppliers. All in all, this stimulus program in its first year will pump over \$2.3 billion into our economy but tap only \$149 million of General Fund resources.

In his first one hundred days in office, Franklin Delano Roosevelt called the U.S. Congress into special session to address the horrific economic conditions of the nation. They responded with great vigor and speed. The New Deal paved the way for the last 75 years of economic progress. In urging its passage, President Roosevelt said: "This (great Nation will endure as it has endured, will revive and will prosper." While our fate is not nearly as bad today, the trends do look awfully bleak. That is why I urge swift action on these stimulus initiatives so that we can be assured that our economy will continue its revival and our citizens will prosper.

Ironically, the Great Depression grew out of a banking crisis. Today, our nation also confronts a banking crisis of significant proportions. To address the crisis he faced, President Roosevelt said, "We must work against a return of the evils of the old order; there must be a strict supervision of all banking and credits and investments; there must be an end to speculation with other people's money." His words have striking relevance today. That is why I urge swift passage of the package of mortgage banking reforms that are championed by Representative Pete Daley and Senator Pat Browne. We have all learned this lesson the hard way -- our laws and regulations need to be tightened to protect homeowners and communities. Nothing is more important to Pennsylvania families than their homes; we should move swiftly to secure them.

Doing nothing is not an option if we want to protect the gains we've made together since 2003. But by acting now, we can stimulate Pennsylvania's economy, protect our citizens from the impact of a national downturn, and continue to make the Commonwealth more competitive in the battle for jobs and opportunity.

This is not a Democratic or Republican crisis, and the response in Washington should serve as an example to us all. So let's follow their lead. I welcome suggestions from all four caucuses on how to supplement, modify or improve this stimulus plan, just as President Bush did. I am willing to incorporate reasonable legislative suggestions into this vital effort. Let's once again put Pennsylvanians ahead of partisanship, recognizing that when we do, there is no limit to what we can achieve.

This budget calls for Pennsylvania to husband its resources, and to make the same kinds of strategic investments that grow key sectors of our economy. We need to prioritize our investments and focus on our economic strengths to maximize the return for the taxpayers. One of the best ways to do this, as I said earlier, is through renewed support for Pennsylvania's burgeoning alternative energy industry.

Ladies and gentlemen, the fact is that Pennsylvania's economy is growing "greener" every day. Since 2003, with the help of more than \$120 million in state funds and nearly \$300 million in federal funding, Pennsylvania is now a national leader in the field and we are home to some of the world's leading renewable energy companies.

One of our goals is to produce, in Pennsylvania, at least 18 percent of all the clean renewable energy sold in the state by the year 2021. And we're going to do it. Working together, we passed the Advanced Energy Portfolio Standards legislation in 2004 which has set off a rush of economic activity in the production of renewable energy.

But we also must do the same thing for our fuel consumption and reduce our dependence on foreign oil. I call on you once again to pass the Penn Fuels Initiative bill, which requires that one billion gallons of Pennsylvania-grown biofuels, including ethanol, be produced and consumed in Pennsylvania by 2017. In the recently passed federal energy bill, conservative Republicans and liberal Democrats alike voted to increase the federal ethanol standard six-fold.

But they also did something visionary - requiring that a substantial percentage of that ethanol come, not from corn, but from cellulosic material such as switchgrass, wood chips, wood fiber and agricultural waste. Pennsylvania has these feedstocks for cellulosic ethanol in abundance, so I ask you to follow their lead and require that a significant percentage of our ethanol requirement come from these sources as well. It doesn't take much imagination to see Pennsylvania's energy economy booming when we become to cellulosic ethanol what Iowa has been to corn-based ethanol.

The time for action is long overdue. We can and we must achieve independence from fossil fuels in general, and we can and we must reduce our dependence on foreign oil in particular. It's good for the environment, and good for the Pennsylvania economy, too. The state that becomes a leader in renewable energy will be a state that will have a vibrant economy for decades to come.

Protecting Pennsylvania's progress requires that one of our highest priorities must be to reduce the cost of health care for all businesses across the state, even as we meet our moral obligation to ensure access to affordable health insurance for all Pennsylvanians. That is why I once again ask the Legislature to enact the Prescription for Pennsylvania, the comprehensive health care plan that I originally introduced a year ago. The Prescription for Pennsylvania will lower the cost of health care for all of us, and it will improve our quality of care at the same time.

I am pleased that we have made steady progress on this initiative, and I commend the members for working diligently to address these critical issues. It's important to remember that before MRSA became a household word in America, we had taken action with the best legislation in the nation to curb its spread. We enacted Act 52 of 2007 which requires health care facilities to report all incidents of health-care associated infections, and they must adopt plans that incorporate "best practices" to reduce or eliminate them. It is the first law of its kind in the history of the Commonwealth, one that actually incentivizes hospitals to reduce infections by awarding "performance payments" when these institutions reduce infections by at least 10 percent. The first funding of these life saving incentives is included in this budget.

Working together, we also enacted new measures to ensure that all licensed health care providers - including nurses, midwives, physicians' assistants and dental hygienists - can be more fully utilized. They have dramatically increased the accessibility of health care for many of our citizens and have helped to reduce and constrain cost. We must also improve the prevention and treatment of chronic diseases like heart disease, diabetes and asthma, which together account for nearly 78 percent of all health care costs in Pennsylvania.

The savings are enormous -- \$2 billion in 2005 alone, simply through better management of chronic conditions. This budget launches our chronic care management efforts and perhaps the most ambitious statewide electronic medical record system in the nation.

The budget includes other elements of the Prescription for Pennsylvania plan: prescription drug coverage for the poorest Pennsylvanians who receive health care but no drug coverage; targeted funds to increase access to primary health care in underserved areas throughout the state; and our first-ever funding of health "equity" strategies aimed at eliminating racial and ethnic disparities in access to quality health care.

These programs, together with the tremendously successful "Cover All Kids" initiative to provide universal health insurance to all Pennsylvania children (which has resulted in a 20 percent increase in enrollment in just two years), will extend the health care safety net to many more of our most vulnerable citizens. Thanks to your earlier efforts, that safety net also includes the expansion of the great prescription drug programs -- PACE and PACENET -- which compared to 2002 now helps 42% more senior citizens.

And finally, the medical malpractice reforms enacted over the last four years are clearly working: the number of practicing physicians in Pennsylvania has remained stable; malpractice insurance rates are decreasing; malpractice claims are down by more than one-third since 2002; and the dollar value of claims paid last year from the MCARE fund was the lowest in more than a decade. In fact, for the last three years our two largest private insurers have not increased rates and this year, reduced them by seven and eleven percent. Together, I believe we can drive these costs down even further. And, we must ensure that as we cover the uninsured we maintain our commitment to help health care providers purchase medical malpractice liability insurance.

There is no question that we have made a good start in addressing health issues in general and the Prescription for Pennsylvania in particular, but I urge you to work with me to finish the job and ensure access to health care that is affordable to all.

It should shock the conscience of every Pennsylvanian to know that nearly 800,000 of our citizens lack health insurance. They pay a terrible price, but we do, too, because when they the bill.

Expanding affordable health care makes sense, and investing in ways to provide it while also reducing its cost for Pennsylvania companies is a vitally important way to improve our economy. In the first six years of this decade, health care premiums skyrocketed by more than 75 percent. During this same period, 450,000 workers lost employer-provided health insurance in Pennsylvania, more than any other state in the nation except California. At the same time, three states have already acted to make affordable health coverage available to all of their citizens.

We can't kid ourselves any longer. The cost of escalating health care coverage is crippling small business in Pennsylvania, and for growing numbers of our fellow citizens, lack of health insurance can literally be a death sentence. If you are a working Pennsylvanian without health insurance and you get cancer you may be able to get sporadic treatment in hospital emergency rooms but you will never be able to get access to the consistent treatment and the extraordinarily expensive medications you need to win the battle to stay alive.

There really is only one answer: We must tell our sickest Pennsylvanians that we are going to help them by ensuring access to health care for every citizen and we're going to do it this year.

Cover All Pennsylvanians is the means to achieve this objective. When I introduced it last year, I said that the program would be supported by the state and offered through private insurance companies. The key is that all uninsured adults in Pennsylvania, no matter what their employment status or income level, will have the chance to purchase affordable health insurance under our program.

And let me be clear about how we intend to pay for it: when I introduced the program last year, I said that funding support could come through federal Medicaid funds and enrollee premiums, redirecting funds currently used to fund the Adult Basic program, and new and increased taxes on tobacco products - a tax widely supported by our citizens. I also called for the creation of a Fair Share Assessment. But to help achieve consensus in support of the program, however, earlier this year I proposed an alternative funding approach that taps the surpluses from the state's Health Care Provider Retention Account, which helps physicians defray the cost of their medical malpractice premiums. We can both help our doctors meet their medical malpractice costs and give working Pennsylvanians access to affordable health insurance with these funds.

While we can discuss alternatives about how to pay for it, it is well past the time to commit to providing affordable health insurance to all of our citizens. It is the right thing to do, and it is also the smart thing to do. Providing coverage for all at reasonable rates means that taxpayers and the ratepayers themselves won't be saddled with having to pay for uncompensated care. It provides a way for small businesses to offer coverage that they can afford, positioning these companies to be more competitive than ever before.

Finally, I urge the Legislature to enact the other remaining elements of the Prescription for Pennsylvania: protecting public health by banning smoking in public places; smoothing out the spikes in health care premiums through better management of the individual and small-group insurance market; and protecting our health consumers by making it illegal to refuse to insure them at reasonable rates because of a pre-existing medical condition. This reform will insure that in the future a diagnosis of cancer will no longer be an automatic death sentence for any Pennsylvanian.

Now, I recognize that there will be those who argue that health care reform is too intrusive, or too expensive, or that concerns about the expanding role of state government compel us to resist implementing these reforms. The fact is that Cover All Pennsylvanians, and our entire Prescription for Pennsylvania, will add no more than 100 state employees. And the facts make it perfectly clear that when it comes to health care reform, the most expensive option remains doing nothing. Added together, health care inefficiencies last year cost Pennsylvanians more than \$7 billion a year, an amount equal to more than 25 percent of the entire state General Fund budget.

So let us act to ensure greater affordability, greater access, and improved levels of care for all of us, while improving the competitiveness of Pennsylvania businesses.

The great strides that we will make in Protecting Our Progress -through strategic short and long-term investments in our economy, establishing Pennsylvania as a national leader in the effort to reduce American dependence on non-renewable energy sources and foreign oil, and in seizing

the initiative to control spiraling health care costs - all of these measures bode well for Pennsylvania's ability to survive and thrive during a time of national economic recession.

But I don't want to mislead you. The truth is, no matter how well we prepare, we're not out of the woods by any means. Despite our progress, ours is a boat that can still be swamped by the shifting tides of the national economy. As a result, this state budget is very challenging, and it requires that we spend our resources as wisely as possible.

For these reasons, it is a low-growth budget with an increase of just 4.2 percent over the current year's budget keeping pace with the current inflation rate of 4.1%. The majority these increases are for finding of mandated or other essential services like Medical Assistance and Corrections. Moreover, this budget also makes it clear that as a government, we must lead by example in a challenging economy and continue to squeeze every nickel of waste and inefficiency from the cost of government.

Today, the Commonwealth's administrative spending is still 2.3 percent lower than it was five years ago. That means we are spending over two percent less in real dollars on the business of running the government - without even adjusting for inflation. And we have implemented a variety of cost-saving measures to drive down the cost of government by \$1.2 billion annually - savings that we redirected into expanding and improving citizen services.

And we have done so with no discernible reduction in productivity. To the contrary, all signs point to higher productivity levels at a wide variety of state agencies. For example:

- The Governor's Action Team, whose mission is to retain and attract new businesses to Pennsylvania, assists 25 percent more companies today than it did in 2002;
- The Department of Environmental Protection issues more than 2,000 additional permits each year than it did in 2003. For the first time in decades, DEP now regularly issues permits in less than a month, without any staff increases;
- More than 17,000 additional applications for PACE and PACENET benefits were processed in 2007 by the Department of Aging than there were in 2002.

Recognizing that state government has become significantly more productive and efficient as a result of these initiatives, we nevertheless understand that we must do more in this regard. For this reason, I asked agencies to cut their preliminary budgets by \$100 million.

Let me make one final point on the subject of state spending. The critics have made something of a sport out of attacking the amount that the Commonwealth spends each year on "welfare." The clear implication of these attacks is that we are pursuing an agenda that seeks to expand the "welfare state."

The time has come to stop the demonizing the welfare budget. The fact is its growth is not fueled by welfare recipients. I want you to listen carefully to these facts: since 2003, the Commonwealth has been recognized repeatedly by the federal government for its effective

oversight of the Food Stamp, Child Support Enforcement, and welfare programs. Today, our welfare rolls are lower than anytime since 1961. The principal reason for the increasing Department of Public Welfare budgets is rising Medical Assistance costs - incurred through programs that care for the elderly and disabled in communities across our Commonwealth.

These are necessary and appropriate expenses, to be sure, and it is our obligation to fund them.

If you think that the widow of World War II veteran in a nursing home is not entitled to Medical Assistance you are sorely mistaken - and if you don't, then by no means can you justify attacks on our Medical Assistance increases. Let's pledge today to stop misleading our citizens about these costs, because the inaccurate attacks on these vital social programs strike fear in the hearts of the seniors and disabled whose lives depend on these very programs.

Finally, and proudly, I want to turn to the investments that we have set forth for public education in this budget. We have made historic progress in improving the opportunities for young people across the Commonwealth to obtain a quality public education.

Teachers and administrators all over Pennsylvania have worked diligently to maximize the benefit of the wise investments we have made together in pre-K and early childhood education, tutoring, high school reforms, Classrooms for the Future, and the accountability Block Grant.

Back in 2003, critics said that money alone would never solve the problems of public education, but the fact is that many of our public schools were desperately short of the funding they needed to even have a chance at providing quality education. Working together, we are closing that gap, and the results demonstrate that our investments have been worthwhile.

The percentage of students who have grade-level or better skills has increased in every grade since 2002. In fact, according to the most respected national experts who annually produce the Nation's Education Report Card, Pennsylvania is one of only nine states that have made significant improvement in both elementary reading and math skills since 2003. I know you were as excited as I was to read the Quality Counts reports recently issued by Education Week that found only three states in the nation doing better than Pennsylvania on a host of key achievement indicators, including our number one ranking in early childhood education improvement.

Our progress is undeniable - but so is the challenge before us. Forty percent of our high school graduates still cannot do twelfth grade work. We have collectively made a commitment that by 2014 every student in our schools will be able to read, write and do math at grade level. I am determined to work with you to live up to that commitment.

This budget continues that commitment to place a high priority on Protecting Our Progress in education, and in building a funding system that rewards achievement and makes strategic investments in proven programs that enhance our children's future. This budget continues to support the many successful innovations that have been implemented since 2003, including:

- The extraordinarily impactful Classrooms for the Future which has parents, teachers and students abuzz with excitement about this new way of learning in our high schools;

- Dual Enrollment programs that offer high school students the chance to earn college credit,
- Pre-K Counts which together with other early childhood resources means that next year 35% of our eligible children will be enrolled in a quality pre-K program,
- The nationally respected Science: It's Elementary program, and
- Our especially effective Accountability Block Grant which is responsible for boosting our full-day kindergarten rate up to 63%.

The budget also provides a 5.9% increase in the Basic Education subsidy, and \$30.3 million more for the Special Education subsidy.

But most importantly, this budget begins the process of building a new school funding formula that will finally provide all Pennsylvania public schools with the resources they need to provide a quality education. And it is built on the study that was done at the direction of the General Assembly.

As you know, the General Assembly's recently released "Costing-Out Report" provides specific school funding targets for every Pennsylvania school district - remarkably, the first such document of its kind in state history. The study found that the "adequacy gap" for basic education funding is \$4 billion, of which we believe \$2 billion is the state's share.

I am proud to report that this budget incorporates the findings of your Costing-Out Study, and includes a new funding formula that phases-in over six years the funds to help all

Pennsylvania school districts reach the funding targets established by this ground-breaking research.

This new approach to school funding accomplishes three goals:

- It ensures adequate resources for every school district;
- It demands the establishment of new measures to provide strict accountability to Pennsylvania taxpayers; and
- It charts a course for future funding that is both responsible and sustainable, subject to the challenges of the state budget or the national economy.

This proposal anticipates that it will take six years to phase in the state share of adequacy funding. And it relies on strict accountability controls for the use of these new resources. I strongly agree with the sentiment voiced by a representative of the House Republicans who said in Sunday's Philadelphia Inquirer that we cannot continue to give new funds to districts without holding them accountable. We must ensure that more money means more and better educational services for our students. I am proposing that we require that new state funds over the Act 1 index rate be spent on programs that improve student achievement such as extra time for

learning, new and more rigorous courses, advanced teacher training, early childhood education, bolstering the recruitment of more effective teachers and administrators, and then making sure that the compensation for these school leaders is tied to performance as well.

Finally, and perhaps most importantly with respect to accountability, this plan calls for the Department of Education to serve a special watchdog function for fifty-five school districts identified statewide as needing improvement. For these districts, the Department must approve all individual school district plans for investing new taxpayer dollars, so that we can be confident that the resources are being targeted in the most effective manner for the children of these schools.

Ladies and gentlemen, your Costing-Out Study makes good sense, and it sets targets that we must achieve if we are to meet the 2014 goals of No Child Left Behind. I have incorporated the Study's findings and recommendations into the budget because they help protect the historic progress we have made thus far, and because they offer what may be our best chance in a generation to adequately fund public education in Pennsylvania. For the sake of our children's future, and for the sake of Pennsylvania's continued competitiveness in the global economy which depends so much on the availability of highly skilled workers, we must come together to achieve the goals of the Study as incorporated in this budget.

In the final analysis, good government is about finding ways to meet the challenges that we face each year, and to respond in ways that serve the interests of the taxpayers without losing sight of the long-term consequences of our actions. In other words, it's our job to move our Commonwealth forward, and then protect that progress.

The budget I propose today confronts the looming prospect of a national recession by proposing a series of economic stimulus initiatives that will prevent, or at least mitigate, its impact on Pennsylvania families and businesses.

It is a slow-growth budget, one that keeps a tight rein on state spending even as it calls for renewed efforts to reduce the cost of government. But it also focuses on our future, calling for strategic investments in energy, health care, and education to ensure that Pennsylvania is positioned both now and in the future to take its rightful place among the leading states in the nation.

But in the end, as always, it is a budget that compels us to work together to address the challenges that we face. Over the last five years that it has been my honor to serve as your Governor, I have consistently been reminded in ways large and small that while we disagree - and disagree passionately - on a variety of issues, on the things that really matter, we share remarkably similar views.

We all want to strengthen our economy to create new jobs and opportunities for our fellow citizens. We all share an abiding commitment to improving the lives of individuals and families in every corner of the Commonwealth. And we all want a better future for our children.

We have it in our power to achieve all of these objectives, and the time to start is NOW.

Because of the conditions that exist today, the people of Pennsylvania are watching us more closely than ever to see if we can put aside our differences and get things done. I know that working together, we can prove that Harrisburg can and will be the catalyst for the change that allays their fears and brightens their future.

Thank you.

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