



Executive Budget Address, Fiscal Year 2010-2011
Edward G. Rendell, Governor
February 9, 2010

Good morning. I am pleased to be with you today to present my proposed FY2010-2011 state budget. This assembly represents a critical facet of our democracy, a democracy defined in ink and defended in blood. And to this day the defense of our values continues. As we gather today, more than 590 Pennsylvania National Guard members are on duty in Iraq and Afghanistan just as they have been for the last eight years. That's quite a contrast to the all time high deployment of more than 5,500 Pennsylvanians. Finally the real troop withdrawal is happening, but we must keep these Pennsylvanians who remain on the front in our prayers every day until all of them come home safely.

It's a great relief that the 56th Stryker Brigade is now back in the U.S after having served so brilliantly in Iraq. I am honored that their Colonel, Marc Ferraro, the commander of this Brigade while they were in Iraq, is with us here today. So too is Lt. Colonel Scott Perry, a state representative from Dillsburg who commanded the General Support Aviation Battalion. And we welcome home another one of our own, Staff Sergeant Nick Miccarelli, who completed his second tour of duty in Iraq where he served as a door gunner on a Blackhawk Helicopter for the Army National Guard. We are thankful that they and so many others have come back safe and sound. I ask Colonel Ferraro, Colonel Perry and Staff Sergeant Miccarelli to stand and be recognized for their brave service.

Sadly, however, two Pennsylvania guard members were killed while deployed this year. Since 9/11, 235 Pennsylvanians have died in the line of duty in Operation Enduring Freedom and Operation Iraqi Freedom. Forty six of these tragic deaths were Pennsylvania guardsmen and women.

And we should also take note of yesterday's passing of one of our greatest Pennsylvanians, Congressman John Murtha. Jack did so much for so many of us throughout the Commonwealth. He was the greatest supporter of the military in the U.S. Congress. He was extremely proud of the Pennsylvania National Guard and of all Pennsylvania's service men and women.

Four weeks ago today, a major earthquake struck the troubled nation of Haiti, wreaking death and devastation that, despite the heart-wrenching photographs and video we see each day, is still hard to even comprehend. The death toll is projected at 200,000 people, and the earthquake has left nearly 10 percent of the *entire country* homeless. It is a catastrophe of enormous proportions, and yet through it all we have once again seen the tremendous capacity of our fellow Americans – including 62 members of our Air National Guard – who have opened their hearts and freely giving of themselves to answer the call for help.

As you know, the First Lady and I traveled to Haiti to assist in the recovery of 54 Haitian orphans. They are safe today, thanks to the outstanding dedication of Jamie and Ali McMutrie – two young Pittsburgh women – and the great people at UPMC Children’s Hospital. With us today are Carolyn Simon and her newly adopted son Wadner who was one of the children rescued by the McMutrie sisters. I am so proud that Wadner is now a resident of Hatboro Pennsylvania and I know we all thank Carolyn for opening her home to Wadner.

Playing a small part in rescuing these children has been the most personally rewarding experience of my 40 years in public life. But the real heroes in the story are Jamie and Ali, who kept these children – half of whom are infants – safe for nearly a week after their orphanage in Haiti was destroyed, and who told authorities that they would not leave unless all 54 children could leave as they had lived – together, as a family. Jamie and Ali’s resolve triumphed over every bureaucratic obstacle, and today almost all of these Haitian children have been adopted by loving American families.

Jamie and Ali McMutrie are here with us today. Please stand so that all of us can thank you for the terrific work you’re doing.

I want to commend the many Pennsylvanians who have volunteered to help in Haiti, and I urge all Pennsylvanians to continue to assist this effort in any way they can. I also ask that you keep these volunteers and the tens of thousands of earthquake victims in your prayers every day.

Now let us observe a moment of silence for our fallen Pennsylvania service men and women, the earthquake victims in Haiti and for our great fallen leader Jack Murtha.

Over the last seven years I have stood before you to present a series of budgets that have generated great change in Pennsylvania. Together, we have worked hard to reduce the size and the cost of state government, to cut wasteful spending, to make historic investments in public education as a cornerstone of economic development, and to reduce property taxes for all Pennsylvanians. We have grown our economy by cutting business taxes, and by making smart investments that have leveraged billions of dollars in private investment to create jobs and opportunity for our citizens.

It hasn’t always been easy, given the tone and the often partisan nature of our debate. And as the pundits are quick to remind us, it’s never been done quickly. But on the issues that matter most to our future, working together, it’s been done *right*.

It wasn’t easy to keep Pennsylvania’s finances from collapsing during the worst economic recession America has endured in 80 years. Last year, the recession forced us to close a \$2 billion budget deficit. Let me put that in perspective for those who don’t understand what that figure really means. Our state budget is approximately \$26 billion. But nearly 80 percent of that budget is for things that are mandated expenses – in other words, things we are required by law to pay for, things like pension costs for state

employees, or the cost of operating our corrections system, or the Medical Assistance program, or fixed school funding costs. But the amount of *discretionary* spending in the budget – spending that *we actually control* – totals \$5 billion, or less than 20 percent of the entire budget.

Think about that for a minute: the reality is that we were forced to close a deficit that amounted to almost *half* of the spending that we can control. I don't care whether it's leaders in Harrisburg or families sitting around the kitchen table trying to balance the family budget, digging out of a hole that big is a monumental task, one that demands tough decisions and inflicts no small amount of pain.

But we did it. Today we actually are spending less to manage the operations of state government than we spent in 2002. The cost of operating the state government has been reduced by \$1.75 billion annually. We made some very difficult and painful decisions: we eliminated funding for 142 line items in the budget, and over the last 18 months we have reduced funding for almost every one of the 657 total lines in the budget. Some of these programs were no longer needed, and others were clearly under-performing. But many were worthwhile programs that, under different economic circumstances, we would have preferred to keep or even expand. 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. 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. As a result of greater efficiencies and the tough decisions to cut spending that we made last year, the current year's budget in total state spending is \$2 billion lower than the previous year.

Throughout my Administration, we have been tireless in our pursuit of eliminating wasteful and fraudulent spending. As a result, today Pennsylvania is a national example for cutting down on welfare and food stamp fraud and abuse. Since 2003 we have earned numerous awards and commendations from Washington for making sure that no one gets a dime more than they deserve from our benefit grant programs. We also have implemented state of the art systems to make sure that only U.S. citizens who qualify for them receive public benefits. And we have been recognized and rewarded for the numbers of welfare recipients who are working and working at good jobs that come with health benefits. Only seven years ago the state struggled to move welfare recipients to work. Today the percentage of single parents who are collecting TANF and who are working or in training is at an all-time high.

Recently, the *Wall Street Journal* reported that Pennsylvania is the only major industrialized state, and the only state in the Northeastern United States, that can be considered fiscally sound. And let's remember, we did all of this while providing the largest property tax cut in the history of the state. To date, we have delivered \$1.7 billion in property tax relief, and the cumulative value of our business tax cuts over the last seven years is \$5.7 billion.

Ladies and gentlemen, these extraordinary facts are not victories of philosophy or party. They are not Democratic or Republican achievements. And the truth is there

remains much work to be done. But these accomplishments are clear evidence of the things we can achieve for Pennsylvania's future when we work together.

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. 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 at this time, our revenue gap was three times bigger than it is today.

Across the country and here at home, there is clear evidence that our economy is recovering. Personal income is up in Pennsylvania, and growing faster than the national average. The jobs hemorrhage has subsided, the stock market is up, and the evidence indicates that in the fourth quarter of 2009, the U.S. economy grew at its fastest pace in the last six years.

Are we out of the woods? Not by a long shot. Despite all of our efforts, we have a projected \$525 million deficit in this year's budget that will once again impact all of the spending decisions we make. And 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. One important area where we can achieve this goal is alternative energy, and once again I call on you to enact new legislation that will allow Pennsylvania to maintain its position as a national leader in the field of alternative energy. Six years ago, we passed an Alternative Energy Portfolio Standards that was one of the most ambitious of its kind in America, requiring that 18 percent of all retail electricity sold in Pennsylvania had to be from clean and renewable resources.

Since then we have made remarkable progress. We ranked second in the nation in wind power growth in the second and third quarters of 2009 and we doubled the amount of wind power operating in Pennsylvania in a single year. By this December we will be among the top five states generating solar power and we now have more than 300 solar component companies in the state. All told, we have invested nearly a billion dollars in alternative energy and fuel projects creating jobs in every corner of this state. And our funds have been matched by more than \$3 billion in private investment. Due to our efforts, the Pew Center on the States ranked Pennsylvania third in the nation for green job creation behind the powerhouse states of California and Texas.

The problem is that we will not be able to stay at the front of the pack for long. Since we passed our Portfolio Standards bill other states have enacted higher standards that will make them more attractive for future investment and reduce Pennsylvania's competitiveness. 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.

I am also eager to begin to work closely with you to implement some of the recommendations made by the Climate Change Advisory Group that you established. Given the diverse make-up of the panel, it's astonishing that 90 percent of the recommendations were unanimously adopted. Many of the Group's recommendations advance our efforts to stem global warming *and* create jobs. Let's focus on those that are "win-win" for the planet and our people. We may not agree on everything, but this is something we can do together, and I urge you to pass the legislation to put these recommendations into action this year.

This year we should also finish the job of creating 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. In doing so, we can offer improved health care for public school employees even as we ensure that a greater percentage of our tax dollars are spent on improving the quality of the education our children receive.

If we stop and think about it, I would bet that almost everyone in this room knows someone collecting unemployment right now. You might also know someone who is out of work but cannot collect unemployment compensation because of our outdated laws that often don't count every hour you worked. The good news is that the federal government will give us hundreds of millions in additional funds if we end our antiquated approach. We cannot wait any longer to pass legislation that would update how we calculate unemployment. There are nearly 30,000 Pennsylvanians depending on us to update the law so that they can access the system – the same system to which they contributed when they had jobs – and collect what is rightfully due to them. And while we are on this topic, we applaud the employers who made the moral decision to keep their businesses going with fewer hours just so their workers can count on some income. If we act swiftly to pass Work Sharing legislation, workers in these companies could get unemployment for the lost hours that helped preserve jobs. Nothing should get in our way of getting this done. I realize that down the road there may be some long-term cost to employees and employers alike by crafting a modern system. But it's the right thing to do: if you work and pay in, and then lose your job through no fault of your own you should be able to collect. It should be as simple as that.

Last month, citizens across the state were in sticker shock when the cap on electricity charges expired in the PPL territory. I am determined to work with you to ensure that fair plans are put into place – backed by our laws – that guarantee that our citizens can choose to phase in these increases and not be charged more for doing so.

If these proposals are enacted this year they will reap benefits for years to come. Our economy will continue to lead the nation in alternative energy and fuels. We will lead the world in cutting-edge carbon strategies that can put Pennsylvanians to work in good jobs. Our schools and local taxes will be more stable and every hard working Pennsylvanian will be able to depend on the helping hand of unemployment benefits if

we face these troubled times ever again. And families across the state will not find their household budgets busted by skyrocketing electricity costs. These are urgent and necessary pieces of legislation that I hope we can conclude before the end of this session.

I know that many of you have championed each of these key legislative initiatives. And I know leaders on both sides of the aisle and in both chambers want to get things done. What thwarts our process most in my estimation is not disorganization or dishonorable behavior, it's the meddling of special interests that carefully mete out misinformation and have mastered the art of "divide and conquer." They are good at what they do and they have plenty of money to do it. We now require some special interests to report on their activities. But the time has come to put stricter controls not simply on what they report, but on what they do.

On January 16, 2007, the first day of my second term, I called on the Legislature to enact a cap on campaign expenditures. I know that several house members have been trying to get that legislation passed ever since. It seems pretty simple to me, if you pass a comprehensive bill limiting campaign contributions you can spend less time fundraising and get back to the real reason we all came here – to make life better for the citizens we serve. I also called for a citizen-based, independent approach to the redistricting process in the hope that this change could be approved in time for the reapportionment that will take place 10 years from now, in the year 2020. Citizens should be at the table when we make these important decisions.

And while we are considering constitutional amendments, our courts are faced with a serious credibility crisis. After all that has recently occurred, the time has clearly come to move a merit selection amendment through both chambers because it will have widespread public support and because it's the right thing to do. These are important steps forward on the road to reform. Let's enact the laws that restrict the ability of special interests to unduly impact our policies and manipulate our process. Let's put Pennsylvanians first.

The evidence makes it clear that we have turned a corner in Pennsylvania, and the budget that I present today is based on what our economists believe is a conservative and realistic projection of growth in state revenues of 3.2 percent for the next year. It is a tough budget, to be sure, one that maintains the cuts we've already imposed, and it does not provide for any new programs or services. Just as important, we can balance it without the enactment of any new taxes. This budget meets the tenets and the spirit of the agreement we reached last fall, an agreement I intend to honor.

But as we embark on our work this year, I ask that we do a better job of putting statesmanship ahead of partisanship, and putting the public interest ahead of special interests. While I recognize that our process frequently has been slowed by the complexity of the issues we have confronted in recent years, I believe that we have an obligation to enact a state budget by the constitutionally-imposed deadline of June 30th.

As you know, the media made much of the budget impasse of 2009. I was asked when I signed the budget if it was worth the delay. I said then, and I still believe it today, that our summer struggle resulted in a better budget – a budget that made the right choices for the Commonwealth in these tough times. But we know that the delay did cause suffering along the way.

That suffering together with the lack of civility, the loss of public trust, the lessening of faith in the government's ability to address any issue in a fair and reasonable way, should concern all of us. And let me be clear. We ALL share some responsibility for that. Rank and file members should not hide behind their leaders, and leaders should not hide behind their caucuses. Majority caucuses don't get a blank check and minority caucuses don't get a free ride and neither do I.

Now more than ever, our fellow citizens need to see us at our best. But what they've been seeing confirms their worst fears about government as a quagmire in which partisan posturing leads to hopeless gridlock. What they have seen completely blinds them to the tremendous substantive accomplishments this Legislature has achieved over the past seven years. People want us to work on **their** problems, not to create our own. As President Obama said, "We were sent here to serve our citizens, not our ambitions." So let's show them we can do it together. Let's do what they ask of us. Let's govern for the common good.

I congratulate the leaders in all four caucuses for accelerating the legislative hearings on the FY2010-2011 budget, so that we will get an earlier start this year in debating these issues. For our part, my Administration is committed to providing all of the supporting information, and making available Administration officials to testify to meet the demands of this schedule.

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.

The proposed budget that I present today relies on modest revenue growth. Like you, I remain steadfast in our commitment to maintain discipline in these forecasts, and the budget reflects this realistic approach to the challenges that we face.

By contrast, the long list of states with budgets based on unrealistic revenue projections demonstrates the danger of not following our more conservative approach. While it is true that we must close a budget gap this year – no small task, coming on the heels of the historic two billion dollar deficit we faced last year – the reality is that many other states have it much tougher. Last year's adoption of my Administration's conservative revenue growth projections saved us from having to make deep mid-year cuts. We stand in stark contrast to the 17 states that have enacted or are currently considering unpaid furlough days for state employees, which in some cases will cut as much as 14 percent of annual employee salaries. Scores of other states, including our

neighbors in New York and New Jersey, are reeling from budgets that continue to bleed red ink in the billions.

We've already done a lot of the hard work needed to keep our budget on track. Our challenge now is to balance the budget without new taxes and still make investments in a way that keeps our momentum going.

The proposed FY2010-2011 state budget that I am submitting today is \$26.3 billion. It reflects the rising cost of our mandated obligations, yet it is still \$2 billion *less* than the budget approved by this Legislature two years ago.

Its growth is largely limited to non-discretionary spending requirements. The biggest single budget increase, for example, is in the Medical Assistance budget that provides care for the elderly, children, the poor and the disabled. Unfortunately, the national recession has increased the demand for these critical health care services, and while we continue to squeeze every nickel of waste or unnecessary spending out of these programs, the fact remains that we must pay our share of this bill. The proposed budget includes tough new welfare cost controls to ensure that we continue to meet the threshold test I have imposed ever since I became Governor; that is, that our programs do not result in the loss of health care for any of those who can least afford it. For example, we are improving our job training programs and cutting their costs by ten percent. And in addition to protecting health care for the most vulnerable, we also provide for sufficient funding to enroll an additional 10,000 children in our great Cover All Kids program – that's a five percent increase over the number of children enrolled right now.

When it comes to health care, it's a tragedy that there are more than 380,000 people on the waiting list for our Adult Basic health insurance program. Two years ago the House passed a bill that would have taken us a long way toward ensuring that every Pennsylvanian has health care coverage. Today, it seems that this challenge will not be solved until Washington enacts a federal bill to address the crisis in health care access that exists in every state. But until then, we must at least maintain our commitment to the Adult Basic Program, which is funded to provide insurance to nearly 50,000 working Pennsylvanians who do not have employer health care coverage. In keeping this commitment, I fully expect to work cooperatively with you to enact legislation that would tap the profits or accumulated surplus earnings of affected health care insurers to help the state keep this program fully funded.

Despite these challenges, the FY2010-2011 state budget reflects our continuing commitment – and by that I mean both my support and the tremendous support of this Legislature – to funding the needs of public education in Pennsylvania. Of all the things I've had the good fortune to be a part of as Governor, I think that without question our commitment to improving the education of our students is the most important, and I want to thank you for your hard work on these issues.

Over the last seven years, despite the many challenges that have confronted Pennsylvania, we have together increased annual state spending for public education by

more than \$3 billion. We have recognized that increased funding for education is a key driver of economic development, because it produces young people who are better able to take their place as productive members of society. Together, we have built the nation's best early childhood education infrastructure, and we enacted a school funding formula based on a costing-out study commissioned by, yes, the General Assembly, that is closing the "adequacy gap" in education funding. At a time when states across the nation are desperate to cut costs across the board, we are the only state that has substantially increased funding for our public schools.

We have invested in our children, and they are rewarding us with rising achievement levels that are the envy of the nation. Just two weeks ago, *Education Week* came out with the rankings of all fifty states. In just six years, Pennsylvania moved from 24th place in terms of percentage of kids on grade level in 8th grade math – to 10th place. With respect to reading we moved from 16th to 6th in the nation for the percentage of fourth graders reading at grade level. These improvements are no accident. In the 50 districts that have received the largest increases in state funding since 2002, students performing at grade level grew by an average of 41 percent. Just as significant as the increase in the number of students on grade level is a *decrease* in the percentage of students who are years behind. The largest *decreases* in the number of these students were in districts that received the greatest *increases* in state investments since 2002. And our early childhood success is the envy of most states with almost 48 percent of our children enrolled in pre-k programs before they start school. Our progress is not a secret. Across the country Pennsylvania is hailed. In fact, the Center for Educational Policy, a highly respected think tank in Washington, found that from 2000-2008 Pennsylvania was the *only* – let me repeat that – Pennsylvania was found to be the *only* state in the nation to show significant improvement in reading and math in every grade tested.

So as we work toward closing the "adequacy gap" in school funding, we also are closing the "achievement gap" in student performance.

For these reasons, the proposed FY2010-2011 budget reflects our continued support for the funding schedule set forth in the costing out study, and it therefore includes a second \$354 million increase in state funding for public schools. I am committed to this increase for two reasons: first and foremost, because it's simply the right thing to do for Pennsylvania's future. And second, because increased state funding for public education relieves the pressure on local communities to increase property taxes. We promised property tax relief, and we have delivered it for thousands of Pennsylvania families, especially our senior citizens. We cannot give relief with one hand while taking it away with the other, and this budget honors both obligations.

The proposed FY2010-2011 budget also provides for substantial increases in our Correction costs. I am troubled by this increase, and I know that many of you share this concern. We have worked together on critical reforms over the years, yet the cost of housing prisoners in Pennsylvania continues to rise. We must reverse this trend, if for no other reason than the failure to do so threatens to overwhelm our ability to meet skyrocketing prison costs. Increased funding for public education is one great way to address this problem, because it provides an opportunity for our young people to choose

the right path. But we must do more to reduce the rising costs of incarceration, and I welcome the opportunity to partner with you to achieve this goal.

With the exception of the increases in mandated programs and public education, the proposed FY2010-2011 budget might well be described as a “status quo” budget, at least with respect to our expenditures. That is why I am confident that we can pass a balanced budget that I will sign, on time.

But there are three big risks in the budget that I want to go on record bringing to your attention. First, there is always the possibility that the economy could “tank” once again. The best evidence suggests that won’t happen, but none of us has a crystal ball, and the reality is that there are no painless budget cuts left in this budget. Second, we are able to avoid deep cutbacks in our Medicaid funded services because we expect federal action before the summer that will increase the state’s ability to cut Medicaid pharmacy costs. Absent this, I believe we will need to make cuts to our Medicaid budget. And finally, this budget is predicated on passage of the President’s request to extend fiscal relief in the form of enhanced federal match for our Medical Assistance program – which means roughly \$800 million more in temporary federal fiscal relief for the Commonwealth. Given that the expanded federal fiscal relief has already passed the U.S. House of Representatives, and the Smart Pharmacy plan has passed both the U.S. House and the Senate, our risk is not so great. But it’s important to understand that federal assistance to the states is the only thing that makes it possible for us to avoid a massive tax increase, widespread layoffs and even deeper program cuts.

With help from Washington, our challenge to produce a balanced budget with no tax increase for the coming fiscal year is daunting but doable. As I said a moment ago, if you send me this budget I will sign it.

However, I strongly believe that we must do more to ensure the future well-being of the Commonwealth. A fiscal tsunami is coming at us, and I believe that we must act now to mitigate its impact.

In fiscal year 2012, which begins on July 1, 2011, federal stimulus funds totaling more than \$2.3 billion will disappear. Even with a balanced budget for fiscal year 2011, the budget office projects that the loss of these funds will create a deficit of \$2.4 billion for FY2012. And a year after that, the full impact of the 2001 pension increase legislation will hit us as well, creating a potential deficit of \$5.6 billion.

Ladies and gentlemen, this is a reality that cannot be ignored. And the truth is, it is my duty as governor to do all that I can to protect and preserve the fiscal stability of the Commonwealth. I cannot, *we* cannot in good conscience allow these challenges to go unmet. Rather, we must face them head-on by developing strategies that allow us to honor our commitments and still keep Pennsylvania on a path for progress.

What I offer today is a comprehensive strategy to achieve these goals, a strategy that calls on us as elected leaders to make the long overdue changes to the state taxation

system that will lower the rate and broaden the tax base and distribute the tax burden more fairly among all Pennsylvanians. I urge you to enact these changes this year, and put those funds into a newly created Stimulus Transition Reserve Fund that cannot be tapped until July 2011. This idea is similar to the Rainy Day Fund that was so successfully championed by former Governor Ridge and this Legislature, and the rationale is sensible: let us prepare *today* for storms to come. By acting now, we can successfully overcome the financial crisis that surely awaits us in the future.

We all know that we cannot make sufficient cuts this year or next to find our way out of this problem. All four caucuses already worked exhaustively last year to find cuts that we could live with, and our citizens could live with. We cut funds to all 67 counties, and they in turn have cut scores of programs and services. We've restricted hours at libraries and state parks across the state. Programs for the very sick are on life support, and so too are some key programs that protect our environment. Lack of available funding has caused the waiting list for child care to grow to more than 5,500, and the Adult Basic program waiting list is now at record levels.

The truth is, we've cut nearly to the bone, and while I know that we will certainly hear the familiar political calls to simply cut spending as a way to balance the budget, I want everyone to be on notice that I will challenge anyone who makes such a claim to specifically identify the cuts they propose, and explain the real implications for everyone to examine. When it comes to addressing the serious challenges that lay ahead, *talk* is the only thing that's cheap.

I want to be crystal clear on this point: the Stimulus Transition Reserve Fund that I propose would be legally inaccessible until July 2011 – well after I am no longer governor. None of the revenues generated by my proposal will be available for me or anyone else to spend this fiscal year or next. Instead, we will put these funds aside to prepare for the challenges ahead.

My proposal begins with commonsense changes to our state tax system:

First, Pennsylvanians have spoken and so has the House of Representatives. They believe that it makes sense to tax cigars and other smokeless tobacco products as well as to tax Marcellus Shale extraction. Once again, it's simply not fair that big tobacco and big oil and gas are exempt from the obligations the rest of us have to bear. The revenues raised by these initiatives are overwhelmingly supported by our fellow citizens, and would provide a half a billion dollars for the Stimulus Transition Reserve Fund. Similarly, let's stop rewarding businesses by giving them a bonus for obeying the law and paying their taxes on time. Doing so allows us to generate \$150 million for the Stimulus Transition Reserve Fund.

Next, we should eliminate the 74 non-essential exemptions to the state sales tax. Under our proposal, there will still be no sales tax imposed on essential items like food, clothing, and prescription drugs. And it preserves sales tax exemption for our manufacturers and non-profit cultural institutions. But we will eliminate exemptions for

professional services like fees for lawyers and accountants, as well as a variety of other non-essential products and services.

By closing these loopholes, we can broaden the base of the state sales tax and actually *reduce it from six percent to four percent*. Let me put it another way: my proposal will cut the sales tax statewide for every Pennsylvanian by one-third.

The sales tax today is a testament to the power of lobbyists and special interests. There is little rhyme or reason why we tax some items or services and wholly exempt others, except that in years past someone lobbied to secure favored treatment for themselves at the expense of others. As the Pennsylvania Budget and Policy Center pointed out last year, a simple trip to the movies “provides insight into the patchwork nature of Pennsylvania’s sales tax. The rental of the movies by the theater, the admission ticket and candy and gum purchased at the counter are all exempt from taxation. (But) popcorn and soda purchased at the same counter are subject to sales tax.”

Some exemptions defy logic. If you do your own laundry, the laundry detergent is subject to the sales tax. But if you have your laundry done, it’s sales tax free. Soda is taxed in Pennsylvania, but bottled water and fruit juices – products often made by the same soda companies – are not.

My proposal calls for the elimination of these loopholes so that everyone pays his or her fair share of the sales tax. To those who argue that this is a tax increase that will hurt our citizens and our business competitiveness, I say that the evidence demonstrates otherwise. For the average family, eliminating these loopholes doesn’t impact them one way or the other. But for business, closing the loopholes actually will allow many businesses – those who already *pay* sales tax – to become *more* competitive. It also means that Pennsylvania will no longer lose sales to New York, where the sales tax rate is at four percent today.

Repealing these exemptions does not create a competitive disadvantage for our Commonwealth. Thirty-six other states tax movie tickets and other amusement events, thirty-two other states tax magazines, forty-two other states tax over-the-counter drugs, and every other state that has a sales tax taxes personal hygiene items. Pennsylvania today applies the sales tax to fewer goods and services than our neighbors in New York, New Jersey, Ohio and West Virginia.

Closing these loopholes and broadening the base of the sales tax can generate \$1.4 billion in new tax revenue for the Stimulus Transition Reserve Fund by the end of fiscal year 2011-12, and nearly a billion each year thereafter. For the millions of our citizens who don’t have Political Action Committees or lobbyists, this approach will lower the tax rate and spare them from hefty tax increases in the future.

It is fair, it is fairly pain-free, and it allows us to prepare for the challenges to come. I therefore urge you to support closing the loopholes that will allow us to reduce the sales tax from six percent to four percent statewide.

To augment the Stimulus Transition Reserve Fund, I also propose that we extend the same principal of fairness to our corporate tax system. We must close the loopholes that allow companies located outside the state, yet have a substantial Pennsylvania presence, a significant tax advantage over those that have all of their operations within our borders. Why is this important? Because 71 percent of the corporations subject to our Corporate Net Income Tax pay no tax at all. And of those that pay 79 percent pay less than \$10,000 in taxes a year. This happens because companies with operations in many states rent a mail box in tax haven states like Delaware and as a result skirt their fair share of Pennsylvania taxes. The goal, again, is for all companies to pay their fair share. By doing this, we will be able to make our corporate tax system more progressive, recognizing the full value of operating losses, and base our taxes entirely on sales rather than inventory, **and** lower the corporate net income tax rate from 9.99 percent to 8.99 percent, a full point. At the same time, we will generate over \$230 million for the Stimulus Transition Reserve Fund.

These proposals provide commonsense solutions to the problems that will confront Pennsylvania, problems that have been caused largely by the damage inflicted by the economic recession. They will create a reserve fund of \$2.3 billion dollars to address the impact of the expiration of the federal fiscal relief funds. Think of it this way: if you do not adopt my proposal, or one of your own, that generates as much or more revenue, next year at this time you will have to start working to close a budget gap of \$2.4 billion. If you adopt my proposal and our revenue growth projections hold, that deficit will drop to \$155 million. In the following year, the year of the pension spike, your deficit will be \$5.6 billion, but if you adopt my proposal that deficit drops to \$1.8 billion. No deficit is easy to deal with, but clearly, taking action to ensure that our citizens are not saddled with a \$5.6 billion deficit two years from now makes abundant good sense.

Now, I recognize that some in this chamber may judge these proposals by their potential political impact – in other words, whether they help or hurt a member’s re-election chances this year. But regardless, we owe the people of this great state the truth. They deserve it and they can handle it. Because of the tough decisions we’ve made in the past, Pennsylvania is better prepared to weather this recession. But like it or not, the decisions are going to get tougher, much tougher, in the days ahead.

This legislature has made tough decisions before. You have taken the “road less traveled,” as the poet said, and it “has made all the difference” for Pennsylvania. You did so in the belief that it was the right thing to do, and what’s more, you recognized the risks involved in *not* taking decisive action.

The risks remain, and they pose a genuine threat to our future.

Over the last three years we have together delivered \$1.7 billion in property tax relief. We made it possible for more than 123,000 senior citizens to have their school property taxes completely eliminated. If we don’t act to address the challenges ahead, the

funds that make this critical relief possible could be diverted to close an even bigger budget gap.

Two years ago, we agreed to enact a school funding formula that, for the first time in decades, ensures every child's right to a decent public education. We have dramatically increased school funding over the last seven years in pursuit of that goal, and we have committed to meeting the ambitious funding goals you enacted for the sake of our children's future. Again, our failure to act today could make these investments a target for budget relief in the years ahead.

Together we have made strategic investments and business tax cuts that have brought critically-needed relief to cities and towns across the state, and which successfully leveraged billions of additional private investment dollars that generate jobs, tax revenues, and meaningful opportunity for thousands of Pennsylvania families. It is not farfetched to suggest that investment funds and business tax relief could disappear if we don't start to prepare for the impending fiscal challenges that we will face in just 12 months.

These achievements, many of which generated public controversy and carried considerable political risk, have placed Pennsylvania among the leading states in the nation in the progress toward economic recovery. But the challenges we face can wipe out that progress, and so we must find ways to address them without losing the momentum we've already gained.

You have demonstrated your ability to act with courage for the benefit of Pennsylvania's future, and while I remain open to considering any other ideas that address these issues, I urge you to support these proposals and the commonsense solutions they provide for the challenges to come.

Let me close by thanking each of you in this chamber for your willingness to work with me over the last seven years. Those who have watched us tangle on the budget or other issues might find it hard to believe, but I have come to count many of you, on both sides of the aisle, as my friends. And whether we've agreed or disagreed over the years, it has been one of the great privileges of my life to have had the chance to work with you on behalf of the citizens we all serve – a privilege that I get to enjoy once again as we set about the task of enacting a budget that keeps Pennsylvania moving forward.

And if we do this job well and meet our responsibilities with courage and a spirit of bi-partisanship we can build on our accomplishments and ensure a bright future for the Commonwealth and its people.

Thank you.