

# Message from the Chair

September 22, 2008

## Re: Pennsylvania's economy

Dear Colleague:

There has been a lot of talk about the downturn in the economy in recent weeks and months. House Democrats and the Rendell administration have been working diligently to address this downturn and to position Pennsylvania for a steady economic future. Revenue collections through August are 3.3% less than projected, and 1.4% lower than for the same period last year. Collections in the first half of September show the sluggish trend is continuing.

The first two months of any new fiscal year is not a firm indicator of what is to come. However, because of recent disappointing economic news, we will keep a watchful eye on revenue collections and trends.

Understanding that Pennsylvania typically lags behind in feeling the effects of a downturn or upswing in the United States economy as a whole, we worked to pass a balanced budget that limited the General Fund state spending increase to 3.98% over 2007/08. We focused the increase to pay for social services, health, education and public safety, while keeping administrative costs to a minimum – all without a tax increase.

Recently the Governor announced spending reductions, travel restrictions and a hiring freeze in anticipation of the continued economic downturn. He estimates that these actions will save \$200 million in the current fiscal year. Funds saved will be put into budgetary reserves – not to fill any specific gap in the 2008/09 budget, but rather as a prudent measure in response to recent economic events. The Governor directed agencies to identify 4.25% in reductions in their budgets. Agencies that provide public safety, health and education services are being asked to meet smaller reduction targets. All critical services, including public safety, health, social services and education will be maintained.

We are taking the necessary steps to deal with this economic downturn, and are confident that with \$744 million in the Rainy Day Fund, and the actions taken by the Governor, we will reinforce the foundation for our future

If you have any questions, please do not hesitate to contact my office.



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**Rep. Dwight Evans, Chairman**  
**House Committee on Appropriations**  
**Miriam A. Fox, Executive Director**  
717-783-1540  
<http://www.hacd.net>