May 2018

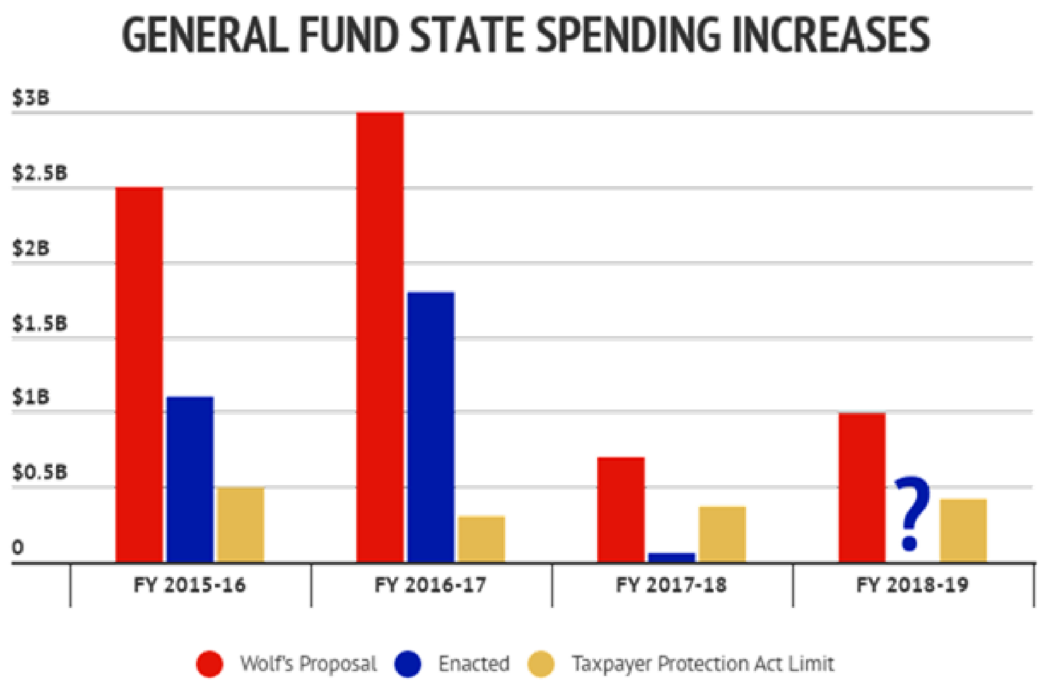
2018 Budget Trends

On February 6, Governor Wolf laid out his plan for the 2018-19 state budget. His proposal includes a $250 million energy tax and nearly $1 billion in new General Fund spending. If enacted, the budget would raise spending to a record level and exceed the spending growth rate allowable under the proposed Taxpayer Protection Act.

Gov. Wolf's Budget Proposal Continues Unsustainable Spending

Since 1970, Pennsylvania's total operating budget increased by more than $16,000 per family of four (adjusted for inflation). The Taxpayer Protection Act would limit this growth by capping General Fund spending to the rate of inflation plus population growth, requiring lawmakers to prioritize spending.

- Gov. Wolf proposed a $33 billion General Fund budget. This represents approximately $990 million in new spending—an increase of 3.1 percent. If his proposal is passed, General Fund spending will have grown by **$3.8 billion** in just four years.
- The Taxpayer Protection Act, a version of which passed the House late last year, would limit spending growth to 1.32 percent (or $32.42 billion for the General Fund budget). By increasing spending faster than inflation and population growth, Gov. Wolf will create future budget deficits.



Sources: Governor's Executive Budget, General Fund Tracking Run, and Commonwealth Foundation calculation of TPA index.

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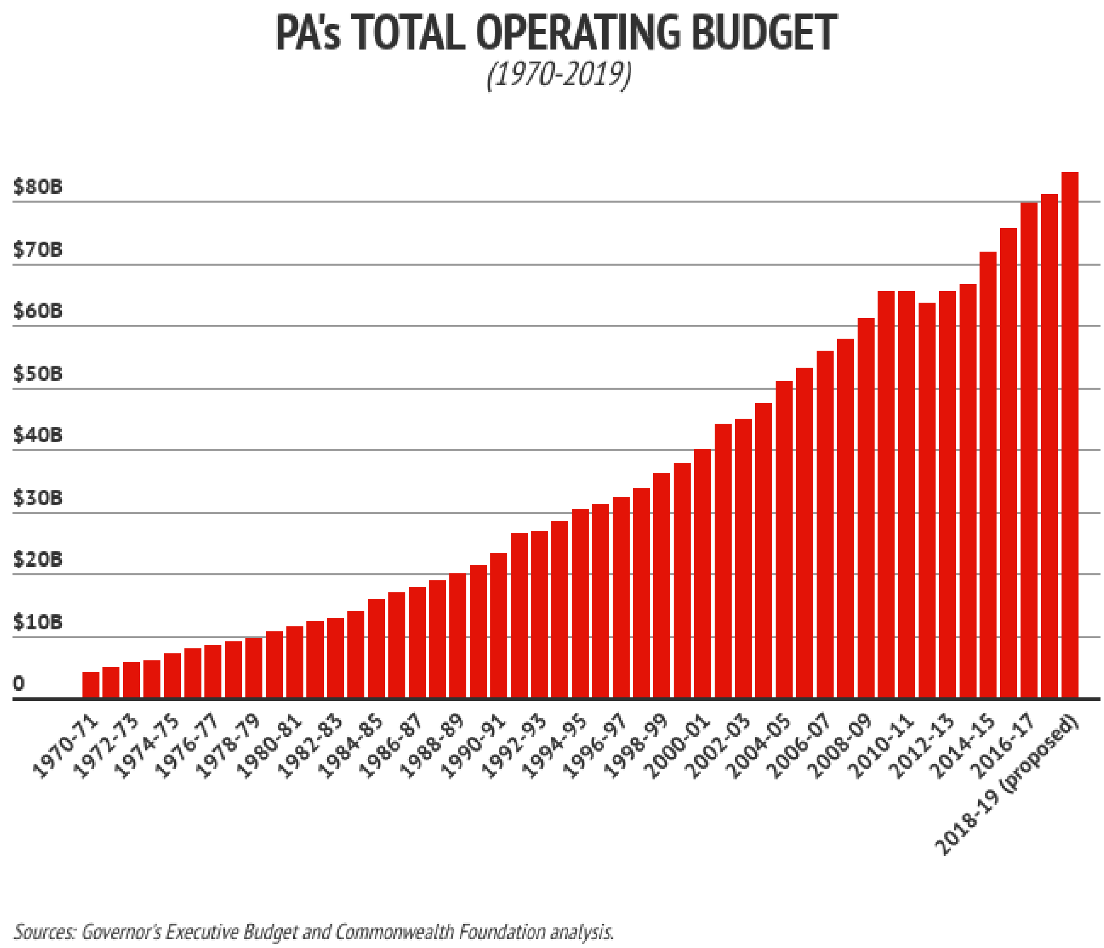
Alarming Shadow Budget Growth

While the $33 billion General Fund budget commands much of the attention, Gov. Wolf presented an **$84.7 billion** total operating budget, an increase of $3.3 billion over last year (4 percent). This figure includes all three elements of the shadow budget:

- Federal Funds: $29.6 billion (a $396 million increase).
- Special State Funds: $4.9 billion (a $235 million increase).
- Other State Funds: $17.2 billion (a $1.6 billion increase, **or a whopping 10.4 percent jump**). This is the fastest growing part of state spending since 2000, caused in part by shifting funds off-budget.
- The total operating budget excludes the capital budget, which authorizes state borrowing. Gov. Wolf proposed another $880 million in borrowing this year, adding to the current $10.9 billion in official state debt.



Saddling Future Generations with Debt

These reckless spending increases ignore a report released by the Pennsylvania Independent Fiscal Office last fall, which predicts a state deficit of nearly $1 billion in 2018-19. By 2023, the state's deficit could reach **more than $2 billion**.

- Pennsylvanians owe more than $130 billion in state and local government debt. This equals $10,187 for every man, woman, and child in the state.
- The totals below include debt in the form of government bonds but exclude unfunded pension and other post-employment benefits for current and retired public sector employees.

PA STATE & LOCAL GOVERNMENT DEBT

DEBTOR	DEBT OUTSTANDING	PER PERSON
TOTAL STATE	$50,369,347,000	$3,933
State	$10,915,347,000	$852
State Agencies & Authorities	$39,454,000,000	$3,081
TOTAL LOCAL	$80,078,219,000	$6,253
School Districts	$26,183,543,000	$2,045
County/Municipal/Twp/Other	$53,894,676,000	$4,209
TOTAL	$130,447,566,000	$10,187

Sources: Governor's Executive Budget, January 2018 data; PA Department of Education 'Short- and Long-Term Debt,' 2016-17; U.S. Census Bureau, State & Local Gov't Finance Snapshot, 2015 data and 2017 population estimate.

Gov. Wolf's 11th Tax Hike Proposal

Since taking office, Gov. Wolf has introduced or supported 11 different tax hike proposals. In his most recent budget, Gov. Wolf is proposing, for a fourth time, an additional tax on the natural gas industry. This punitive tax would raise utility bills, reduce royalty payments, and eliminate jobs.

- Pennsylvania is the only state in the nation that taxes gas drillers with an "impact fee" in addition to all other business taxes. If we truly want to "[join] every other gas-producing state" as Gov. Wolf advocates, we would ***eliminate our state income tax and corporate tax.***
- Contrary to arguments that the gas isn't going anywhere, industry jobs and investment are already leaving Pennsylvania. Since January 2015, Pennsylvania's mining and logging sector has lost more than 11,500 jobs.

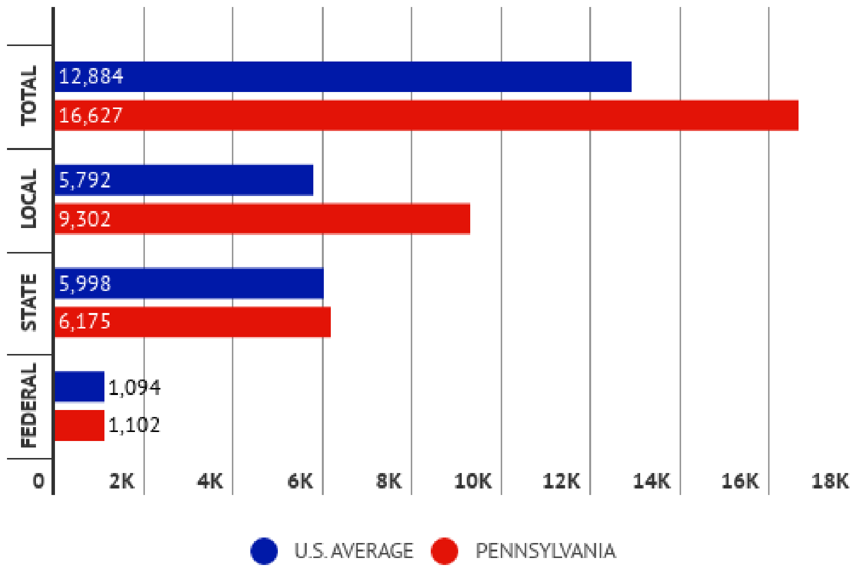
Budget Cost Driver: Education

Gov. Wolf continues to push the myth that lawmakers reduced education funding. However, Gov. Wolf's own education secretary acknowledged the legislature never voted to cut education funding and that Pennsylvania spends beyond the national average per student. As of the 2014-15 school year, only eight states allocate more money per pupil than Pennsylvania does.

PA SCHOOL REVENUE PER STUDENT

(2014-15)

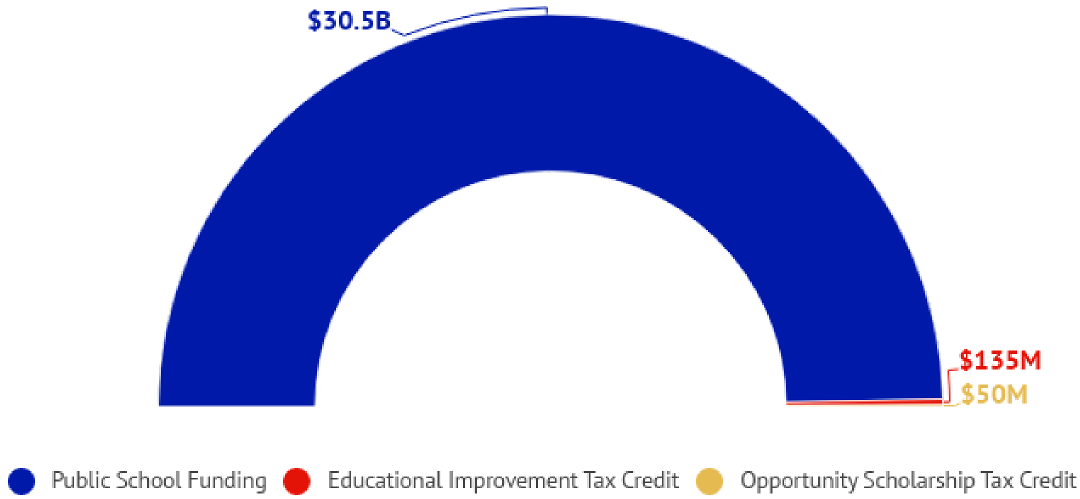
Schools receive funding from local, state, and federal sources. Pennsylvania exceeds the national average, per pupil, in each category.



Sources: National Center for Education Statistics, Revenues and Expenditures for Public Elementary and Secondary School Districts: School Year 2014-15.

- Gov. Wolf's 2018-19 budget includes $606 million more for public schools, including a $100 million increase for basic education.
- This proposed increase significantly exceeds the entire amount available through the Educational Improvement Tax Credit (EITC) and Opportunity Scholarship Tax Credit (OSTC) programs, which provide scholarships to more than ***50,000 students*** to attend the school of their choice at a fraction of the cost for traditional public schools.
- The EITC *alone* saved taxpayers $1 billion, according to an EdChoice audit.
- If Gov. Wolf truly wants to "make sure that your zip code doesn't determine what kind of education you can get," as he said in his budget address, he should support expanding EITC and OSTC and creating Education Savings Accounts.

EDUCATION FUNDING COMPARISON



Sources: PA Department of Education Annual Financial Reports, Revenue Data for School Districts (2016-17); PA Department of Community and Economic Development.

Budget Cost Driver: Welfare

Putting Pennsylvania's fiscal house in order requires addressing the growth and quality of welfare programs. Medical Assistance and Long-Term Care costs (*i.e.*, Medicaid) will grow by $2 billion in Gov. Wolf's budget, including $1 billion from other state funds. At $28.9 billion, this represents the biggest cost in the state's operating budget by far. In other words, 33 cents of every dollar in the state budget funds Medicaid. **But these dollars aren't always getting to those who truly need them.**

- Reasonable work or volunteer requirements have been proven to help non-disabled individuals gain job experience, escape poverty, and become self-sufficient. In other states, these requirements reduced welfare rolls because more individuals found jobs—freeing resources for the disabled.
- HB 2138, which passed the House in April, begins the process of applying work requirements for healthy adults enrolled in Medicaid.
- 67 percent of Pennsylvania voters support work requirements for healthy adults in Medicaid, according to a November 2017 McLaughlin & Associates poll.

Budget Cost Driver: Corrections

Pennsylvania's 2012 bipartisan criminal justice reforms are paying off. In 2017, the state's prison population declined by 863 inmates, the largest year-over-year drop since 1971 and the fourth consecutive year of decreases. The Department of Corrections estimates the state avoided over $400 million in expenditures due to these reforms.

Last year, the Justice Reinvestment Initiative (JRI) Working Group offered a new series of policy recommendations. The state Senate recently approved a package of three bills implementing several of the JRI reforms, which Gov. Wolf supports.

- Senate Bill 1071 authorizes automatic parole for people serving a minimum sentence of two years or fewer. According to the Council of State Governments Justice Center, these reforms would reduce the prison population by 696 people and save approximately $48.3 million.
- Senate Bill 1070 establishes the County Adult Probation and Parole Advisory Committee to advise on best probation practices. It would be funded with savings from SB 1071.
- Senate Bill 1072 improves the process of notifying a victim of his or her rights and expands eligibility requirements for victim compensation.

Moving Forward

Excessive spending and debt will not bring prosperity to Pennsylvania. The legislature must address the cost drivers in the state budget rather than forcing higher taxes on working Pennsylvanians. As lawmakers debate the 2018-19 budget, keeping spending increases within the limits of the Taxpayer Protection Act must be a priority.