



**GOVERNMENT ON A DIET™**

Spending Tips 2009

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A Policy Report from the Commonwealth Foundation





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# Government on a Diet: Spending Tips 2009

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## Executive Summary

*Government on a Diet: Spending Tips 2009* identifies \$5 billion in unhealthy state spending in FY 2008-09 and offers a series of recommendations to both resolve the current revenue shortfall and reduce the size and burden of government on Pennsylvanians by \$1,600 annually for each family of four.

State government consumption and spending of taxpayer money have grown dramatically in recent years. Since 1970, Pennsylvania's total operating budget has increased from \$4.2 billion to \$61 billion in FY 2008-09, an inflation-adjusted increase of over 167 percent.<sup>1</sup> As a share of personal income, the state's operating budget rose from 8.8 percent in FY 1970-71 to an estimated 12.2 percent in FY 2008-09—an increase of more than 39 percent.<sup>2</sup>

The effect of these tax-borrow-and-spend policies has not led to a revitalization of Pennsylvania's economy, but to stagnation. Since Governor Ed Rendell took office in January 2003, Pennsylvania's ranking among the 50 states in job, personal income, and population growth has been 40<sup>th</sup>, 40<sup>th</sup>, and 42<sup>nd</sup>, respectively.<sup>3</sup>

On July 4, 2008, the Pennsylvania General Assembly approved, and Governor Ed Rendell signed, a \$28.3 billion General Fund Budget. Since then, a revenue shortfall has emerged, and politicians are scrambling to fill a multi-billion dollar budget gap.

While Governor Rendell has proposed \$500 million in spending reductions, *Government on a Diet: Spending Tips 2009* identifies \$1.41 billion in wasteful spending in Governor Rendell's revised FY 2008-09 General Fund Budget. In his 2009-10 budget address, Rendell remarked that he would implement cuts to programs which “fall outside the core functions of state government.” Based on the items identified in *Spending Tips 2009*, his proposed budget still includes \$1.03 billion in program spending *beyond* the core functions of state government.

In addition to identifying wasteful and unnecessary state government programs, *Spending Tips 2009* offers recommendations for improving government services and making them more efficient through reforms of the budget process. Spending reductions and reforms are organized into three sections:

- **Eliminate Wasteful Spending:** *Spending Tips 2009* identifies \$4.94 billion in spending cuts—\$1.41 billion from the state General Fund Budget, \$2.11 billion from other operating funds, and \$1.41 billion from the capital budget and off-budget programs.
- **Adopt Market-Based Delivery of Government Services:** Spending on public education, benefits for state workers, and Medicaid is growing far beyond taxpayers' ability to finance it. By adopting market-based reforms in the delivery of these services, state government can not only reduce costs, but provide higher quality service.
- **Adopt Spending and Budgetary Reforms:** Transparency in government spending and instituting performance-based budgeting would help rein in wasteful expenditures.

Harrisburg policymakers need to reprioritize spending and cut waste from state government to avoid a tax increase on working Pennsylvanians and job creators. In short, they need to put Pennsylvania government on a diet and back on a path to fiscal and economic health.

<sup>1</sup> Pennsylvania Governor's Office of the Budget, [www.budget.state.pa.us](http://www.budget.state.pa.us)

<sup>2</sup> U.S. Bureau of Economic Analysis, “State Quarterly Income Analysis,” [www.bea.doc.gov](http://www.bea.doc.gov)

<sup>3</sup> U.S. Bureau of Labor Statistics, “December Seasonally Adjusted State Employment,” [www.bls.gov](http://www.bls.gov); U.S. Bureau of Economic Analysis, “State Quarterly Income Analysis,” [www.bea.doc.gov](http://www.bea.doc.gov); U.S. Bureau of the Census, “Annual Population Estimates,” [www.census.gov](http://www.census.gov)

## Introduction

State government consumption and spending of taxpayer money have grown rapidly over the years. Since 1970, Pennsylvania's operating budget has increased from \$4.2 billion to \$61 billion in FY 2008-09, an inflation-adjusted increase of over 167 percent.<sup>4</sup> As a share of personal income, the state's operating budget rose from 8.8 percent in FY 1970-71 to an estimated 12.2 percent in FY 2008-09—an increase of more than 39 percent.<sup>5</sup>

On July 4, 2008, the Pennsylvania General Assembly approved, and Governor Ed Rendell signed, a \$28.3 billion General Fund Budget. Since then, a revenue shortfall has emerged, and politicians are scrambling to fill a multi-billion dollar budget gap.

*Government on a Diet: Spending Tips 2009* offers a series of recommendations to both resolve the current revenue shortfall and improve Pennsylvania's fiscal and economic health. The Commonwealth Foundation identified \$1.48 billion in wasteful spending in the FY 2008-09 General Fund Budget passed in July 2008. While Governor Rendell has proposed \$500 million in spending reductions (including freezing the hiring of, and reimbursing the out-of-state travel expenses for, state workers)<sup>6</sup>, reduction of wasteful spending accounts for only \$70 million of that total. *Government on a Diet: Spending Tips 2009* identifies \$1.41 billion in wasteful spending in Governor Rendell's revised FY 2008-09 General Fund Budget.

In February, Governor Rendell announced his \$62.3 billion 2009-10 budget proposal, which includes \$28.97 billion in General Fund spending. In his budget address, Rendell remarked that he would implement cuts to programs which "fall outside the core functions of state government." Yet based on the items identified in *Spending Tips 2009*, his proposed budget includes \$1.03 billion in program spending beyond the core functions of state government.

If Governor Rendell and the General Assembly are serious about returning Pennsylvania to fiscal and economic health, it is time for them to reduce the burden of government by cutting wasteful spending, improving core government services, and reforming the budget process. *Spending Tips 2009* provides ideas Pennsylvania's policymakers should consider.

## Pennsylvania State Government Spending

The FY 2008-09 General Fund Budget of \$28.3 billion comprises less than half of the \$61.2 billion state operating budget. Local government spending (an estimated \$61.0 billion in 2007) nearly equals state government spending.

Pennsylvania state and local government spending has doubled from just over \$4,400 per person in FY 1991-92 (\$6,800 in inflation-adjusted, 2008 dollars) to almost \$10,000 per person in FY 2008-09 (or from \$27,200 to \$40,000 per family of four).<sup>7</sup>

These totals do not include state debt. Pennsylvania taxpayers currently shoulder approximately \$110 billion in state and local government debt; or almost \$9,000 for every man, woman, and child in Pennsylvania (\$35,000 for the average family of four). Much of the state and local capital expenditures and borrowing is hidden in the accounts of independent agencies such as the Turnpike Commission, state authorities and commissions, and off-budget items.

Since Governor Rendell took office in January 2003, the state General Fund Budget has increased 39 percent (18 percent after adjusting for inflation)—more than twice the increase in the eight years of Governors Ridge and Schweiker. Even after recent budget reductions were made, the FY 2008-09 budget still represents a 36.3 percent increase over FY 2002-03.<sup>8</sup>

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<sup>4</sup> Pennsylvania Governor's Office of the Budget, [www.budget.state.pa.us](http://www.budget.state.pa.us)

<sup>5</sup> U.S. Bureau of Economic Analysis, "State Quarterly Income Analysis," [www.bea.doc.gov](http://www.bea.doc.gov)

<sup>6</sup> With some notable exceptions, including creating a new position for an ex-lawmaker and state car use by the Secretary of Agriculture; see Murphy, Jan and Charles Thompson, "State belt tightening has room to wiggle" *Patriot News*, [www.pennlive.com](http://www.pennlive.com)

<sup>7</sup> Pennsylvania Governor's Office of the Budget, [www.budget.state.pa.us](http://www.budget.state.pa.us); Pennsylvania Department of Education, K-12 Financial Summaries, [www.pde.state.pa.us](http://www.pde.state.pa.us); US Census Bureau, State and Local Government Finances, [www.census.gov](http://www.census.gov)

<sup>8</sup> Pennsylvania Governor's Office of the Budget, [www.budget.state.pa.us](http://www.budget.state.pa.us)



These dramatic increases in spending have resulted in a heavier burden on Pennsylvania's taxpayers. According to the Tax Foundation, Pennsylvania's state and local tax burden (taxes as a percentage of total income) has grown 5.2 percent since 1991. In 2008, Pennsylvania had the 11<sup>th</sup> worst state and local tax burden, up from 26<sup>th</sup> in 1991.<sup>9</sup> The average Pennsylvanian must work 111 days—nearly one-third of the year—to earn enough money to pay off his federal, state, and local tax bills.

The effect of these tax-borrow-and-spend policies has not led to a revitalization of Pennsylvania's economy, but to stagnation. From 1970 to 2007—Pennsylvania's national ranking in job growth, personal income growth, and population growth was a dismal: 49<sup>th</sup>, 46<sup>th</sup>, and 42<sup>nd</sup>, respectively. Since Governor Rendell took office in 2003, Pennsylvania's rankings in the those same categories have been equally abysmal: 40<sup>th</sup>, 40<sup>th</sup>, and 42<sup>nd</sup>, respectively.<sup>10</sup> Recent independent rankings of Pennsylvania's economic and business climates mirror this performance.<sup>11</sup>

### Pennsylvania Diet Plan: Three Steps to Avoid a Tax Increase

History has proven two economic axioms: 1) states cannot tax, borrow, and spend themselves into prosperity; and 2) a state's fiscal and economic health is harmed by over-taxing and over-spending. Thus, for Pennsylvania to avoid a tax increase and improve its fiscal and economic well being, it must go on a spending diet.

To this end, the Commonwealth Foundation developed the **Pennsylvania Diet Plan: Three Steps to Avoid a Tax Increase**, a blueprint for eliminating billions of dollars in wasteful spending and putting the Commonwealth on a path toward fiscal and economic health while restoring state government's constitutional role and functions in citizens' lives.

- **Step One: Limit the annual growth in state government spending**
- **Step Two: Allow voters the choice to accept or reject any and all tax increases**
- **Step Three: Reduce Pennsylvania's tax burden on families and job creators**

### Putting Government on a Spending Diet

*Spending Tips 2009* identifies specific spending reductions to trim state government's "wasteline" of expenses. It invites a discussion of the proper role of government in a free society.

Few would argue that there should be no limit to what government can spend. Yet many in our legislature act without considering the constitutionality or economic impact of creating or expanding a government program. *Spending Tips 2009* examined existing programs and identified those that do not reflect the following principles:

- Spending should be limited to core functions of government—protecting the safety and individual rights of citizens, and providing public goods, those which clearly benefit all citizens, such as law enforcement and general infrastructure.
- Government spending should not target or benefit a select few businesses or individuals at the expense of the many.
- Government spending should not "crowd out" volunteerism, personal responsibility, and private entrepreneurship.
- Government spending and taxes should be as low as possible so as to least distort or undermine the decisions of individuals, families, and businesses, which are the engines of prosperity.

<sup>9</sup> Tax Foundation, *State and Local Tax Burdens*, [www.taxfoundation.org](http://www.taxfoundation.org)

<sup>10</sup> U.S. Bureau of Labor Statistics, "December Seasonally Adjusted State Employment," [www.bls.gov](http://www.bls.gov); U.S. Bureau of Economic Analysis, "State Quarterly Income Analysis," [www.bea.doc.gov](http://www.bea.doc.gov); U.S. Bureau of the Census, "Annual Population Estimates," [www.census.gov](http://www.census.gov)

<sup>11</sup> See "State Rankings" on PolicyBlog for a recent summary of Pennsylvania state economic rankings, [www.CommonwealthFoundation.org](http://www.CommonwealthFoundation.org)

- Government spending should be transparent and open for critical review by anyone.

*Spending Tips 2009* is part of the Commonwealth Foundation’s effort to restore a wise, frugal, and good government in Pennsylvania. Spending reductions and reforms are organized into three categories:

- **Eliminate Wasteful Spending:** Corporate welfare programs award tax dollars to select individuals and companies, or protect government service monopolies, at the expense of all taxpayers. These programs compete with the private sector, while empowering government officials to pick winners and losers in the marketplace. *Spending Tips 2009* identified \$4.94 billion in spending cuts—\$1.41 billion from the state General Fund Budget, \$2.11 billion from other operating funds, and \$1.41 billion from the capital budget and off-budget programs.
- **Adopt Market-Based Delivery of Government Services:** Spending on public education, benefits for state workers, and Medicaid is growing far beyond taxpayers’ ability to finance it. By adopting market-based reforms in the delivery of these services, state government can reduce costs and provide higher quality services.
- **Adopt Spending and Budgetary Reforms:** Transparency in government spending and instituting performance-based budgeting would help rein in wasteful expenditures.

### Eliminate Wasteful Spending

Thomas Jefferson, in his inaugural address in 1801, said, “A wise and frugal government, which shall restrain men from injuring one another, which shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government.”

The wasteful spending identified in *Spending Tips 2009* is found in programs that go beyond the core functions of a limited government. Although some people may benefit from them, these programs are neither wise nor frugal, and they ultimately violate the sum of good government by failing to serve the broader public good.

### Spending Reductions in FY 2008-09 Revised State Budget

(Thousands of Dollars)

Category	General Fund	Other Funds	Off Budget	Total Operating and Off-Budget Spending
Corporate Welfare	\$649,431,000	\$65,086,000	\$990,000,000	\$1,704,517,000
Yellow Pages Government	\$540,604,000	\$1,576,065,000	\$418,970,000	\$2,535,639,000
Self-Service Government	\$223,707,000	\$472,644,000		\$696,351,000
<b>Total</b>	<b>\$1,413,742,000</b>	<b>\$2,113,795,000</b>	<b>\$1,408,970,000</b>	<b>\$4,936,507,000</b>

## Corporate Welfare

Corporate welfare forces all taxpayers to surrender money which is redistributed to select entities in the form of a tax break or government aid. Government-directed “economic development” programs award tax dollars to companies or projects for the benefit of a few, at the expense of the many. Usually taxpayer-funded welfare is handed out to private interests that are politically connected. Unfortunately, states with the highest “economic development” spending (including Pennsylvania) have experienced less population, job, and income growth than states with lower economic development spending.<sup>12</sup>

Corporate welfare exists in a variety of forms, including “walking around money” grants (WAMs), appropriations which lawmakers and the Governor can award at their discretion. It also includes competitive grant programs and a variety of grant and loan programs that the Governor and the Department of Community and Economic Development (DCED) can draw from to put together a financial package deal for some of the largest—and richest—companies in Pennsylvania and beyond.

In 2008, pronouncements from elected officials claiming state investments to create jobs have proven to be untrue. Job growth continues to decline and unemployment continues to rise. Despite this, Governor Rendell dedicated over \$100 million to corporate handouts, even after it was clear the state was facing a budget shortfall.<sup>13</sup> Some recent examples of corporate welfare include:

- **Hazleton Airport:** The proposed airport would benefit from \$250 million in taxpayer funding, on the claim that it will revitalize the economy of Hazleton by creating 5,548 local jobs.<sup>14</sup> This in spite of the fact that every major cargo carrier has expressed no interest in using the airport, and several key players are facing criminal accusations.<sup>15</sup> If such a project was economically viable, the private sector would be eager to fund it without bribery and an airlift of taxpayer money.
- **Sports Stadiums:** Governor Rendell and the legislature promised \$47 million out of the taxpayers’ wallets for a soccer stadium in Chester, and Delaware County residents will be forced to pitch in another \$30 million. Team investors will thus only cover half the cost (\$80 million) of the new stadium. Yet, economic research finds that athletic stadiums do not result in economic growth or benefits for the community—only for team owners.<sup>16</sup>
- **Subsidizing Hollywood:** The producers of *Zack & Miri Make a Porno* were upset with the City of Philadelphia after they denied their request to advertise on city buses, this despite the fact that they had already collected \$5.7 million in tax credits for their raunchy comedy through the state’s \$75 million film tax credit program. Although politicians claim these tax credits create jobs, film producers have admitted that they would probably film in Pennsylvania without such carve outs. Ironically, in the film, Zack and Miri “make a porno” without taxpayer support.
- **Boscov’s Bailout:** State officials are asking several counties to back a \$35 million loan for the bankrupt department store chain Boscov’s, with state taxpayers insuring the counties’ funding (circumventing a constitutional prohibition on state government pledging credit to a private company). This in spite of Boscov’s reported a record \$26 million profit in December 2008 alone. Proponents have assured county officials that such a loan is risk-free, but if it is such a bargain, the private sector would be willing to put up money. While the majority of Pennsylvania businesses are small, only a large corporation, with the many political connections of Boscov’s, could receive such a gift from taxpayers.<sup>17</sup>
- **Tourism Promotion and Advertising:** Not only does Gov. Rendell fawn over businesses, he also likes to try to lure tourists with Pennsylvanians’ tax dollars. In FY 2008-09, the budget

<sup>12</sup> Benefield, Nathan A., “Government Can’t Cure Our Economic Woes,” Commonwealth Foundation, [www.CommonwealthFoundation.org](http://www.CommonwealthFoundation.org)

<sup>13</sup> See “Where to Find WAMS” on PolicyBlog for a summary of recent economic development spending, [www.CommonwealthFoundation.org](http://www.CommonwealthFoundation.org)

<sup>14</sup> Ober, Benjamin, “Ground the Hazleton Airport Project,” Commonwealth Foundation, [www.commonwealthfoundation.org](http://www.commonwealthfoundation.org)

<sup>15</sup> Jackson, Kent, “Eachus Withdraws Cargo Airport Support,” *Citizens Voice*, February 1, 2009.

<sup>16</sup> Ober, Benjamin, “Soccer Stadiums Plans: No Goal,” Commonwealth Foundation, [www.commonwealthfoundation.org](http://www.commonwealthfoundation.org)

<sup>17</sup> Benefield, Nathan A., “Boscov’s Bailout is Bad for Business,” Commonwealth Foundation, [www.commonwealthfoundation.org](http://www.commonwealthfoundation.org)



designated over \$26 million for tourism-related projects, including a \$50,000 planning grant for a gondola cable car system linking Jim Thorpe and Flagstaff Mountain Resort, \$30,000 for a marketing study to establish a spa, and a \$212,500 loan for a robotic milking machine.<sup>18</sup>

- **Ski Resorts:** In November 2008, Governor Rendell announced a \$100,000 handout to the Pennsylvania Ski Areas Association to develop a promotional website for its members. Another chunk of change for construction at a snow lodge demonstrates how these specific investments benefit very narrow sections of the population.<sup>19</sup>
- **Groundhog Day:** Perhaps the most baffling waste of taxpayer money is the Tourism Office's psychedelic website, GroundhogDreams.com, designed to promote Groundhog Day. Featuring a video of a man in a furry costume being hit by a car, then experiencing a coma-induced nightmare of his shadow cost taxpayers \$20,000. Officials responsible for the website dismissed the cost as "nothing," compared to the \$11 million in taxpayer money they are allocated for advertising.<sup>20</sup>
- **Opportunity Grant Program:** The Opportunity Grant Program is one of several state programs for awarding tax dollars to politically selected businesses. A recent Auditor General's report examined \$215 million in taxpayer-funded grants between 2000 and 2005. These allocations were expected to create 300,000 jobs, but only 170,000 were created or retained—less than 60 percent of the original goal.<sup>21</sup> The audit also revealed a poor track record of assessing and collecting fines. The department waived \$49 million in fees assessed for failure to meet requirements, and only 13 percent of the fines assessed were collected.<sup>22</sup> Yet, the Opportunity Grant Program remains one of the largest corporate welfare schemes in the Department. Opportunity Grants awarded since July 2008 included \$1 million for GE and \$1.25 million to Amazon.com for job training.<sup>23</sup>
- **Redevelopment Assistance Capital Projects:** In FY 2008-09, Pennsylvania will issue \$200 million in general obligation bonds to fund Redevelopment Assistance Capital Projects (RACP) grants. This year the debt limit was expanded from \$2.65 billion to \$3.45 billion. The RACP program has been gradually increasing the debt limit since 1993.<sup>24</sup> Yet these massive "investments" have failed to result in economic revitalization—only more debt owed by taxpayers. This current fiscal year, the state has awarded \$12 million dollars to the Berks County Convention Center Hotel and \$10 million for a Philadelphia region film studio. Also included in these grants is funding for numerous non-academic university construction projects, such as the \$2 million loan for the Lock Haven University Alumni Center.<sup>25</sup>
- **Buying the Farm:** Through a variety of state programs, taxpayers are literally funding the purchasing of farms around the state. Taxpayers backed a \$150,000 loan to buy a poultry farm in Richfield. However, the state is not partial to turkeys, as \$200,000 was guaranteed for a dairy and hog farm.<sup>26</sup>
- **Climate Control:** The Commonwealth regularly grants small businesses and non-profit groups taxpayer money for air conditioning and heating systems. The Governor announced \$137,284 for climate control improvements in October 2008 alone.<sup>27</sup>
- **Commonwealth Financing Authority:** The Commonwealth Financing Authority (CFA), while legally an independent agency, functions very much like a DCED corporate welfare program.

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<sup>18</sup> Pennsylvania Department of Community and Economic Development, Investment Tracker, [www.dced.state.pa.us/investmenttracker](http://www.dced.state.pa.us/investmenttracker)

<sup>19</sup> Brouillette, Matthew J., "Rendell's Wicked Game," Commonwealth Foundation, [www.commonwealthfoundation.org](http://www.commonwealthfoundation.org)

<sup>20</sup> Pennsylvania Office of the Governor, "New Groundhog Adventures Debut on Groundhogdreams.com," January 12, 2008; Elliott, Stuart, "Groundhog and Shadow: The Battle is Joined Again," *The New York Times*, January, 26 2009.

<sup>21</sup> Allegheny Institute, "Economic Development Spending: Misguided and Wasteful," Policy Brief, Vol. 7, No. 60, November 2007, [www.alleghenyinstitute.org](http://www.alleghenyinstitute.org)

<sup>22</sup> Pennsylvania Department of the Auditor General, "Auditor General Jack Wagner Fault's DCED's Monitoring of Opportunity Grant Program," October 2007, [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us)

<sup>23</sup> Pennsylvania Department of Community and Economic Development, Investment Tracker, [www.dced.state.pa.us/investmenttracker](http://www.dced.state.pa.us/investmenttracker)

<sup>24</sup> Pennsylvania Office of the Budget, History of the Redevelopment Assistance Capitol Program, [www.budget.state.pa.us](http://www.budget.state.pa.us)

<sup>25</sup> Pennsylvania Office of the Budget, RTKL File 25-2008.

<sup>26</sup> Pennsylvania Office of the Governor, Press Release, November 5, 2008.

<sup>27</sup> Pennsylvania Office of the Governor, Press Release, October 15, 2008.

The CFA finances various projects by issuing \$187.5 million in bonds annually. Since CFA is an independent agency, these bonds are technically off-budget and not calculated into the cost of debt service. Yet, like RACP, taxpayers are on the hook for paying off this debt, through a “service agreement” between CFA and DCED to pay “an amount sufficient to pay the Debt Service Requirements.” This payment equals over \$62 million in the FY 2008-09 budget, and will increase as the CFA issues more debt.

- **Food Advertising and Fairs:** The Department of Agriculture provides a bevy of programs that award money for promotion and entertainment related to agriculture. Although there are certainly legitimate programs provided by the Department, many of the programs are unnecessary and wasteful. The Department of Agriculture will receive about \$5 million to reallocate for agricultural shows and fairs in FY 2008-09. Events of this kind should be self-sufficient and revenue-generating, and should be coordinated and funded by the agricultural industry itself, not state government and the taxpayers.
- **“Walking-Around-Money” Grants (WAMs):** One of the most notorious abuses of taxpayers’ money is “walking around money” grants (WAMs), which are set aside for lawmakers to award at their discretion, with approval from the governor and legislative leaders, to entities in their district. The Community Revitalization Program, which received over \$40 million in the FY 2008-09 budget, gets the most attention, although several line items in the budget totaling over \$201 million in discretionary funds used by both the governor and lawmakers and should be considered WAMs. Under the guise of economic development much of taxpayers’ money is wasted on trivial and sometimes unscrupulous enterprises. Senator John Eichelberger is currently putting together a proposal to ban all discretionary spending for one year and require the Legislative Budget and Finance Committee to scrutinize each line item in the General Fund Budget to weed out WAMs.<sup>28</sup>

Former Senator Vince Fumo is currently on trial for redirecting over \$60,000 in WAMs to a non-profit group he chaired and allegedly used to protect the ocean view from one of his four homes.<sup>29</sup>

Other examples of WAMS include funding for:

- **Golf Courses:** The Juniata Golf Foundation was awarded \$200,000 to restore its courses.<sup>30</sup>
- **Sports:** A high school in Allegheny County was successful in obtaining \$100,000 to renovate its football field. The sports under the umbrella of “core functions” include Jr. Olympic wrestling, \$10,500; midget football, \$10,000; and table tennis, \$15,000.<sup>31</sup>
- **Parades:** The city of Pittsburgh used \$79,500 in state funds to cover expenses related to the Steelers’ victory parade, and the commonwealth awarded over \$225,000 for a Philadelphia area Mummer’s parade.<sup>32</sup>

Eliminating corporate welfare would save \$1.7 billion in higher taxes and debt this year alone.

<sup>28</sup> Senator John Eichelberger, “Eichelberger Introduces Earmark Reform for Harrisburg,” Press Release, February 3, 2009.

<sup>29</sup> McCoy, Craig R. and John Shiffman, “The Case Against Fumo,” [www.philly.com](http://www.philly.com)

<sup>30</sup> Pennsylvania Office of the Governor, Press Release, November 7, 2008.

<sup>31</sup> Pennsylvania Department of Community and Economic Development, Investment Tracker, [www.dced.state.pa.us/investmenttracker](http://www.dced.state.pa.us/investmenttracker)

<sup>32</sup> Pennsylvania Department of Community and Economic Development, Investment Tracker, [www.dced.state.pa.us/investmenttracker](http://www.dced.state.pa.us/investmenttracker)

**Spending Tips 2009: A Sensible Diet for Pennsylvania State Government**  
*Unhealthy Spending in FY 2008-09 Revised Budget*

**CORPORATE WELFARE**

<b>Department</b>	<b>Program</b>	<b>FY 2008-09</b>	<b>Fund</b>
Agriculture	Agricultural Excellence	\$313,000	General Fund
Agriculture	Agriculture Promotion Education and Exports	\$1,100,000	General Fund
Agriculture	Hardwoods Research and Promotion	\$708,000	General Fund
Agriculture	Animal Health Commission	\$5,150,000	General Fund
Agriculture	Animal Indemnities	\$10,000	General Fund
Agriculture	Food Marketing and Research	\$1,750,000	General Fund
Agriculture	Product Promotion and Marketing	\$568,000	General Fund
Community and Economic Development	Regional Marketing Partnerships	\$8,261,000	General Fund
Community and Economic Development	Business Retention and Expansion	\$2,948,000	General Fund
Community and Economic Development	Land Use Planning Assistance	\$3,747,000	General Fund
Community and Economic Development	Transfer to Munic. Fin. Rec. Revolv. Fund	\$1,480,000	General Fund
Community and Economic Development	Transfer to Ben Franklin Tech. Dev. Authority Fund	\$50,700,000	General Fund
Community and Economic Development	Transfer to Indstl. Sites Environ. Assess. Fund	\$493,000	General Fund
Community and Economic Development	Transfer to Commonwealth Fin. Authority	\$62,473,000	General Fund
Community and Economic Development	Opportunity Grant Program	\$13,268,000	General Fund
Community and Economic Development	Keystone Innovation Zones	\$543,000	General Fund
Community and Economic Development	Customized Job Training	\$18,240,000	General Fund
Community and Economic Development	Workforce Leadership Grants	\$2,700,000	General Fund
Community and Economic Development	Infrastructure Development	\$21,000,000	General Fund
Community and Economic Development	Housing and Redevelopment Assistance	\$32,058,000	General Fund
Community and Economic Development	Accessible Housing	\$2,961,000	General Fund
Community and Economic Development	Family Savings Accounts	\$900,000	General Fund
Community and Economic Development	New Communities	\$15,405,000	General Fund
Community and Economic Development	Community Action Team (CAT)	\$644,000	General Fund
Community and Economic Development	PA Industrial Development Assistance	\$3,922,000	General Fund
Community and Economic Development	Local Development Districts	\$5,613,000	General Fund
Community and Economic Development	Small Business Development Centers	\$6,788,000	General Fund
Community and Economic Development	Tourist Promotion Assistance	\$6,678,000	General Fund
Community and Economic Development	Tourism Accredited Zoos	\$1,900,000	General Fund
Community and Economic Development	Community Revitalization (WAMs)	\$36,500,000	General Fund
Community and Economic Development	Urban Development	\$18,750,000	General Fund
Community and Economic Development	Community and Business Assistance	\$2,000,000	General Fund
Community and Economic Development	Economic Growth and Community Assistance	\$6,200,000	General Fund
Community and Economic Development	Market Development	\$96,000	General Fund
Community and Economic Development	Rural Leadership Training	\$136,000	General Fund
Community and Economic Development	Comm. Conservation and Employment	\$40,000,000	General Fund
Community and Economic Development	Super Computer Center	\$700,000	General Fund
Community and Economic Development	Infrastructure Technical Assistance	\$3,526,000	General Fund
Community and Economic Development	Minority Business Development	\$2,600,000	General Fund
Community and Economic Development	FayPenn	\$500,000	General Fund
Community and Economic Development	Industrial Resource Center	\$14,100,000	General Fund
Community and Economic Development	Manufacturing and Business Assistance	\$900,000	General Fund
Community and Economic Development	PennTap	\$65,000	General Fund
Community and Economic Development	Powdered Metals	\$192,000	General Fund
Community and Economic Development	Agile Manufacturing	\$600,000	General Fund
Community and Economic Development	Regional Development Initiatives	\$12,000,000	General Fund
Community and Economic Development	Infrastructure&Facilities Improvement Grants	\$25,500,000	General Fund
Community and Economic Development	Digital and Robotic Technology	\$1,700,000	General Fund
Community and Economic Development	Economic Advancement	\$16,800,000	General Fund
Community and Economic Development	Community and Regional Development	\$14,900,000	General Fund



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**CORPORATE WELFARE**

<b>Department</b>	<b>Program</b>	<b>FY 2008-09</b>	<b>Fund</b>
Community and Economic Development	Marketing to Attract Tourists	\$16,054,000	General Fund
Community and Economic Development	Marketing to Attract Business	\$2,593,000	General Fund
Community and Economic Development	Marketing to Attract Film Bus.	\$517,000	General Fund
Community and Economic Development	Tourist Product Development	\$1,973,000	General Fund
Community and Economic Development	Worldtrade PA	\$12,871,000	General Fund
Community and Economic Development	Biotechnology Commercialization	\$6,000,000	Other Funds
Community and Economic Development	Health Venture Investment Account	\$6,000,000	Other Funds
Community and Economic Development	Life Sciences Greenhouse	\$3,000,000	Other Funds
Community and Economic Development	Minority Business Development Loans	\$2,700,000	Other Funds
Community and Economic Development	Small Business First Total Loans	\$38,548,000	Other Funds
Conservation and Natural Resources	Forestry Research	\$2,338,000	Other Funds
Education	Job Training Programs	\$3,706,000	General Fund
Education	PSU Agricultural Research	\$24,058,000	General Fund
Education	PSU Agricultural Extension Service	\$28,561,000	General Fund
Environmental Protection	Climate Change Initiatives	\$287,000	General Fund
Environmental Protection	Small Business Pollution Prevention Program	\$1,100,000	Other Funds
Labor and Industry	Entrepreneurial Assistance	\$543,000	General Fund
Labor and Industry	Transfer to Vocational Rehabilitation Fund	\$43,601,000	General Fund
Labor and Industry	Supported Employment	\$975,000	General Fund
Labor and Industry	Training Activities	\$15,754,000	General Fund
Labor and Industry	Self Employment Assistance	\$359,000	General Fund
Labor and Industry	Employment Services	\$10,055,000	General Fund
Labor and Industry	Industry Partnerships	\$4,613,000	General Fund
Labor and Industry	Beacon Lodge Camp	\$98,000	General Fund
Labor and Industry	New Choices/New Options	\$2,371,000	General Fund
Labor and Industry	Job Training Programs	\$3,300,000	Other Funds
Transportation	Rail Freight Assistance	\$10,356,000	General Fund
Capital Budget	Redev. Assist. Gen. Obligation Bond Issues	\$200,000,000	Off Budget
Capital Budget	Growing Greener General Obligation Bond Issues	\$102,500,000	Off Budget
Commonwealth Financing Authority	Bond Issues	\$187,500,000	Off Budget
Energy Independence Fund	Bond Issues	\$500,000,000	Off Budget
<b>TOTAL</b>		<b>\$1,702,417,000</b>	

### Privatize “Yellow Pages Government”

Although government properly provides various public goods—such as law enforcement, courts, and roads—the Commonwealth also distributes many “private goods.” These are goods and services that are easily found in the Yellow Pages of a phone book and are the proper domain of private enterprise, not enterprising politicians.

These government-provided goods and services compete directly with private enterprises, often serving merely as sources of patronage jobs, favors, and perks for the politically connected. Many government “businesses” could be more efficiently run through public-private partnerships, such as the construction and administration of prisons or the management of toll roads like the Turnpike. Government-run enterprises, such as the state liquor stores and the Pennsylvania Higher Education Assistance Agency, are services from which the state should divest itself. These services extend the role of government far beyond its core, constitutional functions, and hinder the private-sector economy that can provide these services more effectively and at lower costs.

## Pennsylvania Higher Education Assistance Agency

The Pennsylvania Higher Education Assistance Agency (PHEAA) is a state-run organization riddled with wasteful spending habits. While it offers loans to students (competing with private loan providers), it also has a history of lavishing special treatment on its board members, who are predominantly state legislators. In August 2008, the Auditor General completed an audit of the state agency, revealing:

- \$62.5 million for consultants, attorneys and other professional services, including \$2.1 million for lobbying. One lobbyist secured a \$64,551 bonus.
- \$121 million for management salaries, including \$6.4 million for executive bonuses.
- \$30 million for promotional items and advertising, including \$26,000 for “rally towels” at two Penn State football games and \$10,000 for iPod music players for a Web contest.<sup>33</sup>

The excessive spending prompted the Auditor General to recommend replacing half of the state legislator board members with experts in finance and education. PHEAA claimed such a change would endanger its non-profit tax status, though officials at the IRS stated this would not be the case.<sup>34</sup> If PHEAA had spent less on its operations, the agency could have lowered interest rates and avoided scaling back its lending, just as public universities are predicting four and five percent tuition increases for the 2009-10 academic year.<sup>35</sup> Although the new leadership at PHEAA has discontinued many of its poor practices, there is nothing that will prevent them from returning. Not only would privatizing PHEAA eliminate the abuse by politicians, but it would provide students with access to a more competitive student loan market.

## State Liquor Stores

State liquor stores should also be turned over to the private sector. Pennsylvania is one of only a few states in which government owns and operates liquor stores, rather than licensing and regulating private vendors.

Privatization would increase state revenue, but also provide consumers with more products. The state would accrue corporate and property tax revenue from liquor stores, whereas now they are nontaxable. Pennsylvania would also benefit from competitively contracting out all Liquor Control Board operations—one estimate projects a \$1.7 billion one-time influx of funds.<sup>36</sup>

Some critics fear that privatization would increase underage drinking, driving under the influence, and alcoholism. However, there are no statistical differences in these undesirable tendencies between “control” states and “free” states.<sup>37</sup> Today, alcohol enforcement is handled by the Pennsylvania State Police, Bureau of Liquor Control Enforcement. Under privatization, the state would only divest itself of the marketing and sales of wine and spirits. The Liquor Control Board is also tainted by cronyism with the creation of a high-paid position for a retired legislator. Privatization would reduce graft and abuse in these quasi-private entities which attract political patronage and unnecessary government spending.

## Historical and Museum Commission

The Pennsylvania Historical Museum Commission (PHMC) spends over \$3 million to fund museums around the state via Museum Assistance Grants. Apart from the PHMC, funding is also set aside through the Governor’s Council on the Arts, the State Library maintained by the Department of Education, and various programs under the direction of the Department of Economic and Community

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<sup>33</sup> Pennsylvania Department of the Auditor General “Auditor General Jack Wagner Calls for Reforming PHEAA’s Board by Replacing 8 Legislators with Financial, Academic Pros.” Press Release, August 19, 2008.

<sup>34</sup> Murphy, Jan, “PHEAA tax status not issue, IRS says,” *Patriot-News*, September 14, 2008.

<sup>35</sup> Murphy, Jan, “State Schools Weigh Tuition Increases,” *Patriot-News*, January 15, 2009.

<sup>36</sup> Commonwealth Foundation, “Public Benefits from Private Liquor,” [www.commonwealthfoundation.org](http://www.commonwealthfoundation.org)

<sup>37</sup> Segal, Geoffrey F. and Geoffrey S. Underwood, “Divesting the Pennsylvania Liquor Control Board,” Testimony to the Pennsylvania Senate Majority Policy Committee, April 18, 2007, available at [www.commonwealthfoundation.org](http://www.commonwealthfoundation.org)

Development. The Pennsylvania Humanities Council also receives a large amount of state funds; last year state money comprised over 80 percent of its entire budget.<sup>38</sup>

Contributing to the waste is a lack of coordination between the Governor's Council on the Arts and the PHMC. The resulting tension often puts mostly smaller museums at odds with large museums that are able to hire lobbyists and leverage their political connections in order to obtain more taxpayer dollars. These nine "non-preferred" museums acquire their funding directly from the legislature, avoiding competition for a limited number of merit based grants. Putting all of the money into one fund instead of setting aside separate line items for non-preferred museums would at least ensure all state funding is based on merit and not political jockeying.

Taxpayers should not be forced to support politically-selected institutions; they should be able to choose which museums to patronize. Museums are not a public good, they do not benefit every citizen equally and they can crowd-out similar private ventures.

### **Pennsylvania Turnpike Commission**

Another way to slim down Pennsylvania's spending is to take advantage of private-public partnerships in transportation, particularly in the case of the Pennsylvania Turnpike Commission (PTC), which has long been a haven of political patronage and nepotism. The PTC has a reputation for persistent, expensive lobbying. In the first part of 2007, the PTC ranked fourth nationally in terms of taxpayer-funded federal lobbying.<sup>39</sup> However, the federal government still denied the PTC permission to toll I-80, a critical source of revenue under Act 44.

Tolls and deficit-borrowing are guaranteed to grow exceptionally given the rejection of the Turnpike lease and the adoption of Act 44 of 2007. In January 2009, Pennsylvanians experienced a 25 percent increase in tolls, only the first of yearly toll increases. Tolls are promised to increase at least 3 percent annually (without a cap), and the PTC will continue to seek the power to toll I-80, while accruing billions in taxpayer-backed debt. Leasing the turnpike to a private operator would still produce a better return on toll-payers' dollars; however, the PTC has demonstrated it will do whatever it takes to preserve itself, including incurring massive amounts of debt that will require extraordinary toll rate increases.

### **Prison Administration**

After the Governor's latest round of budget freezes, taxpayers will spend over \$1.3 billion to run and maintain the state's prisons. While competitive bids are collected for construction permits, and often for services like food preparation, the everyday management of the state prison system eats up a large amount of taxpayer resources. The Commonwealth faces a looming prison crisis and the privatization of prison construction and management—successfully implemented to varying degrees in over thirty states—offers a cost-effective solution to these pressing concerns.<sup>40</sup>

A slew of studies illustrates the cost-saving potential of prison privatization, backed up by the experience of the many successfully privatized facilities around the country.<sup>41</sup> Undertaken correctly, prison privatization offers Pennsylvania policymakers an opportunity to save money, improve service quality, and address overcrowding in the state's correctional facilities.

Most states have privatized or used public-private partnerships in the delivery of these services and goods, and there is little rationale to justify government monopolies in Pennsylvania. Contracting out PHEAA, the wine and spirits stores, and the Turnpike operations would provide a windfall for the state and alleviate the need for higher taxes and fees. Privatization would also reduce patronage, graft, and abuse in these quasi-private entities, which offer too great a temptation to misuse public monies. Privatization would return \$2.5 billion in taxes and government revenue to the private sector.

<sup>38</sup> Institute of Museum and Library Services, "Exhibiting Public Value: Government Funding for Museums in the United States" December 2008, pg. 113.

<sup>39</sup> Center for Responsive Politics, "Study on Lobbying 2007".

<sup>40</sup> Benefield, Nathan A., "Private Prisons Increase Capacity, Save Money, Improve Service," Testimony to the House Labor Relations Committee, October 24, 2007, available at [www.commonwealthfoundation.org](http://www.commonwealthfoundation.org)

<sup>41</sup> Benefield, Nathan A., "Private Prisons Increase Capacity, Save Money, Improve Service," Testimony to the House Labor Relations Committee, October 24, 2007, available at [www.commonwealthfoundation.org](http://www.commonwealthfoundation.org)



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**Yellow Pages Government**

<b>Department</b>	<b>Program</b>	<b>FY 2008-09</b>	<b>Fund</b>
Executive Offices	Council on the Arts	\$1,245,000	General Fund
Executive Offices	Grants to the Arts	\$14,578,000	General Fund
Agriculture	Agricultural Research	\$1,640,000	General Fund
Agriculture	Nutrient Management	\$371,000	General Fund
Agriculture	Trans to State Farm Products Show Fd.	\$2,860,000	General Fund
Agriculture	Payments to Pennsylvania Fairs	\$3,617,000	General Fund
Agriculture	Livestock Show	\$213,000	General Fund
Agriculture	Open Dairy Show	\$213,000	General Fund
Agriculture	Junior Dairy Show	\$47,000	General Fund
Agriculture	4-H Club Shows	\$52,000	General Fund
Agriculture	Transfer to Nutrient Management Fund	\$3,138,000	General Fund
Agriculture	Future Farmers	\$83,000	General Fund
Agriculture	Agriculture and Rural Youth	\$54,000	General Fund
Agriculture	Farm-School Nutrition Initiative	\$493,000	General Fund
Community and Economic Development	Cultural Exhibitions and Expositions	\$5,500,000	General Fund
Community and Economic Development	Cultural Activities	\$3,400,000	General Fund
Conservation and Natural Resources	Heritage and Other Parks	\$7,668,000	General Fund
Education	Pennsylvania Accountability Grants	\$271,425,000	General Fund
Education	Pre-K Counts	\$86,412,000	General Fund
Education	Head Start Supplemental Assistance	\$39,480,000	General Fund
Environmental Protection	Consumer Energy Program	\$7,500,000	General Fund
Environmental Protection	Transfer to Home Energy Loan Fund	\$5,000,000	General Fund
Environmental Protection	Data Center Energy Conservation Projects	\$2,000,000	General Fund
Fish and Boat Commission	Fish Fund	\$31,671,000	Other Funds
Game Commission	Game Fund	\$58,791,000	Other Funds
Health	Bio-Technology Research	\$4,600,000	General Fund
Health	Emergency Care Research	\$800,000	General Fund
Health	Health Research and Services	\$12,400,000	General Fund
Historical and Museum Commission	Museum Assistance Grants	\$3,558,000	General Fund
Historical and Museum Commission	Historical Education and Museum Grants	\$1,034,000	General Fund
Historical and Museum Commission	Regional History Centers	\$329,000	General Fund
Historical and Museum Commission	University of PA Museum	\$236,000	General Fund
Historical and Museum Commission	Carnegie Museum of Natural History	\$236,000	General Fund
Historical and Museum Commission	Carnegie Science Center	\$236,000	General Fund
Historical and Museum Commission	Franklin Institute Science Museum	\$713,000	General Fund
Historical and Museum Commission	Academy of Natural Sciences	\$437,000	General Fund
Historical and Museum Commission	African American Museum in Philadelphia	\$333,000	General Fund
Historical and Museum Commission	Everhart Museum	\$42,000	General Fund
Historical and Museum Commission	Mercer Museum	\$181,000	General Fund
Historical and Museum Commission	Whitaker Center for Science and Arts	\$131,000	General Fund
Insurance	Cover All Kids	\$40,000,000	General Fund
Labor and Industry	Pennsylvania Conservation Corps	\$6,544,000	General Fund
Public Television Network	General Government Operations	\$3,592,000	General Fund
Public Television Network	Broadcast Standards and Datacasting Upgrade	\$583,000	General Fund
Public Television Network	Public Television Station Grants	\$7,630,000	General Fund
Liquor Control Board	Sale of Liquor	\$1,485,603,000	Other Funds
PHEAA	Operating Revenue	\$418,970,000	Off Budget
<b>TOTAL</b>		<b>\$2,535,639,000</b>	

## Self-Service Government

The core functions of the government involve providing those services and goods which clearly benefit all citizens. However, a number of state programs and expenses actually work to the detriment of citizens, for the benefit of government officials, or reward the misuse of taxpayer dollars.

- **Lottery Advertising:** The FY 2008-09 budget includes \$32 million in advertising to promote the state lottery. Although any taxpayer-funded advertising is wasteful spending, lottery advertising is particularly disconcerting. Other unnecessary advertising expenditures cited in this study are well-intentioned efforts to encourage desired behaviors, but lottery advertising is aimed at deceiving the public and manipulating them into believing they have strong odds of winning. Pennsylvanians would be much better off investing in their retirement than buying lottery tickets from Gus the Groundhog. A Tax Foundation study found that for every dollar spent each month on lottery tickets, participants lose an estimated \$41,444 in retirement savings over a 40-year period.<sup>42</sup>
- **Professional Regulations:** The state spends over \$33 million each year monitoring professional standards and licensing. Among Pennsylvania's licensed professionals are wrestlers, massage therapists, natural hair braiders, and auctioneers. These regulations often place unnecessary burdens on those wishing to open a business in Pennsylvania. An example of the absurdity of such licensing is the requirement that masseuses must have 600 hours of training, while security officers carrying a lethal weapon are required to have only 40 hours of training.<sup>43</sup> In recent months, the state has attempted to crack down on "unlicensed" occupations, like eBay sellers and people giving rides to the Amish.
- **Political Patronage:** Former state lawmaker Dan Surra has been deemed "too big to fail" by Governor Rendell and his former House colleagues. After being ousted by voters in November, 2008, Surra was hired as a "consultant" to the House Democratic Caucus. Then, despite a state hiring freeze and threats to lay off thousands of current state employees, Governor Rendell created a new position for Surra, paying him \$95,002 plus benefits.<sup>44</sup>

Governor Rendell's former law firm, Ballard Spahr, received a \$1.8 million no-bid contract to work on the failed Turnpike lease, despite hundreds of attorneys already being employed by the state. Ballard Spahr also received \$770,000 for work done without a contract or competitive bidding for services. The law firm has also received \$2.7 million in contracts from the Delaware River Port Authority since Governor Rendell has served as chair.<sup>45</sup>

Extravagant spending is commonly found within the budgets of the legislature and the judiciary, often to help promote elected officials (and their re-election campaigns). Many of these items come from legislative leadership accounts, which cannot be audited by the Auditor General, but have been estimated to have a surplus of over \$200 million.

- **Calendars:** In 2007, the General Assembly spent a conservatively estimated \$371,500 to design, print and mail nearly 300,000 calendars for legislators.<sup>46</sup> These annual expenditures have no legislative value, but merely serve to provide incumbent legislators with another taxpayer-funded opportunity to increase their name recognition with voters. Along with calendars, legislators regularly disperse taxpayer-funded newsletters and radio ads thinly disguised as public service announcements.
- **Bonuses:** In July 2008, former lawmakers and senior staff members were charged with awarding taxpayer-funded salary bonuses to employees for working on political campaigns. In the meantime, members of both parties have spent millions to avoid further indictments. Together, the two legislative bodies have racked up over \$4 million in legal fees, protecting those who misspent millions of taxpayer dollars by spending more tax dollars.<sup>47</sup>

<sup>42</sup> Tax Foundation, "Lottery Taxes Divert Income from Retirement Savings," *Fiscal Facts*, January 20, 2008, [www.pittsburghlive.com](http://www.pittsburghlive.com)

<sup>43</sup> Act 118 Massage Therapy Law, available at [www.legis.state.pa.us](http://www.legis.state.pa.us).

<sup>44</sup> "Governor creates job for former state legislator," *The Patriot News*, January 13, 2009, [www.pennlive.com](http://www.pennlive.com)

<sup>45</sup> Freind, Chris, "A Recap of Rendell's Ballard Spahr Connections," *Philadelphia Bulletin*, January 14, 2009, [www.thebulletin.us](http://www.thebulletin.us).

<sup>46</sup> See "Cost of Calendars" on PolicyBlog for a summary of breakdown of these expenditures, [www.CommonwealthFoundation.org](http://www.CommonwealthFoundation.org)

<sup>47</sup> Bumsted, Brad, "Senate Republicans' Legal Bills Top \$1 Million," *Pittsburgh Tribune-Review*, January 6, 2008, [www.pittsburghlive.com](http://www.pittsburghlive.com)

Controlling self-serving government would save taxpayers \$700 million.

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**Self-Service Government**

<b>Department</b>	<b>Program</b>	<b>FY 2008-09</b>	<b>Fund</b>
Executive Offices	Rural Development Council	\$214,000	General Fund
Executive Offices	Latino Affairs Commission	\$248,000	General Fund
Executive Offices	African-American Affairs Commission	\$335,000	General Fund
Executive Offices	Asian-American Affairs Commission	\$227,000	General Fund
Executive Offices	Commission for Women	\$327,000	General Fund
Treasury	Tuition Account Program Advertising	\$987,000	General Fund
Agriculture	Transition to Organic Farming	\$450,000	General Fund
Auditor General	Municipal Pension Aid	\$220,000,000	Other Funds
Community and Economic Development	Local Government Resources and Development	\$9,000,000	General Fund
Community and Economic Development	Community and Municipal Facilities Fund	\$5,000,000	General Fund
Community and Economic Development	Early Intervention for Distressed Munic.	\$740,000	General Fund
Community and Economic Development	Distressed Community Assistance	\$3,300,000	Other Funds
Conservation and Natural Resources	Snowmobile & ATV Regulation	\$5,509,000	General Fund
Education	SSHE Recruitment of Disadvantaged Students	\$427,000	General Fund
Education	SSHE Affirmative Action	\$1,103,000	General Fund
Education	PSU Recruitment of Disadvantaged Students	\$427,000	General Fund
Education	Pitt Recruitment of Disadvantaged Students	\$415,000	General Fund
Education	Pitt Rural Education Outreach	\$2,404,000	General Fund
Education	Temple Recruitment of Disadvantage Students	\$416,000	General Fund
Environmental Protection	Environmental Education Fund	\$915,000	Other Funds
Health	Smoke Free PA Enforcement	\$1,700,000	General Fund
Health	Keystone State Games	\$208,000	General Fund
Insurance	Medical Care Availability & Reduction	\$189,865,000	Other Funds
Milk Marketing Board	General Operations/Marketing Fund	\$2,842,000	Other Funds
Revenue	Lottery Advertising	\$32,000,000	Other Funds
State	Prof. and Occupational Affairs	\$32,403,000	General Fund
State	State Athletic Commission	\$485,000	General Fund
State Police	Liquor Control Enforcement	\$23,722,000	Other Funds
Legislature	Senate Incidental Expenses	\$3,184,000	General Fund
Legislature	Expenses - Senators	\$1,312,000	General Fund
Legislature	Senate Flag Purchase	\$24,000	General Fund
Legislature	Legislative Printing and Expenses	\$16,187,000	General Fund
Legislature	Caucus Operations	\$37,999,000	General Fund
Legislature	House Contingent Expenses	\$751,000	General Fund
Legislature	House Incidental Expenses	\$8,730,000	General Fund
Legislature	Legislative Printing and Expenses	\$17,471,000	General Fund
Legislature	Expenses - Representatives	\$5,066,000	General Fund
Legislature	Special Leadership Account	\$19,836,000	General Fund
Legislature	Legislative Management Committee	\$40,778,000	General Fund
Legislature	House Flag Purchase	\$24,000	General Fund
Legislature	Independent Regulatory Review Commission	\$2,123,000	General Fund

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Department	Program	FY 2008-09	Fund
Legislature	Capitol Preservation Committee	\$888,000	General Fund
Legislature	Capitol Restoration	\$4,096,000	General Fund
Legislature	Flag Conservation	\$59,000	General Fund
Legislature	Colonial History	\$194,000	General Fund
Legislature	Rare Books Conservation	\$395,000	General Fund
Legislature	Center For Rural Pennsylvania	\$1,100,000	General Fund
Judicial	Supreme Court Justices Expenses	\$128,000	General Fund
Judicial	Superior Court Judges Expenses	\$197,000	General Fund
Judicial	Commonwealth Court Judges Expenses	\$140,000	General Fund
<b>TOTAL</b>		<b>\$696,351,000</b>	

**Market-Based Delivery of Government Services**

Many functions of state government are not being delivered in a cost-efficient manner. By utilizing more market-based approaches—particularly in the areas of education, health care for the poor, and benefits for government employees—the state could both save taxpayers and deliver better services to citizens.

**Higher Education**

The Commonwealth of Pennsylvania has long been considered a leader in higher education; however, deep-seated problems, including large tuition increases, a lack of accountability for both institutions and students receiving taxpayer funding, a low college graduation rate relative to peer states, and a dysfunctional organizational structure that perpetuates waste and inefficiency, have put Pennsylvania among the ten most expensive states for college.<sup>48</sup>

Last year, public university tuition in the Commonwealth averaged \$9,672, an increase of 7 percent from the prior year and a 56 percent inflation-adjusted increase from 1993-94, even though Pennsylvania maintains the largest higher education assistance program in the nation.<sup>49</sup>

In response, administrators have demanded more state funding despite the fact that state appropriations for higher education increased by 53 percent compared to the 44 percent rate of inflation and a 33 percent per capita income increase from 1993-94 to 2005-06.<sup>50</sup>

In short, college is less affordable than ever, but we are spending more than ever on both universities and financial aid programs. Governor Rendell's latest proposal to legalize video poker in an effort to increase tuition aid by \$128 million represents more of the same failed policies that created the current situation. In fact, there is strong evidence that increased state appropriations for higher education is having the opposite effect: more state spending is actually responsible for *increased* tuition costs. Our higher education system is clearly in need of deep reforms, not temporary infusions of gambling winnings.

Holding students, colleges, and universities accountable by replacing direct state subsidies to universities with portable scholarship grants to students will create a more efficiently-run and student-focused system of higher education. The ultimate measure of accountability would be a re-organization of the state higher education system, including the possibility of severing the taxpayers' financial support to state, state-related, and state-aided universities.

Pennsylvania has devoted significant resources to colleges and universities, only to watch tuition skyrocket and accountability for both schools and students plummet. Universities have changed in

<sup>48</sup> College Board, Trends in College Pricing 2007, Table 6. Available at:

[http://www.collegeboard.com/prod\\_downloads/about/news\\_info/trends/trends\\_pricing\\_07.pdf](http://www.collegeboard.com/prod_downloads/about/news_info/trends/trends_pricing_07.pdf) and College Board, Annual Survey of Colleges, [www.collegeboard.com](http://www.collegeboard.com)

<sup>49</sup> Commonwealth Foundation, "Higher Costs of Higher Education," available at [www.commonwealthfoundation.org](http://www.commonwealthfoundation.org)

<sup>50</sup> Ibid.

fundamental ways and are really no longer state institutions in practice, yet they still receive generous public funding.

### Medicaid

Medicaid is growing at an unsustainable rate and is a menace to both state and federal budgets. At the current rate of growth, Medicaid will consume 94 percent of the Pennsylvania budget in the year 2075. Indeed, Medicaid is now the largest single program in the state's total operating budget.

Unfortunately, the enormous fiscal problems facing Medicaid often overshadow its other major flaw: a well-deserved reputation as a low-quality provider of health care. The program delivers episodic treatment, provides poor preventive care, and offers low-quality services to many beneficiaries. The plan produces some tragic health outcomes for America's most vulnerable citizens. There have been estimates that as much of 40 percent (over \$100 billion) of Medicaid spending comprises waste and fraud.<sup>51</sup>

Pennsylvania should create insurance and provider exchanges for the provision of services to beneficiaries. Unlike the current price control system, those eligible for Medicaid will receive risk-adjusted credits to purchase services from competing plans. This would turn Medicaid into a real market in which buyers act in their own interest and providers compete to enroll beneficiaries and would also produce gains in efficiency that would make Medicaid sustainable in federal and state budgets and, just as importantly, improve the quality of health care that beneficiaries receive.<sup>52</sup>

### School Choice

State spending on public K-12 education in 2008-09 exceeded \$10 billion. Combined with local and federal funds, Pennsylvanians spend approximately \$24 billion on their public school system. While education spending continues to increase, the academic achievement of the Commonwealth's students is not improving. Pennsylvania continues to rank near the bottom in SAT scores, and the average score has improved only marginally since 1987. Nearly half of all Pennsylvania's 11<sup>th</sup>-grade students are below their grade level in mathematics, and 35 percent are not proficient in reading.<sup>53</sup> Worse yet, Pennsylvania artificially inflates the proficiency of its students in math and reading by an average of 82 percent, when comparing the state results to the national NAEP standards. With few exceptions, schools are engaged in large-scale social promotion of children who are not academically proficient.<sup>54</sup> Clearly, simply throwing more money into public schools has not improved education. However, school choice offers students the opportunity for a better education, while reducing the cost to taxpayers.

- **Benefits of School Choice:** While public education spending perpetually outpaces inflation and enrollment growth, several alternatives are delivering quality education for a fraction of the cost of traditional public school districts. Student enrollment in charter schools, private schools, and home schools saved taxpayers more than \$3.2 billion in the 2006-07 school year alone. The taxpayers of Pennsylvania could experience even more dramatic savings if all parents were empowered with choices outside the traditional public school system. In addition to the academic benefits, school choice saves money.<sup>55</sup>
- **Property Tax Relief Scholarship Act:** Every year, most Pennsylvania homeowners receive larger property tax bills due to higher spending by their public school district. From 1997 to 2007, school property taxes increased by 76 percent, or \$4.3 billion—costing the average homeowner \$1,250 more per year. The Property Tax Relief Scholarship Act is a proposal to provide a quality education for all students and reduce school property taxes on homeowners beyond that guaranteed in Act 1 of 2006. The policy would allow tax dollars to follow

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<sup>51</sup> Pennsylvania Department of the Auditor General, Auditor General Jack Wagner Says \$3.3 Million in Improper Medicaid Payments Issued by State's Welfare Department, Jan 28, 2009 <http://www.auditorgen.state.pa.us>

<sup>52</sup> Bond, Michael, "Medicaid Reform: Mending the Holes in Pennsylvania's Health Care Safety Net," Commonwealth Foundation, [www.commonwealthfoundation.org](http://www.commonwealthfoundation.org)

<sup>53</sup> Benefield, Nathan A., Jason O'Brien and Robert Maranto, "Edifice Complex: Where Has All the Money Gone," Commonwealth Foundation, [www.commonwealthfoundation.org](http://www.commonwealthfoundation.org)

<sup>54</sup> Anderson, David V., "A Pennsylvania School Report Card," Commonwealth Foundation, [www.commonwealthfoundation.org](http://www.commonwealthfoundation.org)

<sup>55</sup> Walczak, Jared and Mary Yoder, "The Dollars and Sense of School Choice," Commonwealth Foundation, [www.commonwealthfoundation.org](http://www.commonwealthfoundation.org)

children to the school of their choice, while providing property tax relief to homeowners for each student who migrates from a district school to a school of choice.<sup>56</sup>

### State Employee Pension and Benefits Reform

Whereas most private-sector employees are enrolled in a “defined contribution” (DC) pension plan—the retirement benefit of which is the responsibility of the beneficiary—government employees participate in “defined benefit” (DB) plans. These plans guarantee a formulaic retirement benefit that is based on years of employment and average salary, and is the financial responsibility of the public entity and taxpayers. Following favorable investment returns in the 1990s, the costs to taxpayers to fund retirement benefits were lowered significantly. But rather than maintaining these low costs to taxpayers, policymakers decided to increase pension benefits for employees by tapping the “surplus.”

Today, Pennsylvania’s Public School Employees Retirement System (PSERS) and the State Employees Retirement System (SERS) are facing losses of 30-40 percent for the 2008 calendar year.<sup>57</sup> This means taxpayers are financially responsible for billions in unfunded liabilities and retirement benefits. Pension contributions by taxpayers are already expected to triple in the next few years. Although little can be done about past commitments made by politicians, moving to a “defined contribution” 401(k)-type retirement plan for new public-sector workers will provide portability for employees, and greater predictability and affordability for taxpayers.<sup>58</sup>

In order to improve the delivery of government services, policymakers in Harrisburg must better utilize market-oriented mechanisms. Ensuring efficiency and quality of service in the billions of taxpayer dollars spent on education, health care and retirement benefits for state employees will improve the fiscal and economic health of the Commonwealth.

## Spending and Budgetary Reforms

### Repeal Prevailing Wage Laws

Prevailing wage laws are a prime example of burdensome and unnecessary regulations that are increasing the taxpayers’ cost of government and hurting the economy. Prevailing wages are set by the state Department of Labor and Industry to be at or near union-scale level for each occupation in every county in Pennsylvania. The law requires union-inflated wages to be paid on any government-funded project with a value of \$25,000 or more. Estimates place prevailing union wages anywhere from 10-30 percent higher than private sector wages, adding considerable labor costs to a taxpayer-funded project.<sup>59</sup> But the law doesn’t just mandate a higher wage; it also mandates the level of fringe benefits that must be paid. Therefore, a non-union firm must pay fringe benefits directly to the employee as a supplement to the hourly wage, which is then subject to payroll taxes. As a result, many firms forgo bidding on municipal projects, which translates into an even larger bill for taxpayers.

By submitting to powerful interest groups, specifically labor unions, legislators have shown disregard for the well-being of citizens and taxpayers. The original intent of prevailing wage laws was to insure workers from cheap migrant laborers, but today it simply shields union workers from having to compete with other qualified workers and increases taxpayers’ costs.

### Spending Limits

Over the last several decades, the growth in state government spending has exceeded both the rate of inflation and increases in citizens’ incomes.<sup>60</sup> Excessive government spending growth has burdened working men and women and weakened Pennsylvania’s economic competitiveness because it has effectuated high taxes and fees. Placing a reasonable limit on the annual increase in spending is a fiscally prudent means of bringing government growth in line with citizens’ ability to pay for it.

<sup>56</sup> Brouillette, Matthew J. and Nathan A. Benefield, “The Property Tax Relief Scholarship Act,” Commonwealth Foundation, [www.commonwealthfoundation.org](http://www.commonwealthfoundation.org)

<sup>57</sup> Erdley, Debra, “Retirees shielded from state pension losses,” *Tribune-Review* November 24, 2008.

<sup>58</sup> Commonwealth Foundation, “Public Pension Reform Introduced,” [www.commonwealthfoundation.org](http://www.commonwealthfoundation.org)

<sup>59</sup> Gamrat, Frank, Ph.D. and Jake Haulk, Ph.D, “Time for Action on Prevailing Wage Law,” available at [www.commonwealthfoundation.org](http://www.commonwealthfoundation.org)

<sup>60</sup> Commonwealth Foundation, “State Government Spending,” available at [commonwealthfoundation.org](http://commonwealthfoundation.org)

Had Governor Rendell and the General Assembly simply held spending growth to inflation and population growth (19.8 percent) over the last six years, Pennsylvania would be looking at a savings of \$3.8 billion surplus rather than drowning in red ink. Over that time, \$15.9 billion could have been returned to taxpayers (a savings of \$5,000 per family of four), while allowing reasonable growth in government expenditures.<sup>61</sup>

Critics of reasonable limits on the annual growth of state government spending argue that lawmakers can curtail spending increase without statutory or constitutional restraints. Yet experience demonstrates otherwise. Clearly, without placing “fiscal guardrails” around the budgeting process, spending increases will continue to exceed taxpayers’ ability to pay and will eventually run Pennsylvania off a fiscal cliff.

### Performance-Based Budgeting

Basing appropriations on the performance of agencies and departments encourages accountability and results. Budgeting without performance measures is like investing in a company that tells you how they spent your money, but not whether it created a profit or loss.<sup>62</sup> Yet surprisingly, Pennsylvania lawmakers do not evaluate the performance of programs in setting their funding. Performance-based budgeting forces the government to increase both the efficiency and the effectiveness of its spending. Providing systematic information about program performance allows legislators to properly evaluate programs and for taxpayers to be better informed. The following are examples that could be implemented to fundamentally change the way state government operates.

- **A Pennsylvania “Grace Commission”:** During the Reagan administration a commission was assembled to investigate waste and inefficiency in the federal government. The commission’s report revealed that government waste consumed one-third of all income taxes. Congress never acted on the recommendations, even though the savings would have reached the trillion dollar level by 2000.
- **Improve Management and Cost Control Taskforce:** In 1995 Governor Ridge developed IMPACCT PA, a task force which produced recommendations to increase the efficiency of state government. While this process was valuable in identifying and eliminating some government waste, its recommendations barely scratched the surface.
- **Breaking Bureaucratic Habits:** Transitioning to performance-based budgeting is complicated by the common tendencies of bureaucracies. Specifically, mission creep and vague goals without evaluations is the norm in government. By setting clear goals with cause-and-effect measures, agencies can avoid many of the activities that create government waste, which would also help employees to see how their success is tied to that of their department.<sup>63</sup>

### Spending Transparency

The key to spending reforms is transparency. Transparency puts pressure on policymakers to spend wisely by demonstrating the link between appropriations and services. This discourages much of the wasteful spending in government, which is perpetuated by the desire of politicians to “do something,” even if all of their activities do not produce the desired results. Transparency allows citizens to track how successful government initiatives are by giving them access to information for critical evaluations of performance results.

The advantages of an open government are numerous, and databases to display the information can be created for a low cost relative to the savings generated. In fact, some state officials have argued that transparency is just as beneficial for government officials as it is for the public. Texas State Comptroller Susan Combs has saved her state \$4.8 million by increasing government transparency.<sup>64</sup>

The Pennsylvania Treasurer’s Office recently launched the Pennsylvania Contracts E-library

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<sup>61</sup> Commonwealth Foundation, “Statement on Gov. Ed Rendell’s Budget Address,” available at [www.commonwealthfoundation.org](http://www.commonwealthfoundation.org)

<sup>62</sup> Hon. Maurice P. McTigue, QSO, “The Effect of Transparency on Ethics, Honor, and Results in government,” Mercatus Center, presented February 8, 2008, [www.mercatus.org](http://www.mercatus.org)

<sup>63</sup> Wray, Henry, “Performance-Based Regulations,” Mercatus Center, No. 08-25, August 2008, [www.mercatus.org](http://www.mercatus.org)

<sup>64</sup> Texas Comptroller of Public Accounts, “Combs Says State Has Tightened Its Belt Through Transparency Initiatives,” December 3, 2008.



Database—which posts selected government contracts on the Internet. Senator Pat Browne has a proposal to create a Web database of all transactions above \$25,000, and Senator Dominic Pileggi has legislation to post all state government salaries online.<sup>65</sup>

None of these efforts is sufficient, however. The public should be able to easily find any grant, contract, or expenditure of tax dollars, regardless of how small. Instead of several state department websites, one comprehensive database will further increase accountability and taxpayer access.

Pennsylvania taxpayers deserve to see how all of their money is being spent. A single searchable database, including all aspects of government spending, would allow citizens of the Commonwealth to scrutinize the cost of government. With timely action, Pennsylvania can become a leader in providing spending transparency to those footing the bills.

## Conclusion

Harrisburg policymakers need to reprioritize spending and cut waste from state government to avoid a tax increase on working Pennsylvanians and job creators. In short, they need to put Pennsylvania government on a diet and back on the path to fiscal and economic health.

*Spending Tips 2009* identifies \$5 billion in unhealthy state spending in FY 2008-09. Eliminating this wasteful spending from the FY 2009-10 budget would reduce the size and burden of government on Pennsylvanians, move state government closer to its proper and competent role in our daily lives, and decrease the burdensome cost of Pennsylvania's government by \$1,600 annually for each family of four.

With a host of hearings, meetings, and votes on the FY 2009-10 budget over the first six months of 2009, the Pennsylvania General Assembly has the opportunity to eliminate the unsustainable and unhealthy spending in the state budget. Rather than embrace every proposal coming from the Governor and his various departments, legislators need to be considerate of the taxpayer, focus only on the core functions of government, and reprioritize spending on those programs which truly provide for the “common good” of Pennsylvania residents.

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<sup>65</sup> Bryan, Elizabeth, “Open the Books on Government Spending,” Commonwealth Foundation, [commonwealthfoundation.org](http://commonwealthfoundation.org).

#### **ABOUT THE AUTHORS AND THE COMMONWEALTH FOUNDATION**

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