September 2015

Analysis of Governor Wolf's Budget Compromise

On September 16, 28 days after receiving a budget compromise proposal from legislative Republicans, Gov. Wolf rejected that offer and issued his own plan—to hire a private contractor to manage the government liquor system and slightly modifying his earlier pension proposal. While Wolf's proposals are significant, they represent bad public policy.

Pension Modifications

- Gov. Wolf's stacked hybrid pension plan is subject to the same political manipulations that plague the current pension system.
- While several states have created hybrid pension plans (part defined contribution, part defined benefit), no one has implemented a stacked hybrid.
- Gov. Wolf's $3 billion pension obligation bond proposal should be a nonstarter.
  - Pension obligation bonds have been historic failures. This includes their adoption in places like Philadelphia and Pittsburgh—where Mayor Peduto has spoken out against Gov. Wolf's bond proposal.
  - Ratings agencies have cautioned that pension bonds would result in bond rating ***downgrades***.
- The anti-spiking and revenue neutral option 4 reforms offered by Gov. Wolf are commonsense changes that protect taxpayers.
- Reducing Wall Street investment fees is another good idea, but the governor has indicated he can do this administratively.
  - Government unions who oppose converting to a defined contribution plan claim 401K plans have higher investment costs.
  - In fact, large 401k plans have lower fees than many defined contribution plans and rates only a fraction of what SERS and PSERS are paying now.

Outsourcing Management of Government Liquor Stores

- Wolf's plan to hire a private manager to run the liquor system replaces a government-run monopoly with a government-granted private monopoly.
- Consumers will not see better selection, prices, or service.

- This plan doesn't provide consumers new choices or true competition.
- It retains the one-size-fits all model Pennsylvania consumers have come to hate.

- Wolf's proposal doesn't end the conflict of interest of government controlling and promoting the sale of alcohol.

  - The proposal gives power to a single entity (or one person) to decide what products can and cannot be sold in Pennsylvania—power that has resulted in rampant corruption and bribery.

- The idea that wine in groceries and restaurants are "to be negotiated" means he isn't offering the most basic reform consumers want to see.

- Consumers will only see better selection, prices, and service when the government gets out of the wholesale business and allows **competition**, not monopoly, in wholesale and retail wine and spirits sales.

Media Reaction to Gov. Wolf's Proposal

Lehigh Valley Live:

> Instead of offering a real compromise, Wolf dredged up what can only be called Reform Lite — privatizing the management of the liquor system (but not the ownership or the workforce). He also came down in price on his hybrid pension proposal, saying that the earnings of new state employees over $75,000 would be shifted to a defined-contribution pension plan (down from his earlier ceiling of $100,000).

Pittsburgh Post-Gazette:

> The plan is a loser. It privatizes nothing. What's worse is that by projecting an aura of private operation it could perpetuate Pennsylvania's antiquated system for far longer.

Bucks County Courier Times:

> Now that we've gotten an unvarnished look at those "historic" reforms, here's our take: phoney baloney "reforms" that create the appearance of movement for a Democratic governor locked in a budget impasse with Republican legislative leaders.

Lancaster Online:

> If Gov. Wolf can make a deal with Republican leaders that would make good on his promise to boost funding for Pennsylvania's public schools, he should choose our children over the unions that oppose privatizing our state-owned liquor stores.

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