POLICY MEMO
FROM THE COMMONWEALTH FOUNDATION

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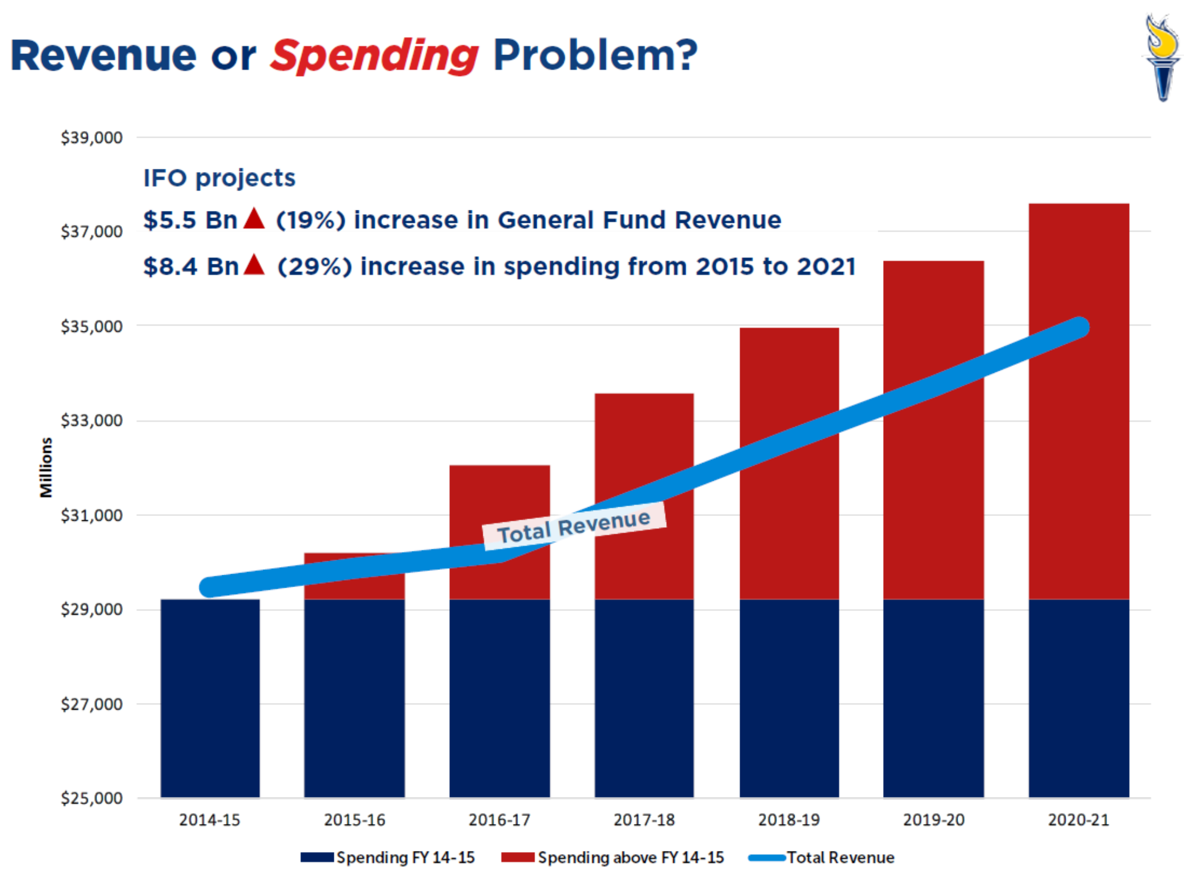
Redesigning Government to Balance State and Local Budgets

Pennsylvania taxpayers shoulder the 15th highest state and local tax burden in the country. Unsustainable growth in state government spending has fueled this high (and growing) tax burden. Consequently, the Keystone State has seen an exodus of working people.

Unless lawmakers address the cost drivers in the state budget, spending will exceed projected revenues by $1.86 billion next year and $2.63 billion by 2020, according to the Independent Fiscal Office (IFO). This “structural deficit” rests on the dangerous *assumption* that government spending must increase every year. Policymakers should reject this assumption.



By adopting reforms to state government, legislators can address out-of-control spending, prevent tax hikes, and create a more hospitable business climate.

1. Stabilize welfare spending by promoting independence.

Projected growth in the Department of Human Services (DHS) remains a key driver of the budget imbalance. The IFO projects DHS spending will grow by $835 million this upcoming fiscal year.

Growth in Human Services (5.7 percent) is projected to outpace total personal income growth (4.7 percent) over the next five years. This growth is unsustainable and threatens to harm taxpayers and undermine the state's ability to provide a safety net for those who need it most.

Lawmakers have several options for tackling welfare reforms that would reduce costs and put state government on a more sustainable path.

- *Improving Program Eligibility Tools* – By encouraging work and tailoring programs—through work requirements and asset tests—to those who truly need assistance, reformers can promote independence from government and avoid burdening taxpayers with counterproductive programs that only keep people trapped in a cycle of poverty.
- *Increasing Employment Opportunities for the Disabled* – By working with the Office of Developmental Programs to promote employment for the disabled, state lawmakers can encourage self-sufficiency while freeing up tax dollars for those unable to work.
- *Transitioning Pennsylvanians to Private Long-Term Care* – Utilizing tax credits to help purchase long-term care insurance, while tightening income and asset eligibility limits for subsidies, can help mitigate the costs of taxpayer-funded long-term care.
- *Recovering Child Care Support* – Roughly 93 percent of participants in the Child Care Works Subsidy Program are single parents. However, participation in the program is not contingent upon parents seeking child support. If lawmakers made mandatory child support a requirement, the change could boost the income of parents and save tax dollars over the long term.
- *Medical Assistance Reform* – Medical Assistance (Medicaid) remains the largest piece of the Human Services budget. With Governor Wolf expanding Medicaid under the Affordable Care Act, the program's costs—both human and financial—will only grow in the absence of reform. State lawmakers should work with Pennsylvania's congressional delegation to increase flexibility and reform Medicaid into a patient-centered system, putting health insurance decisions in the hands of patients rather than administrators.

2. Collaborate with the private sector to maximize government assets.

Privatization or leasing of government assets could provide new sources of revenue without taking more from working families.

- *Open state lands to drilling* – Last January, Gov. Wolf banned new drilling on state lands, crushing new job and growth opportunities in the process. The executive order overturned Gov. Corbett's own executive order, which allowed for drilling with the proviso that drilling would not create any "additional surface disturbance."
  If the governor is willing to revisit his position, new drilling on state lands could raise $100 million, according to a report authored by Representative Seth Grove.

- *Privatize government "enterprises"* – Lawmakers should explore privatization of state government enterprises that function as a business (or compete with existing businesses). One place to start is the state's **recreational sites**, including parks and museums. Privatizing or leasing state assets could provide an infusion of revenue and save taxpayers more than $44 million—the amount of tax dollars currently used to manage state parks and forests.

  Policymakers should look again at leasing the **Pennsylvania Turnpike**, which is drowning in debt, with toll increases planned for years to come. Fully getting state government out of the business of liquor sales—both retail and wholesale—by **privatizing the state wine and liquor monopoly** must be a top priority for 2016.

3. Make the most of every education dollar.

Pennsylvania's school districts spent $26.1 billion (or $15,019 per pupil) on education in 2013-14—a record high. Pennsylvania's educational and budget struggles stem not from a lack of adequate funding but from an inability to allocate the funding prudently. Lawmakers can make the most of every dollar by giving school administrators and parents more flexibility.

- *State Mandate Relief* – To avoid state and local tax increases, lawmakers can offer relief from state mandates, which drive up the cost of education. Rep. Kristin Phillips-Hill has already introduced legislation to pave the way for this initiative. House Bill 1119 would free school districts from mandates imposed by laws such as the Prevailing Wage Act. Eliminating prevailing wage mandates could save taxpayers upwards of $1 billion in state and local taxes.
- *School Choice* – School choice has saved Pennsylvanians billions of dollars. Two school choice programs—the Educational Improvement Tax Credit and the Opportunity Scholarship Tax Credit—empower families and provide students a quality education at a fraction of what a traditional public school spends per student. By expanding these educational options, officials can put education spending decisions in the hands of parents while redirecting newly available dollars toward their own budget challenges or property tax relief.

4. Reform "economic development" programs.

Government-funded economic development projects impede economic growth. Not only is this economic development model ineffective but it is also unfair to taxpayers and to competing businesses who are not subsidized.

- *Eliminate corporate welfare* – The state budget includes more than $700 million in special subsidies for economic development, or "corporate welfare." If lawmakers were to eliminate this spending, which includes programs like the Film Tax Credit and the Race Horse Development Fund, they could use the savings to reduce the state's projected deficit and provide tax relief to all businesses—a fairer and more effective way to encourage economic growth.

5. Reprioritize non-General Fund Spending.

The General Fund budget accounts for less than half of total state spending. More than 158 "special" and "other" funds will distribute roughly $20.9 billion this fiscal year (which excludes nearly $28 billion in federal funds spent by the state). To balance the budget, lawmakers should carefully evaluate spending from *all* state funds.

- *Scale back or eliminate non-general funds* – For example, among the more than 158 special and other funds is the Keystone Recreation, Park, and Conservation Fund. This program has funded past projects such as an African Wild Dog Exhibit and an Athletic Fields Feasibility Study. While these and other projects may be worthwhile, taxpayers should not bear the responsibility for their funding. The Realty Transfer Tax, which helps keep the fund solvent, should be redirected to more urgent needs.

6. Bring public employee medical benefits in line with the private sector.

Taxpayers paid more than $1.63 billion for public employee and retiree medical benefits in 2014-15, according to our analysis of Office of Administration (OA) data. This total—mainly driven by labor contracts negotiated in secret—has undoubtedly grown since the most recent workforce report. In 2015-16, OA estimates state employees will pay about 11.7 percent of their health coverage.

- *Require public employees' share of health coverage to reflect that in the private sector* – The average worker in the private sector pays nearly 20 percent of his or her health care premium for single coverage and 22 percent for family coverage. If state workers covered 20 percent of their health care costs, taxpayers could save at least $153 million annually.

The time for change is now. By redesigning state government, reformers can chart a new course for the commonwealth—one that puts working people over those who profit from government.