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## Overhauling Pennsylvania's Budget Practices

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### **Summary**

Pennsylvania's broken budget process hurts working Pennsylvanians. In the last two years, the state legislature passed spending packages, which Gov. Wolf allowed to become law without his signature, before authorizing the revenues necessary to pay for it. This practice violates the Pennsylvania Constitution's **balanced budget requirement** and has led to more than \$700 million in tax increases over the last two years.

Closing constitutional loopholes, ensuring government growth does not outpace economic growth, increasing spending transparency, and improving budget accountability will allow Pennsylvania to solve its persistent fiscal challenges. Here are ten critical budget process reforms:

1. Prohibit the enactment of a general appropriations act without the revenues necessary to pay for it.
2. Empower the Independent Fiscal Office (IFO) to certify an official revenue estimate.
3. Require the governor to acknowledge an official revenue estimate when a budget becomes law and freeze or veto spending exceeding the estimate.
4. Enact the Taxpayer Protection Act to control spending growth.
5. Require a supermajority to authorize any tax increase.
6. Eliminate or transfer underutilized special funds into the state's General Fund account.
7. Require quarterly reports on special funds' commitments.
8. Expand the PennWATCH database, and make it more user-friendly for taxpayers.
9. Require automatic implementation of any cost-reducing changes recommended by the IFO or Performance-Based Budget Board.
10. Institute an automatic sunset provision for under-performing programs.

## **Meaningful Balanced Budget Requirements**

Elected officials have ignored the Pennsylvania Constitution and state statutes requiring a balanced budget—with serious ramifications. Hundreds of small business owners have lost their livelihoods and Pennsylvanians now send a larger portion of their paychecks to Harrisburg.

However, lawmakers and the governor can prevent unfunded budgets and pressure for tax increases by strengthening balanced budget requirements. The first step is requiring the legislature to pass a revenue package *before* an appropriations bill is authorized.

Secondly, the governor must not shirk his responsibility to balance the budget. Under current law, the governor must sign an official revenue estimate no later than the time he signs a general appropriations bill. If appropriations exceed the official revenue estimate, the Administrative Code requires the governor to veto spending to balance the budget. But Gov. Wolf has evaded this requirement by allowing budgets to become law without his signature.

The legislature should require the governor to acknowledge an official revenue estimate—one that should be certified by the Independent Fiscal Office (IFO)—and place any spending above this estimate in reserve until the budget is balanced. HB 1940 requires the governor to sign a revenue estimate from the Office of Revenue before the general appropriations bill is signed.

## **Spending Limits**

From 1970-2017, state spending rose by an inflation-adjusted **\$16,120 per family of four**. Tax and expenditure limits (TEs) are designed to constrain government spending, taxes, or both. According to the Tax Policy Center, 28 states operate with some type of TEL. Pennsylvania lawmakers have introduced a version of TEL, the Taxpayer Protection Act (TPA), designed to prevent excessive annual spending increases.

The TPA allows Pennsylvanians to keep more of what they earn. If spending growth remained within the TPA formula since 2003, Pennsylvanians would have saved a cumulative **\$32 billion** or more than \$2,500 per person. Indeed, adopting the TPA would have effectively wiped out the budget deficit from the last two years.

The specific structure of the TPA, or any TEL, is critical. In testimony earlier this year, Dr. Matthew Mitchell of the Mercatus Center described the most effective TELs. Their features include:

- Restraining spending instead of revenue growth
- Limiting spending growth to the sum of inflation and population
- Codifying the limits in a state's constitution
- Requiring a supermajority or public vote to override the limits
- Prohibiting unfunded mandates on lower levels of government
- Immediately refunding all revenue collected above what the state spends

Rep. Ryan Warner introduced a version of the TPA—House Bill 110—that would amend the constitution to limit spending growth to a formula set by law. Three-fourths of the General Assembly would need to approve spending beyond the formula's limits.

House Bill 110 meets the first four requirements listed above. An even stronger version of the bill would include tax refunds for families and businesses suffering under the [state's burdensome tax climate](#).

### **Tax Hike Limits**

Pennsylvania has the 15th [highest tax burden in the country](#). These high taxes have also hindered economic growth. According to the [Tax Foundation](#), 23 of 26 studies on the relationship between taxes and economic growth find high taxes stunt growth. It's no surprise that from 1991-2016, the state has ranked 46<sup>th</sup> in both job and personal income growth and population growth.

Fortunately, Sen. John DiSanto has introduced [Senate Bill 489](#), which would amend Pennsylvania's Constitution to require a two-thirds majority to approve any tax increase, adding an extra layer of protection for taxpayers. It would also require lawmakers to focus on the real problem plaguing state government: [overspending](#).

[At least 15 states](#) require a supermajority to pass tax increases. Research finds these requirements lead to [lower per-person spending levels and a lighter tax burden](#).

### **Spending Transparency**

Funds operating outside the normal budget process – or the [shadow budget](#) – played a major role during the 2017 budget impasse. The final revenue package [utilized just \\$300 million from the shadow budget, despite tens of billions of surplus dollars](#).

To promote greater transparency, lawmakers should begin moving these funds back into the normal budgeting process. The best place to start is with funds financed with tax revenues or General Fund transfers, including the Keystone Recreation, Park and Conservation Fund, the Agricultural College Land Scrip Fund, and the Agricultural Conservation Easement Purchase Program.

Unused shadow budget funds should be eliminated or have their funding diverted elsewhere.

Bringing these and other funds back into the General Fund budget, while also requiring quarterly reports on the funds' commitments—as outlined by [HB 1943](#)— would give taxpayers a better understanding of state government's costs and allow lawmakers to prioritize spending.

Updating the [PennWATCH](#) database is an additional transparency measure that would improve the budgeting process. PennWATCH provides information on state expenditures, revenues, and employee statistics. Rep. Jim Christiana has introduced legislation, [House Bill 1562](#), to modernize this database.

These changes would include a more user-friendly database to better analyze information, allow for access to official budget documents, and create independent oversight of PennWATCH. This would equip lawmakers to make more informed decisions and allow taxpayers to hold their elected representatives accountable for these decisions.

## **Program Accountability**

Government continuously increases spending on programs without considering performance. Several of the state's job creation programs exemplify this lack of accountability. In 2014, an [auditor general's report](#) found these programs lacked objective standards for success. After creating its own performance measure—the creation or retention of jobs promised—the office found only 56 percent of businesses receiving taxpayer dollars met or surpassed job projections.

Fortunately, lawmakers and Gov. Wolf took a step toward improving program accountability by passing [Senate Bill 181](#) (Act 48)—the Performance-Based Budgeting and Tax Credit Efficiency Act. The new law requires an evaluation of agency programs once every five years. The IFO must review the program and send an improvement report to the Performance-Based Budget Board for approval or disapproval. Once the report is approved, the governor and General Assembly shall consider the reports when crafting a budget proposal.

The law could be improved by requiring the legislature to implement the recommendations of the IFO or the Performance-Based Budget Board. They could also institute an automatic sunset provision for under-performing programs. Either of these safeguards could be overridden by a supermajority of the General Assembly. Both reforms would ensure agencies—and the legislature—are held accountable for their program performance and oversight.

With positive and significant changes to the budget process, the commonwealth can be transformed into a place where more people want to raise a family, start a business, and make a difference in their communities.