



July 2018

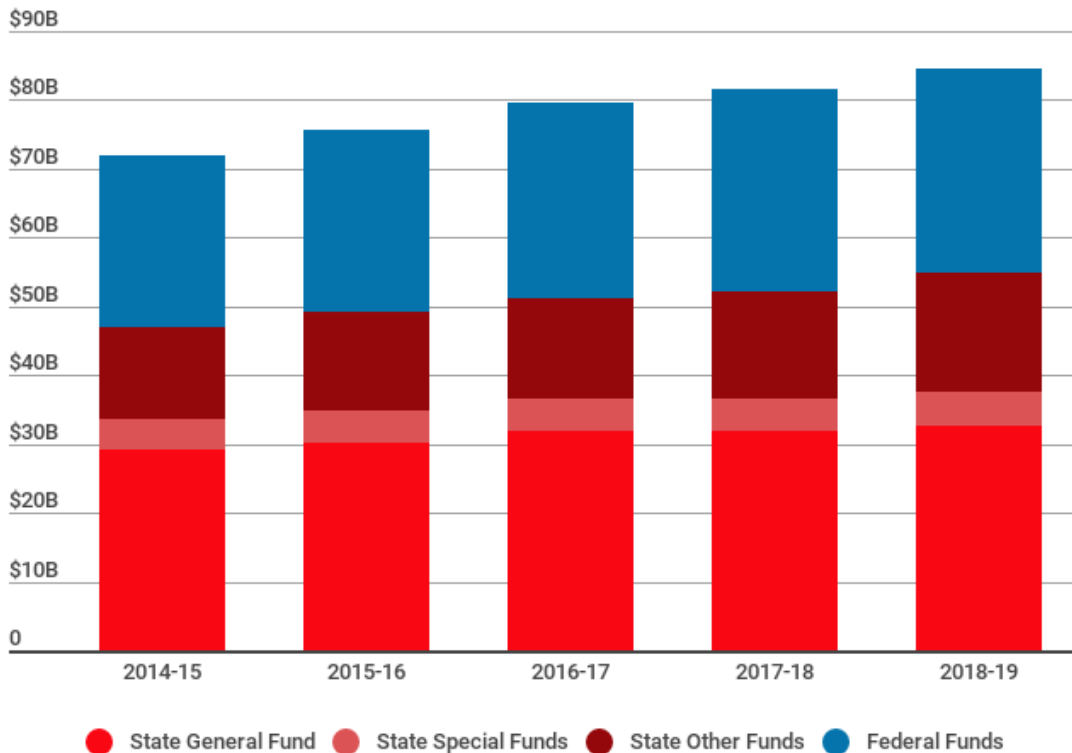
# Spending Trends & Policy Developments Under Governor Wolf

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## Spending Growth Since Gov. Wolf Took Office

Through four enacted budgets (only one of which was signed by the governor), the General Fund budget has grown by \$3.6 billion or **12.2 percent**. This exceeds the rate of inflation—7.8 percent from January 2015 to May 2018. However, the General Fund represents less than half of annual state spending. Examining the full picture shows a much more troubling trend.

## STATE BUDGET GROWTH UNDER GOV. WOLF



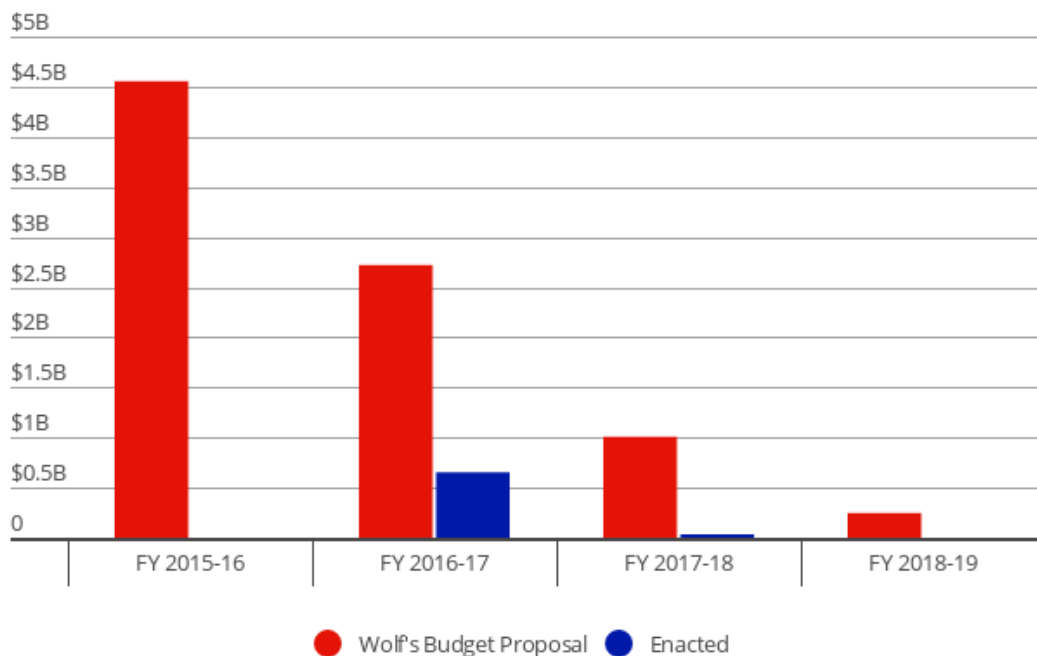
Source: 2016-17 and 2018-19 Governor’s Executive Budget, Office of the Budget 2018-19 Enacted Budget

Overall, *the total operating* budget—which includes the General Fund, special funds and federal funds—has grown by a **whopping \$12.6 billion**. Spending from the “shadow budget”—other state funds outside the General Fund grew by \$4.2 billion, or **23.5 percent**, in just four years.

## Wolf's Tax Hike Proposals

- In each of his four budget addresses, [Gov. Wolf proposed significant tax increases](#). Cumulatively, these proposals add up to more **than \$8.5 billion**.
  - During budget negotiations, [Wolf endorsed a slew of other tax hikes](#)—including raising the sales tax to 7.25 percent (the second highest rate in the country) and a \$600 million tax hike on home heating, gas, electric, and telephone bills.
- In two of the past four years, Pennsylvanians rejected Wolf's call for tax increases. Lawmakers did raise taxes on working families in 2016 and 2017, but far less than Gov. Wolf wanted.
  - The legislature passed a [\\$650 million tax hike in 2016](#). This increase raised taxes on cigarettes, began taxing other tobacco products—including e-cigarettes, and imposed the sales tax on digital products like Netflix.
  - In 2017, the legislature made changes to the sales tax to [force marketplace providers to collect sales tax](#). This change was projected to take another \$33 million from Pa. consumers in the first year.
- Given the lack of support for his radical tax hike proposals, the governor scaled back his tax hike plans with each budget.

## WOLF'S PROPOSED TAX HIKES vs ENACTED TAX CHANGES



Source: 2016-17 and 2018-19 Governor's Executive Budget, Office of the Budget 2018 Enacted Budget

## **The Advance of Free Market Policies Under Gov. Wolf**

While Gov. Wolf has been named the [most liberal governor in America](#) and received the worst score on the [Cato Institute's report card on America's governors](#), free market policies have advanced during his term. Some were signed and supported by Gov. Wolf, but several passed despite his efforts and government union opposition. In fact, several reforms passed after previous vetoes.

- ✓ **Pension Reform.** In 2017, Gov. Wolf [signed a pension reform plan](#)—supported by Commonwealth Foundation—that created a hybrid retirement plan (and an optional 401K-style plan) for new state workers and school teachers. This policy victory came despite the opposition of government union leaders and Gov. Wolf's campaign promise to oppose changes to pension benefits. In fact, Gov. Wolf vetoed a very similar pension reform bill in 2015.
- ✓ **Step Towards Liquor Privatization.** Gov. Wolf signed liquor sales reforms, including a provision to allow wine sales in grocery stores with a restaurant license. This reform was opposed by the powerful United Food and Commercial Workers union and followed a Gov. Wolf veto of comprehensive privatization of alcohol sales in 2015.
- ✓ **\$60 million EITC Increase.** Since Gov. Wolf took office, lawmakers have enacted a \$60 million increase in the [successful Educational Improvement Tax Credit \(EITC\)](#) program. The EITC, along with the companion Opportunity Scholarship Tax Credit, currently provides around 50,000 scholarships to families with low and modest incomes. Gov. Wolf has been hostile to the EITC and other school choice programs, calling them “backdoor voucher systems.”
- ✓ **Contract Transparency.** Gov. Wolf signed legislation to make the cost of state collective bargaining agreements public before ratification. Under this law, the Independent Fiscal Office (IFO) provides cost estimates of the contracts. To date, the IFO estimates the salary and benefits changes in the contracts negotiated by Gov. Wolf will cost state taxpayers \$567.4 million over three years. This bill passed despite [opposition](#) of government union leaders.
- ✓ **Weighted Student Funding.** In 2016, the legislature adopted a student-based funding formula to distribute state funding to school districts. CF participated in the legislative commission to develop this formula. Wolf signed stand-alone legislation to apply the formula to new spending after he vetoed the school code, which contained the formula plus other reforms.
- ✓ **Ban on Union Harassment.** Gov. Wolf signed a bill that closed a loophole in state law that allowed unions—or parties to a labor dispute—to stalk, harass, or threaten to use weapons of mass destruction during a labor dispute. The AFL-CIO opposed this law.
- ✓ **Seniority Reform.** In 2017, the public-school code included seniority reform, which prioritized teacher performance over seniority in layoff decisions. Wolf allowed this reform to become law without his signature after vetoing it in the prior session. Seniority reform was strongly opposed by the PSEA and other government unions.
- ✓ **Smoothing the Child Care Benefit Cliff.** Gov. Wolf signed a Republican-led welfare reform bill that changed the child care subsidy payment—rewarding parents for working more hours and shrinking the gap between copayments and the true cost of care. This helped address the “welfare cliff” where individuals lose thousands in benefits if they earn one additional dollar in income, allowing families to move toward independence.

## **Big Government Policies Rejected**

In the past four years, not only have free market reforms advanced, but several policies supported by government union leaders and embraced by Tom Wolf's 2014 campaign issues have been soundly rejected.

- \* **Raising the state mandated minimum wage.** Such an increase would result in an [estimated 33,000 jobs lost](#).
- \* **A progressive income tax.** This [proposal was likely unconstitutional](#), and Gov. Wolf never included it in his budget proposals.
- \* **An additional tax on natural gas extraction.** Gas drillers already pay an impact fee, and the taxes common to all businesses. Pennsylvania's overall tax burden is [significantly higher than other gas producing states](#).
- \* **Mandatory unified combined reporting (MUCR).** Combined reporting is based on the myth of a "Delaware loophole" that allows businesses to avoid paying taxes. In reality, this proposal requires corporations to go through a complicated compliance process, which has resulted in decades of lawsuits in other states without increasing overall revenue.
- \* **Pension obligation bonds.** This is a financial instrument that relies on borrowing to pay down the state's unfunded pension liabilities. Fortunately, lawmakers wisely rejected this idea, given the [terrible track record](#) similar proposals have had in other states.
- \* **Universal preschool.** The benefits of government-funded preschool are virtually invisible. [No study](#) has demonstrated *long-term* positive effects for large-scale state prekindergarten programs, let alone universal preschool.
- \* **Cuts and caps for charter schools.** Fortunately, the governor's promise to cap cyber charter school enrollment and make [devastating cuts](#) to charter schools did not come to fruition. While charter school reform is necessary, the draconian measures supported by Gov. Wolf would reduce educational options for students across the commonwealth.

## **More Opportunities to Limit the Size and Scope of Government**

Gov. Wolf is embracing a couple of issues—championed by the Commonwealth Foundation—that would limit the size and scope of government.

- **Criminal Justice Reform.** The governor has been pushing harder for criminal justice reform this year, hoping to build on the good work of the Justice Reinvestment Initiative (JRI). The potential reforms include evidence-based probation practices; implementation of automatic parole; and pretrial reforms to reduce recidivism, ensure the rights of the accused are respected, and prevent needless incarceration.
- **Occupational Licensing Reform.** Gov. Wolf issued an executive order directing the Bureau of Professional and Occupation Affairs to review job licensing in the state. The [subsequent report](#), released last month, recommends eliminating 13 licenses and streamlining some occupational licensing laws. If adopted, these changes will allow residents to pursue careers without unnecessary government interference.