

Caring for Kids and Communities: The 2021 State Budget

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KEY POINTS

- A successful recovery is not dependent on government aid; it requires education lifelines for families, regulatory and tax relief for small businesses, and health care reforms to bolster patient access to care.
- Pennsylvania is facing an estimated \$2.5 billion budget deficit, in part due to the governor's unpredictable and extensive mitigation efforts.¹
- Despite a deficit, the state budget can be balanced without borrowing or tax hikes.

AID HURTING PENNSYLVANIANS, NOT BUREAUCRACIES

Federal relief funds are limited to COVID-related costs and are not intended to fund existing programs. The [federal government has already barred Pennsylvania](#) from using \$300 million to replace slot machine revenue for property tax relief.² Lawmakers' priority must be finding ways to help Pennsylvanians permanently recover lost wages, lost learning, and lost livelihoods.

Rebuilding Small Businesses

The restaurant industry is among the hardest hit during the pandemic. In December, at least 26,250 hospitality employees were laid off after Governor Tom Wolf's indoor dining ban.³ Recovery will take more than a return to status quo.

- **Permit small businesses to carry forward losses.** Small businesses that take losses in 2020 should be permitted to carry them forward and deduct them in future years' tax filings, something that corporations can already do.⁴ This is critical to their long-term survival.
- **Right-size regulations to spur hiring.** Pennsylvania's sweeping [regulatory policies](#) hamper hiring and entrepreneurship. One study ranks the [commonwealth's regulatory climate 37th](#).⁵ Lawmakers can streamline the repeal of unhelpful existing regulations, make it easier to track permits, and require legislative approval for regulations that cost more than \$1 million a year.^{6, 7, 8, 9}
- **Protect small business from lawsuits.** Entrepreneurs trying to get back on their feet should not have to worry about the threat of lawsuits by aggressive tort lawyers. Lawmakers should continue efforts to grant small businesses broad liability protection, especially as vaccine distribution expands and in-person activities increase.

Putting Kids and Parents Back on Track

Kids and their parents need relief, urgently. The depths of COVID-related learning loss and kids falling through the cracks [constitutes a national emergency](#).¹⁰ November's state spending plan was a missed opportunity to send relief to the right places—struggling families and students—but it's not too late to do right by Pennsylvania families.

The 2021 budget should allocate funding for education scholarships for kids, or at least encourage county action agencies, via the community services block grant, to award emergency education scholarships to families struggling to keep their kids on track.

Pennsylvania lawmakers boldly led on the idea of sending federal aid directly to families in 2020. Ironically, the idea was copied and proposed in five other states and [congress](#).¹¹

- **Establish scholarship accounts.** Education Scholarship Accounts represent the future of education, and lawmakers should explore giving small scholarships directly to parents for their child's unique educational needs. For example, lawmakers are already [working to introduce scholarship accounts](#) for special needs students.¹²
- **Expand tax credit scholarships.** Tax credit scholarships have a proven track record of helping over 50,000 parents improve their children's education, but over 43,000 applicants were denied scholarships in 2018 (latest available numbers) due to limits on the Educational Improvement Tax Credit and Opportunity Scholarship Tax Credit programs. The budget should include an automatic escalator that would expand the scholarship caps by 25% when 90% of credits are issued in the prior year.¹³

Growing Pennsylvania's Economy

- **Reduce occupational licensing to spur entrepreneurship and a return to the workforce.** [More than 200,000 Pennsylvanians dropped out of the labor force in 2020](#). Licensing requirements [create barriers to employment](#). Pennsylvania should ease the licensing process for the more than [250 licensed professions](#), many of them low- and mid-income jobs.¹⁴ Eliminating about a dozen licenses, for which [Wolf has voiced support](#), and easing other licensing restrictions will help Pennsylvanians find or create jobs.¹⁵
- **Privatize the liquor system.** In addition to convenience for customers, privatization of the state liquor system would raise one-time revenue and potentially ongoing revenue. A [2011 study conducted by Public Financial Management](#) estimated the sale of licenses would raise \$1 billion to \$1.5 billion in one-time revenue.¹⁶ Adjusting those figures for today, lawmakers could anticipate *\$1 billion in one-time revenue*, with approximately \$30 million in additional yearly tax revenue.
- **Reform the PLCB.** In the absence of full privatization, restaurants could benefit from creation of a [delivery system](#) including both Special Orders and regular products.¹⁷ Incremental liquor reforms that could increase alcohol revenue, but fall short of full privatization, include last year's [Senate Bill 548](#) (Sen. Gene Yaw), which would allow private wine and liquor stores.

- **Reduce turnpike tolls through a lease.** The growing logistics and trucking industry in Pennsylvania is harmed by ever-increasing Turnpike tolls, to the point that one trucking association [unsuccessfully sued for \\$6 billion in damages](#) last year. Leasing the Turnpike to a private operator could yield billions of dollars. A recent [study by the Reason Foundation](#) suggests a Turnpike valuation of \$16 billion to \$25 billion. After paying off debt, the study estimates, the commonwealth would net proceeds of \$6.8 billion.¹⁸ In 2006, the Pennsylvania Funding and Reform Commission proposed a lease, and one bid came in at \$13 billion for a 75-year lease with a limit on toll hikes.

Ensuring the Health Care System Is Always Prepared

- **Make licensing waivers permanent.** Retaining state waivers that have allowed health care providers to rapidly respond to the pandemic needs will better position our system to deliver high-quality care in the future.¹⁹
- **Expand nurses' scope of practice.** Granting advanced nurses a broader scope of practice, including independent practice for Nurse Practitioners, will allow them the flexibility to serve more patients in emergencies and better care for rural and underserved areas of the state.²⁰
- **Pass broad telemedicine legislation.** Expanding telemedicine will enable all residents, especially senior citizens, to access telehealth services across the state no matter their insurance, provider, or the provider's location.²¹

HOW TO BALANCE THE BUDGET

Under Wolf, Pennsylvania state spending has dramatically accelerated. Total operating funds have grown by more than \$17 billion, and two of the last six budget cycles have resulted in tax increases.²² Yet Pennsylvania is still facing a \$2.5 billion gap between revenues and expected spending.

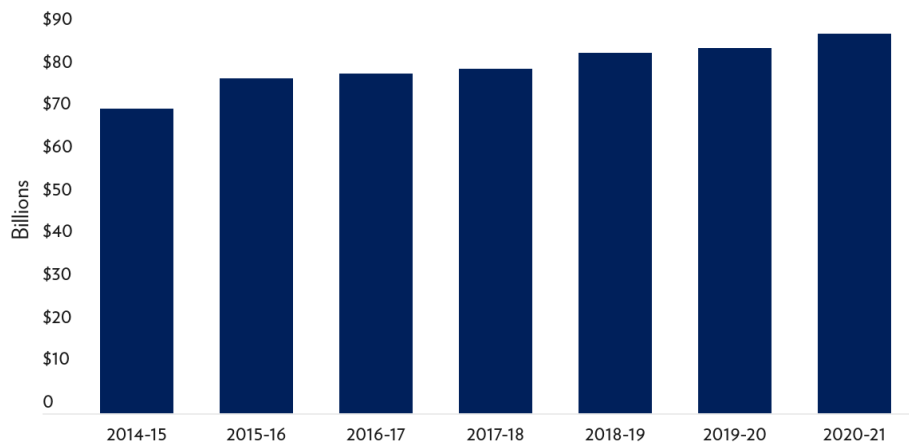
Higher spending has not put the commonwealth in a more fiscally stable position. Over the past six years, the rainy-day fund grew to \$340 million, which would fund state operations for [less than four days](#). The November budget used \$100 million in rainy day funds. To prevent larger revenue shortfalls and the challenging decisions that accompany them, Pennsylvania should establish spending guidelines.

- **Advance the Taxpayer Protection Act.** State spending should rise and fall with the economy and taxpayers' means. The Taxpayer Protection Act indexes spending growth to population growth and inflation. The Taxpayer Protection Index for 2021 is \$654 million, which means spending could increase by 1.79%.
- **Pass supplementals in separate legislation.** Wolf vastly exceeded the amount budgeted for government programs three times in six years. This included \$400 million in 2017 (for the 2016–2017 budget), \$673 million in 2019 (for the 2018–2019 budget), and more than \$1 billion in 2020 (for the 2019–2020 budget). With \$2 billion in one-time Medicaid payments and [nearly \\$800 million](#) in estimated “underbudgeting” for human service programs, lawmakers should expect another hefty supplemental request in June.²³ Voting on supplemental spending, or overspending from the previous year, in a stand-alone bill would put more scrutiny on this previously occasional practice that has become a concerning habit.

- Require midyear budget reporting and adjustments. In the past few years, the governor has not adjusted program spending to reflect changing economic realities. Requiring periodic budget updates and budget reductions in the event of reduced revenue collections could prevent large budget deficits come June.

Operating Budget Under Gov. Wolf

The total operating budget under Governor Wolf increased from \$72 to \$89 billion, a 24% increase.



Source: Governor's Executive Budget Books, 2014-2020.

Uncover the Shadow Budget

The operating budget contains more than one hundred special funds outside of the General Fund. These funds, labeled the shadow budget, operate apart from yearly budget discussions. Last year, lawmakers used \$431 million in shadow budget transfers to balance the budget. Government officials could transfer at least another \$1 billion from selected shadow budget reserves listed below to balance the budget without impacting the programs supported by those funds.

2021 Shadow Budget Reserves

After \$430 million in 2020 transfers, Pennsylvania has a billion-dollar surplus in these select funds.

Selected Funds	Reserves 12/22	Annual Spending	Reserves as % of Spending
Agricultural Conservation*	\$48,497,006	\$40,000,000	21%
Energy Development Fund*	\$190,960	\$135,000	41%
Environmental Education Fund*	\$3,829,426	\$904,000	324%
Historical Preservation Fund*	\$6,430,652	\$3,967,000	62%
Justice Reinvestment Fund	\$576,386	\$566,000	2%
Minority Business Development Fund	\$2,100,329	\$1,340,000	57%
Highway Beautification Fund*	\$408,283	\$300,000	36%
Multimodal Transportation Fund	\$309,420,842	\$152,320,000	103%
Subtotal	\$371,453,884	\$199,532,000	86%
Other			
Rainy-Day Fund*	\$243,399,548	\$0	
Grand Total	\$986,307,316	\$399,064,000	147%

Sources: <https://www.patreasury.gov/tabs/>;
<https://www.budget.pa.gov/PublicationsAndReports/CommonwealthBudget/Pages/default.aspx>. * notes funds were transferred to balance the 2020–2021 budget.

Reduce Corporate Handouts

In 2020–2021, Pennsylvania will spend roughly \$958 million on corporate welfare: grants, loans, and tax credits to politically connected businesses.²⁴ More than half of this spending is allocated to just four programs. If the state eliminated all corporate welfare, we could reduce the CNIT by more than two percentage points, bringing the rate down to 7.22% while remaining revenue neutral.²⁵

Pennsylvania has five underperforming tax credit programs that cost over \$120 million a year in unrealized investment returns, according to recent IFO evaluations.²⁶ Completely eliminating these programs would reap \$145 million in savings. Lawmakers could build on mandatory IFO tax credit evaluations by automatically sunseting underperforming programs with less than a dollar-for-dollar return.

The underperforming tax credits that should be immediately eliminated include:

- **Film Production Tax Credit:** The program has a [ROI of 13.1 cents](#) on the dollar and represents a waste of almost \$61 million.
- **Research and Development Tax Credit:** The program has a net [ROI of 12 cents](#) on the dollar and represents a waste of over \$48 million.
- **Keystone Innovation Zone Tax Credit:** The program has a net [ROI of 27 cents](#) on the dollar and represents a waste of almost \$11 million.
- **Mobile Telecommunications Broadband Investment Tax Credit:** The program has a net [ROI of 9 cents](#) on the dollar and represents a waste of over \$4 million.
- **Organ and Bone Marrow Donation Tax Credit:** While well-intentioned, no firm has used this program since its re-enactment in 2014.

Corporate Handouts in the State Budget, 2020-21

Program	Amount, thousands
Agricultural Excellence	\$ 2,800.00
Alternative Fuels Funding	\$ 8,795.00
Ben Franklin Tech Development Authority Transfer	\$ 19,500.00
City Revitalization and Improvement Fund	\$ 9,000.00
Commonwealth Financing Authority Transfer**	\$ 25,081.00
Computer Data Center Equipment Incentive Program	\$ 7,000.00
Council on the Arts	\$ 971.00
Grants to the Arts	\$ 11,090.00
Industry Partnerships	\$ 2,813.00
Infrastructure and Facilities Improvement Grants	\$ 10,000.00
Keystone Communities	\$ 6,365.00
Life Sciences Greenhouses	\$ 3,000.00
Machinery and Equipment Loan Fund	\$ 11,778.00
Marketing to Attract Business	\$ 2,027.00
Marketing to Attract Tourists	\$ 4,071.00
Municipalities Financial Recovery Revolving Fund Transfer	\$ 4,500.00
Neighborhood Improvement Zone Fund	\$ 63,520.00
New Choices/New Options	\$ 750.00
Partnerships for Regional Economic Performance	\$ 9,880.00
Pennsylvania First	\$ 12,000.00
Pennsylvania Race Horse Development Fund	\$ 234,759.00
Transfer to the Nutrient Management Fund	\$ 6,200.00
Office of International Business Development	\$ 5,936.00
Youth Shows	\$ 169.00
WEDnetPA	\$ 10,000.00
Brewer's Tax Credit	\$ 5,000.00
Entertainment Production Tax Credit*	\$ 79,000.00
Innovate in PA Tax Credit	\$ 20,000.00
Keystone Opportunity Zone	\$ 95,200.00
Keystone Innovation Zone	\$ 15,000.00
Manufacturing and Investment Tax Credit*	\$ 10,000.00
Mobile Telecommunications Broadband Investment Tax Credit	\$ 5,000.00
Neighborhood Assistance Tax Credit	\$ 36,000.00
Pennsylvania Resource Manufacturing Tax Credit	\$ 17,100.00
Research and Development Tax Credit	\$ 55,000.00
Resource Enhancement and Protection Tax Credit	\$ 13,000.00
Tax Credits for Beginning Farmers	\$ 5,000.00
Total	\$ 827,305.00

Source:
Governor's Executive Budget Book 2020-21.

*total of different components **Commonwealth Financing Authority Transfer calculated by combining transfers from the Department of Community and Economic Development and the State Gaming Fund and revenue from the PlanCon Bond Project Fund.

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- ¹ Independent Fiscal Office, “Five Year Outlook 2020,” January 2021, http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Five_Year_Outlook_2020.pdf.
- ² Ed Mahon, “Feds reject Pa.’s plan to spend up to \$300M in stimulus money for school property tax relief,” Spotlight PA, November 2020, <https://www.spotlightpa.org/news/2020/11/pennsylvania-budget-property-tax-relief-coronavirus-relief-funding/>.
- ³ Survey by the Pennsylvania Restaurant & Lodging Association, <https://www.inquirer.com/food/indoor-dining-prla-governor-wolf-philadelphia-pennsylvania-20201215.html>.
- ⁴ Net operating loss for small businesses is part of an existing small business tax reform package, <https://www.legis.state.pa.us/cfdocs/Legis/CSM/showMemoPublic.cfm?Chamber=S&SPick=20210&cosponId=33641>.
- ⁵ William Ruger and Jason Sorens, Freedom in the 50 States, Cato Institute, <https://www.freedominthe50states.org/regulatory>.
- ⁶ Representative Kerry A. Benninghoff Co-Sponsorship Memo, <https://www.legis.state.pa.us/cfdocs/Legis/CSM/showMemoPublic.cfm?chamber=H&SPick=20190&cosponId=28023>.
- ⁷ Representative Greg Rothman Co-Sponsorship Memo, <https://www.legis.state.pa.us/cfdocs/Legis/CSM/showMemoPublic.cfm?chamber=H&SPick=20190&cosponId=28122>.
- ⁸ Senator Kristin Phillips-Hill Co-Sponsorship Memo, <https://www.legis.state.pa.us/cfdocs/Legis/CSM/showMemoPublic.cfm?chamber=S&SPick=20190&cosponId=27179>.
- ⁹ Senator Michele Brooks Co-Sponsorship Memo, <https://www.legis.state.pa.us/cfdocs/Legis/CSM/showMemoPublic.cfm?chamber=S&SPick=20190&cosponId=28051>.
- ¹⁰ Erin Richards, “Students are falling behind in online school. Where’s the COVID-19 ‘disaster plan’ to catch them up?,” USA Today, December 2020, <https://www.usatoday.com/in-depth/news/education/2020/12/13/covid-online-school-tutoring-plan/6334907002/>.
- ¹¹ Education Freedom Grant legislation proposed by U.S. Senator Tim Scott, <https://www.scott.senate.gov/imo/media/doc/pdf.pdf>.
- ¹² Senator Judy Ward Co-Sponsorship Memo, <https://www.legis.state.pa.us/cfdocs/Legis/CSM/showMemoPublic.cfm?chamber=S&SPick=20210&cosponId=33108>.
- ¹³ Commonwealth Foundation Analysis; Senator Mike Regan Co-Sponsorship Memo, <https://www.legis.state.pa.us/cfdocs/Legis/CSM/showMemoPublic.cfm?chamber=S&SPick=20210&cosponId=33108>.
- ¹⁴ Pennsylvania Department of State, “Review of State Professional and Occupational Licensure Board Requirements and Processes,” 2018, <https://www.dos.pa.gov/ProfessionalLicensing/Documents/EO2017-03-Executive-Report-Occupational-Licensing.pdf>.
- ¹⁵ “Governor Wolf Proposes Job Licensing Reforms to Cut Red Tape, Strengthen Workforce,” Press release, June 2018, <https://www.governor.pa.gov/newsroom/governor-wolf-proposes-job-licensing-reform-cut-red-tape-strengthen-workforce/>.
- ¹⁶ Public Financial Management, Pennsylvania Liquor Privatization Analysis, October 2011, <https://inns.insofcourt.org/media/42682/privatizationstudy-exec.summary.pdf>.
- ¹⁷ Elizabeth Stelle, “Help Restaurants by Privatizing the PLCB,” Commonwealth Foundation, October 2020, <https://www.commonwealthfoundation.org/policyblog/detail/help-restaurants-by-privatizing-the-plcb>.
- ¹⁸ Robert Poole, “Why Governments Should Lease Their Toll Roads,” Reason Foundation, August 2020, <https://reason.org/policy-study/should-governments-lease-their-toll-roads/>.
- ¹⁹ Representative Chris Quinn’s HB 2779 of 2020, <https://www.legis.state.pa.us/cfdocs/billinfo/billinfo.cfm?syear=2019&slnd=0&body=H&type=B&bn=2779>.
- ²⁰ Representative Jesse Topper’s HB 100 of 2020, <https://www.legis.state.pa.us/cfdocs/billinfo/billinfo.cfm?sYear=2019&slnd=0&body=H&type=B&bn=100>; Senator Camera Bartolotta’s SB 25 of 2020, <https://www.legis.state.pa.us/cfdocs/billinfo/billinfo.cfm?sYear=2019&slnd=0&body=S&type=B&bn=25>.
- ²¹ Governor Wolf’s veto message on SB 875, April 2020, <https://www.governor.pa.gov/wp-content/uploads/2020/04/20200429-SB-857-Veto-Message.pdf>.
- ²² The legislature tried to camouflage 2020 spending an accounting gimmick, moving \$1 billion of new spending into the prior fiscal year so it looks like spending decreased \$760 million.
- ²³ 2020–21 State Budget In Depth, House Democrat Appropriations Committee, December 2020, <https://houseappropriations.com/Topic/2020-2021/569>.
- ²⁴ Tirzah Duren, “Competition Not Corporate Welfare: 3 Ways to Help All Businesses Flourish,” August 2020, <https://www.commonwealthfoundation.org/policyblog/detail/competition-not-corporate-welfare-3-ways-to-help-all-businesses-flourish>.
- ²⁵ Ibid.
- ²⁶ IFO Tax Credit Review Reports, <http://www.ifo.state.pa.us/releases/type/11/Tax-Credit-Review/>.