

**TESTIMONY TO THE SENATE INTERGOVERNMENTAL OPERATIONS COMMITTEE
TUESDAY MARCH 15
SHARON WARD, PENNSYLVANIA BUDGET AND POLICY CENTER**

Senator Smucker, members of the committee thank you for the invitation to speak today. I am the Director of the Pennsylvania Budget and Policy Center a nonprofit, nonpartisan research and advocacy organization based here in Harrisburg. We provide analysis of state budget and tax policies and support an equitable tax system that is sufficient to sustain critical public investments and a growing middle class.

The effort to streamline or reduce costs to state government brings both opportunities and challenges. Taking care to use every tax dollar wisely can help to restore faith in government, improve the perception of elected officials and ensure policymakers are respectful of the public's ability to pay. Cost cutting also has dangers; it can eliminate public investments necessary for a growing economy, shift costs onto local governments and local taxpayers, and cut services in the short-term that produce long-term savings.

I would offer at the outset a slightly different framing of the objective: how do we *improve* state government and state services? A process that looks for efficiencies, employs best practices and improves services to customers and consumers can unite a broad group of stakeholders around their common interest in the public good. This slight reframing acknowledges that funding for public schools, hospitals, libraries, the arts and community-based human services are not a black hole, but core functions of government and necessary for a civil society.

Like much of the nation, Pennsylvania has spent almost four years with recession-induced budget shortfalls. To date, 48 states, rich and poor, high spending and low spending, have had shortfalls that topped \$180 billion.

The recession was clearly devastating, with unemployment reaching a peak of 9.8%, but Pennsylvania weathered the downturn better than most states and is emerging much stronger: in 2010 Pennsylvania was third in the nation in job growth, gaining 65,000 new jobs.

The particular challenge facing policymakers today is not to undermine the fragile recovery. While you have heard or will likely hear that the public sector doesn't create jobs, in fact it does, in both the public and private sectors and cutbacks will affect both. Moreover since most state dollars are spent in grants, subsidies and

institutions across Pennsylvania, and not in Harrisburg, the reductions will impact local businesses and vendors, affecting income, profit and employment.

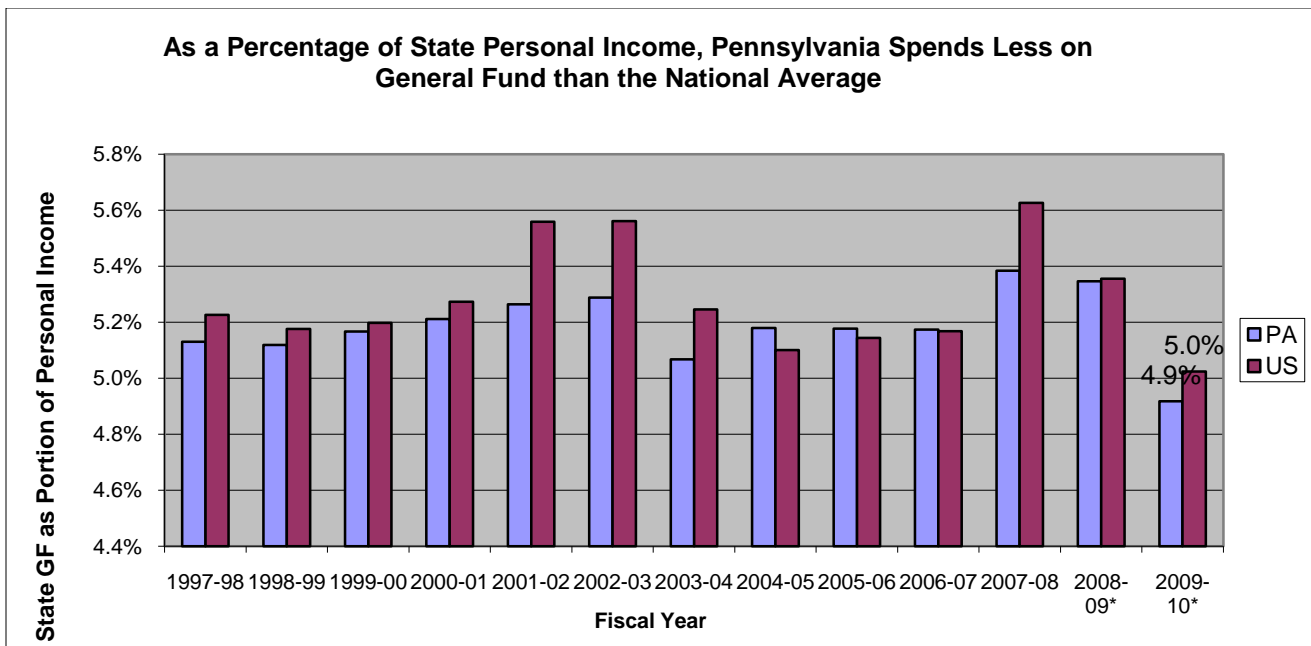
A wide range of private and public economic forecasters have expressed concern that reductions in state spending will slow job growth in 2011. Over the next year state budget cuts could result in 850,000 additional job losses across the United States, according to the Center on Budget and Policy Priorities.

A \$1 billion cut in state spending would subtract an estimated 28,500 jobs from employment growth here in Pennsylvania (based on a rigorous new academic estimate of the jobs impact of state spending). The failure of cut-and-grow strategies during periods of very high unemployment can best be seen in New Jersey where state budget cuts have helped rank that state dead last in job growth for 2010.

Does Pennsylvania Have a Spending Problem?

The impetus to streamline government is driven in part by the belief, heavily promoted, that the Commonwealth is a leader in spending, taxes, and debt, none of which is the case.

State spending as a share of personal income was 5.4% in 2007-08, before the recession, it has dropped to 4.9% in 2010. In both instances this rate is below the national average. And spending has ranged 5.0% and 5.4% during the last 15 years. What this shows is that state spending is grown largely in tandem with the economy, and reflects national economic trends. (See Table 1).



Pennsylvania taxes as a share of personal income were lower than the national average in 2007 (the latest year for which figures are available), and ranked Pennsylvania 33rd of the 50 states and half a percent below our economic competitors.

Pennsylvania’s Debt Load is Modest

The rating agency Moody’s recently reported that Pennsylvania has a strong debt position. The ratio of debt to personal income is 2.4%, whereas the 50-state average is 2.5%. Moody's views Pennsylvania's overall debt position as conservative.

Pennsylvania’s debt as a share of personal income is lower than most of its peers and roughly equal to the national median. According to a survey by the New York State Comptroller’s Office, Pennsylvania’s debt load was comparable to North Carolina and Michigan, while New Jersey, at the other end of the scale, had almost three times the debt per capita of Pennsylvania.

Finally, Moody’s rating service has developed a new measure of state fiscal soundness which factors in unfunded pension liabilities; on this measure Pennsylvania ranked 37th (i.e., 14th best) in 2009.

Improving State Services

Although Pennsylvania does not have a particular spending problem, ensuring efficient use of tax dollars and striving for continuous improvement in the delivery of services are worthwhile goals and should be pursued whether the economy is shrinking or growing.

Two examples from the Rendell Administration illustrate the pluses and minuses of cost savings efforts. The administration made cost reduction in the Medicaid program a top priority, instituting a number of programs to ensure care coordination and utilization review, encouraging the use of generic drugs and developing a preferred drug list (PDL) to access drug rebates. These efficiencies helped hold annual cost increases well below the national average.

On the flip side, the number of positions in the County Assistance Offices has fallen by 20% since 2002, leaving the offices unprepared to address the dramatic increase in enrollment, particularly in Food Stamps that accompanied the recession. Staff reductions also impede both the timeliness and quality of eligibility determinations for public programs. Beyond lean government is anorexic government which does not serve the commonwealth or its citizens well.

Building a Better Budget

The Pennsylvania Budget and Policy Center and Penn Future have prepared a report, *Building A Better Budget*, that lays out six principles for developing the state budget that are relevant to this discussion. We identify areas for cost savings and suggest options to close loopholes and end tax breaks, raising revenue for initiatives that can jump start Pennsylvania's economy.

Three areas that we have identified for cost savings include reducing the growth in prison costs, addressing Medicaid provider fraud, and rebalancing long-term care spending by reducing reliance on nursing homes and institutional care and shifting to home and community-based services.

Overstating Potential Savings in the Department of Public Welfare

One area that is likely to draw the attention of cost cutters is the Department of Public Welfare, which comprises more than a third of the General Fund budget. A series of high-profile audits by the Auditor General of public benefit programs, including LIHEAP, Special Allowances and Medical Assistance, have given rise to the

notion that there are hundreds of millions or even a billion dollars in savings in DPW. I would suggest to you that this is not the case.

First, the while the audits were released in 2007, 2008 and 2009 they cover practices that go back as far as 2000. The Department of Public Welfare has instituted many new practices at their own initiative and in response to the audits. For example, there are new regulations for the Special Allowance program that have tightened both eligibility and reporting.

Second, the audits tended to overstate the depth of the problem and sensationalize the findings. For example, the LIHEAP audit identified 253,358 cases that were subject to review, but in the end found only 2,607 that required a second look and of these 99% were processed correctly. Ultimately, the audit of 253,358 cases identified 67 overpayments totaling \$23,209 and 16 cases that were referred to the Office of the Inspector General.

Third, much of what was identified as fraud was actually clerical error that did not result in additional costs. The Medicaid audits counted as fraud cases with missing documentation that did not impact eligibility and cases in which the individual was Medicaid eligible, but assigned the wrong category of eligibility.

A second area of potential savings that is likely overstated is in the state workforce. Most of the state workforce is in the General Government Operations line (GGO) in the current year that is 3.4% of the General Fund budget. A 10% reduction in the GGO line as Governor Corbett has proposed would result in savings of less than \$100 million. The savings have to be balanced with risks. State employees provide accountability and oversight of the billions of state dollars that are administered at the local level. Reducing the workforce could impede that oversight responsibility and in the end increase costs to the taxpayer.

Five rules for reviewing the budget

Avoid shifting costs onto local taxpayers.

Preserve spending that results in long-term savings.

Don't derail the recovery.

Don't harm oversight and accountability.

Engage in continuous improvement in times of plenty as well as times of scarcity.

Thank you for this opportunity and I am happy to answer any questions you might have.