



# Staying a Course That's Not Working in Pennsylvania: Analysis of the House Republican 2015-16 Budget Proposal

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Pennsylvania needs a new direction. For far too long, our commonwealth has been relying on tax cuts as its cure for all ills. It has not worked. Our schools are struggling to do more with less. Our economy is recovering more slowly than the nation's. ([We ranked 48<sup>th</sup> among states in job growth from Jan. 2011 to Jan. 2015](#)). Austerity has held back state revenue growth. ([Pennsylvania ranked 43<sup>rd</sup> in the four years starting first quarter 2011](#)). And resorting to a series of one-time budget fixes has led to repeated downgrades of the state's bond rating. While the wealthiest Pennsylvanians are doing just fine, too many in the state are struggling to make ends meet.

After Gov. Tom Wolf released his budget, [PBPC analyzed the proposal](#) in the context of Pennsylvania's need for a new direction. In this document, PBPC analyzes the Republican budget, House Bill 1192, passed yesterday by the Pennsylvania House of Representatives in a party-line vote and expected to be considered by the Pennsylvania Senate this evening.

In his first state budget,<sup>1</sup> Gov. Tom Wolf proposed an ambitious General Fund spending plan for 2015-16 that includes \$1 billion for restoring funds cut from education, \$1.75 billion for a job growth plan, and \$3.8 billion in property tax relief, beginning in 2016. The Wolf budget would also fill the state's "structural budget deficit" this year and in future years, bringing expected revenues in line with expenditures. By contrast, the Republican budget plan for 2015-16 provides a grand total of only about \$70 million in funding for K-12 schools, higher education institutions, and pre-kindergarten and virtually no additional funds for job creation and property tax relief. It also would exacerbate the state's structural deficit by using one-time budgetary gimmicks to delay significant payments until 2016-17.

As a result of its lower investment in education and other programs and its heavy reliance on one-time revenue sources, the Republican budget includes "no new taxes." By contrast, the Wolf proposal would:

- raise the sales tax 0.6 percentage points and broaden it to include more goods and services
- raise the personal income tax 0.7 percentage points
- enact a severance tax on natural gas production
- cut some business taxes while eliminating corporate tax loopholes (for a net corporate income tax cut of about one-third) and
- "fix" a 2013 bank tax change that resulted in lower revenue.

In stark contrast to the Wolf proposal is the Republican budget, a continuation of the policies enacted from 2011-2014 under Gov. Corbett rather than a new direction. We see no reason to believe that the results of implementing the budget supported by the Republican House legislative majority would be substantially different than the results of the previous four budgets. While the national economic

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<sup>1</sup> The Governor's Executive Budget proposal for 2015-16 is online at [http://www.portal.state.pa.us/portal/server.pt/document/1481984/2015-16\\_budget\\_document\\_pdf](http://www.portal.state.pa.us/portal/server.pt/document/1481984/2015-16_budget_document_pdf).

recovery and the passage of time since the deep cuts of 2011-12 may attenuate the continuing drag of the first Corbett budget on our economy, under a “more of the same” budget such as proposed by the legislative majority, Pennsylvania can expect: still-poor or mediocre job growth, continuing inadequacies and inequities in school funding; and a fiscal situation which makes the state vulnerable in the face of a future downturn.

## Revenue

To maintain the commitment to “no new taxes,” the House Republican budget relies on an estimated \$1.58 billion in one-time funding sources summarized in the table below. These include:

- \$306 million for the state’s school construction fund taken off budget and shifted to future years
- \$170 million in child welfare payments (from Medicaid) shifted to future years
- Shifting of \$87 million in school employee Social Security payments and \$25 million in PSERS payments to future years
- Using all of the state’s \$375 million budget surplus from this year for next year
- \$220 million from an unspecified liquor privatization proposal which [research across states](#) suggests would reduce state revenues from the wine and spirits industry long term, worsening the structural deficit
- Transfers from special funds and other one-time transfers (\$53 million total)
- Other savings that may not materialize: \$97 million because of optimistic assumptions about 2015-16 revenues; and questionable reductions in estimated state cost of managed care programs (\$187 million) and payments to nursing facilities

The Wolf Administration estimates that the House Republican budget will leave the state with a deficit of \$1.15 billion in 2015-16, ballooning to \$3.1 billion in 2016-17. Even with the one-time revenue sources that increase the structural deficit, the legislative majority’s budget raises less money to invest in education and other programs. The remainder of this analysis examines more closely the content of HB 1192 in key program areas.

**One-Time Revenue Sources in Republican Budget**  
(Dollar amounts in millions)

<b>Payments Shifted to Future Years</b>	
School Construction and Authority Rentals Shifted to Future Years (taken off budget and bond-financed w/no dedicated revenue to pay off bonds and no bond payment in 2014-15)	\$306.2
Child Welfare Payments	\$170.0
School Employees' Social Security – 10 months instead of 12 months	\$87.4
PSERS Underfunding	\$25.0
	<b>\$588.6</b>
<b>Budget Surplus Carried Over from 2014-15</b>	
	<b>\$375.0</b>
<b>Liquor System Revenue</b>	
	<b>\$220.0</b>
<b>Transfers from Special Funds and Other One-Time Transfers</b>	
Small Business First Fund	\$15.0
Insurance Regulation and Oversight Fund	\$13.0
SciTech and GI Bill Restricted Revenue Account (Higher Education Assistance Fund)	\$10.5
DEP Program for Commonwealth Financing Authority (CFA) Debt Service (one-time transfer)	\$6.8
Machinery and Equipment Loan Fund	\$5.0
Pennsylvania Economic Revitalization Fund	\$3.4
	<b>\$53.7</b>
<b>Other Uncertain Savings</b>	
Adjustment to Revenue Estimate for 2015-16	\$97.2
Questionable Reduction in State Cost for Managed Care Program	\$187.0
Questionable Reduction in State Cost for Nursing Facilities	\$60.0
	<b>\$344.2</b>
<b>Total</b>	<b>\$1,581.5</b>
<i>Sources.</i> PBPC analysis and <a href="#">House Democratic Appropriations Committee analysis of HB 1192</a> .	

## Economic and Community Development

State funding from the General Fund for the Department of Community and Economic Development (DCED) would increase by a total of \$11 million, according to the HB 1192 online spreadsheet. This is \$67 million less than the increase under the Wolf budget, which was a restoration to roughly the 2010-11 level of DCED funding (and half the 2007-08 level).

The Republican budget flat funds virtually every individual line item in the DCED budget and includes no additional funds for the community development programs most decimated since 2007-08. The only line items in the DCED budget that increase or decrease by more than a few percent (most are completely unchanged in nominal funding level from the 2014-15 funding level) are:

- the **transfer to the Commonwealth Financing Authority** increases from \$77.8 to \$90.2 billion, a \$12.4 million increase that exceeds the total increase in the DCED budget. Transfers to the CFA now make up 42% of the DCED budget. The CFA, established when the legislature enacted much of Gov. Rendell's economic stimulus at the end of 2004, has a seven-member board, four members of which are appointed by legislative leaders. As noted by the [Pittsburgh Tribune-Review](#), projects require the consent of all four legislative appointees and one of the gubernatorial appointees, a significant increase in legislative influence on economic and community development grants.
- the "**Discovered in PA, Developed in PA**" program created by Gov. Corbett is zero-funded (from \$5 million in 2014-15), and a new program "**Regional Events Security and Support**" is provided with \$5 million.

Gov. Wolf also proposed a \$675 million economic development bond that would be repaid using a portion of the natural gas severance tax revenue; and \$1 billion in bond-financed transportation and water and sewer infrastructure investments. HB 1192 includes **no bond-financed job creation or infrastructure investments**.

## Education: Early Childhood and Pre-K-12

HB 1192 cuts Governor Wolf's proposed \$100 million increase in **Pre-K Counts** to \$25 million, reducing the projected increase in pre-K slots statewide to 3,500 from 14,000. The new budget proposal also reduces the governor's proposed increase in **Head Start State Supplemental** program funding by three quarters, from \$20 million to \$5 million.

The Wolf budget includes the first phase of a proposed four-year plan to increase preK-12 funding by \$2 billion, which would (in combination with the governor's proposed property tax relief) return the state's share of education funding to 50% by 2016-17, where it has not been in 40 years. The state's current funding share of 35% is [one of the lowest in the country](#).<sup>2</sup> A low state share of education funding shifts the tax burden onto local taxpayers (often homeowners) and results in funding inequalities between poorer and wealthier districts.

The Republican majority budget would increase **basic education funding** by \$100 million (instead of \$400 million) and **special education funding** by \$20 million (instead of \$100 million). As noted above, however, the budget also shifts \$87 million in school security payments to future years (or to local school districts). The budget, in addition, lowers the state contribution to the Public School Employees' Retirement System (PSERS) by \$25 million. Subtracting these two amounts from \$120 million leads to the conclusion that the effective increase in basic and special education funding is only \$8 million.

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<sup>2</sup> Bruce Baker and Jesse Levin, *Educational Equity, Adequacy, and Equal Opportunity in the Commonwealth: An Evaluation of Pennsylvania's School Finance System*, American Institutes for Research, October 2014, <http://www.air.org/sites/default/files/downloads/report/AIR-EEAE0%20in%20the%20Commonwealth%20-%20Full%20Report%2010-09-14.pdf>.

Based on school districts' plans for using the additional funds in Gov. Wolf's proposed budget, the Wolf Administration projects that the Republican budget would derail or scale back the plans of 209 school districts to plan or expand full-day kindergarten; 120 school districts to expand tutoring and individualized assistance; 150 school districts to improve their professional development, curriculum, and materials as part of implementing state standards; 107 school districts to reduce class sizes in grades K-3; and 93 school districts to restore art, music, library services and/or technology instruction cut during the past four years.

## Higher Education

Nominal dollar **state funding for two- and four-year colleges** would increase by only \$36 million, compared to nearly four times as much (\$141 million) under the Wolf proposal. Thus, while the Wolf plan would restore (nominal dollar) funding for higher education to the 2010-11 level over two years, the House plan would restore funding over an eight-year period. Assuming that the rate of inflation is about 2% per year (and the higher education cost index historically increases at a higher rate than overall inflation), the House plan would never restore inflation-adjusted state funding for higher education to the 2010-11 level. Moreover, the 2010-11 level was woefully inadequate to begin with as we documented in a [report last October](#). This underfunding of Pennsylvania higher education, a bipartisan challenge that goes back 30 years, has negative long-term impacts for Pennsylvania's economic growth and individual opportunity.

The small increase in funding for higher education in HB 1192 likely ensures that tuition will continue to rise at state-funded four-year schools. The increase in higher education funding is about two thirds of the bill's proposed full restoration of funding for the legislature itself (an increase of \$51.5 million. (Gov. Wolf's also restores funds for the legislature but couples this with larger increases in funding for higher education).

## The Environment

Because HB 1192 failed to include a severance tax, it also eliminated the governor's proposed funding for clean energy. The governor's plan uses a portion of a severance tax to finance a \$225 million bond for solar, wind and other alternative energy, energy efficiency projects and gas line extensions. The governor's plan also includes \$10 million to hire more DEP inspectors to police the gas drilling industry. The House Republican budget:

- Cuts **DEP's Environmental Program Management** appropriation by \$240,000 – the governor proposed a five percent increase of \$1.45 million
- Increases **DEP's Environmental Protection Operations** by 3% or \$2.73 million – the governor proposed a 6.1 % increase
- Cuts funding for the **Susquehanna River Basin Commission** by \$100,000
- Increases funding for **West Nile Virus Control** by \$100,000
- Restores funding for **Sewage Facilities Grants** by \$900,000 – the 2014-15 budget zeroed out this program

- Increases **funding for DCNR** by \$21.6 million, similar to the governor’s budget, moving more of DCNR’s appropriation away from dependence on gas drilling royalties. The governor proposed a \$20 million General Fund appropriation.
- Maintains flat funding, continuing the cuts made under Governor Corbett, for:
  - **Conservation Districts**
  - **Heritage Parks**
  - **Delaware River Basin Commission** and
  - **The Environmental Hearing Board.**

## Health and Human Services

As noted, the House Republican budget includes significant financial accounting games with human service programs to achieve one-time savings in the budget: the **underfunding of managed-care organizations** (\$187 million) and **nursing facilities** (\$60 million) and the shifting of \$170 million in **child welfare payments** to future years.

In addition, HB 1192 includes no new funding for **county-run human service programs**, retaining Governor Corbett’s 10 % funding cut (worth \$84 million) implemented in 2012/13. Governor Wolf proposed to begin a three-year restoration of the cut with \$28.3 million (or one-third) in 2015/16.

The proposal also includes no new **funding to combat the heroin epidemic** in the commonwealth, **reduce homelessness for veterans**, or **promote employment opportunities for individuals with intellectual disabilities**. Governor Wolf had proposed \$2.5 million, \$1 million, and \$500,000, respectively, for these three purposes.

## Workforce Development

Governor Wolf’s budget included an ambitious \$66 million, two-pronged workforce development agenda based on “investing in workforce partnerships for economic success” and “building a bridge from high school to college and career.” The Republican budget appears to include none of this proposed funding. For example, it does not include \$10 million for Industry Partnerships, thus retaining 2010-11 cuts that took this bipartisan and business-backed program to 9 % of its 2007-08 funding level. The budget also does not include \$15 million to establish Career and Technical Education partnerships to train students for high-demand occupations with a living wage and career ladders. Another unfunded part of the governor’s proposed workforce agenda is an increase of \$5 million for vocational rehabilitation. This will cost the state an additional \$18.5 million in matching federal funds.

**The Republican proposed budget that passed the House will now be considered by the Pennsylvania Senate and then potentially be sent to the Governor for his full or partial veto or his signature. As we find out more information regarding the legislative majority’s budget proposal and about possible compromise proposals that emerge later in the budget process, we will post this information on our website at [www.pennbpc.org](http://www.pennbpc.org).**

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