

Pointing in the Right Direction but Limited by a Lack of Revenue:

An Analysis of the Governor's Proposed 2019-20 Budget



KEYSTONE RESEARCH CENTER
AND
PA BUDGET AND POLICY CENTER

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March 2019

Introduction

Some important things have changed in Pennsylvania politics as a result of the 2018 election. But the basic political dynamic that constrains our budget politics remains. We have a Democratic governor and a Republican-controlled General Assembly. And more importantly, we face an ideological division that partly maps onto the partisan one. On one side are those who believe that the only path to prosperity for our state is to cut taxes for the rich and for businesses, cut spending, and hold wages down. On the other side—where the Pennsylvania Budget and Policy Center stands—are those who believe that prosperity for everyone requires us to raise wages and expand the safety net that protects those who need our help, invest in people through new educational initiatives at all levels and in workforce training, and invest in building our public infrastructure and protecting our environment.

The priorities for spending found in Governor Wolf’s 2019-20 budget proposal suggest that in most respects he stands with the second group. His budget includes a major proposal to raise wages as well as proposals to expand the safety net and invest in education at all levels. And outside the budget proposal, the governor has put forward a new initiative that is designed to increase investment in infrastructure and the environment.

But while we share the priorities for new spending in the governor’s budget, we do not believe that his budget invests at a sufficient level in most areas to achieve broadly shared prosperity. Despite some important new initiatives, the 2019-20 executive budget is austere in many respects. And it leaves Pennsylvania, once again, facing a huge and growing public investment deficit in education at all levels, in health care and housing, in infrastructure spending, and in environmental protection.

The limit on reaching a sufficient level of public investment in these and other areas is a tax system that does not generate sufficient revenues to fund them, mainly because it does not ask the richest Pennsylvanians or multi-state and multi-national corporations to pay their fair share of taxes. When Governor Wolf announced during his budget address that his budget proposes “no new taxes,” many legislators who embrace the agenda of cutting taxes and spending cheered. But we could not do so. If standing against taxes is our first priority, many critical goals for this state will not be met.

In the following pages, we will analyze the details of Governor Wolf’s proposal, pointing to the important initiatives he has put forward as well as some of the ways in which the 2019-20 budget will fall short of what Pennsylvanians need. Towards the end of this report, we will summarize the ways in which the budget leaves us with a severe public investment deficit. Given the makeup of the General Assembly, we understand why it is difficult to ask for new taxes or expect them to be adopted. But if we are to honestly evaluate the governor’s budget proposal by the light of our own ideals, we must point out that as long as our first priority is to leave our tax system unchanged, we will never be able to attain many other priorities.

We will conclude our analysis on a positive note, however, by showing how the governor’s proposal to raise the minimum wage is a critical step forward toward creating a Pennsylvania that works for everyone.

An Overview of Pennsylvania’s Budget

Components of Pennsylvania’s Combined Operating Budget

While most of this analysis will focus on the Pennsylvania General Fund, it is important to understand that the General Fund is only one component of the state’s total operating budget. The various components of the Pennsylvania combined operating budget are listed in table 1.

The General Fund makes up almost 40% of the combined operating budget. Federal funds make up about a third of it, with the rest coming from other state funds.

The General Fund makes up 59% of the part of the combined operating budget that is funded by the state. The Motor License Fund and Lottery Funds together make up another 10% and roughly 155 small special funds the remaining 32%.

Table 1. Components of Combined Pennsylvania Operating Budget in billions						
	<i>FY 2018-10</i>	<i>FY 2019-20</i>	<i>Change</i>	<i>Percent change</i>	<i>Percent of total combined operating budget</i>	<i>Percent of state-funded operating budget</i>
General Fund	33.17	34.1	0.927	2.8%	39%	59%
Motor License Fund	3.14	2.9	-0.238	-7.6%	3%	6%
Lottery Fund	2.04	2	-0.040	-2.0%	2%	4%
Special Funds	17.89	17.3	-0.585	-3.3%	20%	32%
Federal Funds	30.40	29.6	-0.798	-2.6%	34%	100%
Total	86.63	85.90	-0.73	-0.8%	100%	
Total State Funds	56.24	56.30	0.06	0.1%		
Total Motor License, Lottery and Special Funds	23.06	22.20	-0.86	-3.7%		

Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's Executive Budget 2019-20.

The total Pennsylvania combined operating budget for 2019-20 proposed by Governor Wolf will be \$730 million or .8% below that of fiscal year 2018-19. The governor proposes that part of the combined operating budget drawn from state funds will grow only by \$60 million or .1%.

Proposed Spending and Revenues

Projected General Fund revenues under the governor's budget proposal for 2019-20, including non-tax revenue, are \$35.3 billion, an increase of \$896 million or 2.6% from the current year. After adjustments for refunds and spending lapses, \$34.156 billion would be available for the General Fund. Governor Wolf proposes General Fund expenditures of \$34.146 billion in 2019-20, an increase of \$927 million or 2.87%. The governor proposes a preliminary balance of \$10.13 million. After transferring \$45.06 million to the Budget Stabilization Reserve Fund, also known as the Rainy-Day Fund, the General Fund is projected to end the year with a balance of \$5.07 million.

Spending Restraint Aside from Mandatory Increases

Certain expenditures are mandated to increase from year to year because of contractual obligations to pay the state's debt service, to pay actuarially required pension contributions, to meet contractually obligated increases in wages and benefits, and to meet required contributions to federal/state programs, especially medical assistance, which is what we call Medicaid in Pennsylvania.

Table 2 provides an estimate of some of the mandatory increases in spending in the 2019-20 budget. Some elements of mandatory spending, such as the increased cost of wages and benefits for state employees, are difficult to calculate and are excluded. Note, however, that even without including increased wage and benefit costs, the \$686 million in mandatory budget increases is a substantial part of the total increase in General Fund spending of \$927 million.

This testifies to how limited the governor’s new initiatives are and how austere the budget is as a whole. It also shows how effective the governor has been in holding down growth in the General Fund beyond those new initiatives. Almost 12% of line item expenditures in the 2018-19 budget are flat-funded in the proposed 2019-20 budget. And that means that the governor has found ways to deliver these government services more efficiently or that, taking into account inflation, government services are slightly reduced. And while we point out below that there are some relatively small transfers of General Fund spending to the Lottery Fund in the area of human services or other special funds in the areas of environmental protection and conservation, as table 1 shows, the governor proposes to reduce expenditures in the Motor License, Lottery, and special funds by \$860 million or 3.7%.

<i>Spending Category</i>	<i>Increase in Spending (in thousands)</i>
General Obligation Debt Service	\$66,959
State Correctional Institutions/Inmate Medical Care	\$65,972
School Employee’s Retirement (PSERS)	\$160,500
State Employee Retirement (SERS)	\$8,000
Restoration of General Assistance	\$38,200
County needs-based budget required by Act 30-1991	\$43,400
Mental health appropriations required by ACLU settlement for Norristown State Hospital	\$34,700
Medical Assistance and Long-Term Living	\$269,000
Total	\$686,731

Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf’s Executive Budget 2019-20 and House Democratic Appropriations Committee, “Governor Wolf’s 2019/20 Executive Budget Proposal.” 2/5/19.

A Shrinking Share of the State’s Economy

Another way to see the austerity of Governor Wolf’s proposed budget is to look at General Fund spending and revenues as a percentage of gross state product (GSP), which is a measure of the size of the state’s economy. Below, table 3 and figure 1 show that as a percentage of gross state product, expenditures and revenues have shrunk over time. During the 15 years between 1997 and 2011, expenditures averaged 4.66% of GSP. They shrunk to 4.25% during the Corbett years, and then again in Wolf’s first term to 4.23%. Governor Wolf’s 2019-20 proposed budget would further reduce spending as a percent of GSP to 4.11%, which is a 12% decrease from what it was during the period 1997-2011. Projections of future expenditures show spending will continue to decrease with it averaging only 3.97% of GSP, or 15%, below where it was in the period from 1997 to 2011.

The declining share of state spending relative to gross state product is not only further indication of the austere budgets Governor Wolf has proposed throughout his term in office and continues to propose this year, it is a clue to the source of the public investment crisis in our state. Why is education funding so unequal, the rate of attainment of bachelor’s degrees so low, and our roads and bridges in such a state of disrepair? The simple, yet accurate, answer is that the state is spending too little relative to the size of the state’s economy and the needs of a modern political economy. And the question raised by the governor’s budget is whether we can sustain prosperity for most Pennsylvanians while underinvesting in public goods.

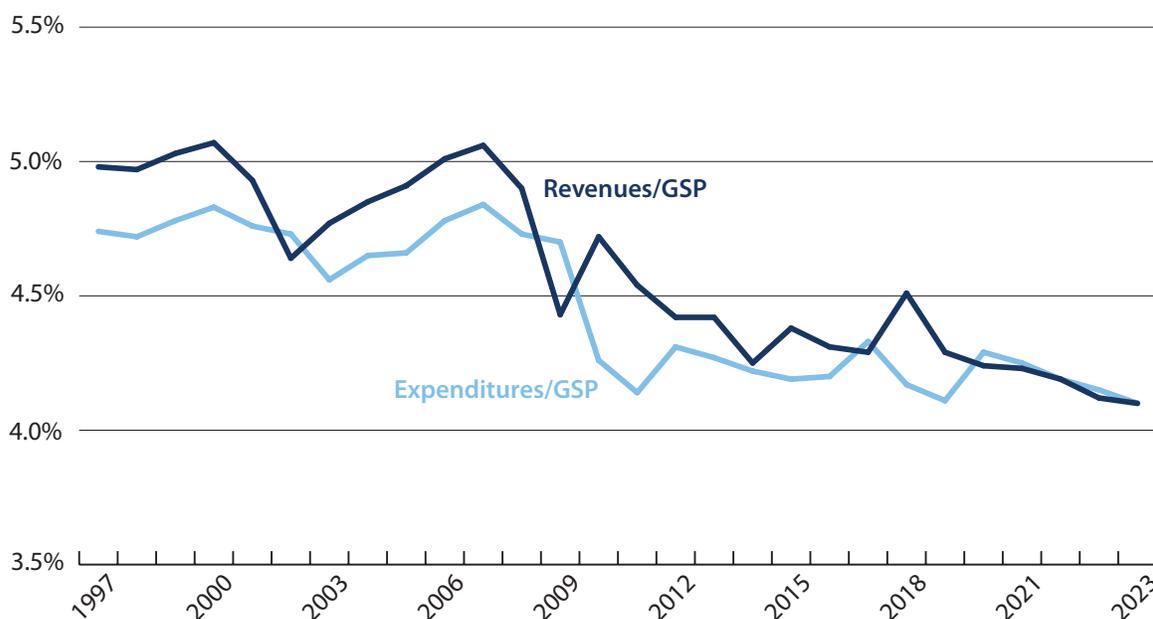
Table 3. Pennsylvania General Fund Expenditures and Revenues as a Percent of Gross State Product (GSP)

Fiscal year ending	Expenditures / GSP	Revenues / GSP	Reduction in Spending Compared to 1997-2011
Average 1997 to 2011	4.66%	4.85%	
Average 2012 to 2015	4.25%	4.37%	-9%
Average 2016 to 2018	4.23%	4.37%	-9%
Governor's Budget 2019-20	4.11%	4.25%	-12%
Projections 2021 to 2024	3.97%	4.11%	-15%

Source: Pennsylvania Budget and Policy Center based on Independent Fiscal Office, "Economic and Budget Outlook, Fiscal Years 2018-19 to 2023-24," November 2018; and Governor's Executive Budget 2019-20, p. A2-3 (years 2019-20 and on).

Figure 1

General Fund Expenditures and Revenues Have Become a Smaller Share of the Economy Over Time, a Trend Expected to Continue



Source: Pennsylvania Budget and Policy Center based on Independent Fiscal Office report, "Economic and Budget Outlook, Fiscal Years 2018-19 to 2023-24," Tables A3 and A4.

A Precarious Balance?

The governor has proposed a balanced budget that requires a minimum of new revenues and no increase in general taxes. Yet there are a number of reasons to be concerned about whether the budget will remain balanced in 2019-20 without additional new revenues because the General Assembly may not adopt one of the governor's revenue proposals or because of changing economic circumstances. And there are some reasons to be concerned about the difficulty of balancing the budget in the future because of the one-time revenues used this year. Here, we just summarize our concerns. Individual items will be discussed later in this analysis.

The 2019-20 budget may become unbalanced if the General Assembly does not adopt these revenue raising proposals:

- The governor's budget presupposes that the General Assembly will raise the minimum wage to at least \$12 an hour. The governor projects that this will reduce spending by \$36 million and increase revenues by \$120.2 million. Should the General Assembly raise the minimum wage by less than that amount or not at all, a total of up to \$156.2 million in new revenues will be necessary to balance the budget.
- The governor's budget again proposes that the General Assembly will enact a fee for counties and municipalities that rely on the state police to carry out the duties performed by local police forces elsewhere in the state. The General Assembly has twice turned down similar proposals. Should it do so again, the budget will need an additional \$103.9 million in revenues.
- The human services budget presupposes that new assessments on health care institutions will be enacted, totaling \$139.4 million, and that earmarks put in place by the General Assembly in 2018-20, totaling \$39 million, will not be renewed.

The 2019-20 budget is based on assumptions about economic conditions that may be different than expected.

- The governor's budget assumes that there will be no recession during fiscal year 2019-20. Some economists are predicting a recession at some point in the next few years. Should an even mild recession occur, the budget would quickly fall out of balance because of reduced revenues and higher expenditures for human service program. And despite deposits in the last two years, the Rainy Day fund is far too small to cover the likely deficit.
- In each of the last two years, supplemental appropriations of hundreds of millions have been needed to make up for shortfalls in Medicaid expenditures. We have some fear that this could happen again.

Future budgets will have to replace one-time revenues used to balance the 2019-20 budget.

- The Human Services budget uses \$85 million in 2018-19 funds for Medical Assistance.
- The Department of Environmental Protection (DEP) and the Department of Conservation and Natural Resources (DCNR) both rely on transfers from special funds. As discussed in the sections of this analysis devoted to DEP and DCNR, some of those transfers may have to be or should be replaced so that the goals of those funds can be met.

Future budgets will or may also have to deal with these challenges:

- The cost of repaying \$3.7 billion in bonds issued to pay for the state's school construction reimbursement program. This is an example of the General Assembly using short-term budget solutions to annual deficits that create difficulties in the long run and are also more costly.
- A case pending in court challenges the right of the General Assembly to transfer funds from the Oil and Gas Lease Fund to the operating expenses of the Department of Conservation and Natural Resources (DCNR).
- The PA Turnpike's annual \$450-million payment to support public transit will drop to \$50 million in 2022-23. The General Assembly will need to find alternative ways to support public transit or see public transit systems all over the state shut down, in whole or part, with catastrophic consequences for local economies, especially in Southeast Pennsylvania.

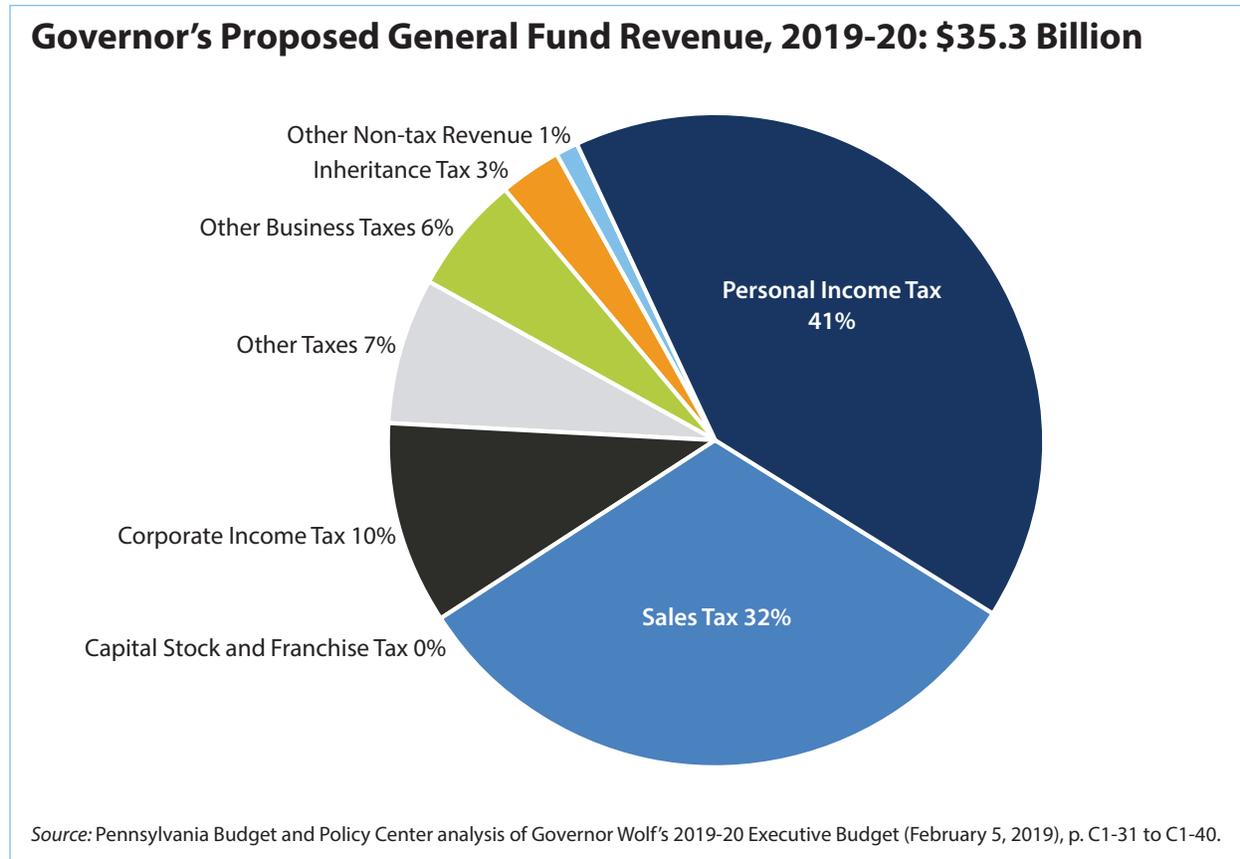
General Fund Revenues

Projected General Fund revenues under the governor's budget proposal for 2019-20, including non-tax revenue, are \$35.3 billion, an increase of \$896 million or 2.6% from the current year. Tax revenues are expected to bring in \$34.8 billion, a 3.3% increase from the current year. Total revenues grow slower than the rate of increase in tax revenues because one-time revenues from the sale of gaming licenses in 2018-19 do not recur in 2019-20. Growth in revenues for 2019-2020 is partly suppressed due to the elimination of non-tax

revenue from expanded gaming, which ends in 2019-20. The governor’s budget expects modest growth in revenues from the Corporate Net Income Tax (2.4%), Personal Income Tax (4.2%) and Sales and Use Tax (3.1%).¹

Figure 2 breaks down proposed revenues by their source. There is little change from the current year. The Personal Income Tax accounts for 41% of General Fund revenues, the sales tax accounts of 32%, Corporate Income Taxes account for 10%, and all other taxes account for less than that share of total General Fund revenues.

Figure 2



The governor’s budget proposal revises the estimated revenues for 2018-19 to \$34.4 billion, up from \$34.0 billion due mostly to higher corporate net income tax receipts this year as a result of federal tax changes. Personal income taxes, however, have been lower than projected revenues.

Governor Wolf promised no new taxes for Pennsylvanians which was met with praise from conservatives. While the governor has not proposed a broad-based tax increase for 2019-20, he has made three proposals with regard to corporate taxes, the minimum wage, and state police funding that will generate new revenues for the state in the short- or long-term. These are discussed in more detail below.

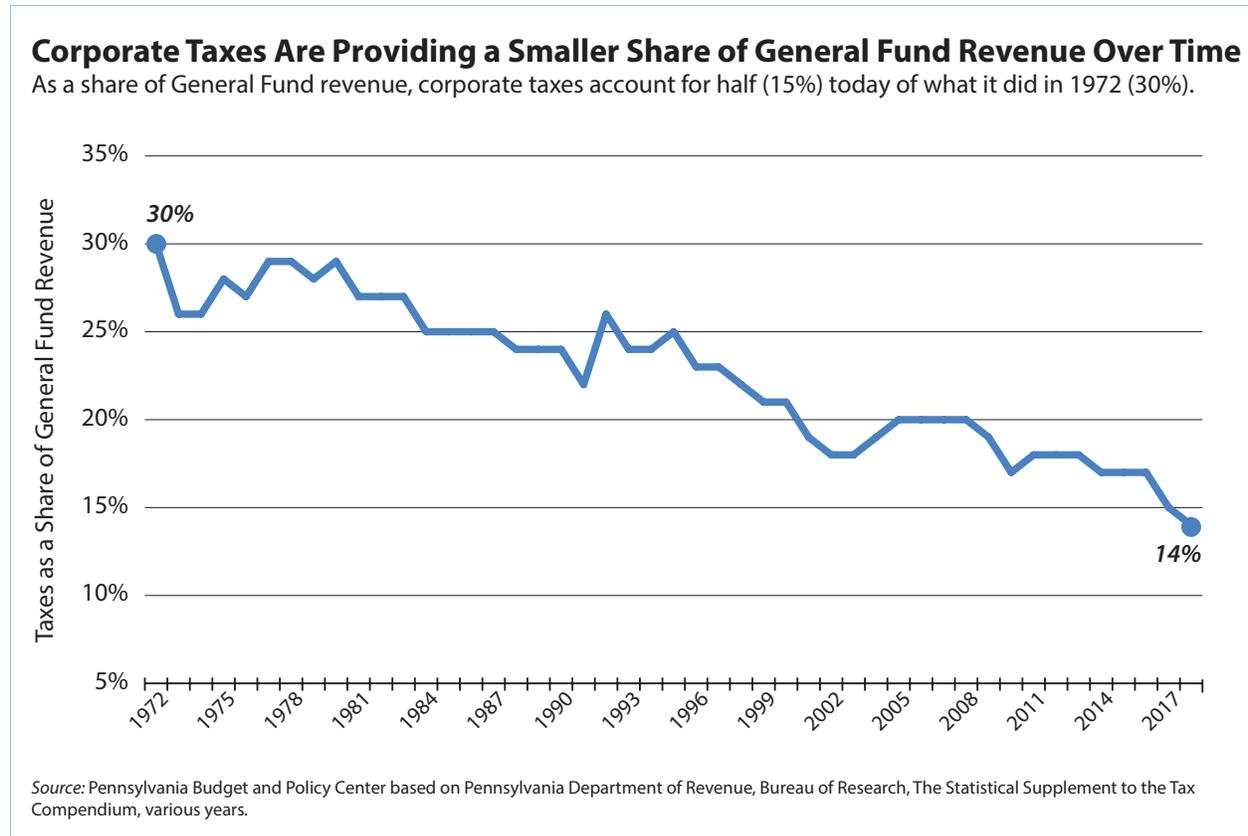
Corporate Taxes and Corporate Tax Reform

As figure 3 shows, corporate taxes continue to provide a smaller share of General Fund revenue over time.

¹ House Democratic Appropriations Committee, “Governor Wolf’s 2019/20 Executive Budget Proposal.” 2/5/19.

As we have shown before, if not for corporate taxes cuts made in the last 15 years, Pennsylvania would be bringing in roughly \$4 billion more in corporate tax revenue than it will this year.

Figure 3



Like last year, Governor Wolf has proposed reforms to the Corporate Net Income Tax (CNIT). Pennsylvania currently has one of the highest corporate income tax rates in the country. The governor proposes two changes to this tax: closing the Delaware loophole in the CNIT which allows multistate/multinational corporations to avoid paying their fair share while addressing Pennsylvania’s relatively high corporate income tax. He proposes lowering the tax rate from 9.99% to 8.99% starting on January 1, 2020, with a gradual phase down of the rate to 5.99% by 2024. The governor estimates that closing the Delaware loophole and the decrease in the CNIT rate would result in a decrease of revenue in 2019-20 of an estimated \$7.2 million.²

Currently, the “Delaware loophole” allows multistate and multinational corporations to manipulate their books to show no profits in Pennsylvania—shifting income instead to states like Delaware with either a low corporate income tax or none at all—and resulting in some big corporations paying little to no Pennsylvania corporate income tax. Businesses subject to the CNIT that only do business in Pennsylvania cannot take advantage of the Delaware loophole. This puts these Pennsylvania-based businesses at a disadvantage compared to multi-state and multi-national corporations. Partly because of tax loopholes, 74% of corporations that do business in Pennsylvania pay no corporate income tax at all. Thus, we agree that Pennsylvania should join the 26 other states and the District of Columbia (as of July 2019) who have passed combined reporting, which closes the Delaware loophole by taxing the share of nationwide profits

² House Democratic Appropriations Committee, “Governor Wolf’s 2019/20 Executive Budget Proposal.” 2/5/19.

that corporations make in Pennsylvania equivalent to the share of nationwide sales they make in our state.³ We have doubts, however, about reducing the CNIT rate to the level proposed by Governor Wolf. After substantial reductions in corporate taxes over the last 15 years, we believe that only a small reduction in the CNIT rate is warranted and only if combined reporting is adopted. The rate should be set at a level that, together with combined reporting, generates at least an additional \$200 million per year.

New Revenues: Minimum Wage

Governor Wolf proposes raising the minimum wage immediately (July 1, 2019) to \$12 per hour. Following that increase, the minimum wage would increase by \$.50 each year until the wage reaches \$15/hour in 2025. After 2025, the minimum wage would be annually adjusted for inflation. The governor's proposal would also establish one fair minimum wage for all workers, including those earning tips. In Pennsylvania currently, employers are only required to pay their tipped employees \$2.83 per hour as long as their tips bring them up to \$7.25. This practice means tipped workers in Pennsylvania earn less than tipped workers in states with one fair wage for all workers; in those states tipped workers get the same minimum wage as all workers but also get to keep their tips.

Raising the minimum wage will generate revenues for the state while reducing expenditures. With greater incomes, individuals will pay more in taxes. The governor estimates that raising the minimum wage to \$12 will generate \$120.2 million from a combination of increases in personal income tax and sales and use tax.⁴

Raising the minimum wage to \$12 will also reduce expenditures for housing, medical care, and food stamps. With higher wages, low-income workers will not be eligible for some programs. And while most would remain eligible for Medical Assistance/Medicaid they would now fall under expanded Medicaid which is reimbursed by the federal government at the rate of 93% rather than traditional Medicaid which is reimburse at only 52.25%. The governor estimates that raising the minimum wage would also save the Commonwealth \$36 million dollars just in 2019-20 due to decreases in the cost of public benefits. This estimate is after taking into account raising wages for publicly funded direct care and child care workers. With the increase in the minimum wage, the rates for child care providers will be increased by \$74.2 million and for direct care workers by \$45 million.⁵

New Revenues: Paying for State Police Protection

Governor Wolf again proposes a fee for county and local governments/municipalities that do not have their own police force but instead rely on the Pennsylvania State Police. More than 2/3 (67%) of Pennsylvania's counties, covering 82% of the state's land mass but only 26% of its population, rely on the State Police for this purpose. Yet the costs of these services are paid for by taxpayers statewide, even those who are already paying for their local police forces through local taxes. A modest fee of about \$40 per capita for individuals covered by State Police would help ensure fair funding for the State Police. This fee would be on a sliding scale depending on the size of the municipality. A fee on municipalities would bring in approximately \$103.9 million from those localities that rely on full-time State Police coverage.⁶

Pennsylvania State Police are funded through a mix of General Funds, Motor License Funds and other funds. The governor's proposal for local fees to help pay for the State Police is part of an effort to shift funding for the state police away from heavy reliance on the Motor License Fund. The use of the Motor License Fund to pay for the State Police is limited by a statutory cap that decreases annually by \$32 million until it reaches \$500

3 Institution on Taxation and Economic Policy, "Combined Reporting: A Primer," February 2017; <https://itep.org/combined-reporting-of-state-corporate-income-taxes-a-primer-1/>.

4 Governor Wolf's 2019-20 Executive Budget (February 5, 2019), p. C1-6.

5 Teresa Miller. "2019-20 Governor's Executive Budget, Human Services." Accessed at: http://dhs.pa.gov/cs/groups/webcontent/documents/document/c_286011.pdf.

6 House Democratic Appropriations Committee, "Governor Wolf's 2019/20 Executive Budget Proposal." 2/5/19.

million by 2027-28. Local fees for state police protection would not only reduce the State Police’s reliance on General Fund and the Motor License Fund. It would also pay for three additional cadet classes this fiscal year as well as about \$50 million for a new radio system for State Police and other agencies.

Severance Tax

Each year in his first term, Governor Wolf proposed the establishment of a severance tax as part of his budget proposal. Every year, Republican lawmakers rejected such a proposal.

For 2019-20, the governor has tried a different approach—detaching the severance tax from the General Fund and connecting it with funding infrastructure projects across the state. Titling the project “Restore Pennsylvania,” a modest severance tax would repay \$4.5 billion in bonds over 20 years. The bond proceeds would be used to support local projects for blight removal, flood mitigation, improved internet access in rural areas, public transit improvements, and other purposes. We will be examining this proposal in greater depth in the future.

General Fund Expenditures

Overview of General Fund Spending (Including New Initiatives by the Governor)

As figure 4 shows, Governor Wolf proposes General Fund expenditures of \$34.146 billion in 2019-20, an increase of \$927 million or 2.79%.

Figure 4

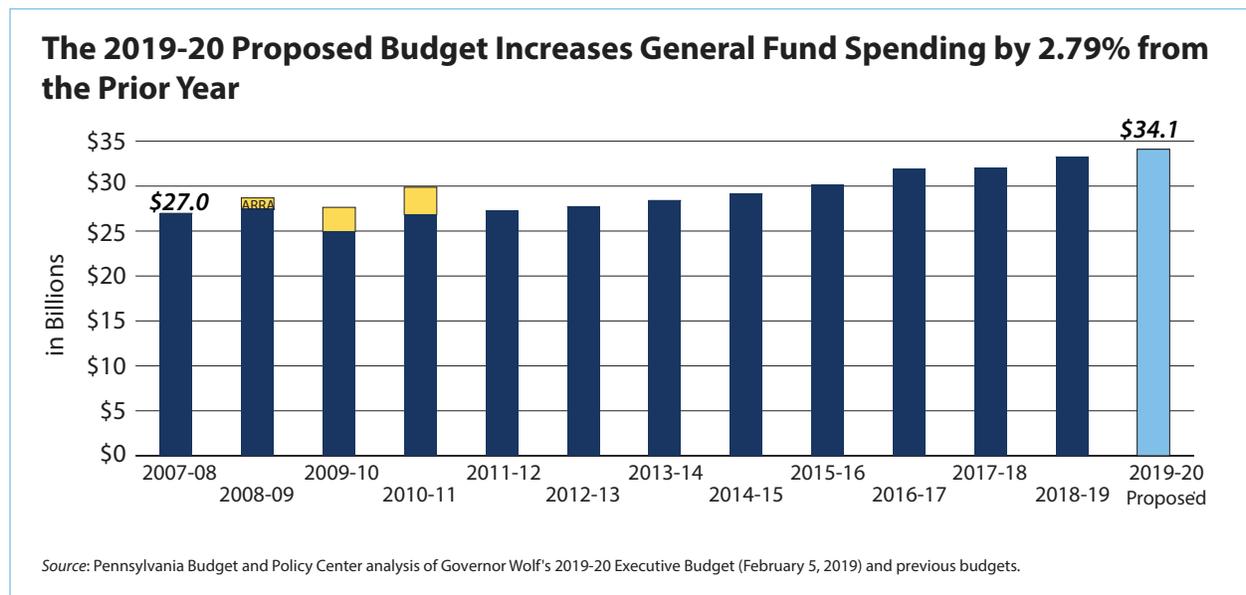
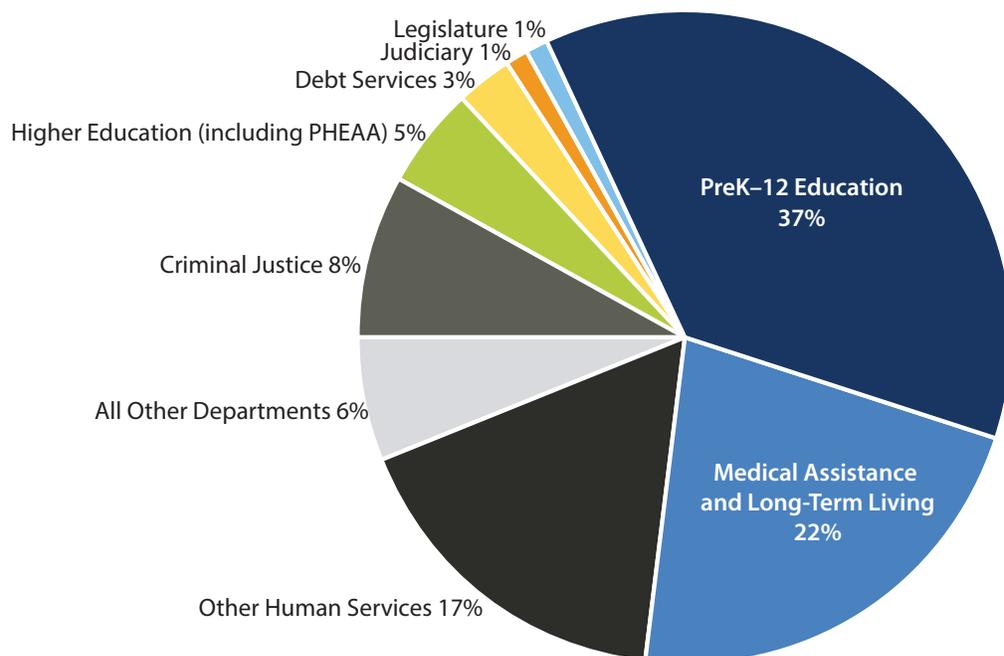


Figure 5, below, shows the distribution of General Fund spending in the Commonwealth. More than three quarters of the General Fund is spent on education and human services. PreK-12 Education accounts for 37%, Medical Assistance and Long-Term Living for 22%, and other human services, 17%. Spending on Criminal Justice makes up the next largest spending category at 8%.

Figure 5

2019-20 General Fund Expenditures

Share of the total state expenditures by major category in the 2019-20 budget.



Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2019-20 Executive Budget (February 5, 2019).

There are several areas of the budget that the governor has prioritized with new funding this year. The primary themes of his budget are: building the nation's strongest workforce for which he proposes increased funding in education and workforce training; making Pennsylvania a better place for workers and businesses through new funding to the Department of Community and Economic Development; securing the future of the state agricultural industry through new funding in his Pennsylvania Farm Bill; keeping Pennsylvania safe through new funding for a secure radio system for multiple agencies; and protecting and securing elections through new funding of the Department of State and local governments.

The largest area of public investment is focused on education and workforce development. The governor's proposals span a variety of departments, including Education, Human Services, and Labor and Industry. Governor Wolf proposes a new effort called the Statewide Workforce, Education, and Accountability Program (SWEAP) that aims to provide education and workforce opportunities from birth to retirement. Included in this SWEAP program are: investments in child care; expansion of home-visiting programs for at-risk pregnant women and young kids; services to enable low-income parents to get workforce training; a requirement that children attend school from ages 6 to 18 instead of 8 to 17; increasing minimum pay for teachers and other school staff to \$45,000/year; programs to connect teachers and businesses so teachers can prepare students for existing jobs; an expansion of the PA Smart apprenticeship and continuing education program; and one-time grants for community college students who work in the state.⁷ SWEAP aims to ensure state government keeps up with industry needs and coordinates education and workforce with such needs.

Table 4 lists many of Governor Wolf's new funding priorities for 2019-20. Below, we take a more in-depth look at many of these proposals.

⁷ Governor Wolf's website. "Governor Wolf: Bold Workforce Development Plan Will Benefit Lancaster County." February 7, 2019. Accessed at: <https://www.governor.pa.gov/governor-wolf-bold-workforce-development-plan-will-benefit-lancaster-county/>.

Table 4. New Initiatives/Funding Proposed by Governor Wolf, 2019-20

	<i>Governor's Proposed Spending from the General Fund (In millions)</i>
Education	
Basic Education Subsidy	\$182.0
Early Intervention (3-5-year-olds)	\$15.0
Special Education	\$50.0
Early Childhood Education	\$50.0
Higher Education - State System	\$7.0
Community College Tuition Assistance	\$8.0
Career and Technical Education (\$6 million for adult training and \$4 million granted to companies to train skilled workforce)	\$10.0
Military and Veteran Affairs	
Military Family Education Program	\$2.7
Labor and Industry	
Office of Vocational Rehabilitation, helping individuals with disabilities get jobs	\$2.3
Community and Economic Development	
Pennsylvania First, including grants and workforce development programs	\$17.0
Human Services	
Intellectual Disabilities and Autism, home and community-based services	\$15.0
Early Intervention (birth to 3-year-olds), 3% rate increase	\$5.0
Parent Pathways Initiative, 5-7 pilot programs that supports parents accessing college or workforce training	\$5.0
Home Visits and Opioid Epidemic	\$5.0
Naloxone for substance use disorder	\$1.5
Human Services Support to license and inspect residential and personal care homes	\$2.6
Transitioning out of State Mental hospitals	\$2.8
Disability Advocacy Program	\$2.0
Police, Infrastructure	
Police Cadet classes	\$9.7
Agriculture	
New Resources for Agricultural Business Development	\$2.0
More processing capabilities (dairy and animal agriculture)	\$6.5
Remove regulatory burdens and strengthen business climate	\$6.0
Increase opportunities for agricultural workers	\$1.0
Making PA a leading organic state	\$2.6
Support urban agriculture	\$1.0
To address Spotted Lanternfly and avian flu	\$5.0
Department of State	
Upgrade Statewide Uniform Registry of Electors (SURE) system	\$2.0
New voting machines with modernized security	\$15.0
Multiple Departments	
Upgrading radio system	\$24.7
<i>Note: This is not an exhaustive list, but instead represents Governor Wolf's priorities for new programming/funding. Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2019-20 Executive Budget (February 5, 2019).</i>	

Education

The governor made education a major priority in his first term. He continues to call for new investments in education—although, except for Early Childhood (pre-K) education, not at the levels he proposed in his first term. Below we walk through different aspects of Governor Wolf’s education proposals.

PreK-12 Spending

Pennsylvania’s public education system is made up of 500 school districts, which serve more than 1.7 million preK-12 students in more than 2,900 schools and early childhood centers of education. We look first at all state spending on preK-12 education. We then look at what we call “classroom funding,” which includes only state funding to local school districts that directly supports classrooms.

Figure 6 shows that Governor Wolf proposes an increase in preK-12 spending of 3.7% to \$12.7 billion.

Figure 6

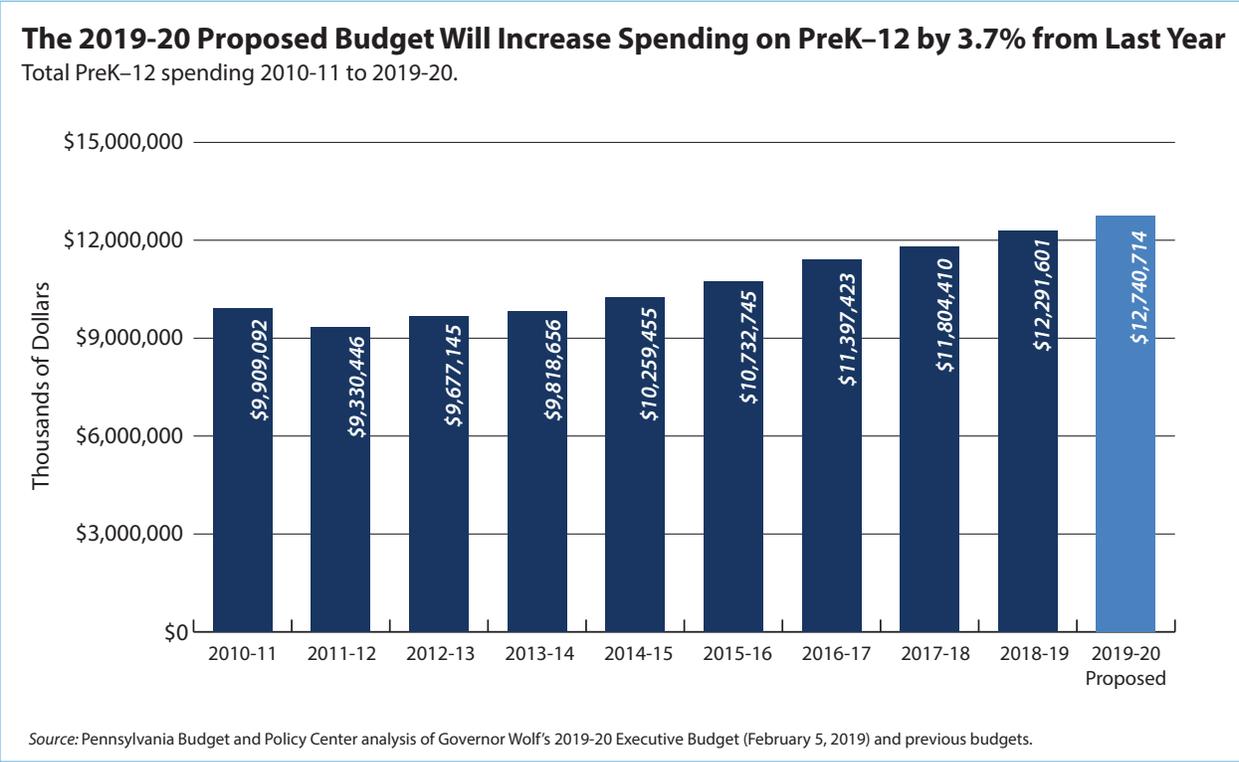
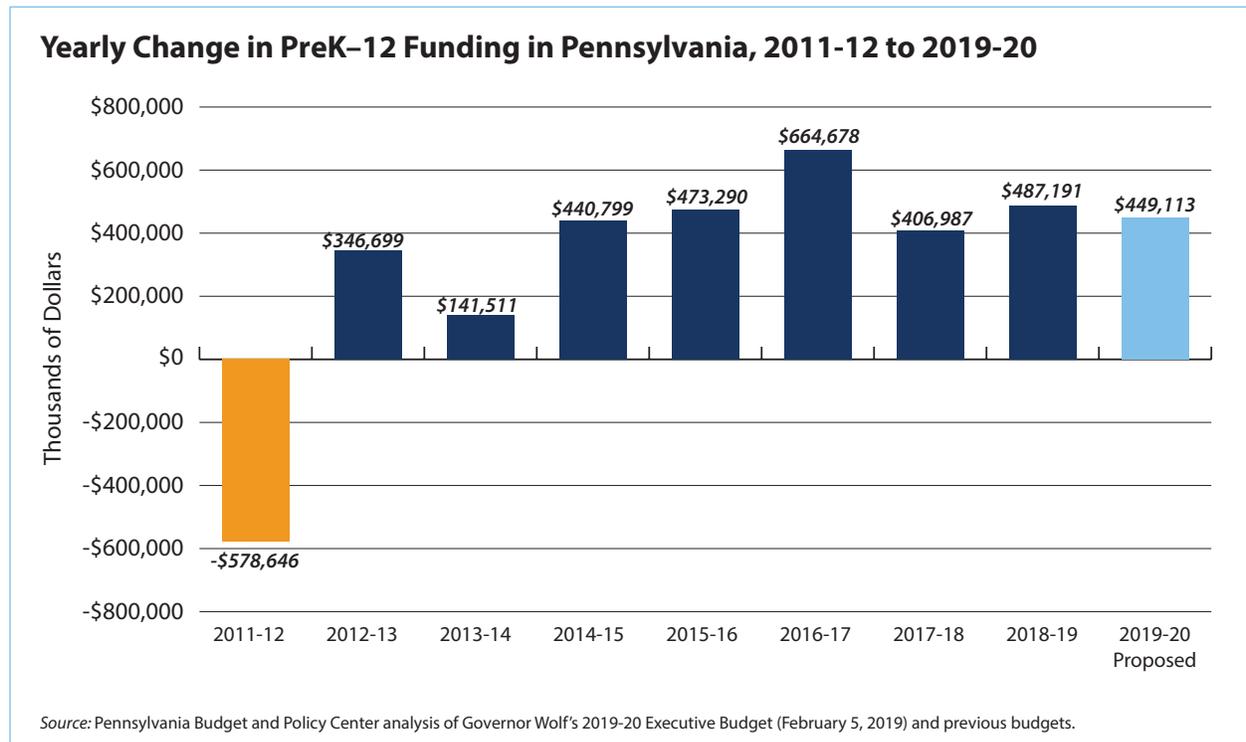


Figure 7 shows the yearly change in preK-12 overall funding from 2011-12 to 2019-20. The proposed increase of \$449 million is roughly equivalent to the increases in the last two years.

Figure 7



K-12 Classroom Spending

K-12 classroom spending includes only the money for K-12 education that goes directly to school districts to pay for classroom education. Classroom funding excludes, for example, the costs of pensions and transportation.

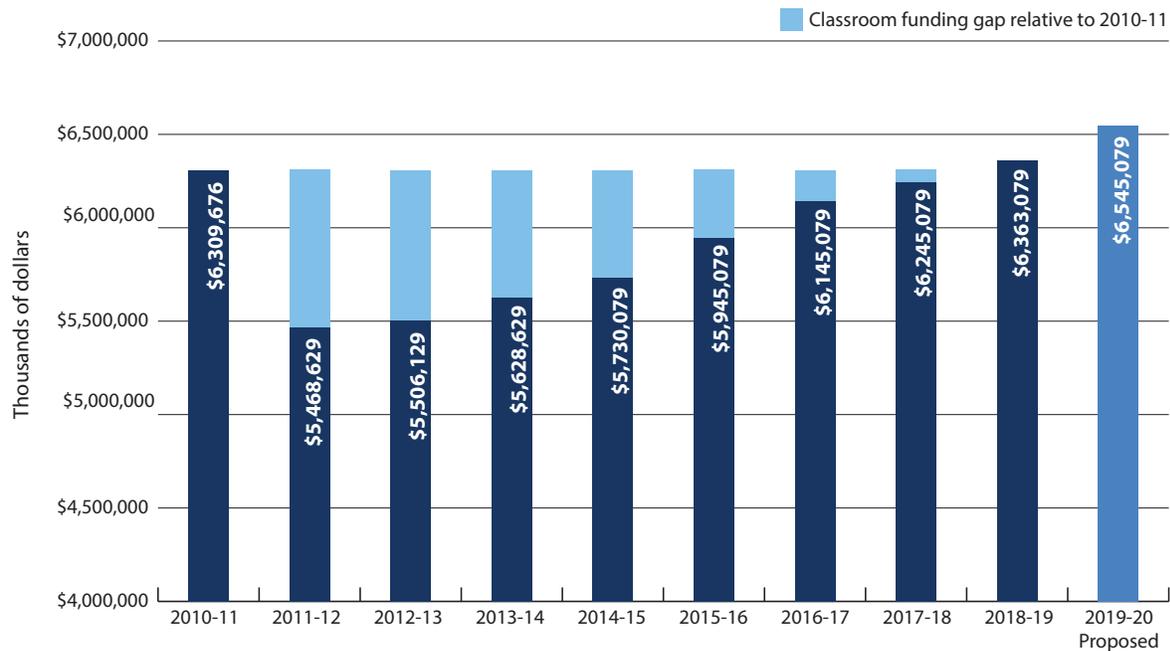
As figure 8 below shows, Governor Wolf is proposing an increase in classroom funding of 2.9% from the current fiscal year. Last year's budget finally restored, in nominal (not inflation-adjusted) dollars, the school funding cut under Governor Corbett in 2011-12, which led to tens of thousands of teachers, school nurses, and guidance counselors being laid off across the Commonwealth.⁸

⁸ Employment in Pennsylvania elementary and secondary schools (of teachers and other school workers) remained 29,514 lower in 2017 (the latest data available) than 2010, a decline of 10.5%. (Data accessed online at <https://data.bls.gov/cgi-bin/srgate> (enter ENU420001036111).) See also Pennsylvania Association of School Administrators and Pennsylvania Association of School Business Officials. "Continued Cuts: The Fourth Annual PASA-PASBO Report on School District Budgets." June 2014. Megan Healy. "Failure to Fund Schools Would Result in the Loss of 23,000 Educators." February 22, 2016. Accessed at <https://www.governor.pa.gov/blog-failure-to-fund-schools-would-result-in-the-loss-of-23000-educators/>. <http://archive.pasbo.org/2014%20PASA%20PASBO%20Report%20on%20School%20District%20Budgets.pdf>.

Figure 8

The 2019-20 Proposed Budget Would Increase Classroom Spending by 2.9% from the Previous Year. The 2018-19 Budget Finally Restored Classroom Spending Cuts from 2011-12

Classroom funding 2010-11 to 2019-20



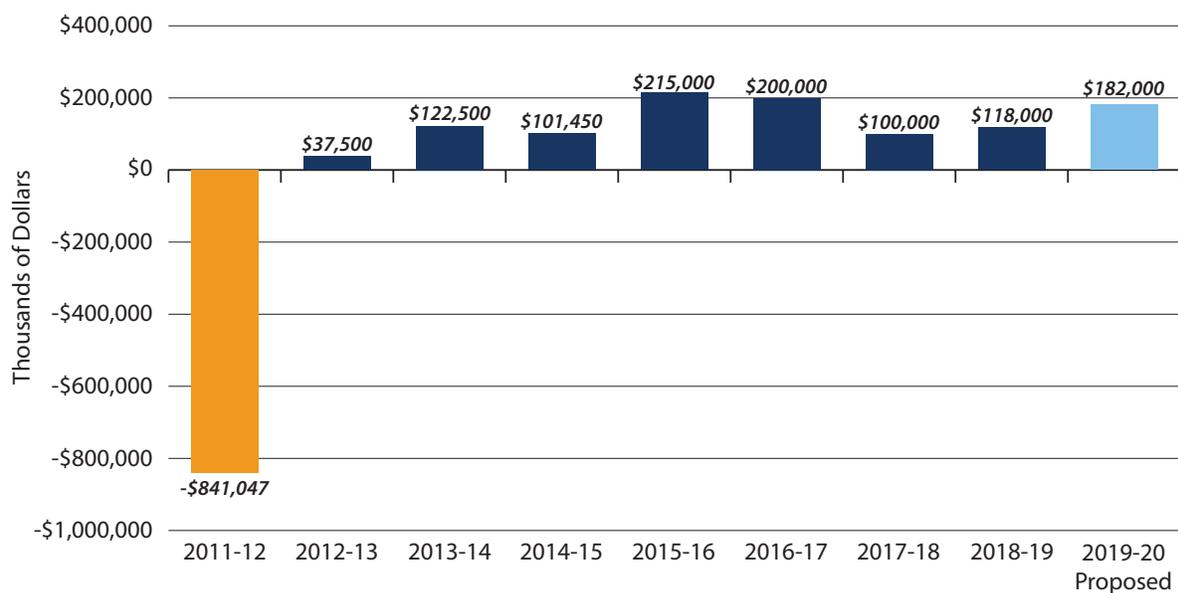
*Classroom funding includes the basic education subsidy plus formula enhancements, charter reimbursements, accountability block grants, and American Recovery and Reinvestment Act (ARRA) funding. Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2019-20 Executive Budget (February 5, 2019) and previous budgets.

Below, figure 9 shows the yearly change in classroom funding since the large funding cuts by Governor Corbett. This year, Governor Wolf proposes an increase of \$182 million for classrooms.

Figure 9

Yearly Change in Classroom Spending in Pennsylvania, 2011-12 to 2019-20

Total increase in classroom spending since 2012-13 finally surpassed the Corbett cuts (in 2011-12) last year (2018-19).



Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2019-20 Executive Budget (February 5, 2019) and previous budgets.

The orange bar in 2011-12 shows just how drastic the cuts that year were. Increases in every year since 2011-12 have gradually restored the funding cut under Gov. Corbett. But classroom funding wasn't fully restored even in nominal terms for eight years until 2018-19. Figure 9, in addition to not taking into account inflation, does not consider the additional resources schools have had to devote to the local share of pension costs, health care costs, charter schools, and special education costs. Thus, in real terms and with respect to the educational services it pays for, state support for K-12 classroom education remains well below that of 2010-11.

Basic Education Subsidy and School Inequities

The state government shares responsibility for funding K-12 schools with 500 local school districts across the Commonwealth. State funding is supplemented with funds raised locally, primarily through property taxes. Compared to other states, a relatively low share of total funding for K-12 education comes from the state. Only 37% of K-12 funding comes from the state, compared to the national average of 47%.⁹ Pennsylvania's over-reliance on local school districts to fund schools based on the income and wealth of community residents leads to great disparities between school districts. In fact, Pennsylvania has the greatest disparity in funding between rich and poor districts, with poor districts receiving 33% less than the state's most affluent districts.¹⁰

The gap in per student funding between high-wealth and low-wealth school districts has grown. In 2012-13, a typical wealthy district in the Commonwealth paid \$3,058 more per child than a typical poor school district. By 2016-17, four years later, that gap had grown to \$3,778.¹¹

The state's underfunding of K-12 education creates hardships for local school districts. The 2019 PA Association of School Business Officials/PA Association of School Administrators (PASBO/PASA) report on school funding found that 33% of local school districts in the Commonwealth anticipate that their financial situation will be worse this year than last year, and another 50% believe it will be no better.¹² They anticipated that costs would grow for pensions, special education, and charter school tuition. As a result, 37% of schools planned to shift staff across schools/grades to avoid filling vacancies this year; 26% said they planned to increase class sizes; and 13% said they planned to reduce or eliminate electives.¹³

As we pointed out above, funding is highly unequal in large part because the state share of funding is so low. State funding of local school districts comes in the form of various state subsidy payments, the largest of which is the basic education funding (BEF) subsidy. Governor Wolf proposes increased funding for basic education by \$182 million, a 3.0% increase. An additional \$260 million in support from schools from the Ready to Learn block grant was rolled into the basic education funding. Only \$8 million—the portion of the grant received by charter schools in 2018-19—remains in the Ready to Learn block grant spending line item. The inclusion of the Ready to Learn block grant in basic education funding gives school districts more flexibility to use the money as they see fit but does not add to total state funding. The total BEF subsidy is now \$6.54 billion.

After many years in which PA General Assembly politics determined how much each school district would receive in basic education funds, Pennsylvania enacted a fair funding formula in June 2016. The funding

9 Data from https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=SSF_2014_00A05&prod-Type=table.

10 Data from the National Center for Education Statistics found at https://nces.ed.gov/edfin/Fy11_12_tables.asp. Also see https://www.washingtonpost.com/news/local/wp/2015/03/12/in-23-states-richer-school-districts-get-more-local-funding-than-poorer-districts/?utm_term=.54a7f95dfead.

11 Mark Price. "In the Commonwealth Court of Pennsylvania, Docket No. 587 MD 2014, Declaration of Mark Andrew Price. Accessed at https://www.keystoneresearch.org/sites/default/files/KRC_Price_Declaration.pdf.

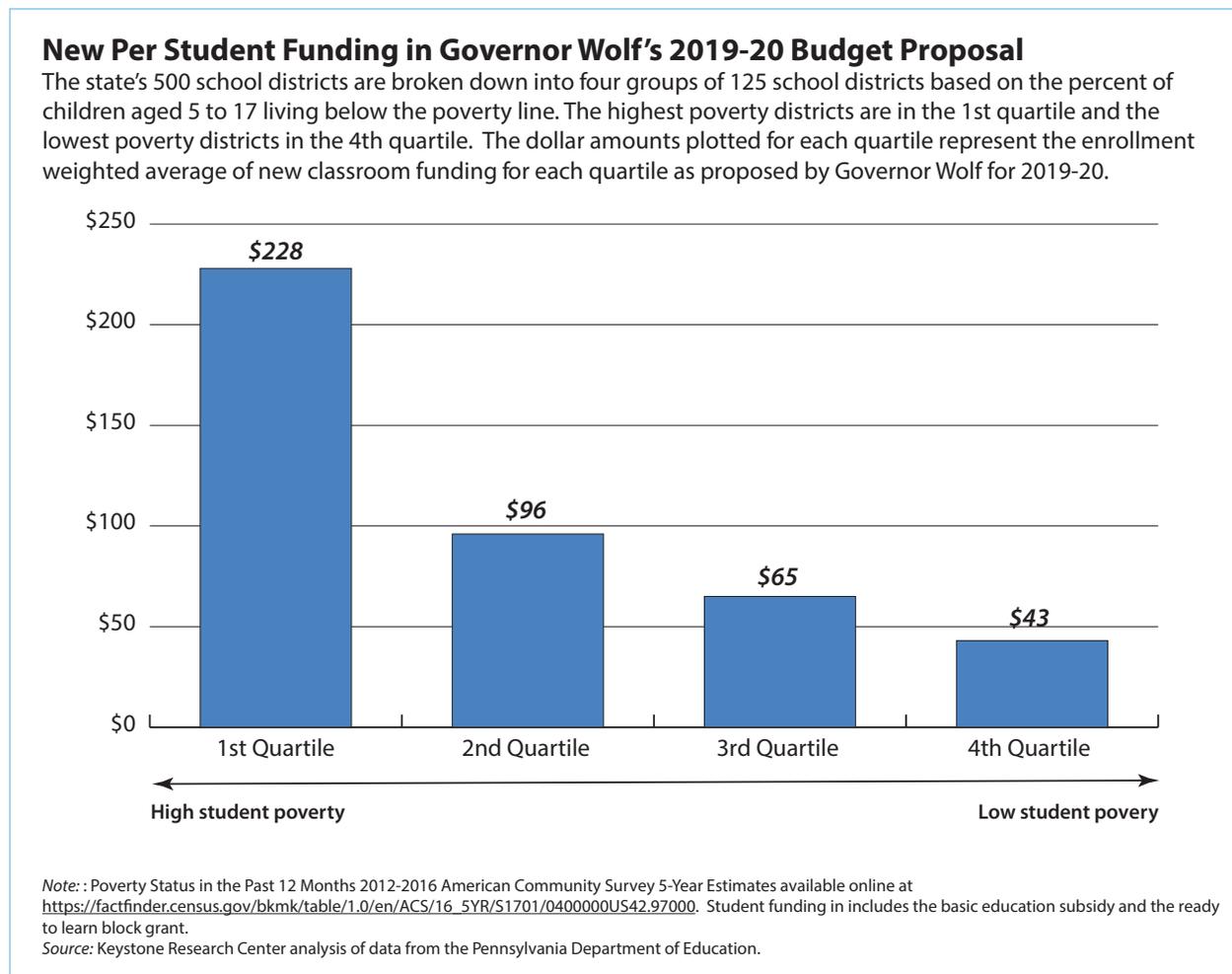
12 PASBO/PASA. "PASBO/PASA School District Budget Report." January 2019, p. 2. Accessed at <https://www.pasa-net.org//Files/SurveysAndReports/2019/BudgetReportJan2019.pdf>.

13 PASBO/PASA. "PASBO/PASA School District Budget Report," p. 8.

formula aims to address the disparities that exist between rich and poor school districts by requiring that new funding takes into account each school district’s distinct needs, including the number of students, the number of children living in poverty, the number of English language learners, the overall income and wealth of the district, and the “tax effort” made by each district.

Figure 10, below, shows the distribution of new funding in 2019-20 based on the number of children living in poverty within each school district. Pennsylvania’s 500 school districts are divided up into four groups of 125 based on the percent of children living below the poverty line. The first quartile is made up of the school districts with the highest share of children living in poverty and the fourth quartile is made up of those with the lowest. Figure 9 shows that under the formula, new basic education funding will go to school districts with the greatest needs.

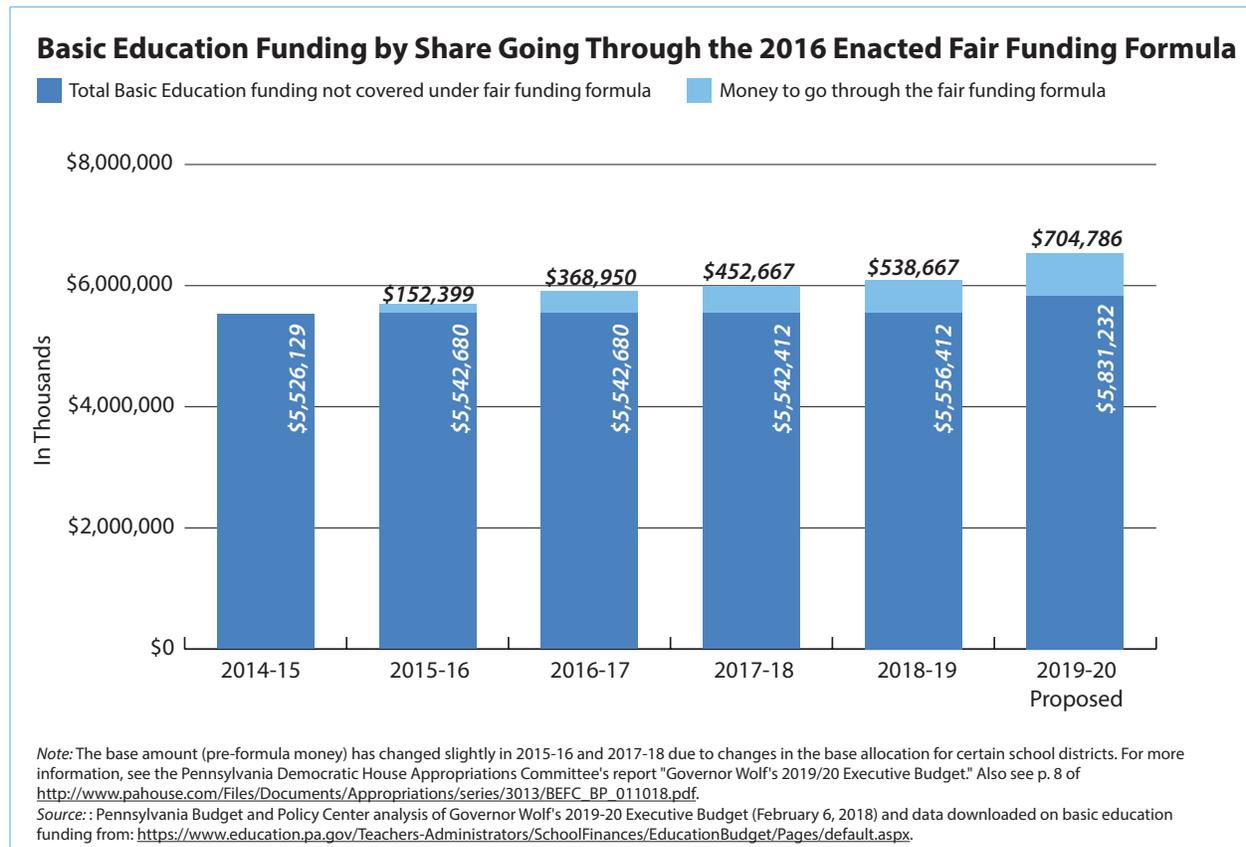
Figure 10



While new funding through the fair funding formula has begun to address inequities across school districts, it does not resolve all the funding inequities in place before the formula went into effect. It cannot do so because the funding formula only applies to money added to the basic education subsidy since 2014-15. Under what is called the “hold harmless” provision, each school district receives what it received in 2014-15 and what the funding formula calls for them to receive in funding added in 2015-16 and subsequent years. Figure 11 shows the percentage of funding (in light blue) that has or will go through this fair funding formula. While the

money going through the formula has increased each year since 2014-15, it is a relatively small percentage of the total distributed funding. If the governor’s proposed basic education subsidy is adopted, the total amount of basic education funding distributed through the fair funding formula will increase to \$704.8 million, which is a \$166 million increase from last year. However, it is still only 10.8% of the total basic education funding appropriation.

Figure 11



Racial Equity and the Fair Funding Formula

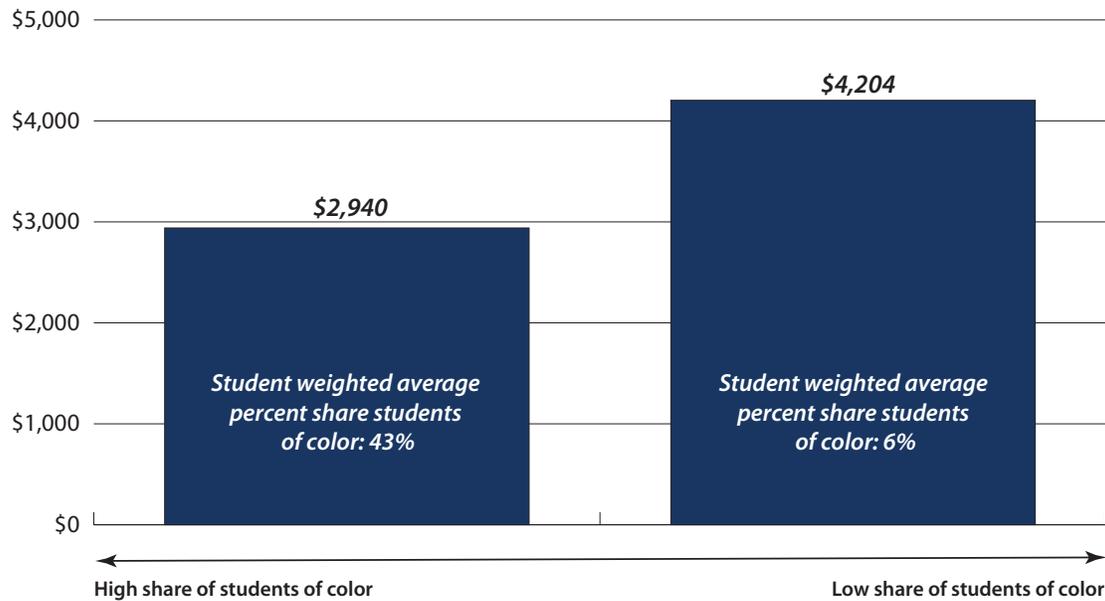
Below, in figures 12 and 13, we examine racial disparities in education funding in Pennsylvania. We divide the 500 school districts into two groups. The first half is made up of the districts with the highest share of students of color (averaging 43% students of color). The second half is made up of the districts with the lowest share of students of color (averaging 6%).

Figure 12 shows per student state funding that does not go through the fair funding formula in 2019-20, which is the vast majority (89.2%) of the basic education funding. School districts with the greatest share of students of color receive significantly less than those school districts made up primarily of white students. In fact, of the funding not distributed through the fair funding formula, school districts with the most number of students of color average \$1,264 less per student than school districts with the least number of students of color.

Figure 12

Per Student Funding in 2019-20 Not Distributed by the Fair Funding Formula by Percent Share of Students of Color

The state's 500 school districts are broken down into two groups of 250 school districts based on the percent share of students of color. The districts with the highest share of students of color are in the first half and the districts with the lowest share of students of color are in the second half. The dollar amounts plotted for each half represent the enrollment weighted average of the proposed 2019-20 Basic Education Funding (BEF) subsidy not distributed by the fair funding formula (often referred to as the BEF base).



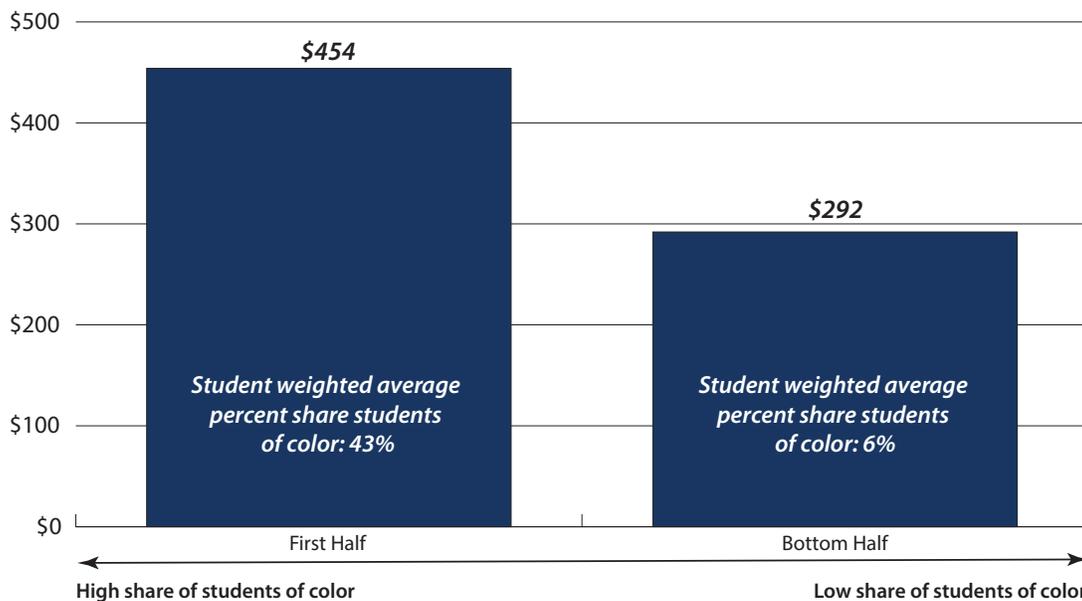
Note: Student funding in 2010-11 includes the basic education subsidy, formula enhancements, charter reimbursements, accountability block grants, and American Recovery and Reinvestment Act funding. Student funding in 2019-20 includes the basic education subsidy.
Source: Keystone Research Center analysis of data from the Pennsylvania Department of Education.

Figure 13 shows new funding for 2019-20 for each category of schools, that will go through the fair funding formula. When looking solely at this new funding, it is clear the fair funding formula is doing its job. School districts with a greater share of students of color will see more per student funds, addressing racial inequity in school funding. But the relatively small percentage of funding that flows through the fair funding formula cannot reduce the racial inequities that existed before it was enacted—inequities that continue to this day.

Figure 13

Per Student Funding in 2019-20 Distributed by the Fair Funding Formula by Percent Share of Students of Color

The state's 500 school districts are broken down into two groups of 250 school districts based on the percent share of students of color. The districts with the highest share of students of color are in the first half and the districts with the lowest share of students of color are in the second half. The dollar amounts plotted for each half represent the enrollment weighted average of the proposed 2019-20 Basic Education Funding (BEF) subsidy distributed based on the fair funding formula (often referred to as the BEF base).



Note: Student funding in 2010-11 includes the basic education subsidy, formula enhancements, charter reimbursements, accountability block grants, and American Recovery and Reinvestment Act funding. Student funding in 2019-20 includes the basic education subsidy.
Source: Keystone Research Center analysis of data from the Pennsylvania Department of Education.

How Much Funding Is Needed to Reach Adequacy?

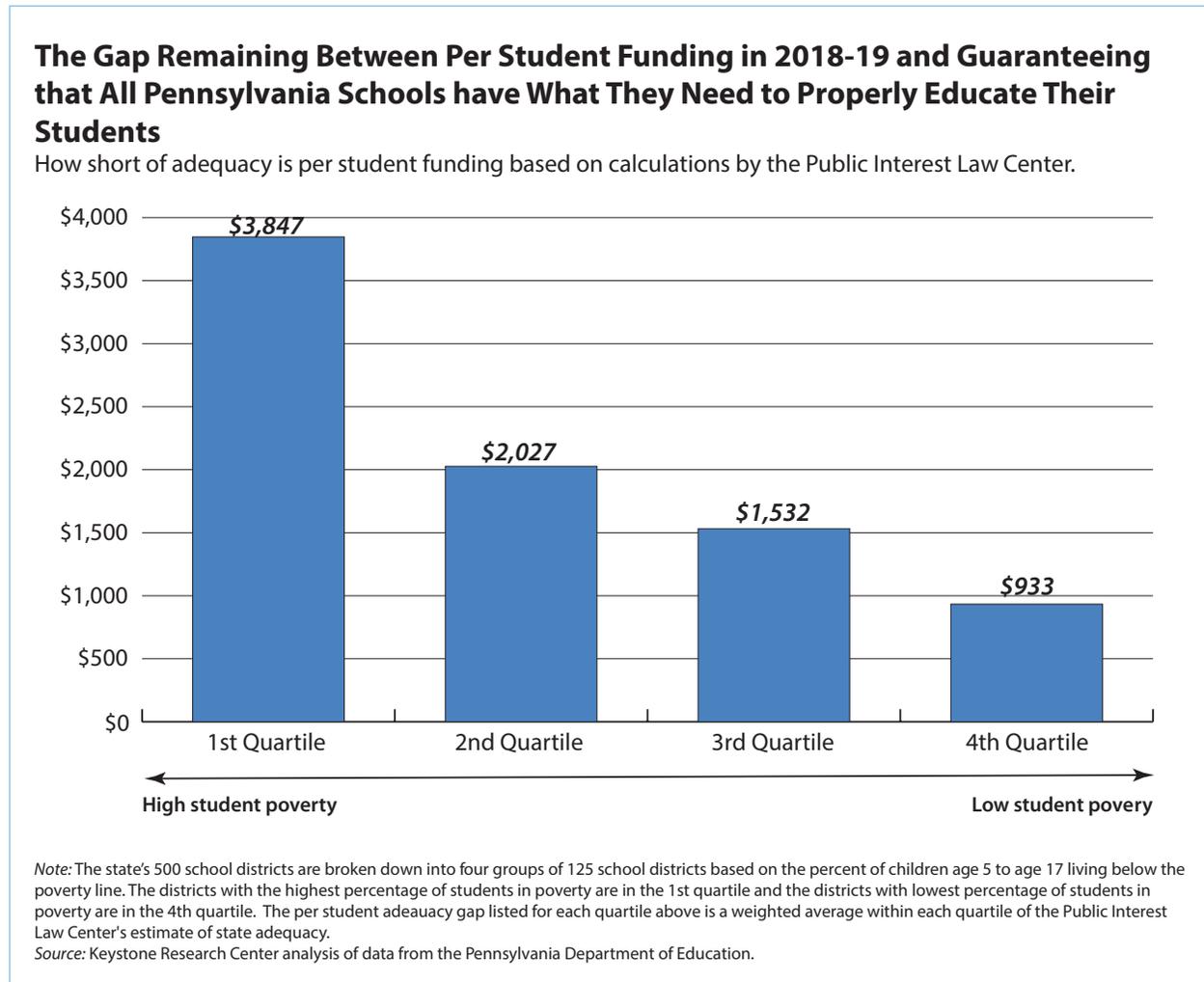
The Public Interest Law Center has calculated an answer to this question based on an average of current school spending per student in districts that perform well weighted to take into account such factors as the share of students living in poverty and from families that speak a foreign language.¹⁴ The Law Center estimates that the state would need an additional \$3.7 billion in school funding to cover its share of bringing each school district to an adequate level. But the great inequity in funding of education in Pennsylvania leaves some school districts that serve a higher percentage of students living in poverty much further from adequacy than school districts that serve a lower percentage of students living in poverty.

Figure 14 again divides up the 500 school districts in Pennsylvania into four quartiles based on the percentage of children aged 5-17 living below the poverty level. The first quartile includes districts with the highest number of children living in poverty while the fourth quartile includes districts with the lowest. We then show the average amount of funding per student needed for each group of districts to provide an adequate education. This figure shows that the gap in funding to reach adequacy is much wider for the higher poverty districts. They need an average of \$3,847 per student to reach adequacy. It's important to note, however, that

14 For more information on the cost of adequate education funding in Pennsylvania, see the Public Interest Law Center's website at <https://www.pubintl.org/cases-and-projects/the-cost-of-adequate-education-funding-an-updated-report/>. For more information on the methodology for creating the State Adequacy Cost, see <https://www.pubintl.org/cases-and-projects/befc-adequacy-calculation/>.

even those school districts with the lowest share of students in poverty still need more resources to adequately educate their students (\$933 per student).

Figure 14



Other Issues in K-12 Education

Expand Required School Attendance to Ages 6-18

The current required age to attend school is eight years old. Governor Wolf proposes to lower that age to six years of age in order to ensure that children do not fall behind. This would increase enrollment by an estimated 3,300 kids across the state.

Governor Wolf also recommends raising the dropout age for youth attending school from 17, the current required age, to 18 years old. In 2016-17, there were more than 4,000 17-year-olds who left school prior to graduation. Raising the dropout age to 18 will, the governor believes, lead to more students finishing high school, which is associated with higher earnings and a greater ability to navigate the 21st-century economy.¹⁵

¹⁵ Governor Wolf's 2019-20 Executive Budget (February 5, 2019).

Better Compensation for Pennsylvania Teachers and School Staff

Governor Wolf's budget also calls for new measures to ensure teachers and other school staff in the Commonwealth are adequately compensated, which will help to both attract and retain teachers. The current minimum salary for teachers and other school staff of \$18,500 was set in the 1980s and has not been raised since. This works out to be an hourly rate of just \$8.90/hour, which is extremely low. The governor proposes an increase of the minimum salary to \$45,000 a year.

While the average classroom teacher salary is currently \$67,000, compensation does vary widely across the state. There are five school districts where the average dipped below \$45,000 last year. Under the governor's plan, 180 out of 500 school districts would receive state money to increase salaries. Many of these school districts are in rural areas. Cambria, Somerset, and Fayette Counties would receive the most funding from this program. Some urban districts would also benefit such as Scranton and Reading.¹⁶

Connecting Teachers and the Workplace

The governor also proposes PA TeacherWORKS which is part of his effort to create a strong connection between education and work in the state. Under this proposal, the Department of Labor and Industry and the Department of Education will work together to connect educators with Pennsylvania's businesses. The goal is to ensure our education system is teaching our youth the relevant skills needed in today's economy.

Special Education

Governor Wolf proposes an increase of \$50 million for special education, a 4.4% increase from last year as shown in figure 15. That brings total spending for special education to \$1.19 billion. This funding is administered by school districts and charter schools and served more than 290,000 students in 2017-18, about 17% of the total students in our public education system.¹⁷

A special education funding formula similar to the Fair Funding Formula went into effect in 2014-15. It directs new monies invested in special education towards the school districts most in need. The establishment of this special education formula followed a Special Education Funding Commission's report and research in 2013 that concluded the existing funding system was not adequately or fairly serving the needs of Pennsylvania's students with special needs.

Governor Wolf has increased funding for special education over the last four years after many years of neglect. A 2018 report by the Education Law Center and PA Schools Work found that, despite progress, state special education funding remains inadequate. Despite the governor's increases, the state has not covered the increasing costs of special education which have averaged about \$200 million per year. From 2008 to 2016 (the latest year available), local school districts had to cover another \$20 for each \$1 more the state contributed to special education. In 2008-09, the state share of funding for special education was 32%. By 2016-17, the state share had dropped by 9.3 percentage points to 23%, which meant that local school districts had to come up with even more funding locally for special education. The demands of special education funding put tremendous pressure on local school districts and often result in school districts raising taxes, reducing spending elsewhere in the school budget to pay for special education costs, or decreasing services for students with disabilities. Increased reliance on local school districts inevitably leads to greater inequities as poor school districts have fewer resources to tap locally. In turn, those in need of special education who live in poorer areas are most affected by state underfunding.¹⁸

16 Ed Mahon. "A \$45,000 minimum salary for teachers, explained." WHYY, February 25, 2019. Accessed at <https://whyy.org/articles/a-45000-minimum-salary-for-teachers-explained/>.

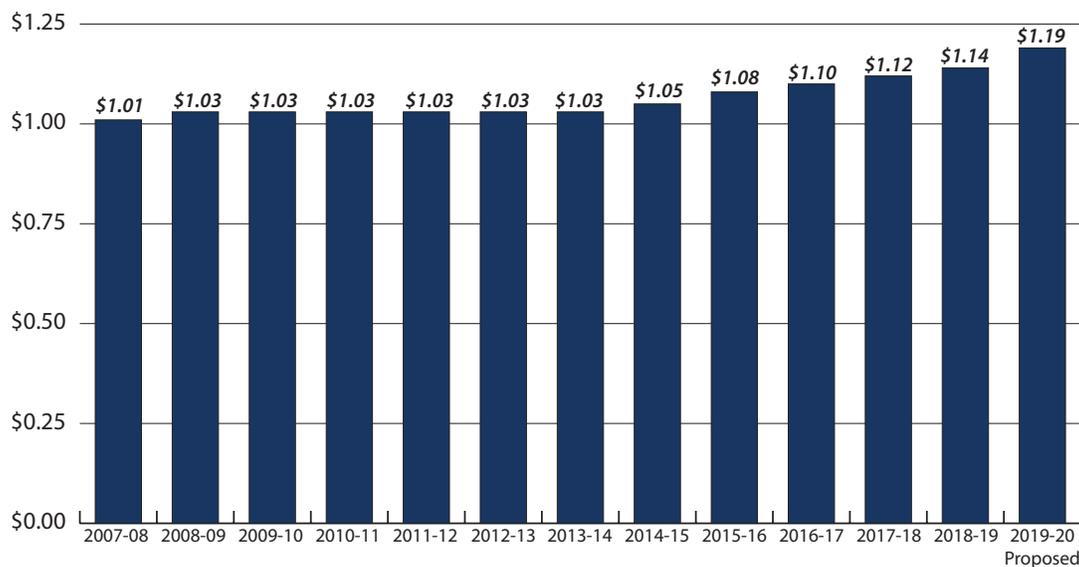
17 Pennsylvania Department of Education. "Special Education Data Report, School Year 2017-18." Accessed at https://penndata.hbg.psu.edu/pennndata/documents/BSEReports/Data%20Preview/2017_2018/PDF_Documents/Speced_Quick_Report_State_Final.pdf.

18 Education Law Center and PA Schools Work. "Shortchanging Children with Disabilities: State Underfunding of Special Education in Pennsylvania." October 2018. Accessed at: <https://www.elc-pa.org/wp-content/uploads/2018/10/Special-Educa->

Figure 15

Governor Wolf's 2019-20 Budget Proposal Would Increase Special Education Funding by 4.4% From Last Year

If the Governor's budget passes, increases for Special Education would total \$140,000 since taking office, an increase of 13.4% after years of flat funding.



Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2019-20 Executive Budget (February 5, 2019) and previous budgets.

Early Childhood Education

Governor Wolf has proposed a significant increase in funding for early childhood education (figure 16). If granted, this would be the most significant increase we've seen in 10 years. The governor proposes an increase of \$50 million, or 20%, in early childhood, which includes Pre-K Counts (\$40 million) and Head Start Supplemental Assistance (\$10 million). This additional funding would open 5,530 slots in these programs. During his first term, Governor Wolf's increased funding for these two programs added 11,000 new slots for kids in the Commonwealth.¹⁹

Pre-K Counts was created in 2007 to provide no-cost pre-K education for children from families earning up to 300% of the federal poverty level. These grants are awarded to eligible providers, which can include school districts, Head Start programs, licensed nursery schools, and child care centers meeting certain criteria. Funding for Pre-K Counts comes entirely from the state.²⁰ Head Start is primarily funded by federal dollars, but Head Start Supplemental Assistance provides additional state funding for Head Start programs to increase the number of children served or extend the length of the Head Start day or year for children.²¹

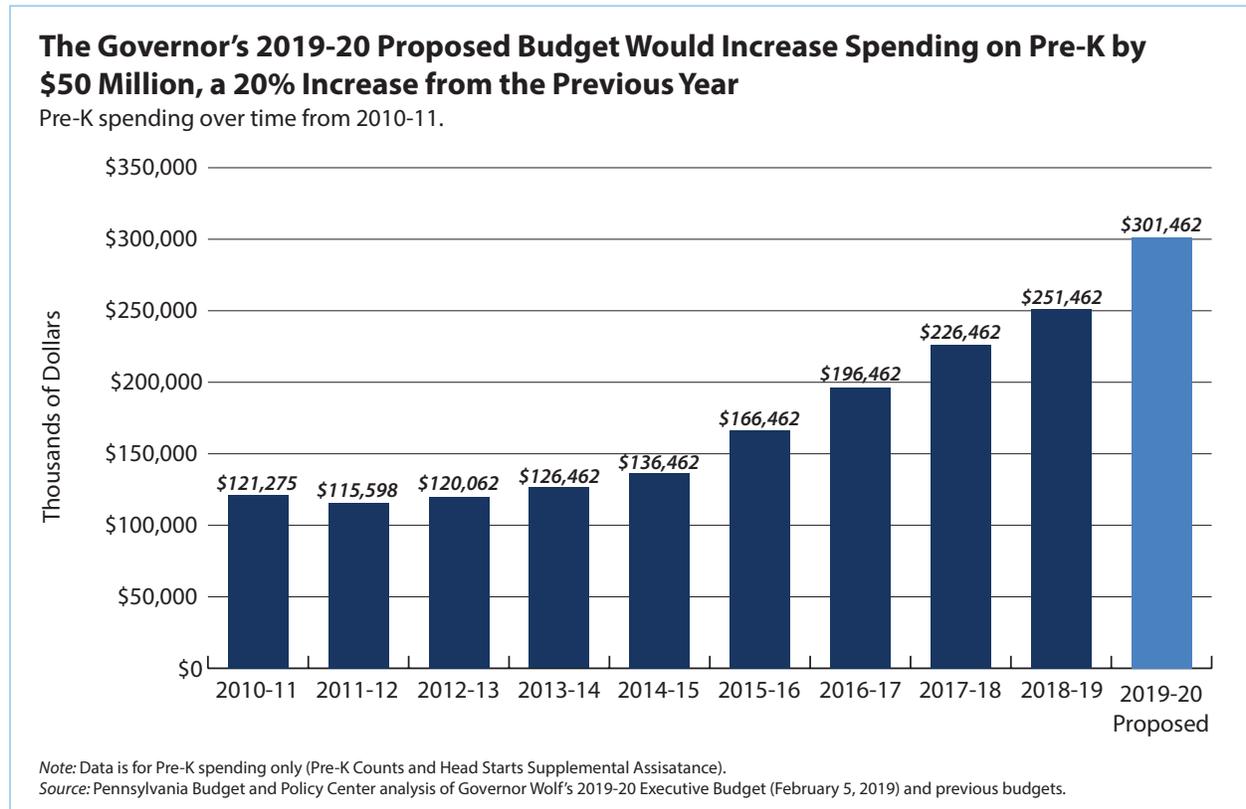
tion-Report-Online.pdf.

19 Democratic House Appropriations Committee. "Governor Wolf's 2019/20 Executive Budget Proposal." 2/5/2019.

20 Independent Fiscal Office, "Research Brief 2017-4: Child Care and Early Education Funding in Pennsylvania." September 2017.

21 For more information see <http://www.dhs.pa.gov/citizens/childcareearlylearning/headstart/>.

Figure 16



Governor Wolf also proposes conducting an impact study on universal, free, full-day kindergarten. Currently, there are about 49,000 five-year-olds who are not enrolled in school in Pennsylvania. This study will provide information that will help Pennsylvania move towards offering universal, free, full-day kindergarten for all five-year-olds.

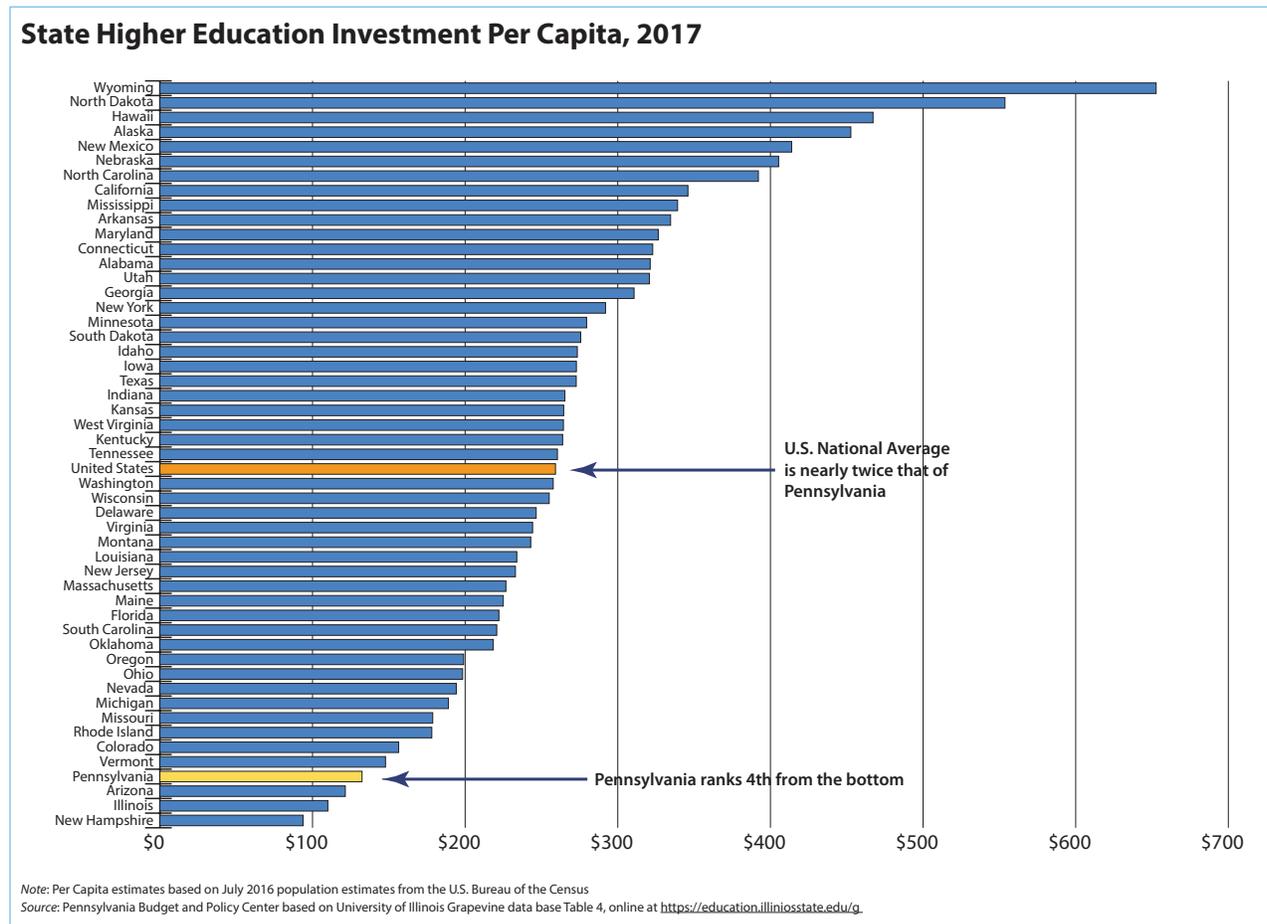
Higher Education

As figure 17 shows, Pennsylvania ranks 47th out of 50 states in per capita investment in higher education. We, as a state, spend \$132.44 per capita on higher education, substantially below the national average of \$259.18 per capita. This low state investment leads to higher tuition and costs—in fact, Pennsylvania ranks third highest in the nation for in-state tuition and fees for public four-year colleges and universities.²² This weighs heavily on graduating students, as Pennsylvania graduates face the second highest average student debt in the nation.²³

22 Data downloaded from: <https://trends.collegeboard.org/college-pricing/figures-tables/2016-17-state-tuition-and-fees-public-four-year-institutions-state-and-five-year-percentage>.

23 Richie Bernardo. "2017's States with the Most and Least Student Debt." *WalletHub*, August 2, 2017. Accessed at <https://walletHub.com/edu/best-and-worst-states-for-student-debt/7520/>.

Figure 17



For the 2019-20 fiscal year, Governor Wolf proposes a 3.4% increase for higher education to \$1.74 billion. (See Figure 18). The increase is concentrated in the Pennsylvania State System of Higher Education and the Pennsylvania Higher Education Assistance Agency (PHEAA) which gives grant aid to students. The state system would see an increase of \$7 million, which is a 1.5% increase from last year.

Historically, PHEAA has put money from its investment earnings towards student aid, including the funding of the entire PA-TIP program and the primary health care practitioner loan forgiveness program. However, this year PHEAA has not generated enough earnings to fund these programs. To address this problem, the governor proposes to increase the PHEAA appropriation by \$36.8 million. Governor Wolf also proposes increases to a number of other programs administered by PHEAA: the Act 101 program, which helps support programs for students who are academically at risk or disadvantaged; an increase for Bon-Hill scholarships, which support Lincoln and Cheyney students pursuing graduate degrees at state system universities; and an increase in Cheyney’s honors program, Cheyney Keystone Academy.²⁴

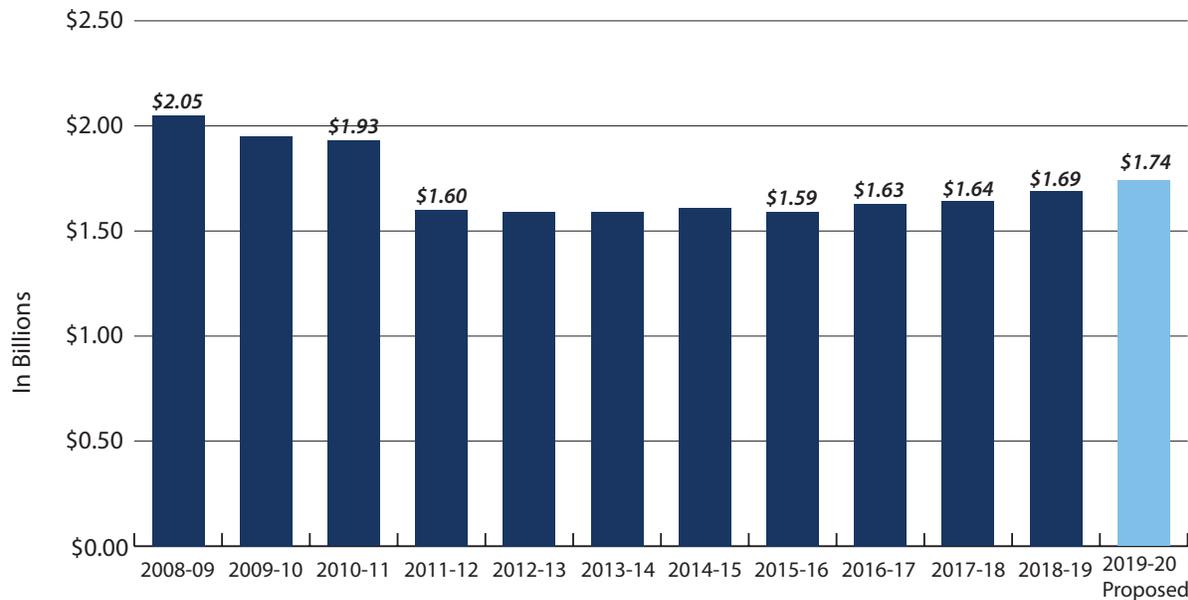
Governor Wolf proposes to invest in grants to community college students and graduates as a way to incentivize them to stay and work in Pennsylvania. An \$8 million appropriation would provide one-time grants of \$2,500 to community college students.

24 Democratic House Appropriations Committee. "Governor Wolf’s 2019/20 Executive Budget Proposal." 2/5/2019.

Figure 18

In 2019-20, The Governor Proposed Funding for Higher Education to Increase by 3.4%. Restoration of the Corbett Budget Cuts Have Yet to be Achieved

Higher Education funding in Pennsylvania from 2008-09 to 2019-20.



Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf’s 2019-20 Executive Budget (February 5, 2019) and previous budgets.

Governor Wolf also proposes using \$2.7 million for the establishment of a PA National Guard Military Education Program. This would allow national guard service members and their dependents to get access to higher education through a PHEAA-approved institution. The funding would be spent on computer systems that would connect eligible members with federal education benefits so that they can more easily take advantage of the Post-9/11 GI Bill, which provides National Guard members and their families with 100% of tuition costs for college education. (Note: This program is funded through the Department of Military and Veterans Affairs.)

Governor Wolf has called for maintaining what is known as “non-preferred funding” for Pennsylvania’s state-related universities—The Pennsylvania State University, Temple University, the University of Pittsburgh, and Lincoln University—at the same level as the current year.

Workforce Development

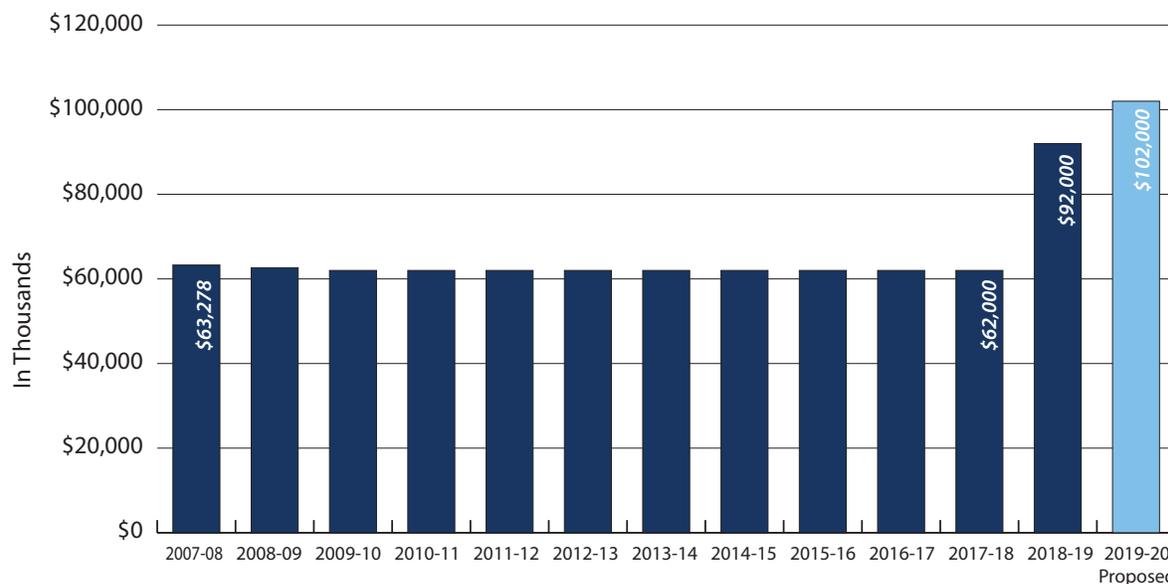
After 10 years of flat funding, the 2018-19 budget increased funding significantly for Career and Technical Education (CTE)—an increase of 48%, from \$62 to \$92 million. The career and technical education subsidy was increased by \$10 million, and \$20 million was added for STEM and computer science programs as part of the PA Smart program. Another \$10 million in PA Smart funding—for apprenticeship and industry partnerships—was outside the CTE budget.

This year, Governor Wolf proposed to maintain last year’s CTE funding (including from PA Smart) and to add another \$10 million, an 11% increase, for a total CTE budget of \$102 million for 2019-20 (figure 19). This \$10 million increase includes \$6 million for CTE programs for adults and non-traditional students to enhance their career training and \$4 million to companies for “manufacturing to career” workforce training grants.

Figure 19

The Governor Proposed 2019-20 Budget Would Increase Funding for Career and Technical Education this Year by 11% After a Large Increase Last Year

This year's proposal combined with last year's increase would result in a 65% increase in CTE funding since 2017-18.



Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2019-20 Executive Budget (February 5, 2019) and previous budgets.

As mentioned earlier, Governor Wolf proposed a new effort called the Statewide Workforce, Education, and Accountability Program (SWEAP) which aims to coordinate programs designed to provide education and workforce opportunities for Pennsylvanians from birth to retirement. SWEAP would address changing workforce needs, help companies conduct targeted training to find in-demand workers, and enable more Pennsylvanians secure higher paying jobs with pathways for advancement. Attaining this goal requires providing education and training that connects work to a constantly changing economy.

A recent executive order from Governor Wolf created a new Keystone Economic Development and Workforce Command Center to bring together multiple government agencies—the Department of Labor and Industry, the Department of State and the Department of Community, and Economic Development—as well as schools and industry. The command center and associated government departments will work closely with the Chamber of Business and Industry and the AFL-CIO to come up with innovative solutions to meet the needs of businesses and workers and address the shortage of skilled workers in occupations that pay well.²⁵ The command center will recommend ways to better coordinate programs and expand best practices as well as monitor both the implementation and the progress of programs connected to SWEAP.²⁶

Governor Wolf also proposes an additional \$5 million for PA First, a program aimed at attracting investment and job creation in Pennsylvania. The funding would be for additional grants and workforce development projects.

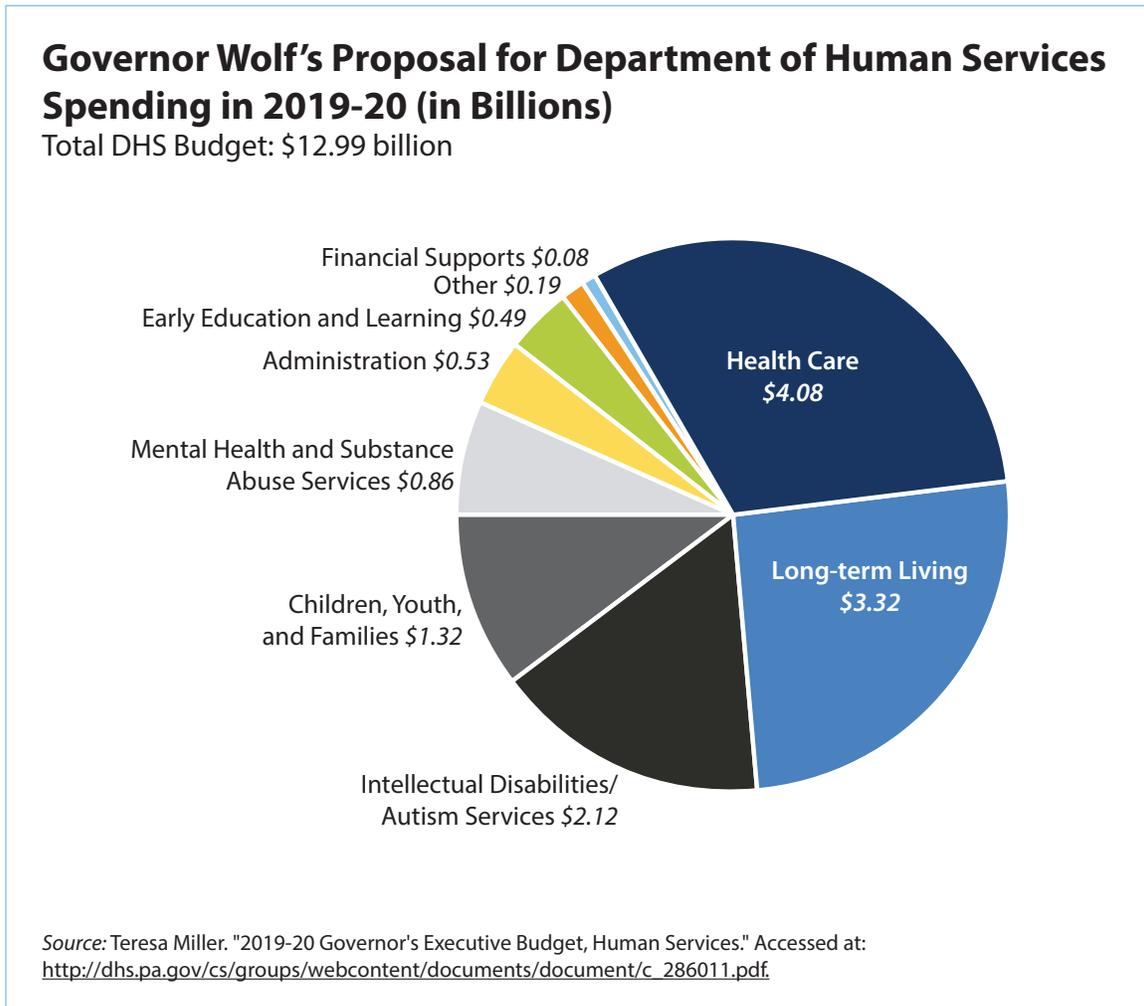
25 Governor Wolf's website. "Governor Wolf: Bold Workforce Development Plan Will Benefit Lancaster County." February 7, 2019. Accessed at: <https://www.governor.pa.gov/governor-wolf-bold-workforce-development-plan-will-benefit-lancaster-county/>.

26 Pennsylvania Department of Community and Economic Development. "Governor Wolf Creates Keystone Economic Development and Workforce Command Center." February 19, 2019. Accessed at: <https://dced.pa.gov/newsroom/governor-wolf-creates-keystone-economic-development-and-workforce-command-center/>.

Human Services

The Department of Human Services accounts for 37% of the General Fund spending, that is \$12.99 billion. As figure 20 shows, more than half of the human services budget goes to Medical Assistance/Medicaid spending for both health care and long-term care services.

Figure 20



The governor's budget calls for significant supplemental General Fund appropriations for human services totaling \$431 million in the current 2018-19 budget. This includes \$200 million for Medical Assistance capitation to replace a transfer from the JUA medical malpractice fund that was blocked by a federal court as well as Medicaid expenditures of \$76.5 million for intellectual disabilities programs and \$77 million for long-term living programs. In addition, a supplemental appropriation of \$17.8 million is required for eight months of payments for General Assistance which was reinstated in the fall of 2018 as a result of a PA Supreme Court decision. Supplemental appropriations of \$91.5 million for long-term living are proposed from the Lottery Fund (\$64 million) and the tobacco settlement fund (\$27 million). A \$11.2-million supplemental appropriation for Medical Assistance for workers with disabilities (MAWD) is proposed from the Tobacco Settlement Fund.

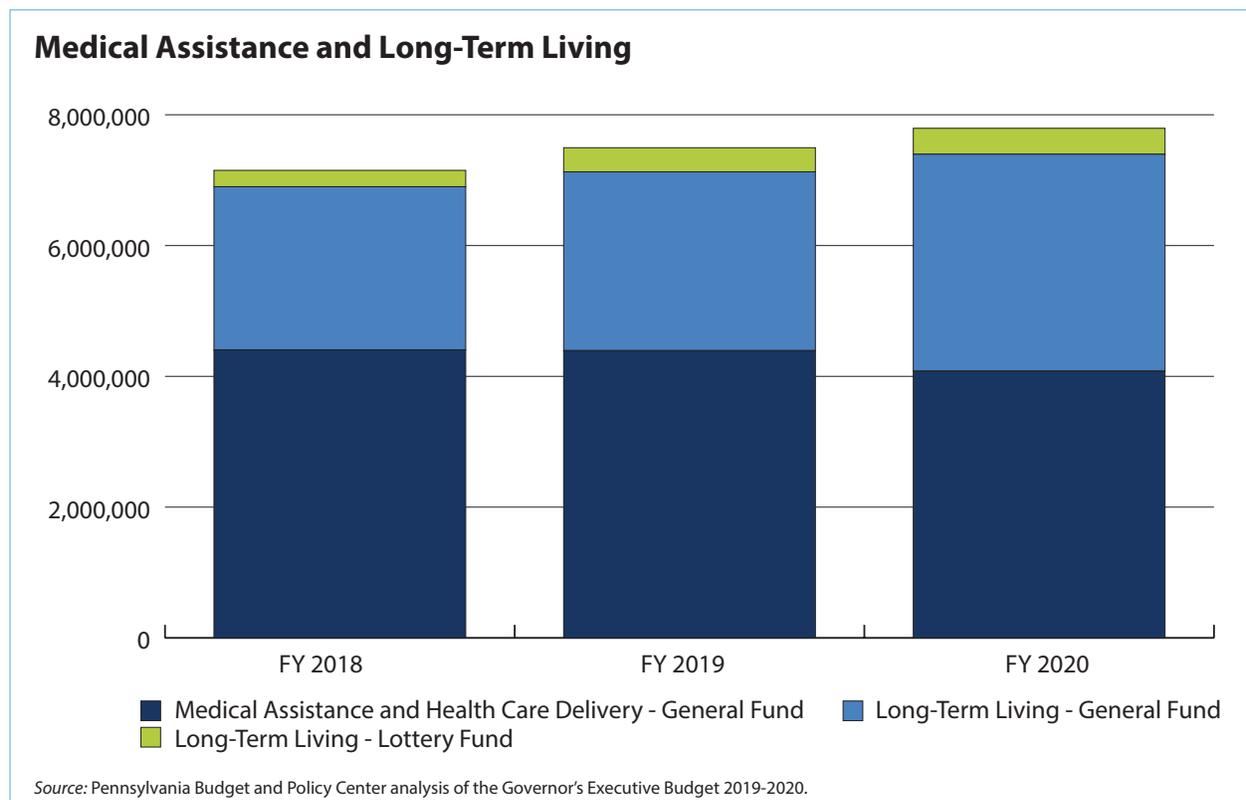
The governor proposes an increase of \$406 million in General Funds from last year's revised budget for the Department of Human Services.

Medicaid/Medical Assistance

Medical Assistance, which is what we call Medicaid in Pennsylvania, provides health care to 2.9 million low-income, disabled, and elderly Pennsylvanians. It also provides long-term living assistance in nursing homes for about 60,000 elderly and disabled Pennsylvanians and for an additional 80,000 people in the community.

General Fund spending for Medical Assistance health care delivery and long-term living will increase by \$269 million, or 3.7%, from \$7.12 billion to \$7.39 billion. Lottery Fund spending on long-term living will increase by 28 million, or 8%, from \$368 million to \$397 million (figure 21).

Figure 21



The 2019-20 Medical Assistance budget is shaped by a number of factors, of which the following have the most important fiscal effect:

- The budget for next year must replace \$750 million in one-time revenues used in 2018-19, including a final payment on the discontinued managed care gross receipts tax payment of \$351.7 million; Philadelphia hospital assessment revenues of \$54 million; and additional tobacco payments received from the Attorney General's settlement of \$344 million
- Changes in caseload and small increases in payment rates costing somewhat over \$100 million
- Decreasing federal funding for Medicaid due to changes in the federal matching rate (FMAP) for Medicaid Expansion and the CHIP program costing \$132.7 million
- A proposed increase in the minimum wage to \$12 an hour that reduces Medical Assistance cost by roughly \$89 million as enrollees move from traditional Medicaid to expanded Medicaid
- Proposed additional revenue or savings totaling \$355 million from a variety of sources described in table 5

Table 5. Governor Wolf's Proposed Mechanisms for Savings for the Department of Human Services

<i>Methods for reducing spending</i>	<i>Amount saved (in millions)</i>
New assessments on ambulatory surgical centers (\$12.5 million); reauthorizing the Philadelphia hospital assessment at a higher rate (\$12.5 million); and establishing an emergency ambulance service intergovernmental transfer (\$5 million)	\$20
Increased revenue from the managed care organization assessment	\$119.5
Use of 2018-19 funds to pay for this year's expenditures	\$85
Medicaid expenditures shifted to Lottery Fund	\$92
Eliminating earmarks that were added in 2018/19, including funding to specific nursing facilities, medical schools, hospitals, and organizations providing autism services	\$39
Total	\$355.5

Source: Governor Wolf's 2019-20 Executive Budget (February 5, 2019).

These various sources of savings or new revenues create some uncertainty in the 2019-20 budget as well as subsequent ones. The proposed budget for next year will become unbalanced if the proposed new assessments are not enacted by the General Assembly. And budgets in future years will have to replace the \$85 million in 2018-19 funds that were used for 2019-20.

Community HealthChoices

Pennsylvania has committed itself to prioritizing community-based long-term care to ensure that as individuals age or need support, they can do so in place whenever possible. The state is going through a transition from a Medicaid fee-for-service system to a “consolidated, capitated, managed long-term services and supports system called Community HealthChoices.”²⁷ The program aims to provide comprehensive, community-based, physical health and long-term care services for seniors and adults with physical disabilities. This program began rollout in January 2018 in southwest PA. Rollout started in the southeast in January 2019. During this transition, funding is being transferred from six Medicaid appropriations (home and community-based services, long-term care, services to persons with disabilities, medical assistance capitation, medical assistance fee-for-service and attendant care) to the CHC program. This will help support individuals receiving medical assistance to transition to the new program.²⁸

Cost Savings for Human Services as a Result of the Minimum Wage Increase

Governor Wolf's proposal for a minimum wage increase to \$12/hour starting July 1 would result in cost savings for the Department of Human Services. Currently, some minimum wage and low-wage workers must rely on public assistance in order to pay for their most basic needs. By increasing the wage to \$12/hour, it is estimated that the state will save \$36 million in 2019-20 in public assistance costs. This total savings nets out the cost of wage increases for child care and direct care workers that the state would be responsible for paying for.

Child Care

Governor Wolf recommends increases in state and federal funds for programs that will help expand child care services and support for low-income parents.

Pennsylvania's Child Care Works is a program that helps families with income less than 200% of the federal poverty line pay for child care. This program, however, is not funded at a level that meets the needs of all low-income families in the Commonwealth. In fact, 4,300 children (2,000 of which were infants and toddlers)

²⁷ Governor Wolf's 2019-20 Executive Budget (February 5, 2019). p. E26-21.

²⁸ House Democratic Appropriations Committee, "Governor Wolf's 2019/20 Executive Budget Proposal." 2/5/19.

were on a waiting list for services by the end of 2018. Governor Wolf proposes using \$15 million in federal funds to take 970 infants/toddlers off the waiting list.²⁹

The governor also proposes to use federal funds to support the child care industry and workers within it. Ten million dollars will be used to increase reimbursement rates and thereby increase the quality and accessibility of STAR 2, 3, and 4 child care programs. An additional \$2 million in federal funds will be used for an Early Childhood Career Pathways initiative. This will support and facilitate career advancement and skills improvement for child care professionals and will lead to more teachers achieving an associate's degree.

New to the budget this year is a proposal for \$5 million in General Funds to be used for the Parent Pathways initiative. The funds will support five to seven pilot programs that would support parents who are going to college or getting workforce training that will lead to a family-sustaining career. Parents would receive wrap-around services, including housing support, tutoring, child care, career counseling, etc., that support the whole family as they pursue educational opportunities. The aim of the pilot programs is to support low-income parents seeking to rise out of poverty.

Governor Wolf also proposes an additional \$5 million in General Funds on expanding home visiting programs that support pregnant women and at-risk infants and toddlers. These funds would allow 800 new families to benefit from these services and would target those affected by the opioid epidemic. These services have been proven to work. In fact, it has been shown that for every \$1 spent on home visiting services, public spending is reduced by \$1.87 over the course of a child's lifetime.³⁰

Early Intervention

Early Intervention is a program that aims to provide services and supports for young children with developmental delays or disabilities. Funding for children aged zero to three are embedded in the Early Intervention appropriation in the Department of Human Services while funding for children aged three to five are in the Early Intervention line item in the Education budget. Governor Wolf proposes an increase of \$5 million for infant and toddler early intervention, matched by federal funds of \$1.8 million. These additional state and federal funds will lead to a 3% increase in the rates for providers which will help the programs to attract and retain a qualified workforce.

Human Services Support

The Human Services Support program provides "effective administrative and support systems through which the substantive programs of the department can be operated."³¹ A part of this program is the responsibility of licensing and inspecting residential and personal care homes. The governor proposes to increase funding by \$2.6 million for this program to more thoroughly ensure the health and well-being of residents in these facilities.³² This funding allows for 30 new staff to license residential and day-treatment programs who take care of people with intellectual and development delays as well as seven new staff to license personal care homes and assisted living facilities.³³

Support for Persons with Disabilities

Governor Wolf also proposes \$2 million in support for the Medical Assistance Disability Advocacy program. This program helps individuals with disabilities navigate the social insurance process, including appeals, as

29 Governor Wolf's 2019-20 Executive Budget (February 5, 2019). P. A1-8.

30 Teresa Miller. "2019-20 Governor's Executive Budget, Human Services." Accessed at: http://dhs.pa.gov/cs/groups/webcontent/documents/document/c_286011.pdf.

31 Governor Wolf's 2019-20 Executive Budget (February 5, 2019). P. E26-13

32 Governor Wolf's 2019-20 Executive Budget (February 5, 2019). P. E26-13

33 Teresa Miller. "2019-20 Governor's Executive Budget, Human Services." Accessed at: http://dhs.pa.gov/cs/groups/webcontent/documents/document/c_286011.pdf.

they apply for the federal Supplemental Security Income or Social Security Disability Insurance programs. The goal is to help reduce homelessness, food insecurity, and health issues among people with disabilities.³⁴

Services for Individuals with Intellectual Disabilities and Autism

The Intellectual Disabilities and Autism Spectrum Disorder programs have evolved over time to move from residential facilities to a support system for community services. Since 2013-14, the number of individuals with intellectual disabilities receiving community services has increased by over 5,000 people.³⁵

Governor Wolf proposes an increase of \$15 million for services for individuals with intellectual disabilities. This additional funding will help 765 people in Pennsylvania get off the waiting list for services through the Community Living Waiver, which supports individuals living at home. It would also allow an additional 100 individuals who experience unanticipated emergencies access to community services through the Consolidated Waiver. Investments made in last year's budget will go to providing continuity of services for another 800 public school graduates so those in need do not experience a service cliff once they graduate.³⁶

Addressing the Opioid Epidemic

The opioid epidemic impacts communities across the state, both rural and urban. Opioid deaths are preventable, yet 5,500 people died of drug overdose in 2017 in Pennsylvania, 80% due to opioids. The number of overdoses in Pennsylvania, as well as its rate of increase, remains among the highest in the nation.³⁷

During his first term, Governor Wolf invested \$100 million in state funds to combat the opioid epidemic, opened the Opioid Command Center, and invested in the coordination of response to the growing epidemic. For 2019-20, the governor proposes continuing this funding and supplementing it with an additional \$1.5 million to make naloxone available for use by first responders. Naloxone is a medication that can reverse the effects of an overdose and should be readily available to first responders and others impacted by the opioid epidemic.

Mental Health Services

Mental Health services include the line items Mental Health Services and Behavioral Health Services. The state provides services for mental health treatment and substance use disorder in state hospitals for those requiring long-term in-patient care and the county mental health system for those with mental health problems living in the community and substance use treatment facilities. Mental Health services would see an increase in state funding this year of \$28.3 million for a total of \$805 million while Behavioral Health remains flat funded at \$57.1 million. The increase in Mental Health services is to continue the current program, to pay for the ACLU settlement regarding inmates and mental health hospitals,³⁸ and to help 45 people currently residing in state hospitals transition to home and community based services.

Income Maintenance

Programs such as Temporary Assistance for Needy Families (TANF), Medical Assistance, and Supplemental Nutrition Assistance Program (SNAP), Supplemental Security Income (SSI), and Low Income Home Energy

34 Teresa Miller. "2019-20 Governor's Executive Budget, Human Services." Accessed at: http://dhs.pa.gov/cs/groups/webcontent/documents/document/c_286011.pdf.

35 Governor Wolf's 2019-20 Executive Budget (February 5, 2019). P. E26-13

36 Teresa Miller. "2019-20 Governor's Executive Budget, Human Services." Accessed at: http://dhs.pa.gov/cs/groups/webcontent/documents/document/c_286011.pdf.

37 David Wenner. "Drug overdose deaths continue to climb in Pa." August 16, 2018. Accessed at https://www.pennlive.com/news/2018/08/drug_overdose_deaths_continue_1.html.

38 The ACLU settlements of 2016 and 2017 requires individuals deemed unfit to stand trial to go to state mental health hospitals as opposed to be locked up in waiting in county prisons. The settlement included requirements for placement at Norristown and Torrance state hospitals. See more here: <http://www.witf.org/news/2019/01/three-years-after-aclu-lawsuit-prisoners-with-serious-mental-illnesses-still-wait-months-to-get-trea.php>.

Assistance Program (LIHEAP) have helped low-income families make ends meet while they try to transition out of poverty. General Assistance (GA) is an income support program that supports individuals who do not qualify for TANF, including those with a temporary or permanent mental or physical disability that leaves them unable to work, certain caretakers of children or the elderly, victims of domestic violence, and those seeking treatment in a drug or alcohol treatment facility. Often GA is used as a stop-gap measure to help people survive while waiting for determination of a Social Security disability application, which can take up to two years to be approved. This assistance, which typically amounts to about \$200 a month, has served as a lifeline for the most vulnerable residents of Pennsylvania. However, in 2012, the General Assembly discontinued the program through Act 80. In 2018, the Pennsylvania Supreme Court unanimously decided that the manner in which Act 80 was enacted was unconstitutional. Thus, the General Assistance program in Pennsylvania was reinstated in November 2018. Between November 2018 and January 2, 2019 approximately 4,500 people signed up for General Assistance.³⁹

The governor earmarked an additional \$38 million in cash grants to fund this reinstatement of General Assistance. An additional \$5 million will go towards Parent Pathways programs aimed at supporting parents seeking education and training (as described above in the section on Workforce Development).

Environmental Protection (DEP) and Conservation and Natural Resources (DCNR)

Protecting the air we breathe, the water we drink, and the natural world around us is critical for our and future generations' health and well-being. Our constitutional right to clean air and water is outlined in Article 1, Section 27 of the Pennsylvania Constitution which states:

“The people have a right to clean air, pure water, and to the preservation of the natural, scenic, historic and esthetic values of the environment. Pennsylvania’s public natural resources are the common property of all the people, including generations yet to come. As trustee of these resources, the Commonwealth shall conserve and maintain them for the benefit of all the people.”⁴⁰

Despite these constitutionally protected rights, many communities across the Commonwealth face poor air quality and drinking water, as well as other environmental problems. Yet General Fund support for the Department of Environmental Protection (DEP) and the Department of Conservation and Natural Resources (DCNR) has been cut sharply over time. The overall funding picture for these agencies, however, is complicated because their operations rely on other funds such as the Environmental Stewardship Fund, Hazardous Sites Cleanup Fund, and Keystone Fund which are financed not by general revenues but by a mix of dedicated state revenue sources (e.g., tipping fees, Marcellus Shale Impact Fee, permits, and licenses), fines and penalties, and sometimes federal revenues.

DEP’s mission is to “protect Pennsylvania’s air, land and water from pollution and to provide for the health and safety of its citizens through a cleaner environment.”⁴¹ General Fund support for DEP has decreased 39% since 2007-08 (Figure 22); adjusted for inflation the cut is about 50%. This year, the Department of Environmental Protection would see a further 13% decrease in nominal dollar funding under Governor Wolf’s proposal, from \$158.5 million to \$137.8 million. Since 2007-08, cuts in General Fund support for

39 House Democratic Appropriations Committee. “Memo to all Democratic Members.” January 31, 2019. Accessed at http://www.pahouse.com/Files/Documents/Appropriations/series/3076/CTC_MM_Combined_013119.pdf.

40 The Widener School of Law’s Environmental and Natural Resources Law Clinic. “A Citizen’s Guide to Article 1, 27 of the Pennsylvania Constitution.” Accessed at http://blogs.law.widener.edu/envirolawcenter/files/2010/03/PA_Citizens_Guide_to_Art_1_Sect_27.pdf.

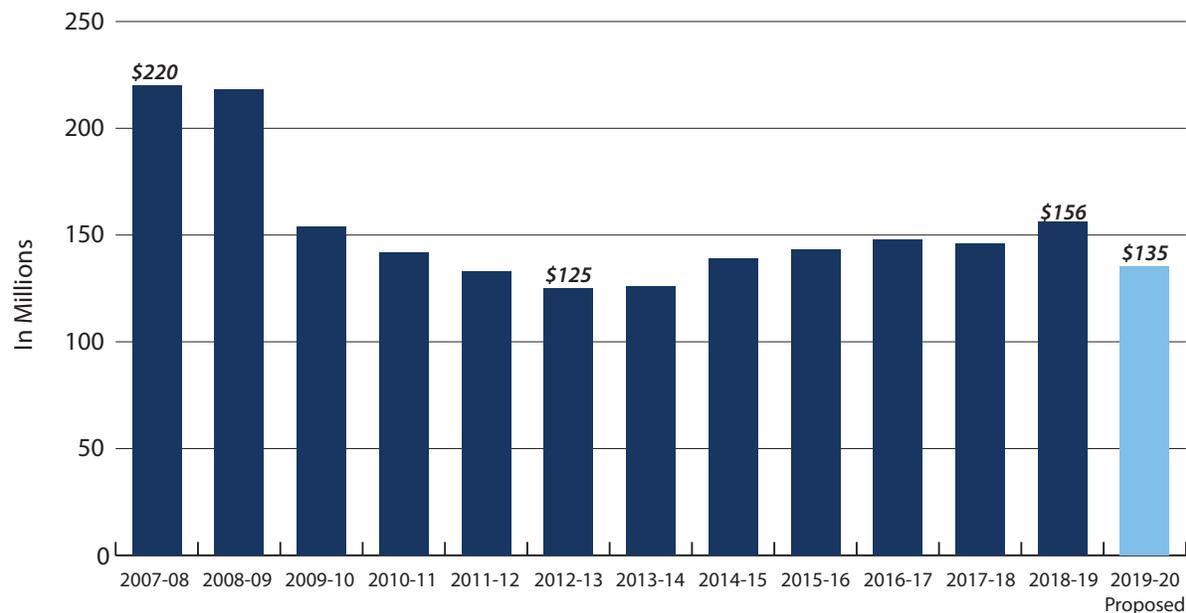
41 Governor Wolf’s 2019-20 Executive Budget (February 5, 2019). P. E17-1.

DEP have been offset by increases in funding from special or restricted funds and by increases in federal funds. In this year's budget proposal, too, about \$24 million in costs covered by the state General Fund last year mostly for Department operations would be covered by separate funds (\$10 million by the Recycling Fund, just over \$11 million by the Environmental Stewardship Fund, and another \$2.5 million by the Conservation District Fund).

Figure 22

State Spending on the Department of Environmental Protection is Down 39% From Its Levels in 2007-08

Governor proposes to cut DEP funding 13% from last year.

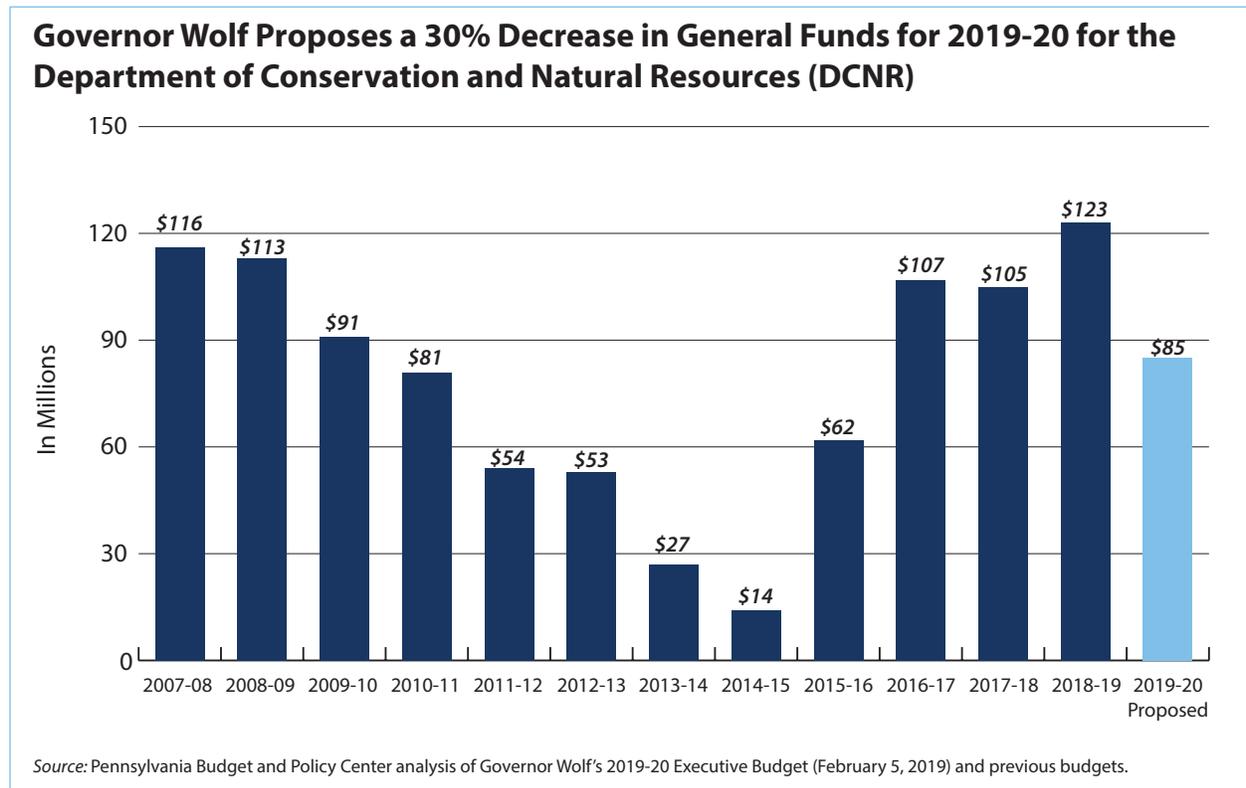


Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2019-20 Executive Budget (February 5, 2019) and previous budgets.

DCNR was established in Pennsylvania in 1995 and its mission is to “conserve and sustain Pennsylvania’s natural resources for present and future generations use and enjoyment.” The agency maintains and protects 121 state parks and 2.2 million acres of state forest land. It also invests in community conservation projects and partnerships. Under Governor Wolf’s proposal, DCNR would see a decrease in General Funds for 2019-20 of 30%, from \$122.7 to \$85.3 million (figure 23). This would be offset, however, by an increase of \$30 million for Departmental operations from the Oil and Gas Lease Fund and \$21 million from the Keystone Recreation, Park and Conservation Fund (the “Keystone Fund”).⁴²

42 House Democratic Appropriations Committee, “Governor Wolf’s 2019/20 Executive Budget Proposal.” 2/5/19. See also Governor’s Executive Budget, p. E11-5.

Figure 23



While supporting these departments from special funds is not unprecedented, we are concerned that the Governor's proposal to take significant amounts of money from the Environmental Stewardship Fund (ESF), the Recycling Fund and the Keystone Fund to support general administrative costs for DEP and DCNR threatens the unique purposes of these funds.

The Keystone Fund and the Environmental Stewardship Fund were established in the 1990s with bipartisan support to help local projects that protect the environment, deal with past harms to the environment, and reinvest in communities. The funds empower local leaders and the private sector to problem solve together to improve water quality, conserve land, and preserve outdoor recreational spaces.⁴³

A 2% realty transfer tax finances the Keystone Fund (the full name of which is the Keystone Recreation, Park, and Conservation Fund), yielding more revenue when the housing market is strong as it was last year. The fund has funded almost 5000 public/private conservation projects across the state since its inception. Grants require a \$1/\$1 match; for every dollar in state funds, there is at least an additional \$1 in other investments for projects. Governor Wolf's plan to transfer money from the Keystone Fund will diminish funds available for grants in the future.

Money for the Environmental Stewardship Fund (ESF) comes from the Oil and Gas Lease Fund, Marcellus Legacy Fund (from the Act 13 impact fee), and a landfill tipping fee. Under the governor's plan, \$20 million in ESF funds would now replace the General Fund's support of environmental commissions, including the Interstate Commission on the Potomac River, the Susquehanna River Basin Commission, the Delaware River

⁴³ Growing Greener Coalition. "Open Letter to Governor Wolf and Members of the General Assembly, 2/11/2019." Accessed at <https://drive.google.com/file/d/1ubwBp31OllqF6P8ajTzrPw5sCvqvVUj/view>.

Basin Commission, the Delaware River Master Commission, and the Ohio River Valley Water Sanitation Commission. Fewer ESF funds would be available for current purposes, including Growing Greener II debt service, which would now be covered by the personal income tax.⁴⁴ This allows the budgetary transfer to occur without, supposedly, affecting the operations of the fund.⁴⁵

About \$76 million total would be repurposed from special funds to DCNR and DEP.⁴⁶ Even as they stand now, these special funds are not meeting the demands for project investments that local communities in Pennsylvania face. In the case of DCNR's Keystone Fund, 46% of projects are rejected because of a lack of state funds.⁴⁷ As noted, Governor Wolf is not the first person to propose these types of transfers from special funds. For example, Gov. Rendell transferred significant funds from the Oil and Gas Lease Fund, and some conservative lawmakers have had the Keystone Fund in their sights as a potential source of revenue for basic government operations.⁴⁸

The Wolf administration argues that some of these special funds now finance multi-year capital projects and monies remaining in the funds is sufficient to meet project requirements in 2019-20 and can then be augmented in future budgets. We, at PBPC, criticized the idea of raiding special funds to balance the budget when Republicans proposed it two years ago and we similarly think this proposal by Governor Wolf to do the same thing with environmental funds is ill-conceived. This is another attempt to balance the budget with one-time fixes while punting on the establishment of recurring revenue.⁴⁹ The deeper problem with raiding special funds to pay for programs previously supported by the General Fund is that it sets a precedent that might not be reversed in future years. Even if transfers in one year do not impact programming, future budgets might not restore what was transferred this year or might continue transfers into the future. Important projects and communities supported by the special funds would thus lose out.⁵⁰ At a time when Pennsylvania faces incredible challenges that threaten the health, safety, and well-being of residents, the state should be expanding efforts to protect the environment not scaling them back.

Criminal Justice

Proposed spending for corrections in 2019-20 is \$2.62 billion, which is a \$17.3 million increase (0.67%) from last year. This will be the smallest increase in corrections in six years.

Incarceration rates in Pennsylvania have decreased in recent years but remain the highest in the Northeast with over 47,000 people in state prisons as of June 2018.⁵¹ Pennsylvania also has a high rate of community supervision. Taken together, those who are incarcerated and those who are under community supervision,

44 House Democratic Appropriations Committee, "Governor Wolf's 2019/20 Executive Budget Proposal." 2/5/19.

45 Altoona Mirror. "Lawmakers question special fund transfers: Governor to tap money to pay for DEP." February 15, 2019. Accessed at <http://www.altoonamirror.com/uncategorized/2019/02/lawmakers-question-special-fund-transfers/>.

46 PA Environment Digest Blog. "Gov. Wolf Proposed to Shift \$75.7 Million from Environmental Funds to Pay Agency Operating Expenses Instead of Funding Community-Based Projects." February 5, 2019. Accessed at <http://paenvironmentdaily.blogspot.com/2019/02/gov-wolf-proposes-to-shift-817-million.html>.

47 A Growing Greener Coalition. "Open Letter to Governor Wolf and Members of the General Assembly, 2/11/2019." Accessed at <https://drive.google.com/file/d/1ubwBp31OllqF6P8WajTzrPw5sCvqvVUj/view>.

48 PA Environment Digest Blog. "2nd Warning: House Republicans About to Raid Environmental Funds to Balance the Budget." August 29, 2017. Accessed at <http://paenvironmentdaily.blogspot.com/2017/08/2nd-warning-house-republicans-about-to.html>.

49 Aaron Bernstine. "Pa. Budget proposal hurts local environmental projects, bipartisan consensus." March 3, 2019. Accessed at <https://triblive.com/opinion/aaron-bernstine-pa-budget-proposal-hurts-local-environmental-projects-bipartisan-consensus/?fbclid=IwAR20VUn-Z-Is2tuFS1IsCI58tH6grQFW6jyUaKFRUOwkUf7ToV2HAWPwGs>.

50 Growing Greener Coalition. "Open Letter to Governor Wolf and Members of the General Assembly, 2/11/2019." Accessed at <https://drive.google.com/file/d/1ubwBp31OllqF6P8WajTzrPw5sCvqvVUj/view>.

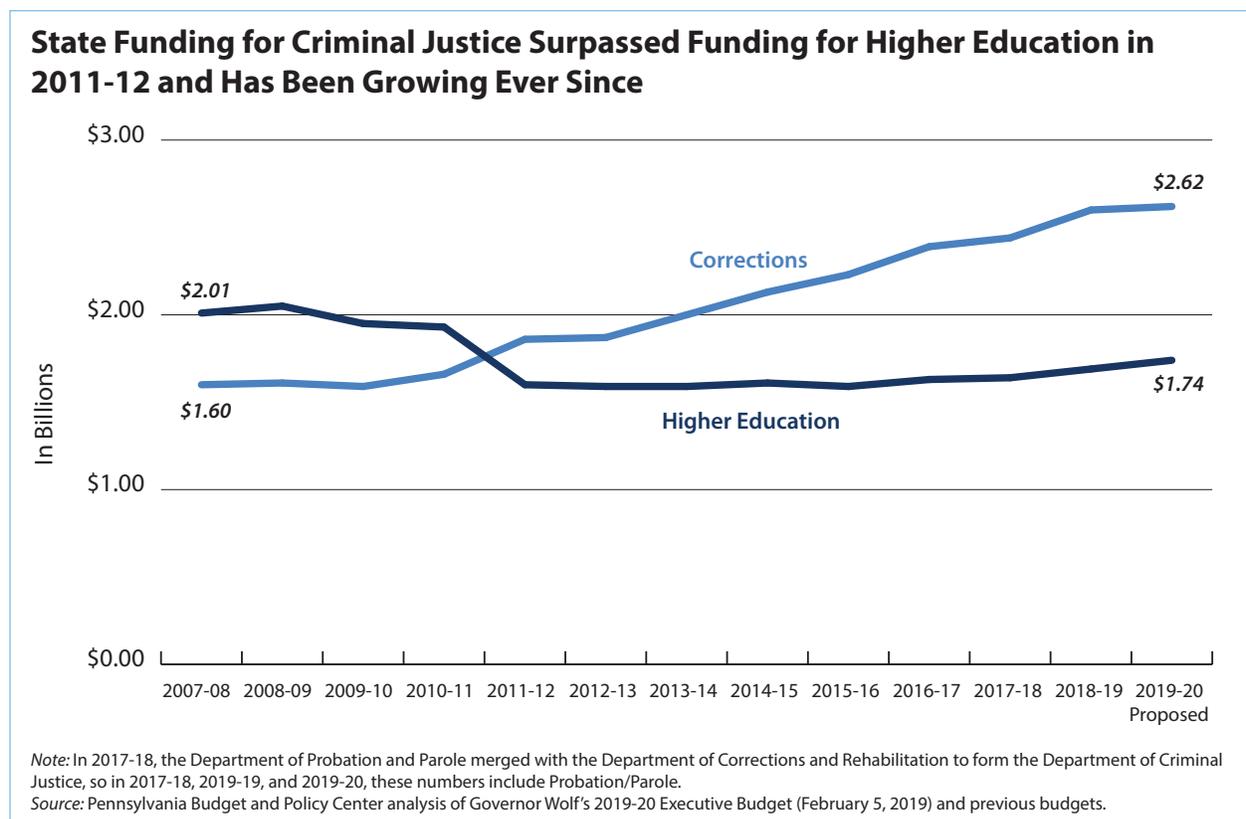
51 This does not include people under DOC jurisdiction who are housed outside of state prisons (county, federal, community contract facilities or community corrections centers). Data from: <http://www.cor.pa.gov/About%20Us/Statistics/Documents/Monthly%20Population%20Reports/Mtpop1806.pdf>.

Pennsylvania has the third highest rate in the country.⁵²

In 2011 and 2012, a bipartisan group of lawmakers proposed a “justice reinvestment” approach to reduce corrections spending, reduce recidivism, and improve public safety in the state.⁵³ Since then the state prison population has decreased from its peak of more than 50,000 in 2011. But other states have been more aggressive in reducing their prison population. Between 2011 and 2016, the state prison population decreased by 5% in Pennsylvania compared to 18% in Massachusetts, 17% in Connecticut, and 11% in Maryland. The limited reduction in the prison population has led to continuing cost increase for corrections. Between the fiscal years 2007-08 and 2018-19, General Fund expenditures for corrections increased 63% from \$1.6 billion to \$2.6 billion.

As figure 24 shows, Pennsylvania now spends more money on criminal justice than it does on higher education, which was not always the case. Prior to 2011-12, Pennsylvania spent more of its money on higher education. Since that year, spending on higher education has been relatively flat while corrections costs have steadily increased. Criminal justice reform is badly needed in Pennsylvania to bring costs down and public higher education is in great need of more investment so poor and middle-class kids can have access without taking on a crushing amount of debt.

Figure 24



52 Bureau of Justice Statistics, Correctional Populations in the United States, 2015; U.S. Census, ACS Estimates 2015.

53 Justice Center, The Council of State Governments. “Justice Reinvestment in Pennsylvania: Overview.” February 2016. Accessed at <http://www.pacenterofexcellence.pitt.edu/documents/Pennsylvania%20Justice%20Reinvestment%202-16.pdf>.

Agriculture

Agriculture is one of Governor Wolf's priorities this funding year. The 2019-20 budget proposes the PA Farm Bill, a comprehensive package aimed at supporting the agricultural industry in Pennsylvania. To fund the program the governor calls for a \$11.4 million (7.5%) increase for the Department of Agriculture which would have a total budget of \$163.2 million.

The governor proposes \$5 million for "Agricultural Preparedness and Response" due to ongoing threats of avian flu and the spotted lanternfly. The spotted lanternfly is an invasive species that is native to China, India, and Vietnam, and was first discovered in Pennsylvania in Berks County. The state has taken steps to treat locations where the insect is found because it can cause tremendous damage to agricultural crops.⁵⁴

Paralleling his commitment to workforce development, Governor Wolf proposes an "Agricultural Business and Workforce Investment" project with \$4.5 million in funds. Of that, \$2 million would establish the Agricultural Business Development Center to support farmers in development or restructuring of their operations; \$1.5 million would assist small animal operations and \$1 million would increase awareness of the nearly 75,000 jobs in agriculture and food-related industries that will be opening up in the next decade. The budget proposal also recommends the expansion of tax credits to reduce regulatory burdens on farmers.⁵⁵

The governor's budget also proposes a \$2.6 million increase for a program called PA Preferred which promotes and supports Pennsylvania grown products. Some of this funding will be to increase Pennsylvania's small but growing organic industry. Urban agriculture will also be supported with \$1 million to help urban agricultural collaboratives develop to grow hops, hemp, and hardwoods.⁵⁶

Transportation

The governor proposes a reduction of \$366 million, or 5.4%, of the \$6.74 billion for the Department of Transportation, bringing the total expenditure to \$6.38 billion. This is still about 1% higher than the \$6.31 billion spent by the department in 2017-18. The reductions include \$275 million less for road and bridge projects, \$103 million less for public transit (offset in part by a \$12 million increase for multimodal projects), \$145 million less for research, planning, and construction, \$50 million less for one-time expanded maintenance improvements, \$30 million less in loans made from the PA Infrastructure bank, and \$50 million less for local government subsidies.

While the reduction in the Department of Transportation looks like a return to previous levels of spending after a one-year increase, we are concerned about it. There is both a huge backlog in roads and bridges that need repair and many opportunities for expanding public transit that are not being pursued. The state should be investing more in the Department of Transportation each year, and we are disappointed that a still insufficient increase in 2018-19 is being reduced.

Pensions

Governor Wolf's budget proposes to meet the actuarially required contribution to both the State Employee's Retirement System (SERS) and the Public School Employees Retirement System (PSERS). As we pointed out in the section on mandatory spending, this would require an addition of \$8 million for SERS and \$160.5 million for PSERS.

54 Pennsylvania Department of Agriculture website. Accessed at https://www.agriculture.pa.gov/Plants_Land_Water/PlantIndustry/Entomology/spotted_lanternfly/Pages/default.aspx.

55 Governor Wolf's 2019-20 Executive Budget (February 5, 2019). P. A1-12.

56 House Democratic Appropriations Committee, "Governor Wolf's 2019/20 Executive Budget Proposal." 2/5/19.

If the Governor's plans is adopted, this will be the third year in a row that the actuarially required payment is made to SERS and the fourth year in a row for PSERS. For PSERS 75% of the employer contribution goes to reduce the pension debt and for SERS the figure is 85%. This means that the growth in pension contributions required by the state will continue to level off and that, if this level of funding is continued, the unfunded liability in both pension systems is projected to be eliminated by 2035.

To provide funding for the defined contribution plan created by Act 5 of 2017 for SERS, the governor proposes a transfer of \$3.9 million from the General Fund to a restricted account.

Protecting Democracy and Elections

The age of current voting machines poses a problem in Pennsylvania and the state must find funds to help upgrade the machines. The Joint State Governor's Commission bipartisan report of December of 2017 found that the financial burden is too heavy on many counties to maintain or upgrade voting machines by themselves. "Many Advisory Committee members... expressed concerns that their jurisdictions would not be able to maintain their current electronic voting systems for much longer due to the age of the machines, the scarcity of parts, and the costs of repairs and maintenance."⁵⁷

The Department of State is working with county boards of elections across the state to help them purchase voting machines aligned to today's standards. Governor Wolf proposes \$15 million to pay for a portion of these costs so the burden doesn't fall entirely on counties. An additional \$2 million will go towards upgrades of the Statewide Uniform Registry of Elections system.⁵⁸ There is some reason to be concerned, however, that the \$15 million will fall short of what many counties need to upgrade their voting machines.

There is one area where we think the governor's budget could have made a major contribution to our democracy but did not—investing more funds to ensure that all Pennsylvanians are counted in the 2020 census. This should not be the responsibility of the states. But at a time when the federal government not only seems disinterested in counting all residents but is actively trying to avoid doing so, it is critical that states step up to do the job. Failing to count all Pennsylvanians could cost the state dearly in federal funds for many purposes. It would, for example, reduce the FMAP rate at which the federal government reimburses the state for Medicaid. A small reduction could cost the state \$100 million a year.

Rainy Day Fund

Pennsylvania exhausted its Rainy Day fund during the Great Recession. The 2017-18 fiscal year was the first in over a decade in which Pennsylvania put funds into the Rainy Day fund—\$22 million in that year. This was 50% of the surplus from that year although state law requires putting in only 25% of surplus revenue. In 2018-19, another deposit of \$3 million was made to the Rainy Day fund. And for 2019-20, the governor proposes adding another \$5 million. The governor estimates that with continued lean and smart management, the Rainy Day fund could have a balance of more than \$278 million by the year 2024.⁵⁹

57 Joint State Government Commission. "Voting Technology in Pennsylvania." December 2017. Accessed at: <http://jsg.legis.state.pa.us/resources/documents/ftp/publications/2017-12-11%20FOR%20WEBSITE%20%20VOTING%20FINAL%20REPORT%2011.30.17.pdf>.

58 Governor Wolf's 2019-20 Executive Budget (February 5, 2019). P. A1-14.

59 Governor Wolf's 2019-20 Executive Budget, p. A1-4; Democratic House Appropriations Committee. "Governor Wolf's 2019/20 Executive Budget Proposal." 2/5/2019.

Summary I: The Public Investment Deficit and How to Meet It

As we said at the outset of this analysis, the governor's budget makes important investments in many areas. We have seen that substantial new funds are added, and in some cases, programs are redesigned in the areas of pre-K, workforce development, child care, intellectual disabilities, agriculture, and securing democracy.

But when one looks at the budget as a whole, it is difficult not to conclude that it does not really meet the challenges Pennsylvania faces this year or prepare us to meet them in the next 10 years. For many years, Pennsylvania has faced a public investment deficit. And that public investment deficit continues in the current budget.

Our state government has a responsibility to its residents to provide quality public education at all levels; workforce development; services for those who need help dealing with poverty, ill health and disability; infrastructure investments; and environmental protection. When the state prioritizes these investments, our communities can thrive—our kids can get a good start in life through quality education, individuals and families can access critical human services, families can live in healthy and safe environments, goods can easily be moved from place to place; and people can access good jobs in a strong economy. However, when a public investment deficit becomes the norm, low- and middle-income families struggle. We fail to educate and train too many of our children for the jobs of the future, access to work and markets becomes harder for families and individuals, and our health and the natural beauty of the state is compromised by environmental degradation. Prosperity for all is stunted.

In Pennsylvania the public investment deficit takes on different shapes depending on the funding arena. But a common theme is that Pennsylvanians are losing out.

In our state's public education system, the public investment deficit means concretely that our state is behind most other states. Pennsylvania is ranked 46th in terms of the percentage of K-12 funding that comes from the state. It is 37% in Pennsylvania, but the national average is 47%. As a result, local governments must come up with more money for schools, primarily through property taxes, which individuals in poor communities struggle most to pay.⁶⁰ And that is why Pennsylvania has the most unequally funded K-12 schools in the country. The zip codes and neighborhoods in which children grow up often determine the quality of their schools, impacting their future economic success in Pennsylvania more than in any other state in the country.⁶¹

In terms of higher education, our state ranks 47th in the nation in terms of our public investment per student⁶² and students are graduating with some of the highest debt in the country. Pennsylvania ranks third-highest for in-state tuition and fees for public four-year colleges and universities.⁶³ This means that fewer low- and middle-income students can afford to attend college, which affects future earnings and career options. Those who fund higher education through debt find their legs are kicked out from under them before they even begin their careers.

We underserve those who are intellectually and physically disabled, those who suffer from mental illness, women and children who need protection from abuse, and those who through no fault of their own cannot find steady work or cannot afford child care so that they can work. The opioid crisis, with overdose deaths in

60 Data downloaded from https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=SS-F_2014_00A05&prodType=table.

61 Data from the National Center for Education Statistics found at https://nces.ed.gov/edfin/Fy11_12_tables.asp. Also see https://www.washingtonpost.com/news/local/wp/2015/03/12/in-23-states-richer-school-districts-get-more-local-funding-than-poorer-districts/?utm_term=.54a7f95dfead.

62 University of Illinois Grapevine database Table 4, online at <https://education.illinoisstate.edu/grapevine/tables/>.

63 Data downloaded from: <https://trends.collegeboard.org/college-pricing/figures-tables/2016-17-state-tuition-and-fees-public-four-year-institutions-state-and-five-year-percentage>.

our state nearly twice the national average, is partly a sign of our failure to adequately fund human services.⁶⁴

At a time when the rapid expansion of natural gas fracking has created new threats to our air and water, we still suffer from cuts in funding over the past decade to the Department of Environmental Protection. This year, Governor Wolf's proposal to raid special funds to cover operational costs for the Department of Environmental Protection and the Department of Conservation and Natural Resources further jeopardizes existing programs that work.

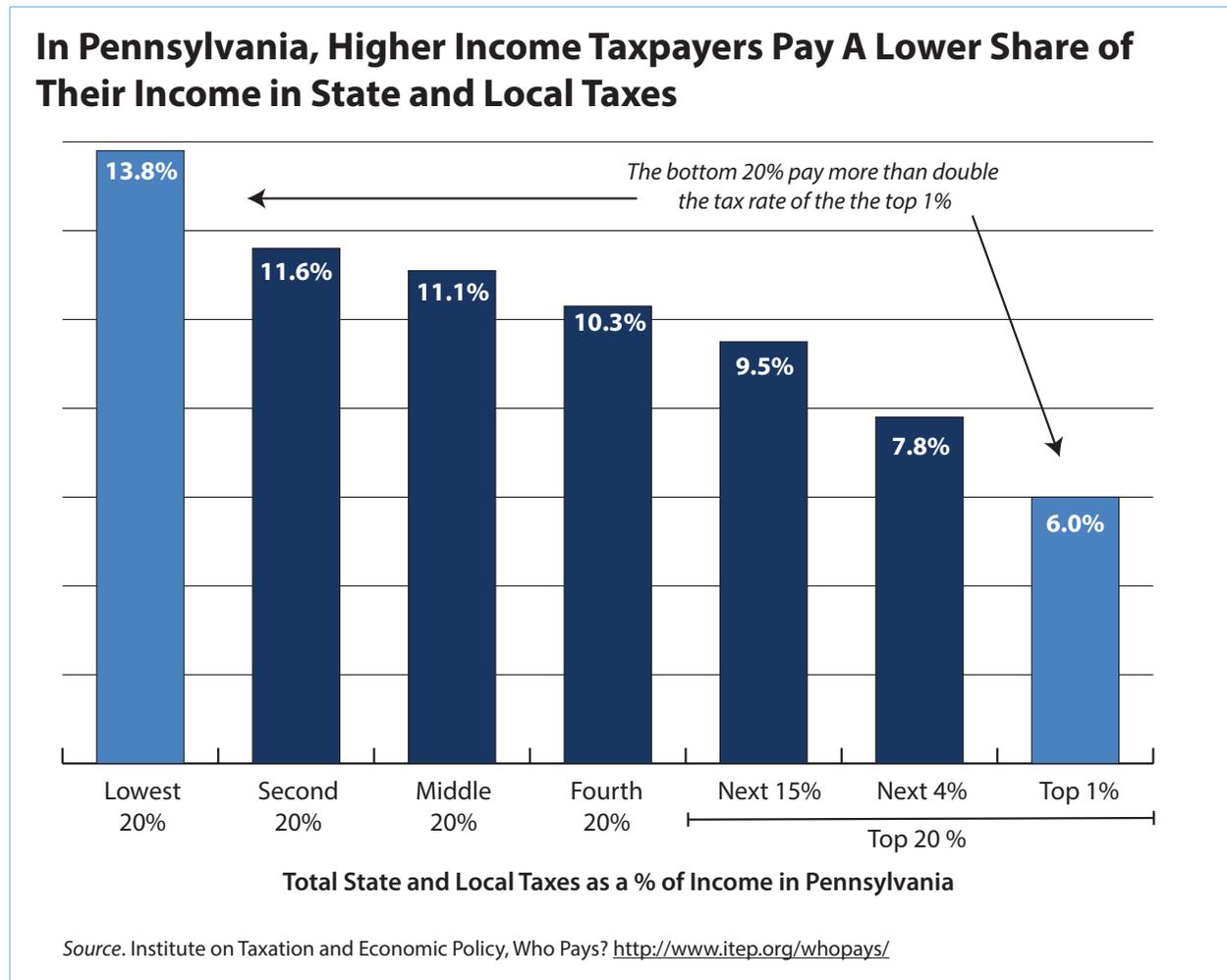
The fundamental reason that we cannot invest more in the public goods that will create prosperity for all is that our tax system fails to bring in sufficient revenue. And that does not mean we should raise taxes on everyone. Taxes in Pennsylvania are too low for the richest among us. Figure 25 shows how upside-down our tax system is. Families in the bottom 20% of incomes, making less than \$20,000 a year, pay 13.8% of their income in taxes. Families in the middle 20% of income, making on average \$50,000 a year, pay 11.1% of their income in taxes. But families in the top 1%, making on average \$1.7 million, pay only 6% of their income in taxes.

This is not the place to present a complete antidote to a tax system that is not only unfair but fails to bring in sufficient revenues to bring public investment up to the appropriate level. We will just say that our Fair Share Tax plan would bring in \$2.2 billion in new revenues with the vast majority coming from the top 5%.⁶⁵ Almost 60% of Pennsylvania families would see their taxes cut. Couple the Fair Share Tax with a reasonable severance tax on natural gas drilling and corporate tax reform that closes the Delaware loophole and the state would have about \$3 billion in new revenues, allowing new investment in education at all levels, in human services, in our infrastructure, and in environmental protection.

64 For more information, see articles on the opioid crisis in Pennsylvania: <http://6abc.com/health/gov-wolf-declares-a-disaster-emergency-over-opioid-crisis/2924563/>; <https://www.haponline.org/Newsroom/News/ID/2558/PA-Drug-Overdose-Deaths-Up-37-during-2016-On-Average-13-Died-Daily>.

65 This is an updated revenue estimate for the fair share tax provided by the PA Department of Revenue in September 2018. For more on the fair share tax, see Marc Stier, A Fair Share Tax to Support Public Investment in Pennsylvania, Pennsylvania Budget and Policy Center, March 22, 2017 online at <https://www.pennbpc.org/fair-share-tax-support-public-investment-pennsylvania>.

Figure 25



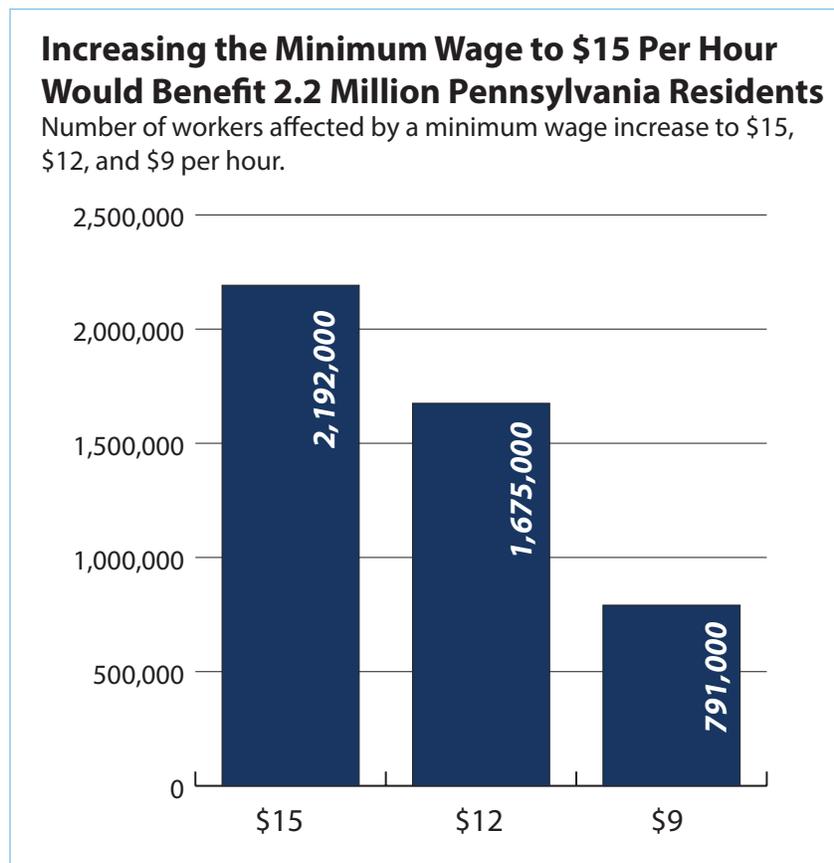
We understand that under current political circumstances it would be difficult to enact our tax program. But we believe that political leaders in the Commonwealth should be talking about it and building support for it throughout the state.

Summary II: The Impact of Raising the Minimum Wage

We end our analysis of the governor’s budget on a positive note. Raising the minimum wage initially to \$15 an hour by 2025 is central to Governor Wolf’s budget and would have a very broad reach—we estimate 2.2 million Pennsylvanians—that’s 37% of the state workforce—would see their wages go up, including many who make more than \$15 an hour now (figure 26).

Pennsylvania workers continue to suffer from low wages because we have not raised the minimum wage for over 10 years. Pennsylvania’s minimum wage is lower than any of our surrounding states. Wage growth for everyone in the bottom 90% in Pennsylvania is below that of our surrounding states. And, not surprisingly, given that consumption drives our economy, employment growth is slower than in our surrounding states as well.

Figure 26



Raising the minimum wage would not only help individual and families escape from poverty and improve their quality of life, it would drive our economy forward by putting more money in the pocket of working families. In fact, as Mark Price of the Keystone Research Center found, in our surrounding states, which have raised their minimum wages, wages and employment are both growing faster than in Pennsylvania, overall and among low-wage food service industry workers.⁶⁶

Conclusion

While Governor Wolf's budget is not as ambitious and forward looking as we would like, it does point the way to a better future for the state, and it is critical that the important initiatives he puts forward be adopted by the General Assembly this year. And of all the proposals in his budget, raising the minimum wage is the most important. His budget will be unbalanced if the minimum wage is not increased. And more importantly, raising the wage will help low-income workers who have been waiting for a higher wage for too long while making the Pennsylvania economy work better for all of us.

⁶⁶ Mark Price, The Pennsylvania Minimum Wage, 2018, Keystone Research Center, January 2, 2018, online at <https://www.keystoneresearch.org/publications/research/minwagerep2018>.