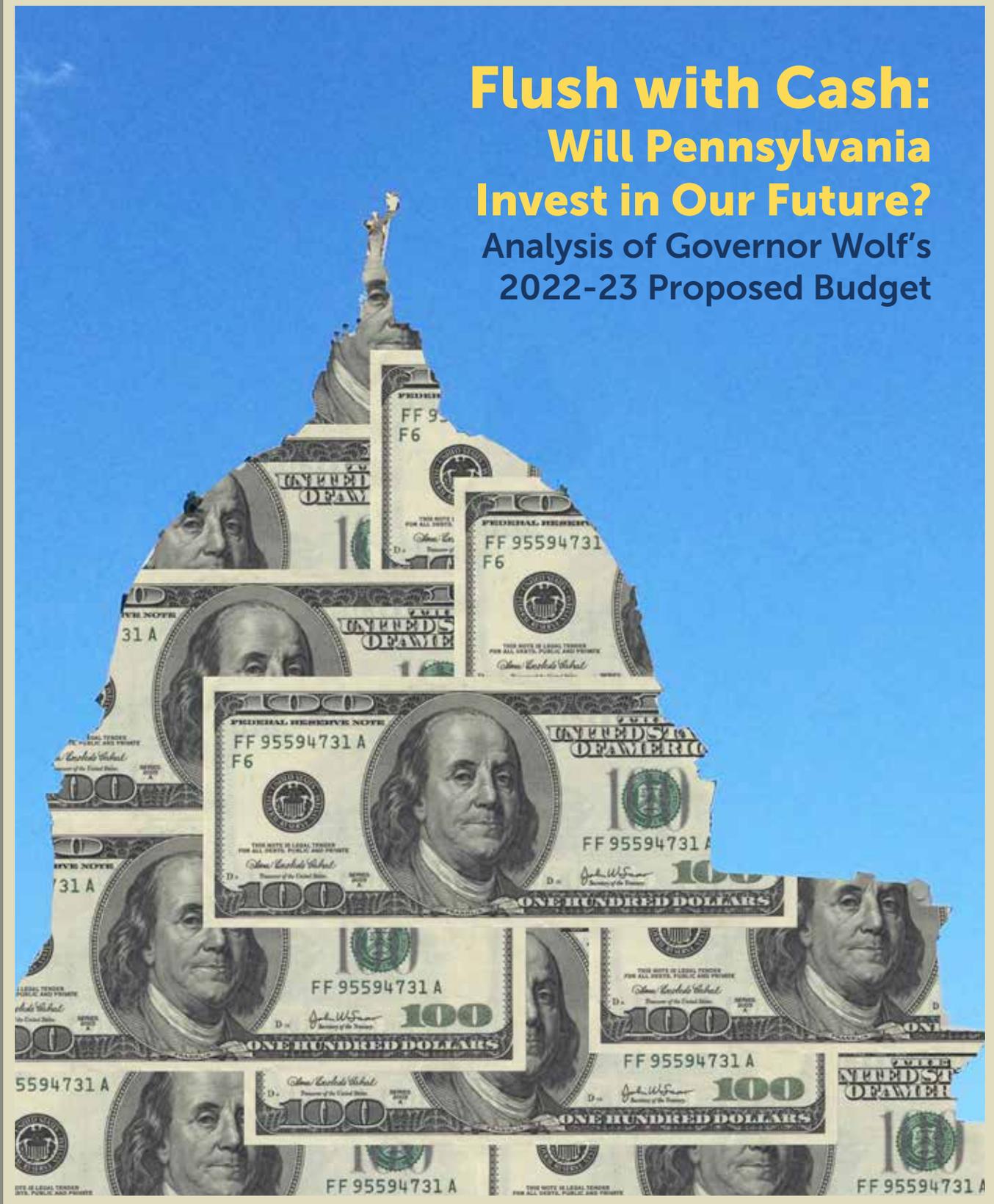


# Flush with Cash: Will Pennsylvania Invest in Our Future?

## Analysis of Governor Wolf's 2022-23 Proposed Budget



**KEYSTONE RESEARCH CENTER**  
AND  
**PA BUDGET AND POLICY CENTER**

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**March 2022**

## Introduction

In February, news reports pointed out that Governor Tom Wolf had presented his final budget proposal, one reflecting the priorities he's held since first taking office. But rather than focus on this being Governor Wolf's last budget, we suggest that Pennsylvanians think of this budget as the last chance for a Republican majority that has mostly rejected those priorities to reverse direction. Republicans should do so not only because every poll shows that most Pennsylvanians support those priorities but because the future of our children and our commonwealth depends on following the path the governor is setting for us: to provide adequate and equitable funding for education at all levels; to make it possible for workers to receive the training they need to benefit themselves and potential employers; and to fully fund human services, especially for children.

For seven years, Republicans have rejected most of Governor Wolf's priorities, saying Pennsylvania could not afford them—and for the last seven years, the governor has proposed to raise revenues fairly to fund his spending priorities. There are no proposals to increase revenues in this budget, however. By the end of June 2022, thanks to federal American Rescue Plan funds and careful management of our resources, the state will have accumulated a surplus of an estimated \$11.2 billion. And thanks to a strong recovery from the pandemic and continued federal assistance, that surplus will grow. Even if every one of the governor's proposals were to be adopted, we estimate that by the end of June 2023 the accumulated state surplus would be \$8.8 billion.

Pennsylvania Republicans, who have consistently rejected the governor's spending plans, say they are concerned about future deficits—not this year or next year or even the year after that, but later. We note that future deficits—like the structural deficits the state has faced for the last decade—wouldn't be a concern if not for the deep cuts in corporate taxes both parties supported in the past. And eventually, the state will have to raise revenues from the richest Pennsylvanians and from untaxed, multi-national corporations to ensure that it can meet its responsibilities to its people.

The best way to ensure we avoid deficits in the near term, however, is to invest in our people now, not just to give the economy a short-term boost but to give it the long-term capacity for expansion created by the major new investments called for by the governor in K-12 and higher education; in workforce training; and in human services, which we summarize below.

The governor's budget recognizes that a modern economy does not run on oil or gas, or on the investment of capital. It runs on the skills and talents of an educated and well-trained workforce. We not only have plenty of oil and gas but will soon have plenty of solar and wind power to replace them as primary energy sources. And, we have plenty of capital. But the people of Pennsylvania, and the state itself, are falling behind because Pennsylvania does not provide the services our children need to get off to a good start. Nor do we give all the state's children the quality education and training they need to secure good-paying jobs that would bring success to them and the businesses that employ them. Our failure to invest in people hurts every Pennsylvanian—and by reinforcing, instead of breaking down, economic, gender, and racial barriers, it betrays the promise of our country.

In this, as in his previous seven budget proposals, Governor Wolf calls for a budget that would invest more in the people of our state in order to move closer to an economy that works for everyone and that recognizes the dignity of every Pennsylvanian.

## Overview of Pennsylvania's Budget

### Components of the Combined Operating Budget

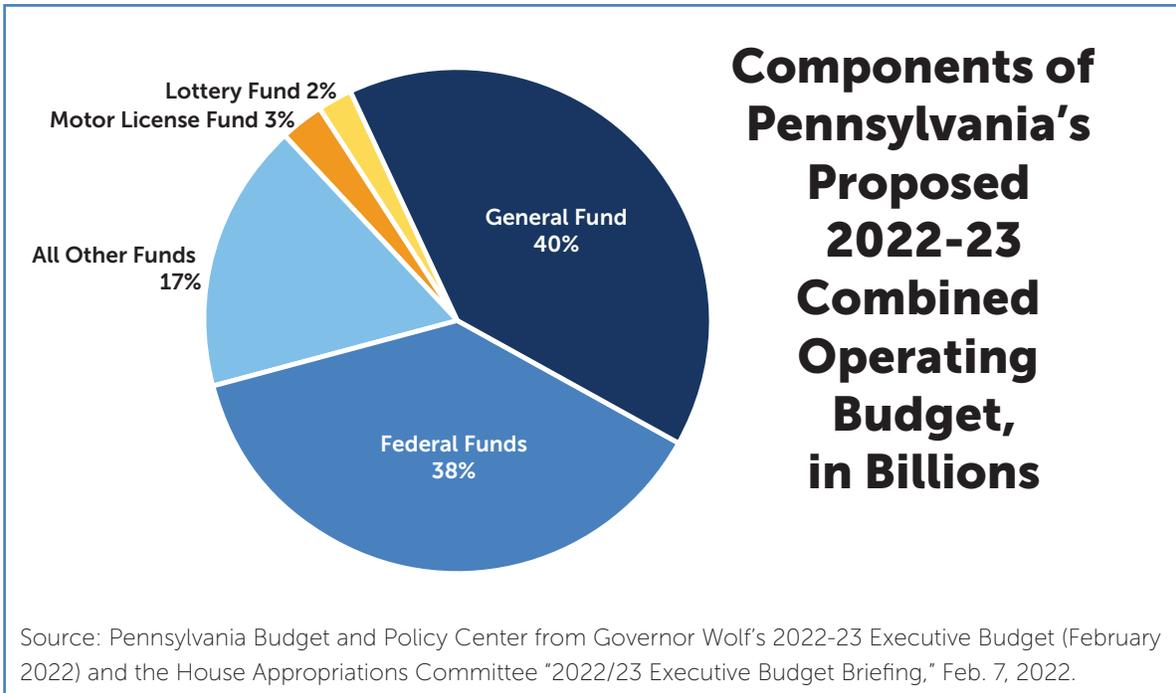
This budget analysis is primarily focused on Pennsylvania's General Fund, which provides the bulk of the state's funding. However, the total operating budget is larger than just the General Fund and includes federal funds and a variety of special funds. Below, Table 1 and Figure 1 show the components of the state's total operating budget. Table 1 shows the operating budget for fiscal years 2021-22 and the governor's proposed budget for 2022-23. For the upcoming fiscal year, Governor Wolf's proposed total operating budget would be \$109.4 billion if enacted—a decrease of about 5.2% from FY 2021-22. A significant decrease in federal funds drives this year-after-year reduction in spending. The governor is proposing an increase in state funds from a total of \$60.9 billion this year to \$68 billion in 2022-23 and a \$43.7 billion General Fund budget, which would be 40% of the total operating budget and 64% of the state budget. The Motor License Fund and the Lottery Fund are Pennsylvania's largest special funds, making up 3% and 2% respectively of the total operating budget. Federal funds are expected to make up about 38% of the total operating budget, but this could increase if additional federal COVID relief packages are passed.

Table 1

| <b>Components of 2022-23 Combined Pennsylvania Operating Budget in Billions</b> |                |                                    |  |  |
|---|----------------|------------------------------------|--|--|
|   | FY 2021-22     | FY 2022-23<br>Governor<br>Proposed | FY 2022-23<br>Percent of Total<br>Operating Budget | FY 2022-23<br>Percent of Total<br>State Budget |
| General Fund  | \$37.5         | \$43.7                             | 40%  | 64%  |
| Motor License Fund  | \$2.9          | \$3.0                              | 3%   | 4%   |
| Lottery Fund  | \$2.0          | \$2.0                              | 2%   | 3%   |
| All Other Funds   | \$18.6         | \$19.2                             | 18%  | 28%  |
| Federal Funds   | \$54.5         | \$41.4                             | 38%  |  |
| <b>Total State Funds</b>  | <b>\$60.9</b>  | <b>\$68.0</b>                      |  |  |
| <b>Total Motor License, Lottery, and<br/>Other Funds</b>                        | <b>\$23.4</b>  | <b>\$24.3</b>                      |  |  |
| <b>Total Combined Operating Budget</b>  | <b>\$115.4</b> | <b>\$109.4</b>                     |  |  |

*Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2022-23 budget at the House Appropriations Committee "2022/23 Executive Budget Briefing," February 7, 2022.*

Figure 1



**The Impact of the Pandemic and Federal Support on our Structurally Imbalanced Budget**

For the last 11 years, we have started budget week talking about the “structural deficit” standing in the way of the state adopting bold new initiatives without raising new revenues. That did not stop Governor Wolf from proposing such initiatives, along with new revenues to pay for them, but the Republicans rejected almost all of them after years of papering over deficits created by deep cuts in corporate taxes with budget gimmicks and one-year revenues. This year is different—our state is flush with cash.

Consider Pennsylvania’s financial outlook as we look towards fiscal year 2022-23. Table 2 below shows the projected accumulated state surplus by the end of this fiscal year. Our calculations show that Pennsylvania should begin FY 2022-23 with a state surplus of \$10.7 billion, a drastic shift from the typical structural deficit we usually face caused by inadequate recurring revenue sources and declining corporate taxes.

Table 2

| <b>Projected Accumulated State Surplus by the End of June 2022 in Billions</b> |               |
|--|---------------|
| 1) Budget surplus projected in June 2021*                                      | \$2.5         |
| 2) Projected additional revenues   | \$2.2         |
| 3) Rainy Day Fund  | \$2.6         |
| 4) Remaining American Rescue Plan funds  | \$2.2         |
| 5) Reduction in expenditures due to FMAP** expected extension through June     | \$1.2         |
| <b>TOTAL</b>   | <b>\$10.7</b> |

\*Includes \$3.8 billion from ARP.  
 \*\*FMAP is Federal Medicaid Assistance Percentage--due to the pandemic the federal government has been providing an additional 6.2% to states on many eligible Medicaid costs. The extended FMAP was in the original budget for half of 2021/22 (and is reflected in the estimate in line item #1). FMAP will likely be extended for the rest of FY 2021/22, adding an additional \$1.2 B (shown in line item #5 above).  
 Source: 1) From adopted state budget, estimates from: Commonwealth Budget 2021-22, Senate Democratic Appropriations Committee document titled "Budget Overview." 2) Details from Senate Democratic Appropriations Committee staff. 3) PA Dept of Treasury: <https://patreasury.gov/newsroom/archive/2021/07-01-Rainy-Day-Fund.html>. 4) House Democratic Appropriations Committee report: [https://www.houseappropriations.com/Topic/BudgetYears/635#TOC\\_6](https://www.houseappropriations.com/Topic/BudgetYears/635#TOC_6). 5) Info on the extension: <https://ccf.georgetown.edu/2022/01/14/secretary-becerra-extends-the-phe-what-does-this-mean-for-medicaid-and-the-continuous-enrollment-provision/#:~:text=The%206.2%20percentage%20point%20bump%20in%20FMAP%20would,the%20administration%20would%20need%20to%20provide%20notice%20soon;Estimated%20savings%20from%20expanded%20FMAP%20:https://www.houseappropriations.com/Topic/2021-2022/583> "

**Line 1: The projected surplus in the budget enacted in June of 2021. Line 2: Pennsylvania's revenue for FY 2021-22 is coming in greater than expected.** The enacted 2021-22 budget estimated that we would end FY 2021-22 with revenues exceeding expenditures by \$2.5 billion. Updated revenue projections now anticipate that Pennsylvania will end 2021-22 with revenues of an additional \$2.2 billion over original estimates. If current trends continue, that might rise to \$3 billion by the end of the year.

The higher revenue projections are the result of a recovery of the state's economy that's quicker than expected, largely because of the federal American Rescue and Infrastructure plans put forward by President Biden and endorsed by the Democratic Congress (with some minimal Republican support for the infrastructure plan). In the first half of the 2021-22 fiscal year, Pennsylvania saw higher revenue than was expected across major revenue sources, tax and non-tax. Corporate taxes were 30.7% higher than expected (\$577 million). Sales and use tax came in at 6.2% higher than expected (\$409 million) and the personal income tax was 4.7% (\$308 million) higher. Even non-tax revenue was higher than originally expected (1.5%).

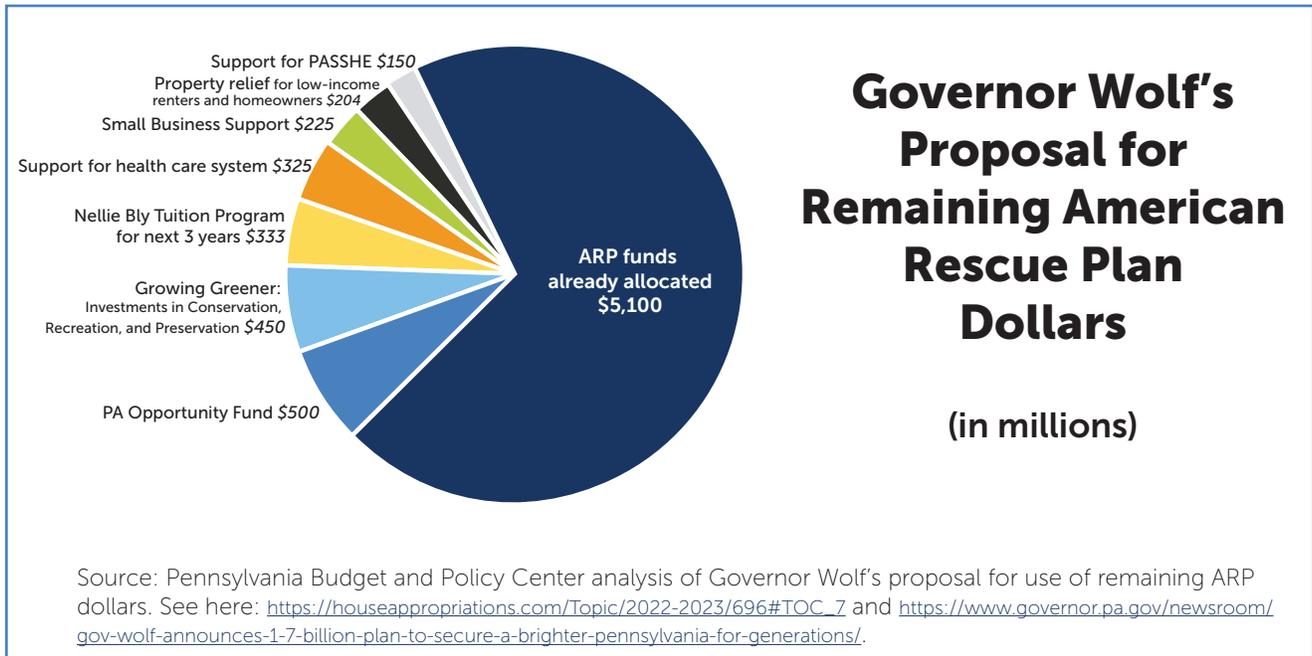
**Line 3: Pennsylvania currently has reserves that are higher than normal.** For the first time in a long time, Pennsylvania has substantial reserves. At the end of the last fiscal year, June 2021, Pennsylvania transferred \$2.6 billion into its rainy day fund. The size of Pennsylvania's rainy day fund has ranked near the bottom compared to other states. The median reserve among all states was 8.1% of spending in 2021. Before Pennsylvania's large transfer into the Rainy Day Fund at the end of the last fiscal year, FY 2020/21, its rainy day fund was only 0.7% of spending (2020).

In theory, Pennsylvania should have a more robust rainy day fund, and this recent investment provides this funding. However, it is important to recognize that we are currently in the midst of a "rainy day." This \$2.6 billion investment into our rainy day fund should be used to address our current crisis.

**Line 4: American Rescue Plan funds, as well as other federal relief, are also available to address our current problems.** The American Rescue Plan, via the State and Local Fiscal Recovery Funds, has provided \$7.3 billion to Pennsylvania to meet pandemic response needs and build a more equitable economy as the state recovers. The state has allocated about \$4.6 billion of ARP funds as part of the 2021-22 budget with \$3.8 billion transferred to the General Fund. Since then, the state has allocated a total of \$5.1 billion, leaving a remaining balance of about \$2.2 billion. The majority of these funds, \$2.84 billion, has been used to replace lost revenues in the current year budget. The Fiscal Code Act 24 of 2021 requires that any remaining ARP funds at the end of this fiscal year be transferred to the General Fund to replace revenues. However, in the week before releasing his proposed budget, Governor Wolf released "Brighter PA," a plan for spending the remaining ARP funds to help Pennsylvanians recover from the pandemic, rather than have these funds sit in reserve. Governor Wolf's proposals for using the remaining ARP funds are highlighted in the figure below.

The governor proposes: \$500 million for a "PA Opportunity" program, which would provide grants to low-income families; \$450 million to be spent on investments in conservation, recreation, and preservation; \$333 million for the Nellie Bly Tuition program over the next three years; \$150 million in additional support for the State System of Higher Education (PASSHE); \$225 million in small business support; and more.

Figure 2



**Line 5: Federal support in the form of the expanded Federal Medicaid Assistance Percentage (FMAP) provided Pennsylvania with savings of an estimated \$2.4 billion by the end of our current fiscal year 2021-22.** To help states through the pandemic, the federal government raised its reimbursement rate for Medicaid. Pennsylvania's reimbursement rate, which was at about 50% of the cost of the program, was increased by 6.2 percentage points. The budget adopted in June assumed that the FMAP rate would continue at a higher level through the first half of the fiscal year; thus, \$1.2 billion in savings is included in the budget surplus number in row #1. The federal government's Department of Health and Human Services renewed the COVID-related public health emergency through April 16, 2022, and under federal law, the higher FMAP continues through the end of any quarter through which a public health emergency is declared. So, the 6.2 percentage point bump in the federal government's share of Medicaid will continue to the end of the fiscal year, reducing General Fund expenditures by another \$1.2 billion in this fiscal year. If the federal public health emergency continues into the next fiscal year, we can expect the higher level of federal Medicaid support to continue supplying more savings to the state.

### How Large Is the State Budget?

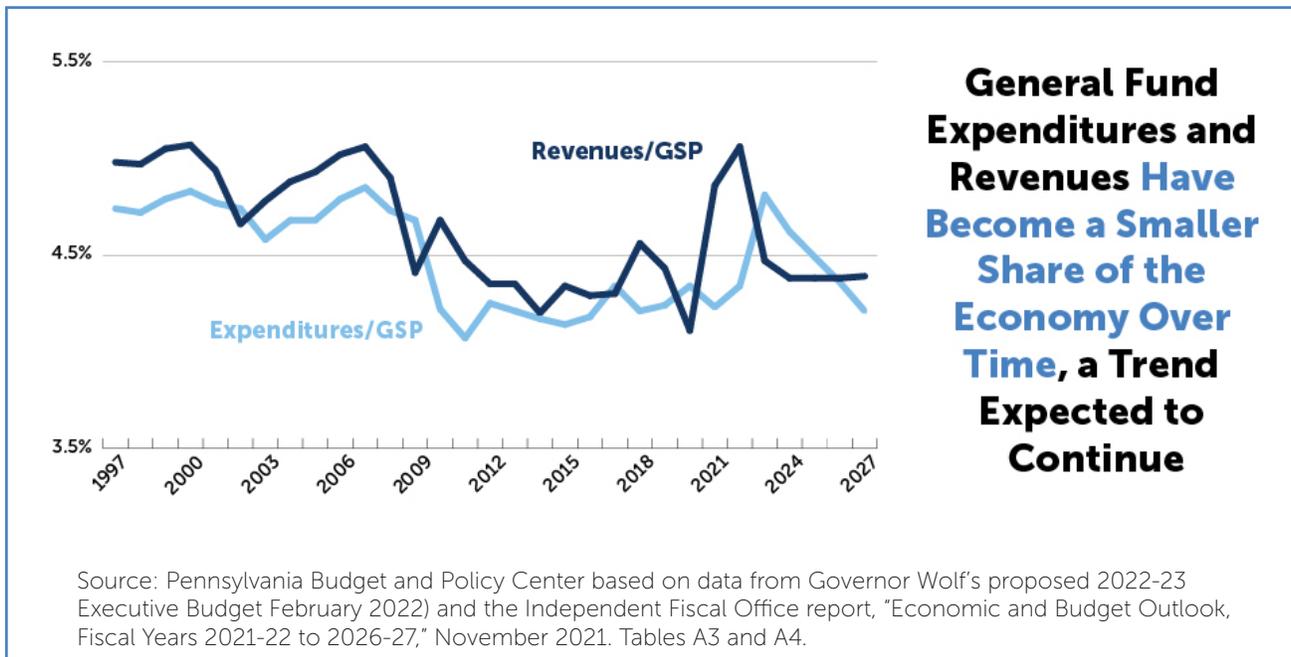
An expanding population and increasing costs require increased funding from year to year to maintain the same level of state services. One measure of the size of our government that takes costs and population into account is revenues and expenditures as a percentage of gross state product (GSP), which is the size of the state's economy. Below, Table 3 and Figure 3 show Pennsylvania revenues and expenditures as a share of our gross domestic product. Between 1997 and 2011, General Fund expenditures were about 4.66% of the GSP and revenues about 4.85%. Both expenditures and revenues decreased under Governor Tom Corbett to 4.19% and 4.31% respectively, increasing slightly under Governor Wolf but still at 8% below the 1997-2011 average. Governor Wolf's proposed budget would increase expenditures as a share of GSP to 4.8%, 3% above what it was in 1997-2011. However, this is likely a temporary increase that reflects emergency spending and a lower than projected gross state product as a result of the pandemic. Overall, our expenditures and revenues as a share of GSP are trending downward contrary to claims that Pennsylvania's spending has been growing out of control.

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  | 4.19%              | 4.31%          | -10%  |
| Average 2016 to 2022  | 4.27%              | 4.52%          | -8%   |
| <b>Governor's budget 2022-23*</b>   | <b>4.81%</b>       | <b>4.47%</b>   | 3%  |
| Projections 2024 to 2027*   | 4.42%              | 4.38%          | -5%   |

\*Years 2024 to 2027 are budget numbers and projections from Governor Wolf's executive budget. Prior years are from the IFO. Sources: Pennsylvania Budget and Policy Center based on Independent Fiscal Office report, "Economic and Budget Outlook, Fiscal Years 2022-23 to 2026-27," November 2021; and 2021-22 Executive Budget (February 2022)."

Figure 3

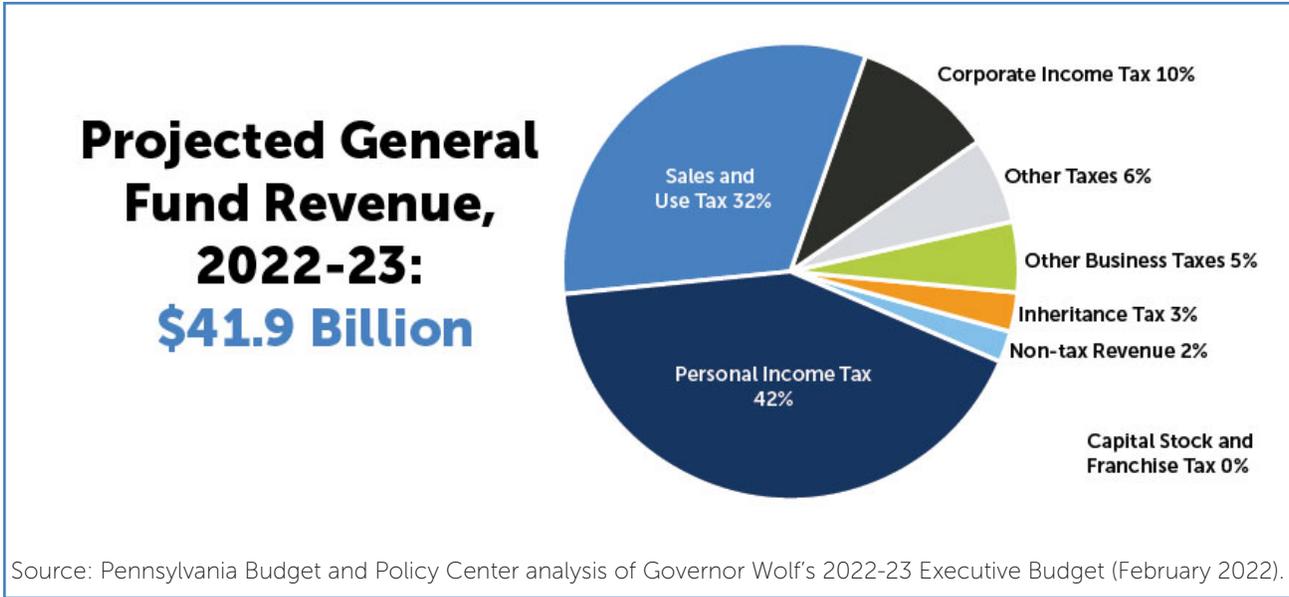


## General Fund Revenues and Taxation

### Sources of General Fund Revenues

Figure 4 shows the sources of our General Fund revenue, which is expected to be \$41.9 billion in 2022-23. Together, personal income tax (42%) and sales and use tax (32%) make up approximately three-quarters of our General Fund revenue. The rest of our revenue comes from the corporate income tax (10%), other taxes, and non-tax revenue.

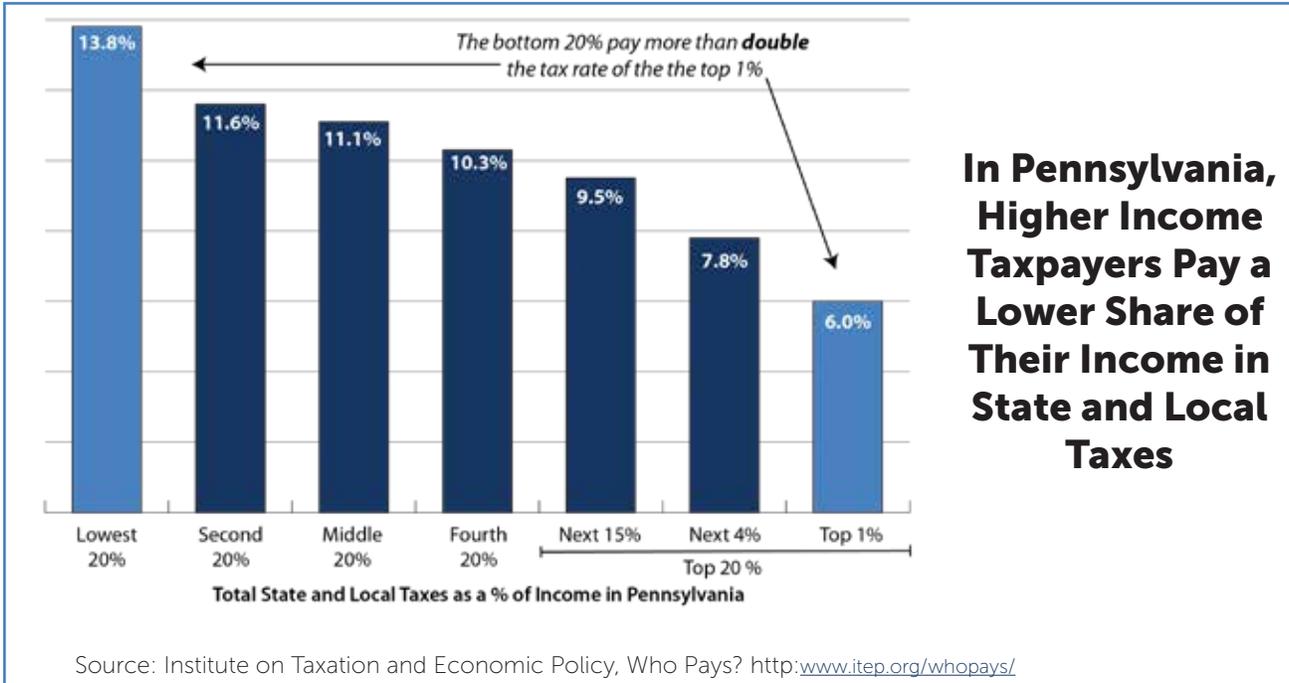
Figure 4



### **Pennsylvania Does Not Raise Enough Revenue from Those who can Afford it: the Wealthy and Large Corporations**

Pennsylvania is one of the “terrible ten,” ranking among the states with the most regressive tax systems. As Figure 5 shows below, Pennsylvania’s poorest residents pay a significantly higher portion of their income on state and local taxes: 13.8% compared to the top 1% of income earners, who pay only 6% of their income in these same taxes. This “upside-down tax system” overly burdens residents with the fewest resources, while those with the most ability to pay are not paying their fair share. Not only is our tax system unfair, but it also limits our state’s ability to raise significant resources from those who can most afford it, especially given that incomes on the higher range of the income spectrum have been rising much faster than those at the bottom.

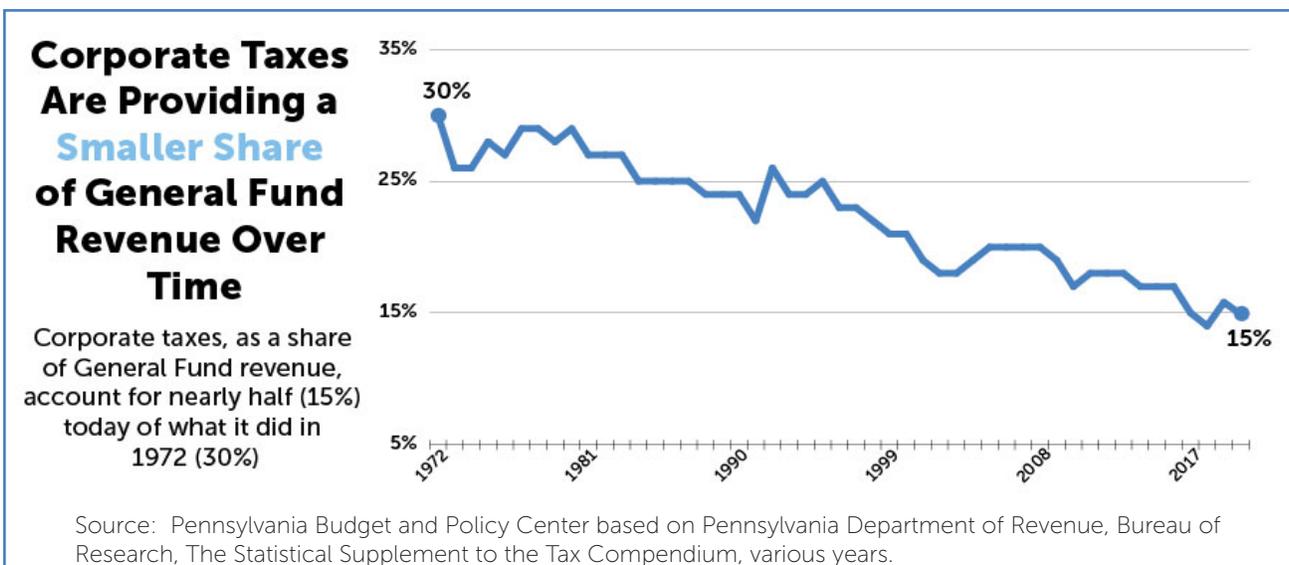
Figure 5



### Corporate Taxes

Accentuating Pennsylvania’s revenue problem is our declining reliance on corporate taxes. As Figure 6 shows below, the share that corporate taxes make up of our General Fund revenue has been declining since the 1970s. In 1972, corporate taxes made up 30% of our General Fund revenue, but today these taxes only make up 15%. One corporate tax—the capital stock and franchise tax (CSFT)—was once a stable source of revenue for the state; but in 2016, it was eliminated. The corporate net income tax is relatively high (9.9%) compared to other states, but the revenues generated from this corporate tax are less stable due to numerous tax loopholes. These loopholes allow multistate and multinational corporations to avoid paying this corporate tax. In fact, 73% of corporations that do business in Pennsylvania pay no corporate net income tax at all.

Figure 6



As he has done in recent years, Governor Wolf proposes corporate tax changes that reduce rates and close corporate tax loopholes. The Governor proposes to decrease Pennsylvania's relatively high corporate net income tax rate over several years from 9.99% to 5.99% in 2027 and eventually reaching 4.99%. Although Pennsylvania's CNIT rate is higher than many other states, Governor Wolf's proposal to reduce the rate would drastically decrease corporate revenue—by \$79 million in 2022-23, \$141 million in 2023-23, and more as the CNIT rate decreases over time.

The Pennsylvania Budget and Policy Center has long believed that some reduction in the corporate tax rate might be justified—but not because there is any evidence that a high corporate tax rate harms our economy. Rather, we are concerned about the fairness of a high tax rate for small businesses when, thanks to the uniformity clause of our constitution, we cannot have graduated tax rates, and when the owners of businesses organized as S-corporations, LLCs, and others pay the Personal Income Tax (PIT) at the rate of 3.07%. A reduction to the 6.5% rate we have proposed for non-corporate business profits in our Fair Share Tax would make sense—especially if the Fair Share Tax were instituted, because that would mean tax law would not play a role in determining the most legal structure in which a business chooses to operate.

Governor's Wolf's proposal, however, would reduce the corporate tax rate too far below that which we think is fair and reasonable, ultimately to 4.99%. This would cost the state substantial new revenues. The Governor has proposed reducing the corporate tax rate in previous years. But at the same time he has called for instituting combined reporting, which would close the Delaware loophole, which allows 73% of corporations operating in Pennsylvania to avoid paying our state any corporate net income tax. Wealthy corporations escape from paying Pennsylvania's corporate tax by setting up subsidiaries that show little or no profits and thus pay no taxes here. Corporations use the magic of internal accounting to take advantage of tax laws that only tax corporations on the profit earned by their Pennsylvania subsidiaries. And by reducing the profits of local subsidiaries, multinational corporations can escape taxation entirely.

Under combined reporting, all corporations that operate in Pennsylvania would report their U.S. profits to the state no matter where those profits were earned. The corporation would then pay taxes on a share of those profits equal to the share of sales made in the state. If a national company were to sell 25% of its goods or services in our state, it would pay Pennsylvania taxes on 25% of its combined profits. This is a common-sense reform that twenty-eight other states have implemented to ensure corporations are paying their fair share in taxes. Instituting combined reporting would most likely raise more tax revenue than the reduction in tax rates would cost the state.

This year, Governor Wolf is proposing a weaker corporate tax reform that requires corporations to add back some of the deductions from their Pennsylvania profits for fees paid to corporate affiliates based in other states. He proposes a strengthening of the add-back provisions that are already in place in Pennsylvania by including management fees, inter-company royalties, and inter-company interest. He would also codify in law a recent Department of Revenue regulation that clarifies the responsibility of corporations that sell in the Pennsylvania marketplace to pay corporate taxes on their income even if they have no physical presence in the state. And finally, the rules under which the share of national incomes is apportioned to Pennsylvania would be changed. We use sales to divide up what share of a company's national income is subject to tax in PA. But we currently do it based on the source of income. For sales of property or services, our rules say that the split is based on where the customer is. So, sales of property and services to Pennsylvanians is apportioned to our state. But regarding sales of intangible goods—for example, the right to use a patent or copyright—we currently apportion sales on the basis of where the intangible good was produced. Governor Wolf's proposal would treat sales related to intangible goods similarly to those of property and services sales.

The governor’s proposal does far too little to close tax loopholes, especially given a cut in tax rates that is much too large. As Table 4 shows, the administration’s own estimates show that by fiscal year 2026-27, the governor’s proposal would cost the state \$645 million. At a time when the state still has a substantial public investment deficit and previous corporate tax cuts already cost the state more than \$4 billion a year, we believe the General Assembly should reject this proposal.

Table 4

| <b>Impact of Governor’s Corporate Tax Proposal on Revenues</b>  |        |        |        |        |          |
|---|--------|--------|--------|--------|----------|
| (\$ millions)   | 22-23  | 23-24  | 24-25  | 25-26  | 26-27    |
| Tax rate  | 7.99%  |        |        | 6.99%  | 5.99%    |
| Base Expansion (@ 9.99%)  | 176.0  | 629.1  | 694.8  | 708.8  | 707.0    |
| Rate Cut (based on expanded base)   | -255.4 | -770.0 | -835.6 | -979.3 | -1,352.1 |
| Net   | -79.4  | -140.9 | -140.8 | -270.5 | -645.1   |
| Note: Tax rate changes take place each January, half-way through a fiscal year.                                     |        |        |        |        |          |
| Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf’s 2022-23 Executive Budget (February 2022). |        |        |        |        |          |

### Raising the State Minimum Wage

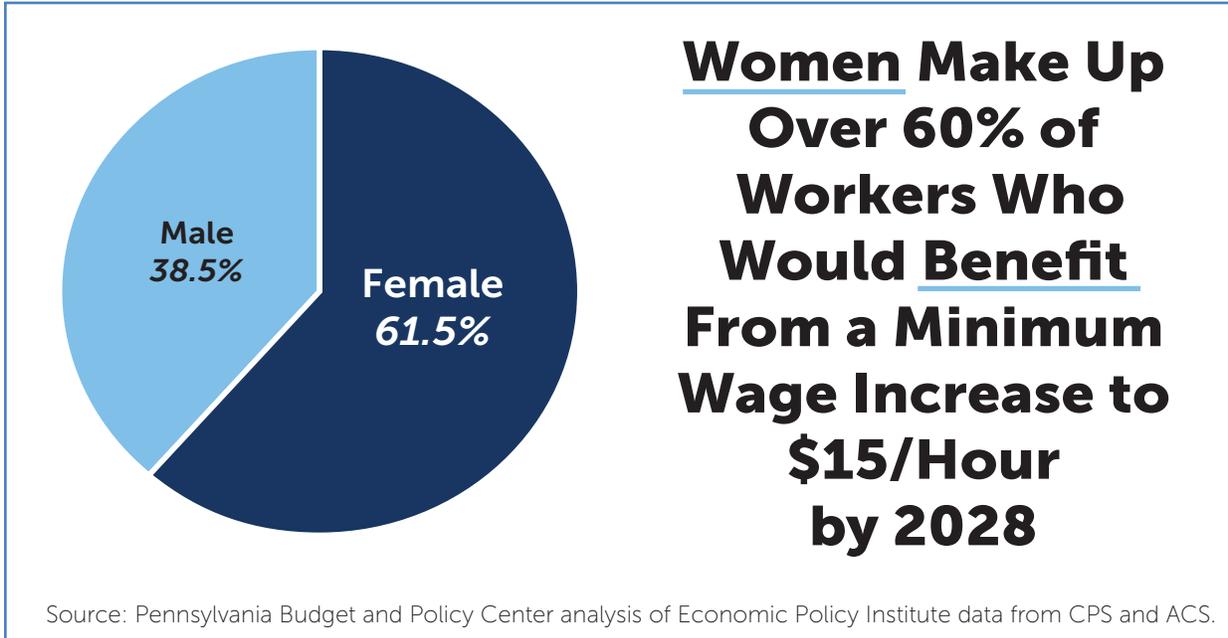
Once again, Governor Wolf has proposed an immediate increase of Pennsylvania’s minimum wage to \$12 per hour with 50 cent increases each year until it reaches \$15 per hour in 2028. Thirty states have higher minimum wages than Pennsylvania, including all of the states bordering ours. The governor’s proposal would eliminate the tipped minimum wage—which has been \$2.83 since 1998—for restaurant and many other workers so there would be one fair wage in Pennsylvania. It would also link the minimum wage to inflation once it reached \$15 per hour, so that the minimum wage would increase with inflation. The governor’s proposal would end local preemption, which would rightly give local governments the ability to raise the minimum wage if local residents and leaders believe it is the best thing for their city or county.

Raising the minimum wage is critical for low-income workers and their families. A higher minimum wage would increase workers’ ability to pay for life’s necessities. Raising the minimum wage would also benefit the Commonwealth as a whole as a greater number of Pennsylvanians spending more money would bring the state additional revenue. In 2022-23, an increase in the minimum wage would lead to an additional \$74.6 million in revenue for the state. By 2028-29, this increased wage would generate an estimated \$214.2 million.

Our current minimum wage of just \$7.25 per hour amounts to an annual income for full-time work of only \$15,080—this is a woefully inadequate wage for a single adult, much less for those with a family. Raising the minimum wage would impact an estimated 1.5 million workers in Pennsylvania (directly or indirectly) by 2028, which is nearly 25% of our state’s workforce. Below, we discuss who would benefit from such an increase—both those who currently make less than \$15 per hour and those who make slightly more but would see an increase as base wages rise.

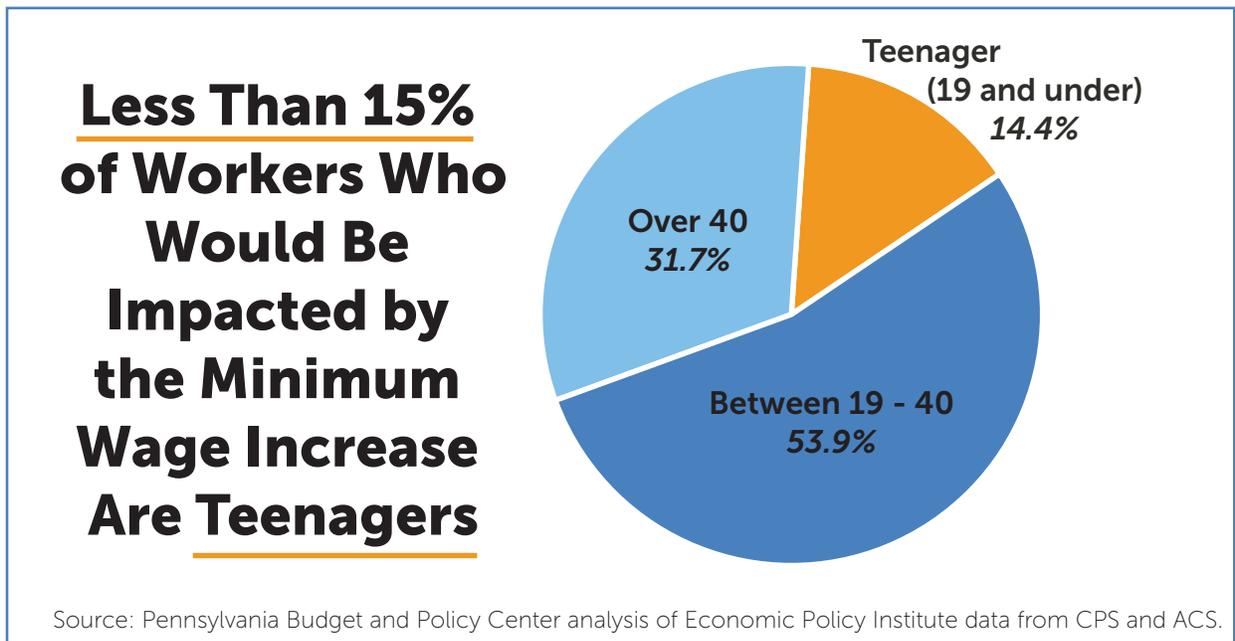
A higher minimum wage would benefit both men and women, but nearly two-thirds (61.5%) of the workers who would benefit from a minimum wage increase by 2028 are women.

Figure 7



Individuals in all age groups hold minimum wage jobs, not just teenagers. Teenagers make up only 15% of workers who would see a wage increase by 2028 if Governor Wolf’s increase is implemented.

Figure 8



White, non-Hispanic workers make up 69% of workers who would see an increase by 2028. (White workers make up 79% of the total workforce.) Black and Hispanic workers would be disproportionately benefited: Black, non-Hispanic workers make up 9% of our state’s workforce yet make up 14.4% of those workers who would benefit from a \$15/hour minimum wage and Hispanic workers make up 6% of the workforce but represent 11.6% of workers who would benefit from an increase.

Figure 9

### White Workers Make Up Most of The Workers Who Would Benefit From a Minimum Wage Increase; Larger Shares of Black and Hispanic Workers Would Benefit

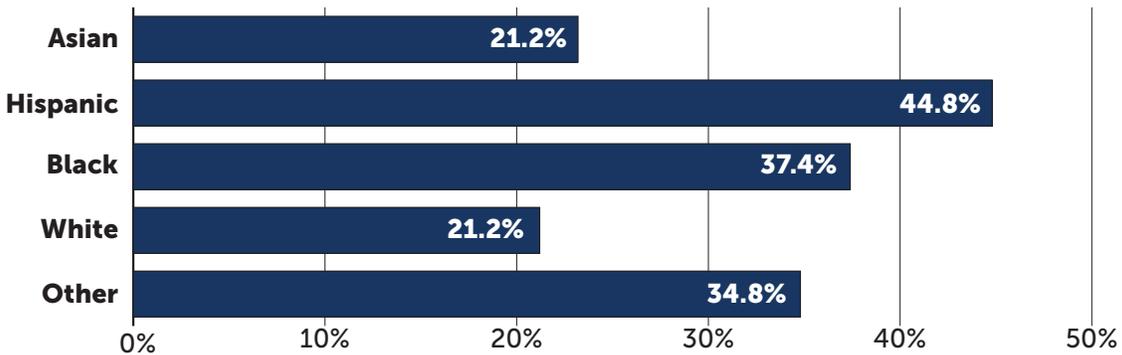


Source: Pennsylvania Budget and Policy Center analysis of Economic Policy Institute data from CPS and ACS.

As Figure 10 shows, 45% of our state’s Hispanic workers and 37% of Black workers would see higher wages if this minimum wage increase were implemented.

Figure 10

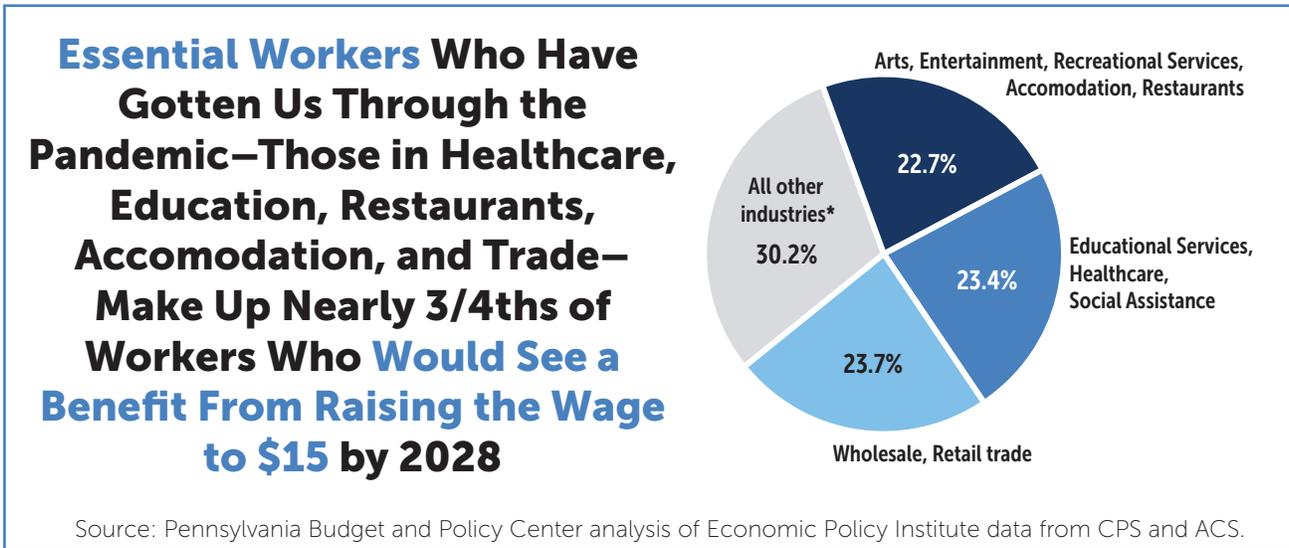
### Share of Workers in Each Racial/Ethnic Group That Would Benefit From a \$15 Wage in 2028



Source: Pennsylvania Budget and Policy Center analysis of Economic Policy Institute data from CPS and ACS.

Figure 11 shows which workers, in which industries, would benefit from an increased minimum wage. Many of the workers who have helped get all of us through the pandemic would see an increased wage with this policy. In fact, healthcare, education, restaurant, accommodation, and retail and wholesale trade workers make up nearly three-quarters of the workers who would see a benefit by 2028.

Figure 11



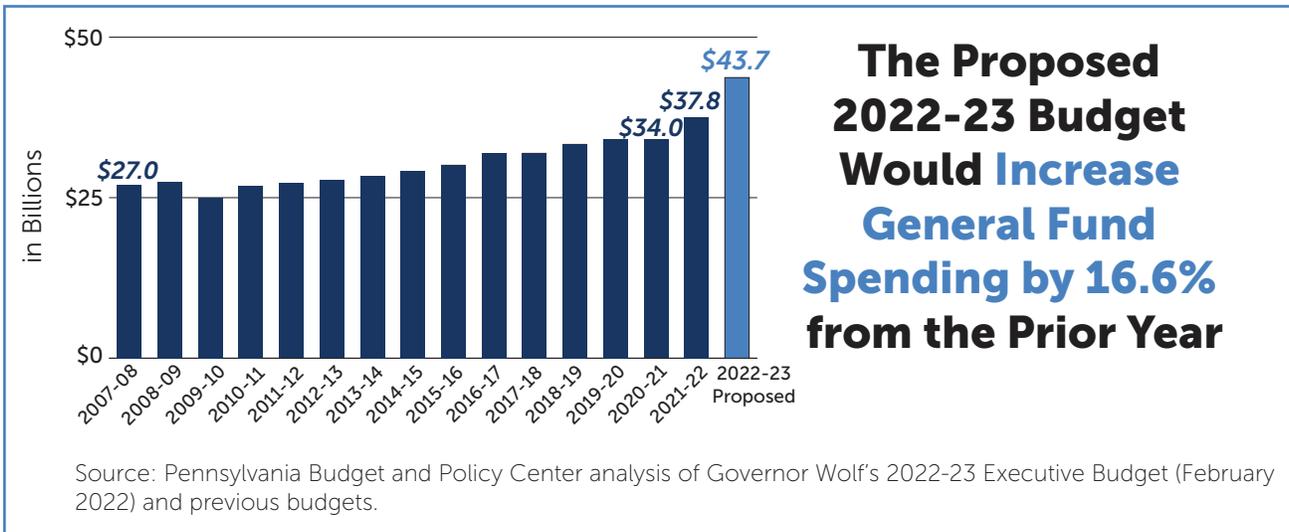
### State Police

Currently, \$600 million of funds for the Pennsylvania State Police (PSP) comes from the Motor License Fund. The governor is proposing an additional \$141 million from the General Fund be used to reduce PA State Police reliance on the Motor License Fund. This investment from the General Fund would free up Motor License Fund money needed for bridge and road repairs, as well as position Pennsylvania to receive greater federal infrastructure funding.

### General Fund Expenditures

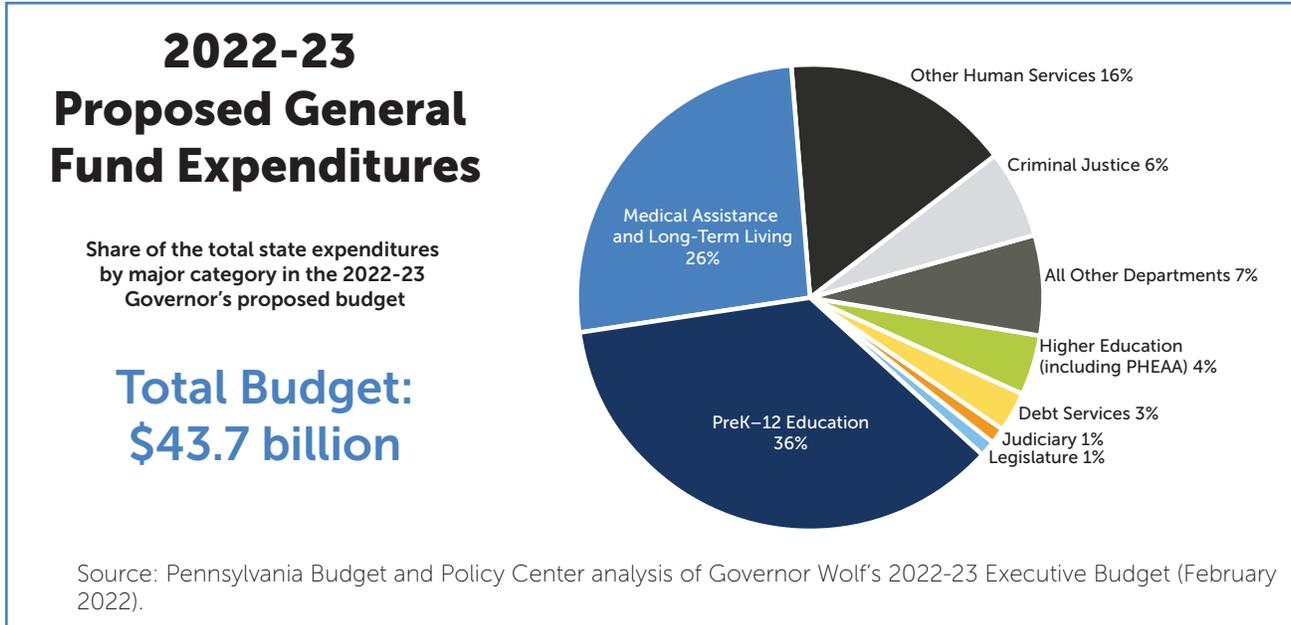
In his final budget proposal, Governor Wolf proposes a \$43.7 billion 2022-23 budget, which would be a 16.6% increase from 2021-22.

Figure 12



As Figure 13 shows, most of Pennsylvania’s General Fund is spent on education and human services. The governor proposes that 36% of preK-12 funding come from the General Fund and that 42% of the fund would go to Medicaid, long-term care, and other human services programs. Criminal justice is the next-largest spending category at 6% of the budget.

Figure 13



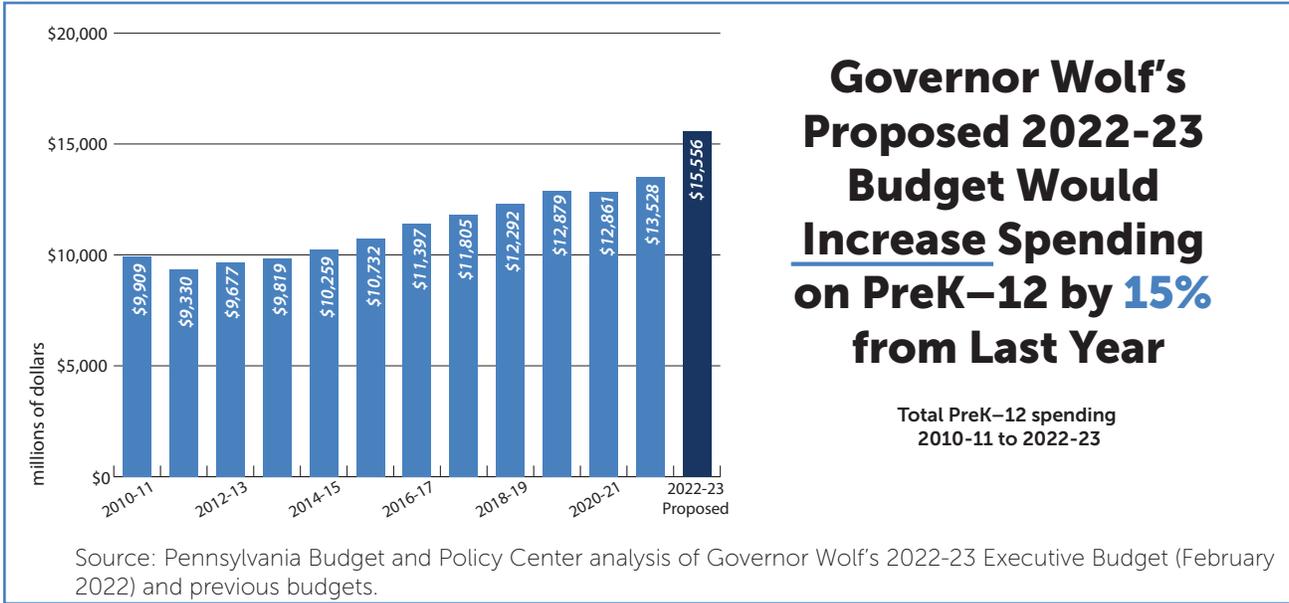
## Education

Pennsylvania's education system consists of 500 school districts, 2,900 schools and early childhood centers, 14 Pennsylvania State System of Higher Education (PASSHE) universities (which are in the process of being consolidated into eight), and four state-related universities. Governor Wolf has made education a focus of his administration, making strong investments in pre-K, K-12, and higher education. In many cases, these investments have been significant, but they've not been enough to solve the great inequities within the Pennsylvania education system.

### PreK-12 Education

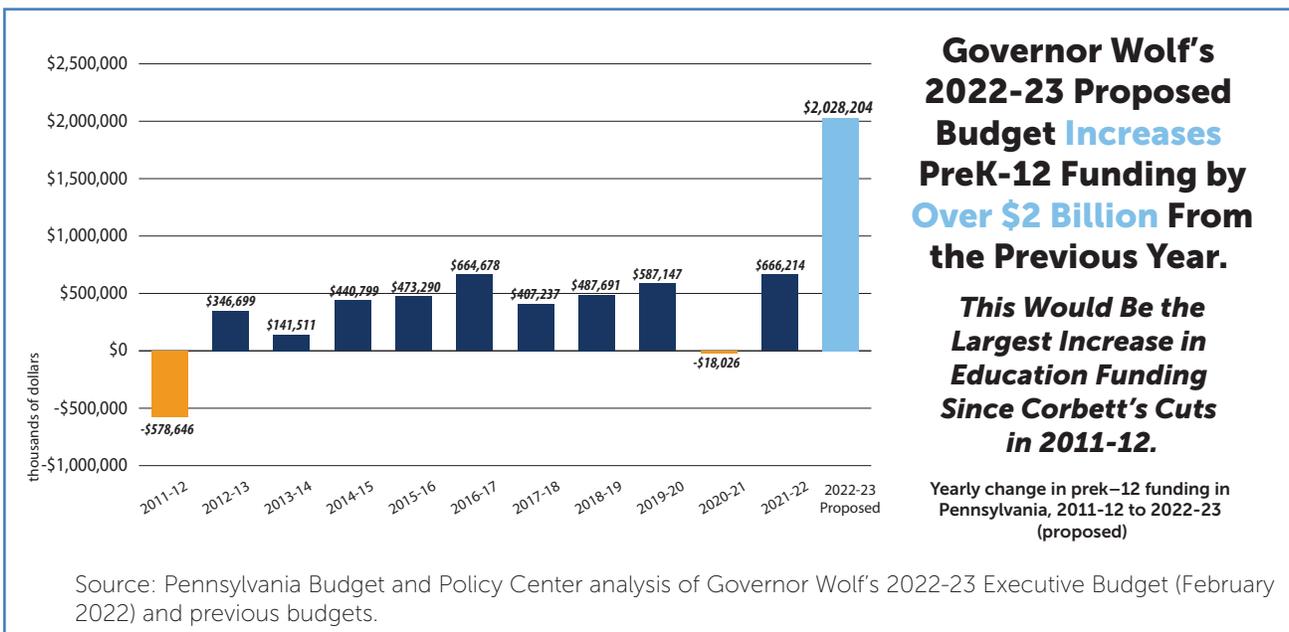
For 2022-23, Governor Wolf proposes adding 15% to preK-12 education spending, bringing the proposed total to \$15.6 billion. Due to the pandemic, preK-12 education was flat-funded between 2019-20 and 2020-21. Last year, preK-12 funding increased by 5.2%. If passed, this education budget could make significant progress in beginning to solve our education funding problems.

Figure 14



As Figure 15 shows, the proposed increase to preK-12 funding is more than three times the highest increase over the last decade. This proposal would increase funding by more than \$2 billion over the previous year. Last year, the state increased preK-12 funding by \$666 million, far less than the \$1.77 billion Governor Wolf's is proposing to add. Given Pennsylvania's rosy financial picture, this is the year to go big with education funding so we can begin to solve the long-standing education funding challenges we face.

Figure 15



The above figures include the total preK-12 education funding, but we also like to look specifically at what we call "classroom funding," which excludes line items like pensions and transportation that don't directly relate to teaching. When we look at classroom funding in Governor Wolf's proposal, we can see that the proposed increase is even larger at 22.7% over the 2021-22 enacted budget.

Figure 16

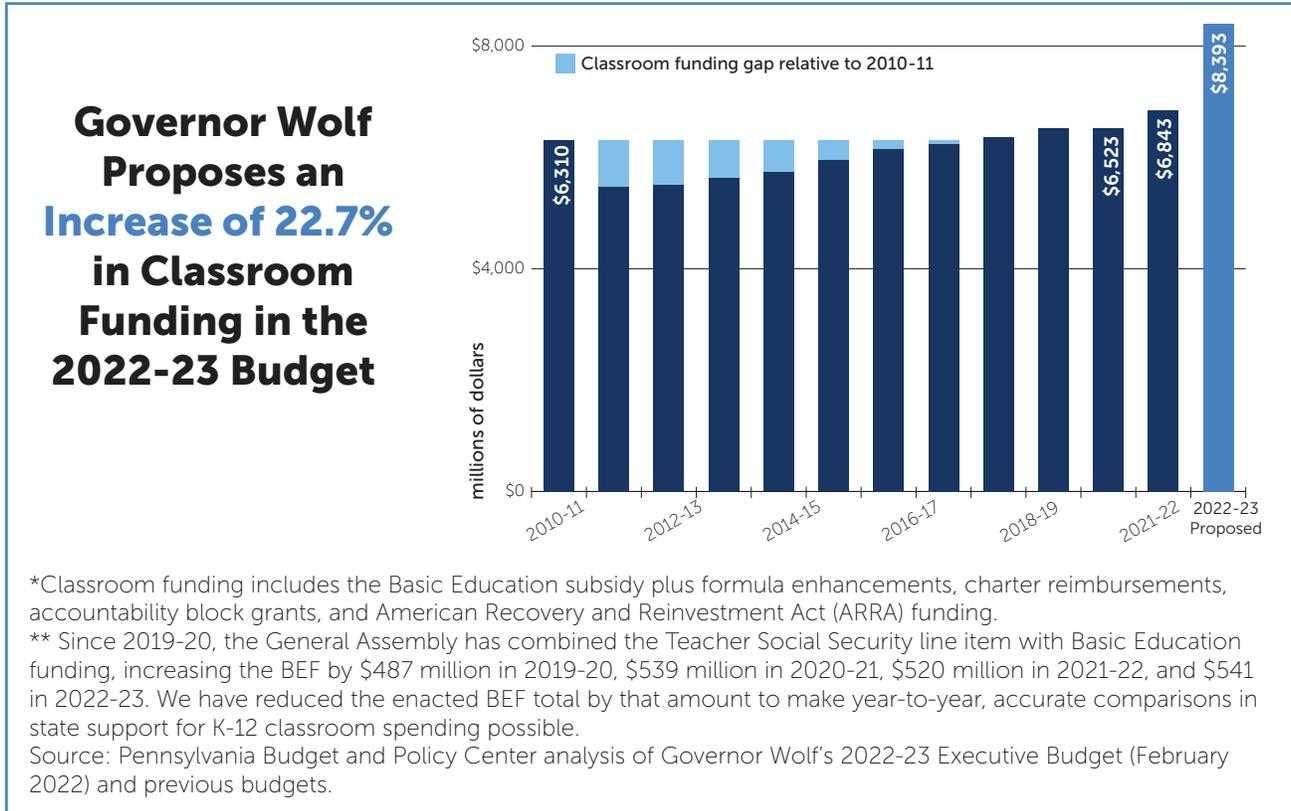
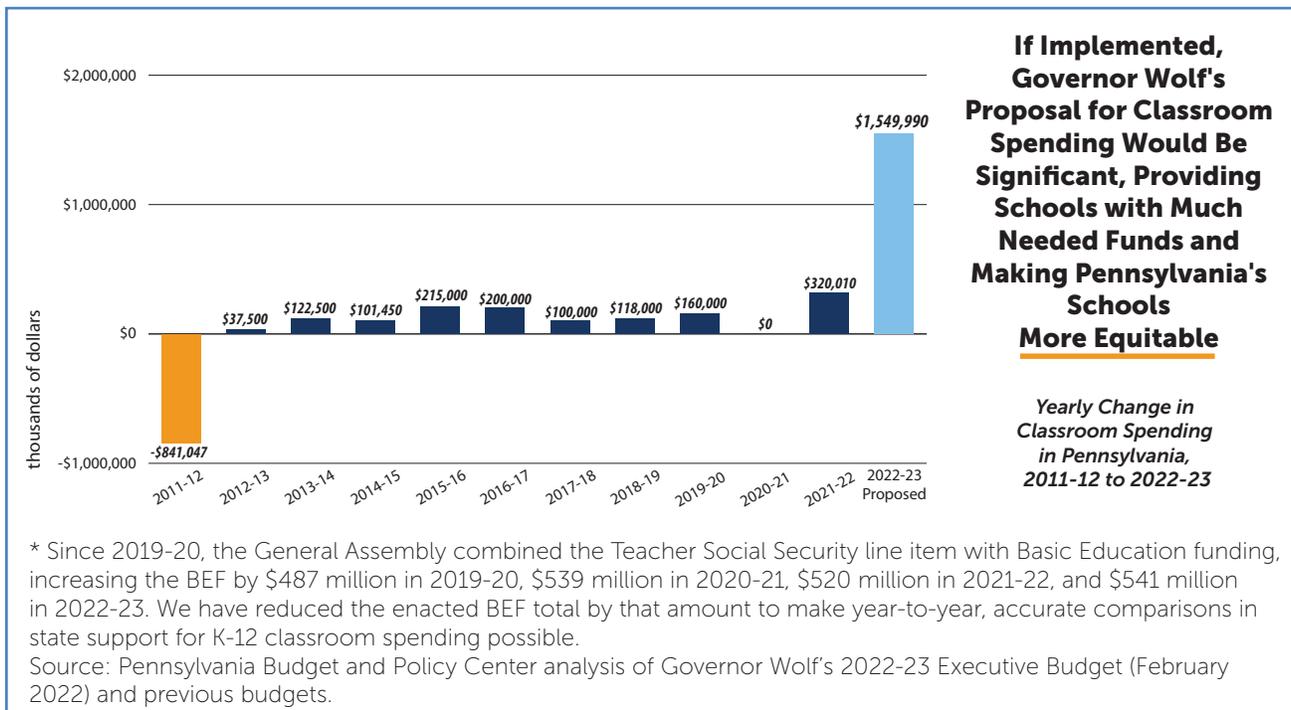


Figure 17 shows the year-to-year change in classroom funding since Governor Corbett's substantial education cuts in 2011-12. This figure shows the sizable increase that Governor Wolf is proposing, \$1.5 billion, an increase almost five times larger than last year.

Figure 17

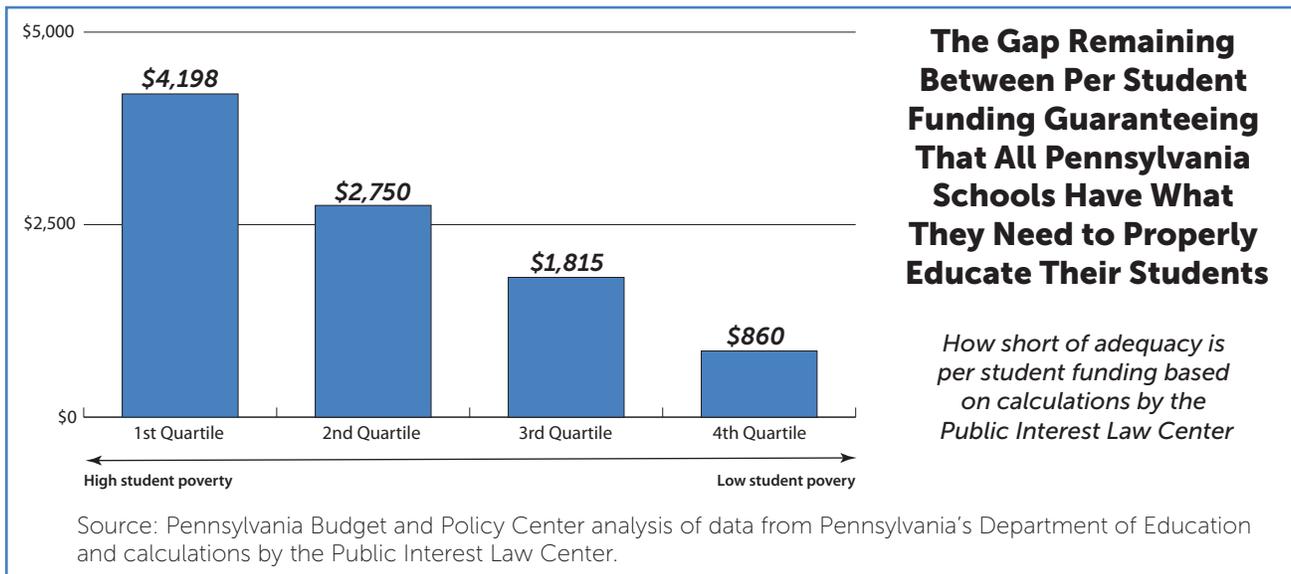


## Basic Education Funding and Funding Inequities

Pennsylvania needs to invest far more to adequately fund our public schools.<sup>1</sup> In 2014, the Public Interest Law Center and the Education Law Center-PA filed a lawsuit against the Commonwealth claiming that the current level of education funding violates the state constitution’s mandate of a “thorough and efficient” system of public education. The trial began in November 2021 and closing arguments were given on March 10. The Public Interest Law Center estimates that an additional \$4.1 billion in school funding is needed to provide an adequate level of funding to each school district.

Below, Figure 18 divides up Pennsylvania’s 500 school districts into four groups (with nearly equal numbers of students) by the share of students living in poverty. The 1st quartile includes school districts that have the highest share of families living in poverty, while the 4th quartile includes the districts with the lowest share. The gap remaining to reach adequate funding is much greater for high-poverty districts than low-poverty districts. High-poverty school districts need an average of \$4,198 in additional funding per student to provide an adequate education. The average low-poverty school district needs only an additional \$860 per student.

Figure 18



## The Basic Education Funding Formula and Governor Wolf’s Bold Education Proposal

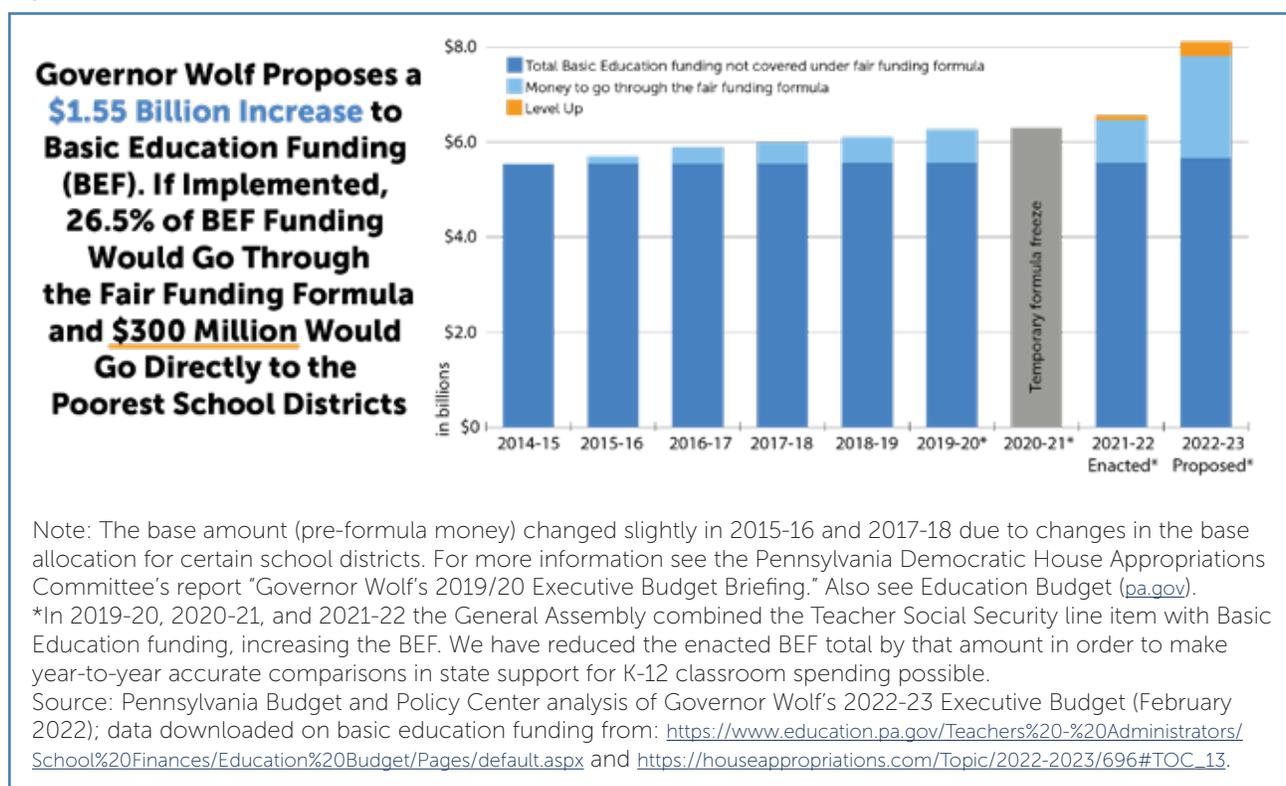
To address existing funding inequities in Pennsylvania’s schools, the legislature enacted a new method of distributing state aid to school districts in 2015-16, known as the “fair funding formula.” The formula requires all basic education funding since 2014-15 go through a formula that takes into account each district’s distinct needs, including the number of students, the number of children living in poverty, the number of English-language learners, the overall wealth and income of district residents, and the “tax effort” made by each district. However, under what is called the “hold-harmless” rule, only increases in basic education funding that began in 2015-16 go through the formula, while the rest of basic education funding is distributed as it was before that fiscal year.

1 For more information on the cost of adequate education funding in Pennsylvania, see the Public Interest Law Center 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/casesand-projects/befc-adequacy-calculation/>.

As you can see in Figure 19 below, the amount of money going through the formula slowly increased between 2015-16 and 2019-20 but was still a small percentage of the total Basic Education Funding (BEF), which has historical inequities baked in. In 2020-21, there was a temporary freeze on the formula. In 2021-22, funding running through the formula increased again; plus, a new distribution mechanism called “Level Up” was implemented, which distributed an additional \$100 million to Pennsylvania’s 100 least-well-funded schools—that is those with the lowest spending per weighted student (includes weights for poverty, English language learners, charter school students, and special education students). While this was a step forward, the share of funding going through the fair funding formula was only about 14% in Fiscal Year 2021-22.

This year, Governor Wolf is proposing a \$1.55 billion increase to Basic Education Funding, which would increase the share of funding going through the formula to 26.5%. On top of that, the governor proposes that \$300 million go directly to the state’s 100 poorest school districts through Level Up.

Figure 19

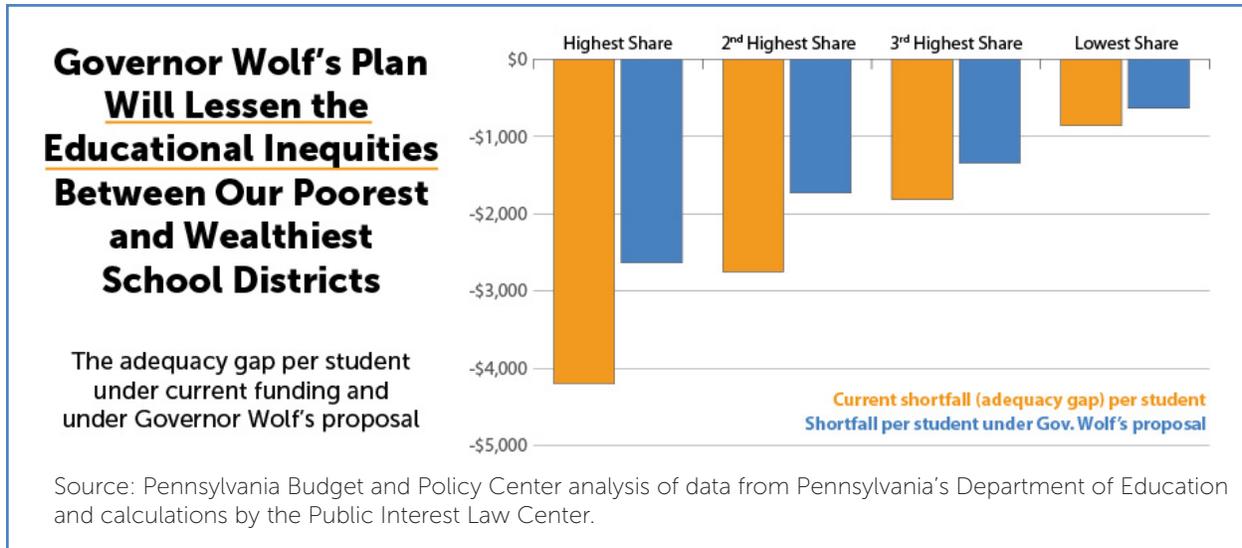


Governor Wolf’s proposed state funding reform for education would begin to correct the economic and racial inequities within Pennsylvania’s current education funding system. The following three charts examine the impact of the governor’s K-12 education funding on the equity of school funding based on three characteristics of school districts: poverty rate, Black student share, and Hispanic student share. In our analysis we divide school districts into four groups or “quartiles,” each educating one-quarter of the K-12 public school students in the state, based on the share of school district families living in poverty, the share who are Black, and the share who are Hispanic. Although it wouldn’t yet solve all our school funding problems, the governor’s proposal would dramatically increase the equity of school funding based on poverty and the districts’ shares of Black and Hispanic students.

Figure 20 shows that the poorest districts, which educate one quarter of Pennsylvania K-12 students, would see the greatest reduction in the adequacy shortfall—from the current \$4,198 per student

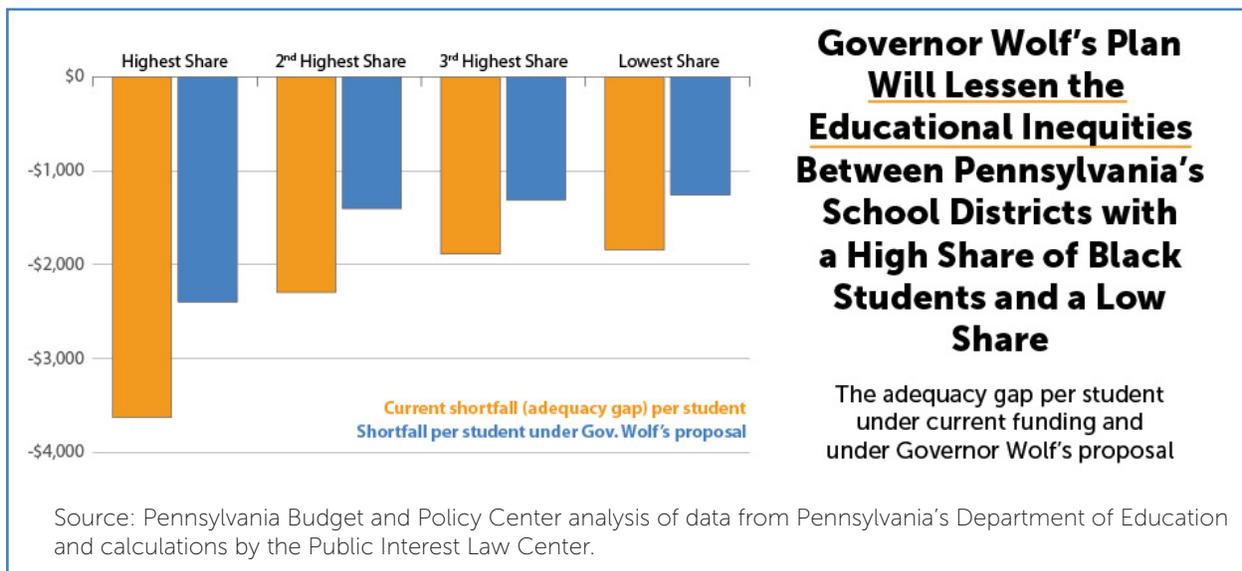
shortfall to a \$2,638 shortfall if Governor Wolf’s plan were to be implemented (including the increase in BEF and the Level Up money). School districts in the other three quartiles would also see a reduction in this gap.

Figure 20



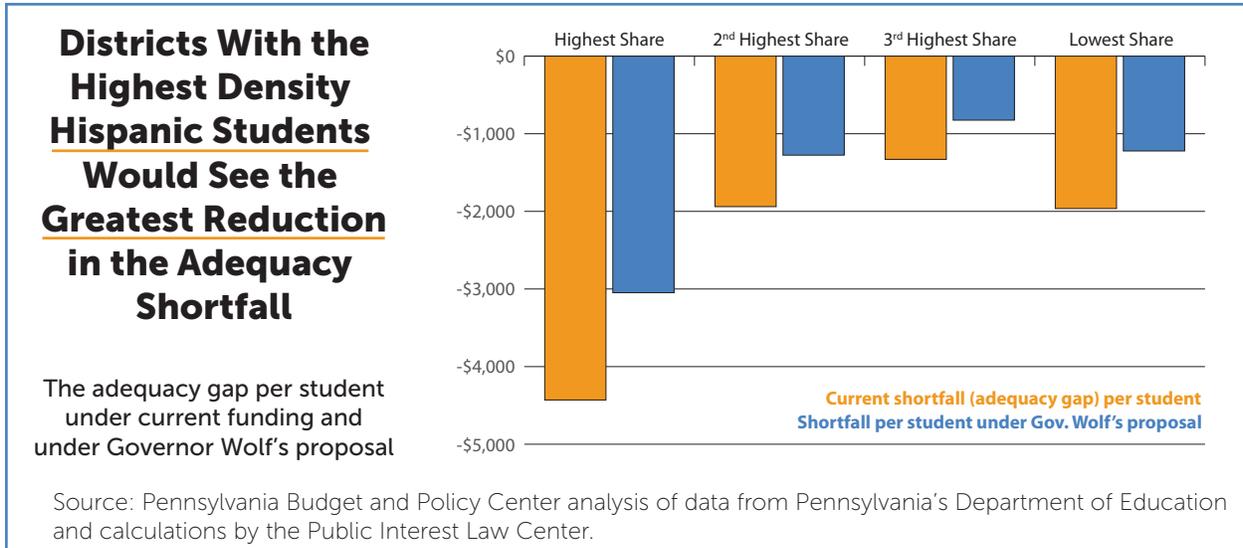
The next figure shows how Governor Wolf’s plan would address the adequacy shortfall in the quartiles organized by the share of Black students. As you can see, districts with the highest share of Black students would see the greatest adequacy shortfall reduction—from a shortfall of \$3,626 per student to \$2,395.

Figure 21



Districts with a high share of Hispanic students, who also concentrate in the poorest districts, would also see the largest reduction in the adequacy shortfall.

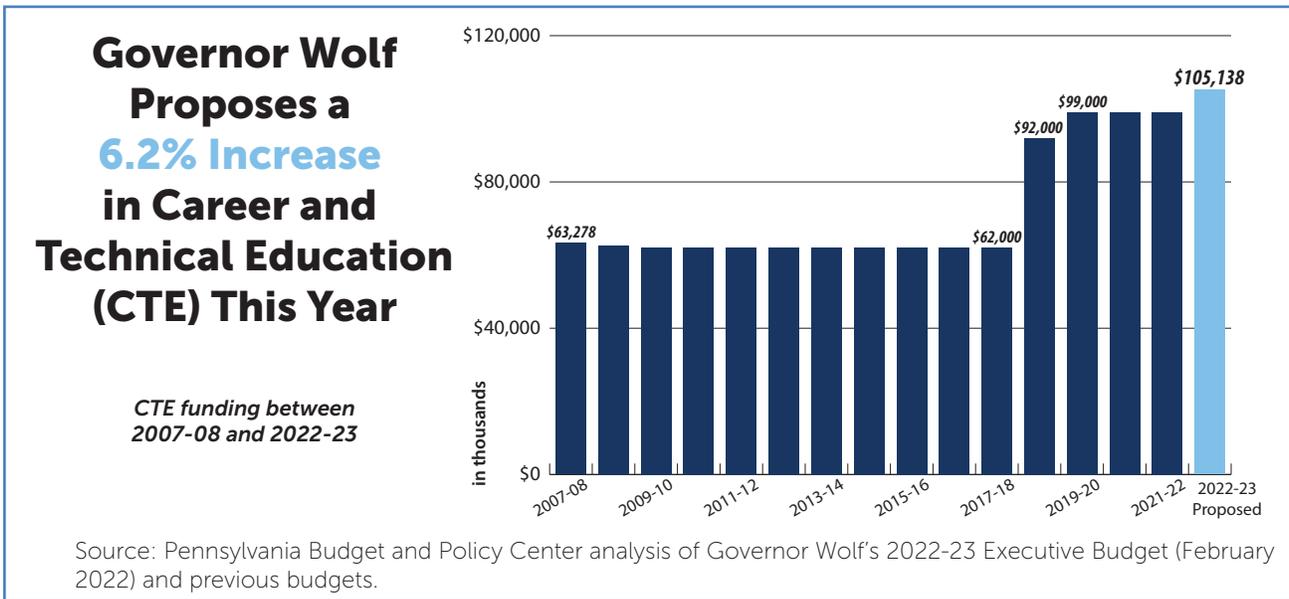
Figure 22



### Career and Technical Education

Governor Wolf is proposing an increase of 6.2% in Career and Technical Education (CTE) funding, bringing the amount to \$105 million so more students can get access to hands-on, relevant skills that will prepare them for the workforce. And under the governor, funding for CTE rose by \$30 million in 2018-19 after being flat-funded for at least ten years.

Figure 23



### Charter School Reform

This year, Governor Wolf is proposing another charter school funding formula reform. These are much-needed reforms that would save the Commonwealth \$373 million per year. The reforms consist of two main changes.

The first part of his plan would standardize the special education funding formula—the state’s current method for calculating charter school tuition payments is outdated. Charter schools are assumed to have a special education population of 16%, a percentage that is often inflated and does not take into account the level of services these students need. Public schools, on the other hand, receive funding based on a three-tiered formula for Special Education funding—so the more services a student needs, the more funding a school district receives for educating that student. The fact that charter schools receive the same amount of tuition from a school district for each special education student regardless of the services those students need—combined with the absence of any requirement that this money actually be spent on special education services—creates a perverse financial incentive for charter schools to enroll those special education students who require fewer, less intensive services. The governor proposes that charter schools abide by the same tiered Special Education funding formula that school districts do. This reform would save the Commonwealth an estimated \$174 million every year.

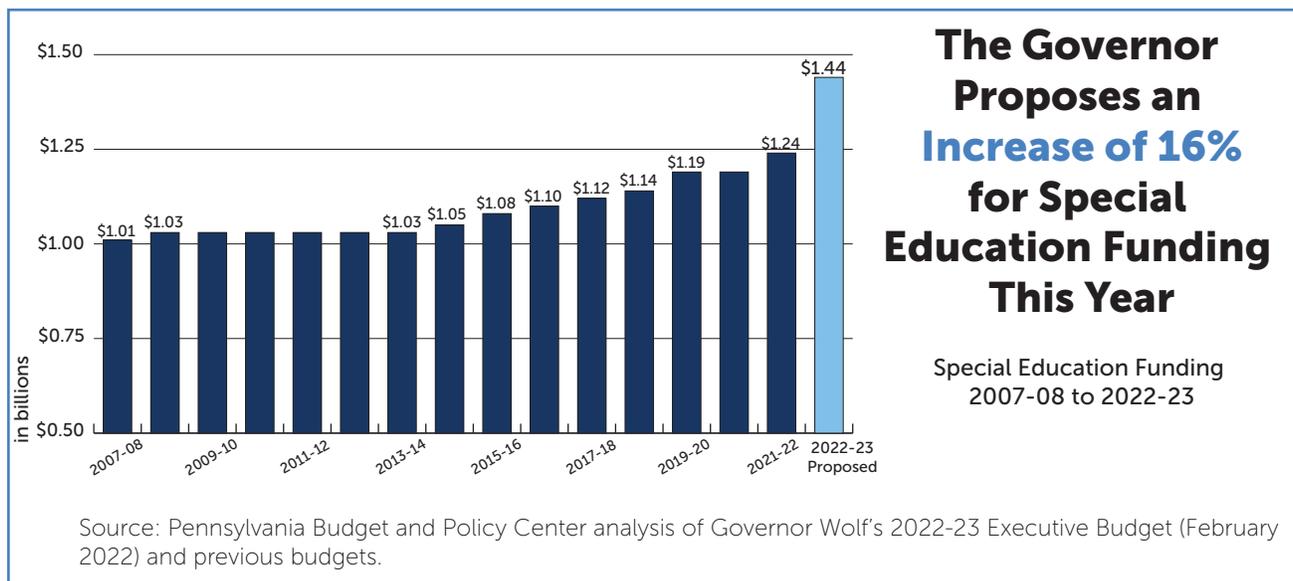
Second, the governor proposes a statewide cyber charter tuition rate. Currently, cyber charters in Pennsylvania charge school districts between \$8,306 and \$36,204 per student each year—this is much more than the typical tuition charged by Intermediate Units for online education, which is around \$5,400 per student for the year. The governor proposes a set amount of \$9,800 for cyber charter tuition per student for cyber charters. Due to the pandemic, the number of students educated at cyber charters has ballooned. Enrollment went from 38,000 in 2019-2020 to 61,000 in 2020-2021. Governor Wolf’s cyber charter reform would save the state an estimated \$199 million a year.

### Special Education

State and federal law mandate that school districts cover the costs of educating students with special needs. The need for special education services has grown, but state funding has not kept up, putting enormous strain on local school districts to cover the costs. And, to cover these growing costs, school districts need to either raise property taxes or cut other programs that are not mandatory.

This year, the governor proposes a 16% increase in special education funding. (During his tenure in office, Governor Wolf has slowly increased special education funding after years of flat funding.)

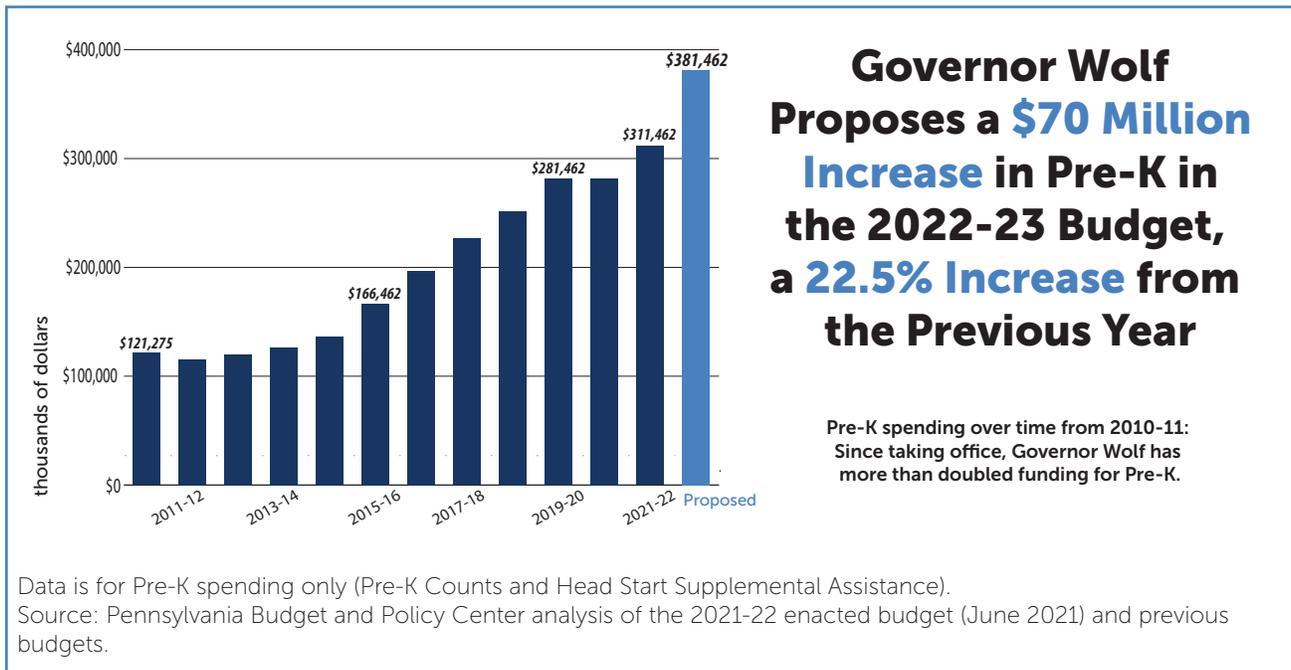
Figure 24



## Early Childhood Education

Investments in early childhood education make a tremendous impact on a child's future school performance and success. Since taking office, Governor Wolf has more than doubled funding for early childhood education. This year, he proposes a \$70 million increase in pre-K funding, an increase of 22.5%. This includes \$60 million more for the Pre-K Counts program and \$10 million more for the Head Start Supplemental Assistance Program. Funding for Pre-K Counts would go towards rate increases for providers: a \$1,250 increase per full-time slot and \$625 per part-time slot. These increased rates would support the providers who have seen rising costs and enable them to pay teachers more. The governor's budget also adds 2,308 pre-K slots to serve more of Pennsylvania's families. Additional funding for Head Start won't produce any more slots but would meet growing costs of operating the program in Pennsylvania.

Figure 25



## Raising the Minimum Teacher Salary in Pennsylvania

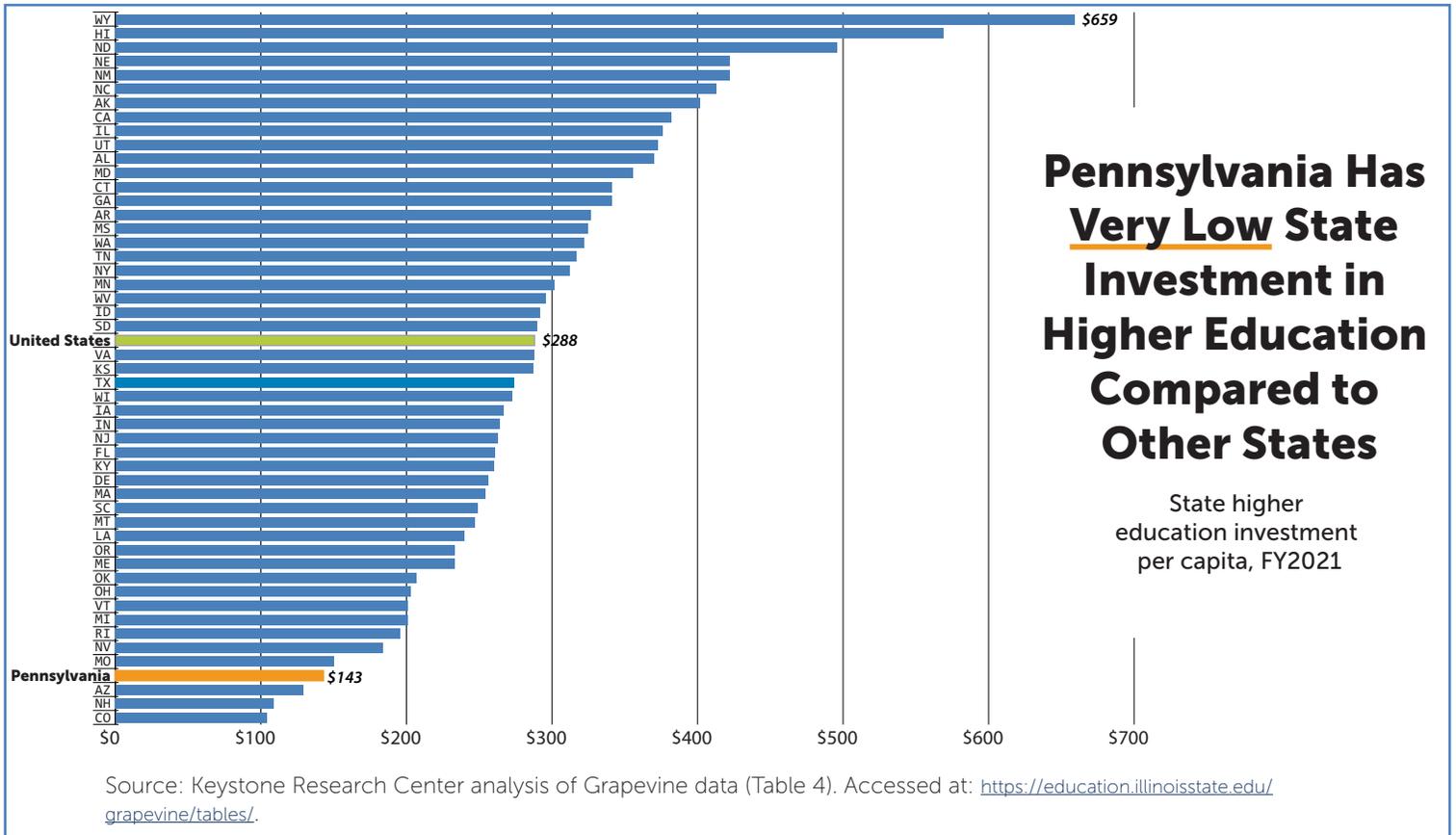
The minimum salary for Pennsylvania's teachers, school nurses, and counselors is only \$18,500. Set in the 1980s, it hasn't been raised since. Over the last ten years, low pay for teachers has made it more difficult for Pennsylvania school districts to attract and retain teachers and other education professionals in both rural and urban districts. Also challenging has been filling positions in special education, STEM, and English as a second language. For the third year, Governor Wolf has proposed to increase the minimum salary for teachers across the Commonwealth to \$45,000 per year.<sup>2</sup>

## Higher Education

Pennsylvania currently under funds higher education. As Figure 26 shows, Pennsylvania ranks 47th in the nation for state per capita funding for higher education and at \$143 is about half the national average of \$288.

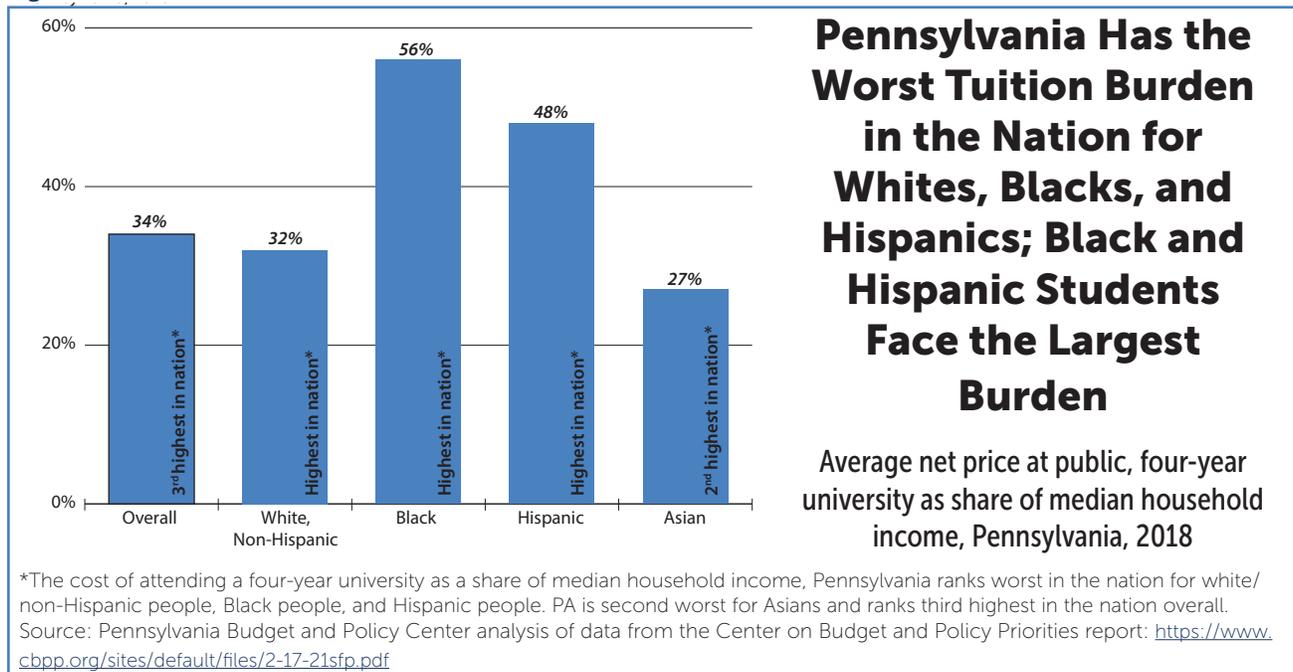
<sup>2</sup> Commonwealth of Pennsylvania Office of the Governor, "Executive Budget, 2022-2023," [https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23\\_Web%20Version.pdf](https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23_Web%20Version.pdf).

Figure 26



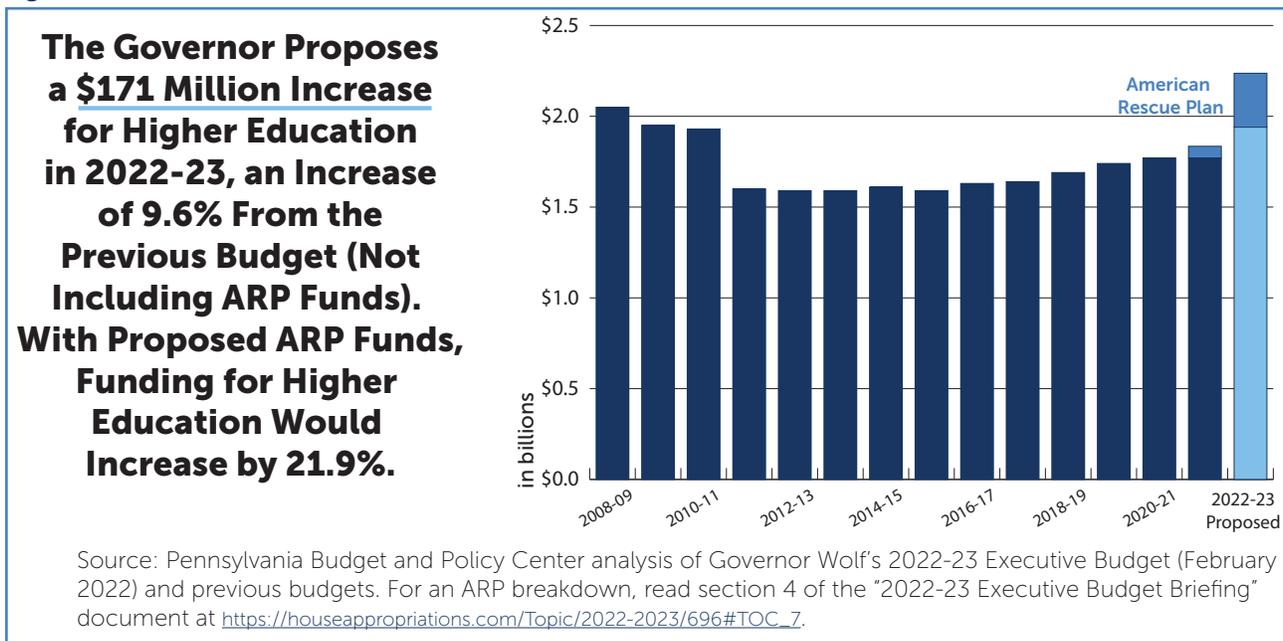
Pennsylvania’s low level of state funding leads to high tuition, which is a tremendous burden on our students. In fact, as Figure 27 shows, white, Black, and Hispanic students in the Commonwealth have the highest tuition burden in the nation. Black Pennsylvania students have the highest tuition burden with the net price of public, four-year universities costing 56% of the median household income. For Hispanic people, it is 48%, and for white people it’s 32%.

Figure 27



Governor Wolf’s final budget proposes a significant increase for higher education, which has been so poorly funded by the state in recent years. As Figure 28 shows, funding for higher education plummeted drastically due to the Corbett budget cuts in 2011/12. During Governor Wolf’s tenure, higher education funding has slowly crept up, but it has yet to reach the 2010-11 budget levels. This year, the governor’s proposal for higher education would finally surpass the 2010-11 budget level with a \$1.94 billion proposed budget (not including American Rescue Plan funds). With ARP funds, higher education would see a significant investment—one higher than we’ve seen for over a decade.

Figure 28



Last summer, the Pennsylvania State System of Higher Education (PASSHE), which includes 14 state-run universities, decided to merge six of its universities into two: California, Clarion, and Edinboro will keep their campuses but become one university, and Bloomsburg, Lock Haven, and Mansfield will merge in the 2022-23 school year.<sup>3</sup> We continue to believe that the consolidation plan is likely to prove self-defeating as it will lead to a further decline in student population.

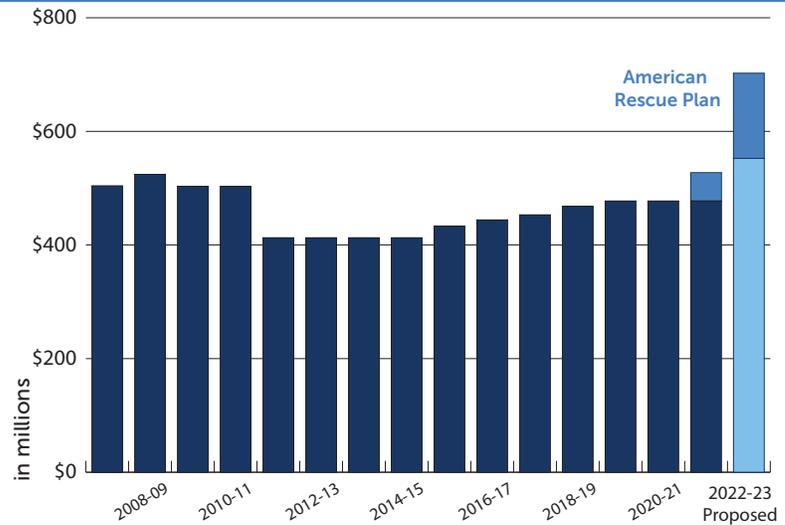
The figure below shows the serious reduction in state system funding since 2011-12. This year, Governor Wolf proposes a \$75 million increase in funding for PASSHE after being flat-funded at \$477 million for the last three years.

In addition to this funding increase via the General Fund, PASSHE has received a commitment of \$200 million in American Rescue Plan funds to help the state system complete the merger plan. Of that, \$50 million was allocated in 2021-22 and the governor’s budget proposes that the remaining \$150 million be allocated for 2022-23.

3 Nate Delesline III, “Pennsylvania State University System Merger,” Affordable Colleges, October 26, 2021, <https://www.affordablecollegesonline.org/college-resource-center/news/pennsylvania-school-merger-2021/#:~:text=Pennsylvania%20State%20University%20System%20Six%20of%20Pennsylvania%27s%202014,one%20university%20with%20three%20campuses%20in%20western%20Pennsylvania.>

Figure 29

**The Governor Proposes a \$75 Million Increase This Year in General Funds for the State System of Higher Education. With American Rescue Plan Dollars, PASSHE Would See More Funding Than They Have in the Last 15 Years.**



Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf’s 2022-23 Executive Budget (February 2022) and previous budgets.

Most other higher education institutions, including our community colleges and Pennsylvania’s state-related universities, would see a 5% increase in their budgets if Governor Wolf’s proposal were to be enacted.

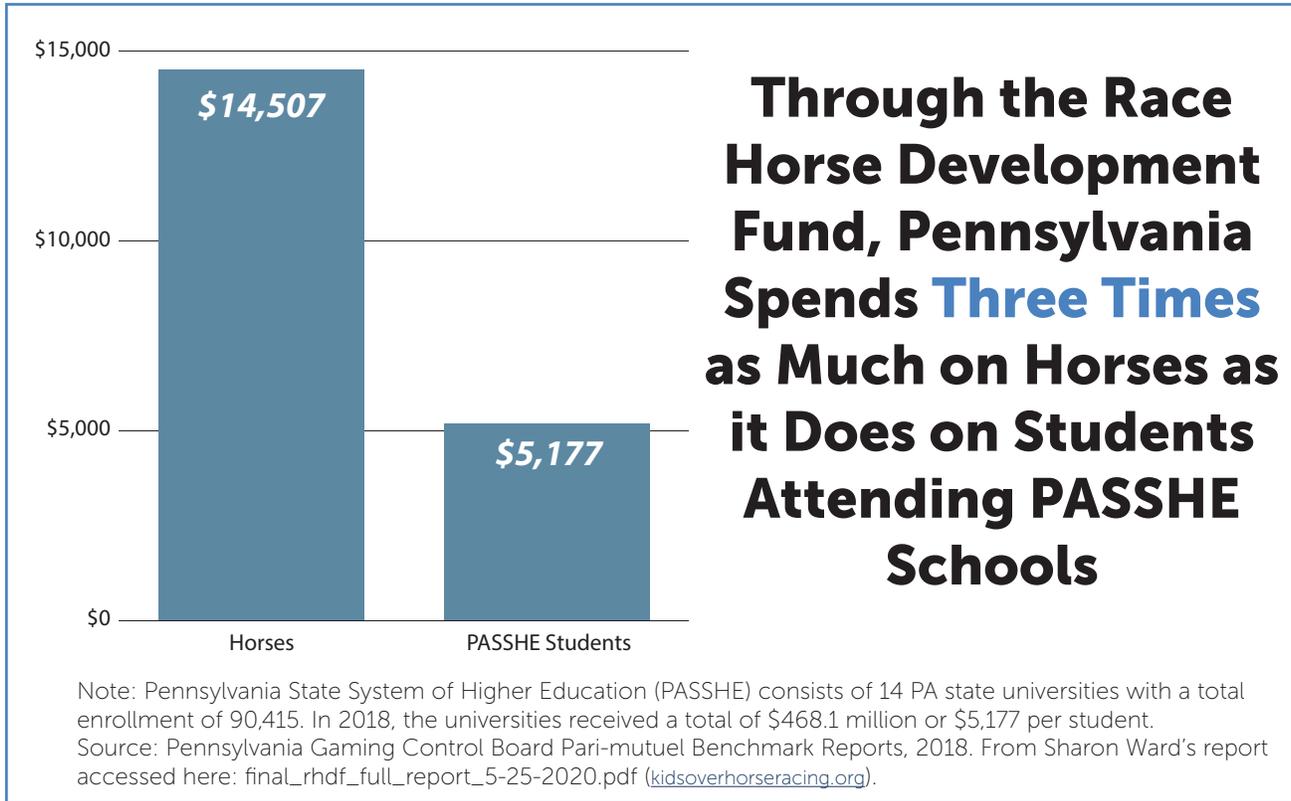
### Nellie Bly Tuition Program

The governor proposes a \$200 million investment in a need-based tuition program named the Nellie Bly Tuition Program. The program would support students attending one of Pennsylvania’s State System schools or to one of our 15 community colleges. The program would fund full-time students pursuing an education in fields critical to Pennsylvania’s future such as public service, health care or education. State funds would fill the gap between available financial aid and the tuition, fees, and other costs of college. Nelly Bly scholarships would be administered in the form of grants for as long as the student stays in the state for as many years after graduating as they benefited from the program. Grants would be converted to loans for students who move out of state before that time period is up.

The governor proposes that \$112 million for this initiative come from ARP funds, while the \$88 million remainder would be transferred from the Race Horse Development Fund. Race Horse Development funds are generated by annual slot machine revenue and are used to pay the prizes of race horses to horse owners. But as our partner Education Voters has shown, these funds are better spent on students in Pennsylvania.<sup>4</sup> Figure 30 shows that Pennsylvania spends nearly three times more per winning racehorse than we do on one college student’s education.

4 Sharon Ward, “The Race Horse Development Fund: How Pennsylvanians Bankroll the Sport of Kings,” Education Voters of Pennsylvania, May 2021, [https://www.kidsoverhorseracing.org/uploads/1/2/6/1/126191702/final\\_rhdf\\_full\\_report\\_5-25-2020.pdf](https://www.kidsoverhorseracing.org/uploads/1/2/6/1/126191702/final_rhdf_full_report_5-25-2020.pdf). Also, see <https://edvoterspa.org/race-horse-development-fund/>.

Figure 30



### Pennsylvania Higher Education Assistance Agency (PHEAA)

PHEAA will see a 15% increase in funds if Governor Wolf's proposed budget is adopted. PHEAA administers a state grant program that provides need-based aid to undergraduate students. The governor proposes a 12.8% increase of \$39.6 million to this program. The Ready to Succeed grant program would also see a significant increase, more than doubling in funding from \$5.6 million to \$16.4 million. This popular program provides merit-based scholarships to families with incomes of less than \$110,000 per year.

### Addressing College Hunger

Another of Governor Wolf's higher education initiatives is a program to reduce hunger among college students. This program would be a \$1 million Hunger-Free Campus Initiative in the form of grants to support colleges who are working to address food insecurity on their campuses. Food insecurity remains an issue on Pennsylvania campuses, especially with the high costs of college and the impact of the pandemic on family finances.

### Workforce Development and Economic Development

The governor has proposed to spend \$3.2 million to create a longitudinal data system that would track individuals over time with the potential to track people from early learning programs through employment.<sup>5</sup> State officials would use the system to help them understand the impact of educational and workforce development programs and to inform education and workforce decisions. The program would start as a pilot beginning with linking PASSHE and Labor and Industry workforce programs. Once

5 This line item is on p. E31-8 of Governor Wolf's 2022-23 Executive Budget.

the pilot is up and running, TANF, K-12, and preK would be added to the system so that longitudinal data could be tracked and linked.

In 2016, Governor Wolf created the statewide Apprenticeship and Training Office (ATO), which registers apprenticeships across the state and works to expand apprenticeship and pre-apprenticeship opportunities. Apprenticeship is a proven way to train qualified workers who learn while they earn, which also benefits employers who can have confidence in their employees' abilities and the quality of their work. The ATO is receiving \$7 million in flat funding this year and has increased the number of registered apprentices across the state from about 14,000 in 2016-17 to an estimated 18,000 in 2022-23.<sup>6</sup> The Industry Partnerships program, networks of businesses that work together across the state to solve workforce and other problems faced by their industry, is also flat-funded (\$2.8 million).

The governor proposes funding to support manufacturing enterprises and startups in Pennsylvania. This includes \$1.5 million in funding for the Industrial Resource Centers (IRC) to create a talent pipeline for manufacturing and \$1.5 million, a 15% increase, for the Partnerships for Regional Economic Performance Network, which supports entrepreneurship and start-up businesses. There is \$18 million in funding, a 124% increase, for the Ben Franklin Technology Development Authority to support startups in PA and \$2.35 million for "Invent PennState," which also supports startups.

## Human Services

Governor Wolf proposes a budget of \$18.34 billion for the state's Department of Human Services (DHS), which is 42% of the entire General Fund budget. The enacted 2021-22 budget for DHS was \$16.14 billion, but the updated budget for 2021-22 is less than expected—\$15.06 billion—as a result of the continuation of the enhanced Federal Medicaid Assistance Percentage or FMAP rate. This is due to the extension of the federal public health emergency declaration. The enhanced FMAP rate increases the federal share of state Medicaid spending by an additional 6.2 percentage points.<sup>7</sup> The additional federal funds for Medicaid in 2021-22, however, are partly offset by an estimated \$167 million in additional costs, leading to an overall reduction in DHS spending of \$1.08 billion.

As Figure 31 shows, more than three-quarters of human services spending goes to Medical Assistance, Long-Term Living, and Intellectual Disabilities.

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6 Commonwealth of Pennsylvania Office of the Governor, "Executive Budget, 2022-2023," E31-12, [https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23\\_Web%20Version.pdf](https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23_Web%20Version.pdf).

7 The federal government provided an additional 6.2% FMAP to states as enacted via the Families First Coronavirus Response Act for eligible Medicaid costs. The 2021-22 budget assumed this expanded FMAP would continue until the end of December 2021, but Pennsylvania is currently eligible for extended FMAP through the end of this fiscal year.

Figure 31

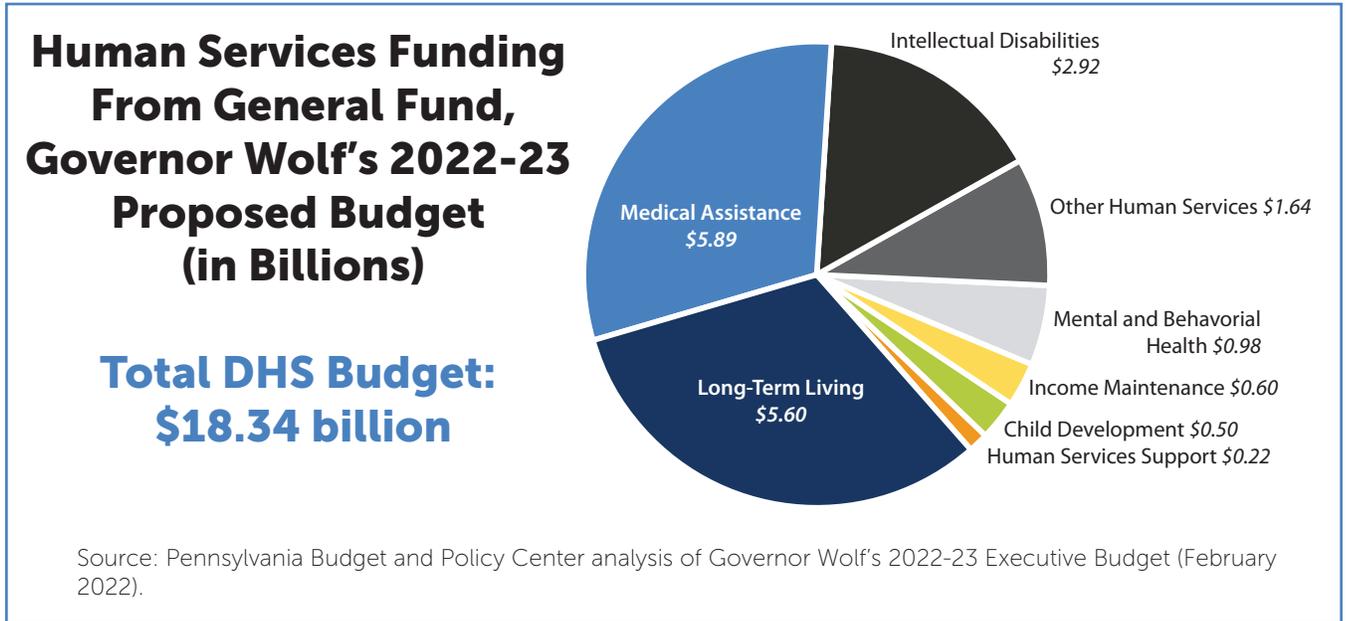


Table 5 shows human services funding by categories for the year before Governor Wolf took office, for last year, and for the governor's proposed 2022-23 budget. The governor's proposal for DHS is a 21.8% increase from the previous year. There are a number of factors that account for this large increase: they include decreasing federal aid, new initiatives, and the added costs of maintaining existing programs.

Table 5

| Human Services State Funding for 2014-15, 2021-22 and 2022-23 Budgets, in thousands   |                     |                     |                     |                                |   |                                |   |
|---|---------------------|---------------------|---------------------|--------------------------------|---|--------------------------------|---|
|   | 2014-15             | 2021-22             | 2022-23 Proposed    | Change from 2014-15 to 2022-23 | Percent change between 2014-15 and 2022-23 proposed | Change from 2021-22 to 2022-23 | Percent change between 2021-22 and 2022-23 proposed |
| <b>Medical Assistance and Long-Term Living</b>  |                     |                     |                     |                                |   |                                |   |
| Medical Assistance  | \$5,148,554         | \$5,129,518         | \$5,893,395         | \$744,841                      | 14%   | \$763,877                      | 14.9%   |
| Long Term Living  | \$1,454,131         | \$4,133,552         | \$5,596,216         | \$4,142,085                    | 285%  | \$1,462,664                    | 35.4%   |
| <b>Other Human Services</b>   |                     |                     |                     |                                |   |                                |   |
| Human Services Support*   | \$151,354           | \$213,055           | \$223,020           | \$71,666                       | 47%   | \$9,965                        | 4.7%  |
| Income Maintenance  | \$565,371           | \$515,517           | \$604,530           | \$39,159                       | 7%  | \$89,013                       | 17.3%   |
| Mental and Behavioral Health  | \$774,701           | \$879,619           | \$976,071           | \$201,370                      | 26%   | \$96,452                       | 11.0%   |
| Intellectual Disabilities   | \$1,529,359         | \$2,241,355         | \$2,915,135         | \$1,385,776                    | 91%   | \$673,780                      | 30.1%   |
| Other Human Services**  | \$1,204,942         | \$1,476,220         | \$1,638,653         | \$433,711                      | 36%   | \$162,433                      | 11.0%   |
| Child Development***  | \$451,510           | \$468,709           | \$495,397           | \$43,887                       | 10%   | \$26,688                       | 5.7%  |
| <b>Human Services Total</b>   | <b>\$11,279,922</b> | <b>\$15,057,545</b> | <b>\$18,342,417</b> | <b>\$7,062,495</b>             | <b>63%</b>  | <b>\$3,284,872</b>             | <b>21.8%</b>  |
| * Human services support includes general government operations and information systems.<br>** Other human services include line items such as County Child Welfare, Domestic Violence services and Homeless services.<br>*** Child Development includes Family Centers, Child Care Assistance, Child Care Services, Nurse Family Partnership, and Early Intervention.<br>Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2022-23 Executive Budget (February 2022) and previous budgets." |                     |                     |                     |                                |   |                                |   |

## Medical Assistance and Other Health Care Programs

Medical Assistance (MA) costs are budgeted to increase by 14.3% over last year for several reasons. The enhanced FMAP of 6.2% is expected to end, which means that an estimated additional \$2.2 billion in General Fund spending will be necessary to fill this gap. In addition, the base FMAP rate is expected to drop from 52.7% to 52%, requiring an increase in General Funds of \$165.4 million. At the same time, MA enrollment is expected to decrease by 4.9% with the end of the public health emergency. During such emergencies, the state is not allowed to terminate enrollment unless a recipient dies or moves out of state. Some MA recipients will transition to the state exchange for health coverage or to other programs, such as the Children’s Health Insurance Program (CHIP), while others may be left without coverage.<sup>8</sup>

## Long-Term Living and Community HealthChoices

Long-term living would see the largest increase within the Human Services budget due to increasing costs of continuing the program and decreasing federal funds. The elderly population is growing faster in Pennsylvania than in many other states, which both slows the growth in our tax base and increases the need for long-term care and other services. The IFO reports that the costs associated with meeting these long-term care needs is growing more than two times as fast as current revenue sources.<sup>9</sup>

Pennsylvania has completed its transition from multiple fee-for-service delivery systems to a consolidated, managed long-term care service system called Community HealthChoices (CHC) for individuals who are eligible for both Medicaid and Medicare, those who have physical disabilities, are older, and require long-term care services. The program helps older individuals age in place. Governor Wolf’s budget includes new programmatic initiatives for the long-term care.

The pandemic has hit the industry hard, affecting residents and staff alike. In January 2023, regulatory changes are to go into effect to make skilled nursing facilities safer by increasing the mandated number of hours of direct care per day. The governor proposes a \$91.25 million increase in state funds for Medical Assistance rates so skilled nursing facility providers would be able to hire additional staff to meet the new staffing ratios.

Personal care homes are residences that provide shelter, meals, and assistance with personal care tasks for older people or those with a disability (who are on SSI). These residences, especially those that support low-income individuals, have been closing in Pennsylvania at a rapid rate in recent years. The governor proposes \$50 million for supplementary payments for personal care homes, increasing monthly payments from \$439 to \$1,351.

**Child Care and Child Care Works:** The child care industry and all its stakeholders—kids, working parents, child care staff and centers—have been hard hit by the pandemic. Without a robust and affordable child care industry, parents are either unable to go to work or they must make arrangements that are less than ideal. Businesses also suffer. The governor proposes additional investments of federal and state dollars for child care. This includes \$77.7 million in federal funds to the Child Care Works program to increase rates and ensure there is equal access to quality child care services. If passed, the reimbursement rate will have increased from 25% two years ago to 60% in 2022-23. This gets Pennsylvania closer to the federal government’s recommendation of 75% base rate for reimbursement

8 House Appropriations Committee staff, “2022/23 Executive Budget Briefing,” House Appropriations Committee, February 8, 2022, [https://houseappropriations.com/Topic/2022-2023/696#TOC\\_13](https://houseappropriations.com/Topic/2022-2023/696#TOC_13).

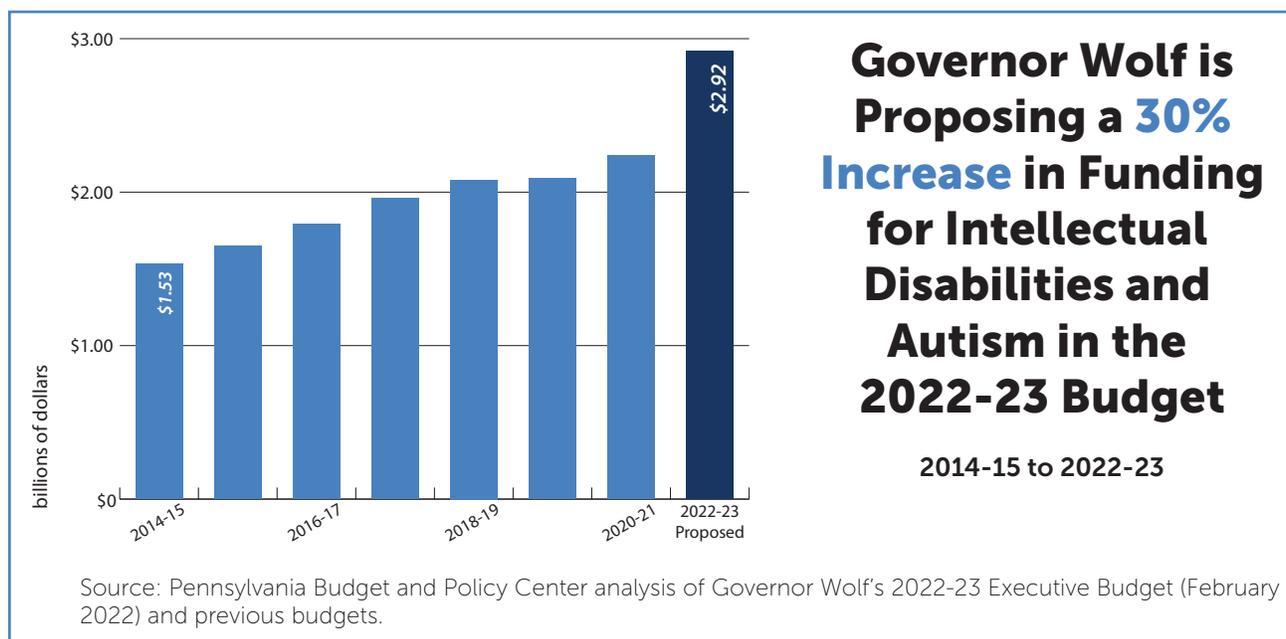
9 Secretary Teresa Miller, “2021-22 Appropriations Hearing Testimony, Department of Human Services, Secretary Teresa Miller,” [https://www.legis.state.pa.us/WU01/LI/TR/Transcripts/2021\\_0035\\_0001\\_TSTMNY.pdf](https://www.legis.state.pa.us/WU01/LI/TR/Transcripts/2021_0035_0001_TSTMNY.pdf).

of child care expenses. The Executive Budget also proposes \$44.3 million in federal funds to reduce the co-payment for families using the Child Care Works program and \$6.1 million in federal funds to expand the hours of child care works programs to support parents who work outside of a 9-5 work schedule. Governor Wolf also proposes to spend \$30 million for two new child care options for state workers—child care facilities for state employees and a progressive subsidy that state employees can use with a trusted provider.

**Supporting Individuals with Intellectual Disabilities:** Fifty years ago, all services for individuals with intellectual disabilities were provided in state institutions—but over time there was a national move towards more community-based care. In the current fiscal year, 678 people (or about 1.2% of all individuals receiving state services) are at state centers while about 54,680 are receiving community-based services.<sup>10</sup> The governor proposes an additional \$5.1 million to be used to transition individuals from institutions into the community.

A total of \$32.3 million, of which \$18.8 million comes from state funds, is proposed to support individuals with intellectual disabilities and autism. With this funding, 732 individuals would be able to move from the waiting list to the Community Living waiver program and 100 individuals from the waiting list to the PA Consolidated Waiver program. These programs help individuals live more independently in their homes and communities.

Figure 32



**Other Human Services Proposals for Fiscal Year 2022-23:**

- **Early Intervention:** This program works to improve the health outcomes and well-being of infants and their families, focusing on children ages 0 to 3 with developmental delays. The governor proposes \$1.2 million to add postpartum depression as an eligible tracking category for early identification of children in need of early Intervention services and proposes using federal dollars to increase funds for early intervention providers by 3%.
- **SNAP:** Governor Wolf proposes a \$14.3 million increase in SNAP benefits for low-income adults and adults with disabilities, increasing benefits from \$20 per month to \$35 per month. This

10 Pennsylvania Department of Human Services, “Governor’s Executive Budget: Appropriations Committee Hearings,” March 2022, <https://www.dhs.pa.gov/docs/Publications/Documents/Budget%20Information/2022-23-DHS-Blue-Book.pdf>.

program supports 75,000–95,000 eligible older adults and adults with disabilities. Funding for this program is included in the “cash assistance” line item. But there is no increase in TANF grant amounts, which have not been changed since 1990 (more on this below).

- Home visiting and post-partum support: The governor proposes adding \$15 million in state funds and \$8 million in federal funds for post-partum health and home visiting programs. This funding would support an additional 3,800 Pennsylvania families. The proposal also includes \$8 million for increasing postpartum coverage for birthing parents eligible for Medical Assistance from 60 days to 12 months.
- County mental health funds: The governor is proposing a \$36.6 million increase in state funds for county mental health services. These funds would support critical behavioral health services and address workforce shortages.
- Substance Use Disorder treatment: Overdose deaths have been increasing in Pennsylvania since 2020. The governor is proposing \$15 million in state funds as stabilization payments to substance use disorder treatment providers.
- Food Security: The budget includes \$2 million in new funding of the Pennsylvania Agricultural Surplus system in the Department of Agriculture to reduce food insecurity.
- Increase staffing levels for: 1) DHS: The governor proposes \$1.4 million for additional DHS staff to complete inspections of facilities, investigate complaints, and monitor corrective actions. 2) Department of Aging: Governor Wolf proposes a \$667,000 increase to hire new staff who would focus on strengthening existing protective services to address increases in elder abuse.<sup>11</sup>

**DHS savings would come with an increased minimum wage:** If Governor Wolf’s minimum wage increase is enacted, DHS would see overall savings. Costs would decrease as people transition off Medical Assistance, while some costs would increase due to increased rates of pay to County Child Welfare programs for children and youth caseworkers and in the field of child care who currently earn less than \$12 per hour. These changes would save DHS an estimated \$2.6 million.<sup>12</sup>

**Increases in TANF benefits missing from Governor Wolf’s final budget:** A noticeable hole in the governor’s proposed human service budget is no increase in the Temporary Assistance for Needy Families (TANF) grant amount. TANF grants are critical to Pennsylvania’s lowest income families. Since 2013, 24 states have increased their TANF grants, but Pennsylvania’s TANF grant has remained unchanged since 1990, providing just \$403 per month for a family of three, which is only 22% of the already low federal poverty level.<sup>13</sup> Pennsylvania spends little of its TANF money on cash assistance to support very low-income families. In 2020, 12% of Pennsylvania’s federal and state TANF funds were spent on basic assistance or cash assistance to families, while the national average is 22%. Pennsylvania spends more of its TANF funds on child care assistance than the national average (43% in Pennsylvania compared to the national average of 17%).<sup>14</sup> Rather than increasing TANF grant amounts, there appears to be a decrease in the TANF block grant budget line item by \$64 million, despite caseloads for TANF increasing.<sup>15</sup> TANF caseloads have been decreasing for years, but in September of 2021 we started to see an uptick. In January of 2022, there were 77,844 people (children and adults) who were receiving

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11 Commonwealth of Pennsylvania Office of the Governor, “Executive Budget, 2022-2023,” A1-13, [https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23\\_Web%20Version.pdf](https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23_Web%20Version.pdf).

12 House Appropriations Committee staff, “2022/23 Executive Budget Briefing,” House Appropriations Committee, February 8, 2022, [https://houseappropriations.com/Topic/2022-2023/696#TOC\\_13](https://houseappropriations.com/Topic/2022-2023/696#TOC_13).

13 Black Women’s Policy Agenda, Community Legal Services (CLS), Pennsylvania Health Access Network and Just Harvest, “Meet the Need: No Child Should Live in Deep Poverty,” Meet the Need Coalition, August 2021, <https://clsphila.org/wp-content/uploads/2021/08/Meet-The-Need-Report-FINAL.pdf>.

14 Center on Budget and Policy Priorities (CBPP), “Pennsylvania TANF Spending,” [https://www.cbpp.org/sites/default/files/atoms/files/tanf\\_spending\\_pa.pdf](https://www.cbpp.org/sites/default/files/atoms/files/tanf_spending_pa.pdf)

15 See Governor Wolf’s 2022-23 Executive Budget, p. E27-5 under line item titled “(F)TANFBG – Cash Grants.”

TANF benefits, up from 63,484 in August 2021.<sup>16</sup>

An increase in benefits would help families afford the most basic of necessities. Governor Wolf and the General Assembly should increase the TANF grant amount incrementally until it reaches at least 50% of the federal poverty level.<sup>17</sup> With the governor's focus on improving the lives of Pennsylvania's children and families, raising the TANF levels is a straightforward way to support our state's lowest-income families in times of crisis.

## Department of Health

The COVID-19 public health crisis has exposed the inadequacies in Pennsylvania's public health infrastructure. Nationally, spending for state public health departments has fallen by 18% since 2010. Pennsylvania's \$39 per capita spending on public health is seventh from the bottom among all states and Pennsylvania is one of just 10 states that spends less than \$50 per person on public health.<sup>18</sup>

The governor proposes a 7.8% increase to the Department of Health for a \$226.2 million budget. Part of this increase is due to the formation of two new, county-level health departments in Lackawanna and Delaware Counties. The governor proposes \$7.2 million to support the county and municipal health depts in Pennsylvania and \$4 million to enhance the public health workforce, improving the state's capacity to respond to large-scale public health emergencies.

## Department of Corrections and Criminal Justice Reform

Pennsylvania spends significant funding on incarceration. In fact, the Department of Corrections is now the third-largest department in the state budget. As Figure 33 shows, state funding for incarceration surpassed funding for higher education in 2011-12 after the Corbett cuts. Since then, funding for higher education has remained relatively flat, while funding for corrections has been increasing.

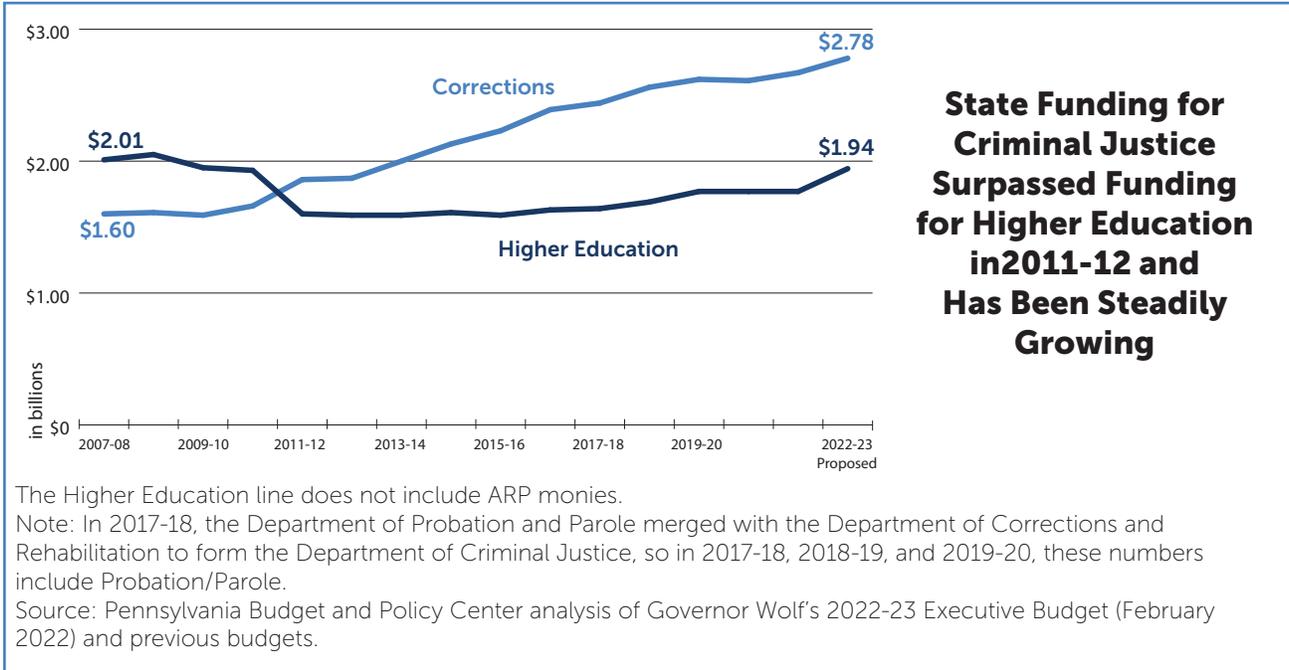
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16 PA Department of Human Services, "Monthly Data Report: January 2022," <https://www.dhs.pa.gov/about/Documents/2022-01-January-DHS-Data-Report.pdf>

17 Black Women's Policy Agenda, Community Legal Services (CLS), Pennsylvania Health Access Network and Just Harvest, "Meet the Need: No Child Should Live in Deep Poverty," Meet the Need Coalition, August 2021, <https://clsphila.org/wp-content/uploads/2021/08/Meet-The-Need-Report-FINAL.pdf>.

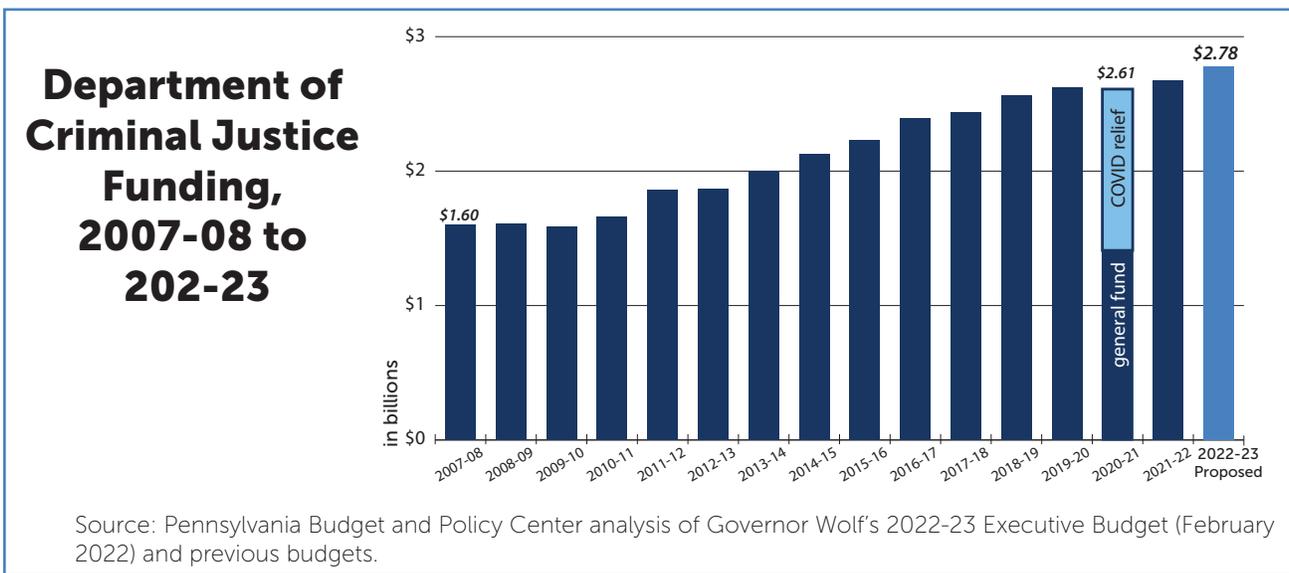
18 Lauren Weber and Michelle R. Smith, "Hollowed-Out Public Health System Faces More Cuts Amid Virus," Kaiser Health News, July 1, 2020, <https://khn.org/news/us-public-health-system-underfunded-under-threat-faces-more-cuts-amid-covid-pandemic/>.

Figure 33



The Executive Budget proposes a \$2.78 billion Department of Corrections budget, an increase of 4.1% over last year. This includes an \$82.7 million increase (4%) for State Correctional Institutions and a \$9.2 million increase (6.1%) for state field supervision, including \$5 million in supplemental appropriations for 2021-22.

Figure 34



Governor Wolf is proposing several criminal justice reforms similar to those he proposed in the 2021-22 budget.

The governor’s budget proposes **bail and pretrial reform**. Research shows that the inability to pay bail has severe consequences: individuals are more likely to get a conviction, plead guilty, and have higher court costs. And those who spend more time in jail waiting for their trial have a greater likelihood

of committing another crime. Yet many individuals are held in prison because they are unable to afford bail. Cash bail usage and procedures vary widely by county. In some counties, bail is set much higher than in other counties and Black defendants tend to have monetary bail set higher than white defendants. Governor Wolf proposes to implement a best practices model for pretrial and bail services that would create less variation across the state.<sup>19</sup>

The governor also proposes **probation reform**. Compared to other states, Pennsylvania has a high share of adults who are on some form of community supervision—one in 34 adults compared to the national average of one in 53 adults. Individuals who are at low risk for reoffending are more likely to end up in jail when on probation. In Pennsylvania, one-third of prisoners are incarcerated because they violated their probation or parole. The governor proposes reforms that would reduce the amount of time certain offenders spend on probation which would reduce revocations of bail for technical violation. He proposes \$425,000 be used for increased staffing resources so county juvenile probation offices are able to get technical assistance, helping improve consistency in probation services across counties. He also proposes \$1 million for reentry services for women.

The governor also supports **medical release** for elderly inmates. About 25% of Pennsylvania’s inmates housed by the Department of Corrections are over the age of 50. Research shows that individuals age out of crime and many older inmates have already spent decades behind bars. Governor Wolf proposes that inmates posing little risk to the community be released from prison on medical parole.

The governor also proposes **comprehensive clean slate legislation**. An existing clean slate law in Pennsylvania, passed in 2018, automatically seals minor, non-violent cases after a certain amount of time has passed, reducing the stigma surrounding conviction. So far, over 36 million cases have been sealed in the state. Governor Wolf hopes to improve this law by sealing some felony convictions and decreasing the waiting periods for sealing lesser offenses.

Governor Wolf also proposes spending \$1 million for indigent defense counsel. Every individual who is facing criminal charges should get adequate legal counsel, as codified in our state constitution, yet many individuals without the ability to pay go without effective counsel.<sup>20</sup>

## Department of Environmental Protection (DEP)

Protecting the air we breathe, the water we drink, and the natural world around us is critical for the health and well-being of future generations as well as ourselves. 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.”<sup>21</sup>

The Department of Environmental Protection’s (DEP) mission is to “protect Pennsylvania’s air, land

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19 Commonwealth of Pennsylvania Office of the Governor, “Executive Budget, 2022-2023,” A1-10, [https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23\\_Web%20Version.pdf](https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23_Web%20Version.pdf).

20 Commonwealth of Pennsylvania Office of the Governor, “Executive Budget, 2022-2023,” A1-10 and A1-11, [https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23\\_Web%20Version.pdf](https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23_Web%20Version.pdf).

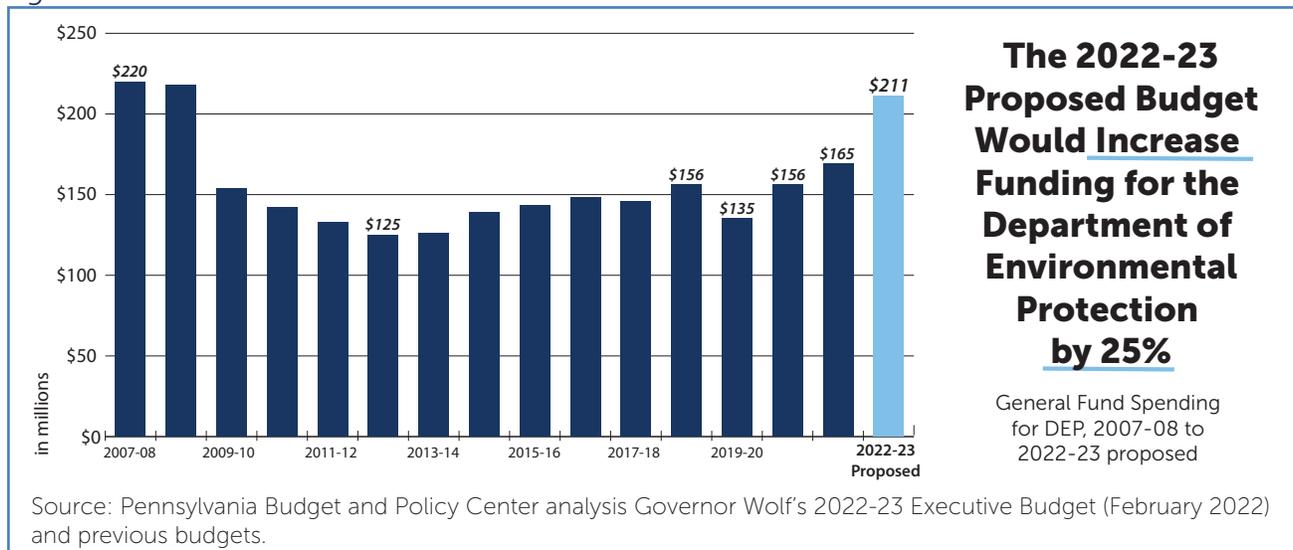
21 The Widener School of Law’s Environmental and Natural Resources Law Clinic, “A Citizen’s Guide to Article 1, 27 of the Pennsylvania Constitution,” [http://blogs.law.widener.edu/envirolawcenter/files/2010/03/PA\\_Citizens\\_Guide\\_to\\_Art\\_1\\_Sect\\_27.pdf](http://blogs.law.widener.edu/envirolawcenter/files/2010/03/PA_Citizens_Guide_to_Art_1_Sect_27.pdf).

and water from pollution and to provide for the health and safety of its citizens through a cleaner environment.”<sup>22</sup>

The governor proposes increased funds of \$5 million to create 41 new positions within DEP for clean water, waterways and wetlands management and to help facilitate new federal investments being made via the Infrastructure Investment and Jobs Act (IIJA), which we discuss in more detail below.<sup>23</sup> These new staff would help with waterways engineering and dam safety and would increase the states’ capacity to issue various environment-related permits. This are critical resources, especially considering cuts in environmental protection spending in Pennsylvania over time. Over the last two decades, the Department of Environmental Protection has been decimated. According to state Representative Greg Vitali, the department experienced a 30% reduction in staff since 2002, losing more than 900 positions.<sup>24</sup> This makes the work the DEP is charged to do—protecting our air and water, regulating oil and gas development, cleaning up hazardous waste sites, protecting the Chesapeake Bay and our rivers and streams—very difficult.

Governor Wolf proposes a 25%, \$211 million General Fund increase for the Department of Environmental Protection. Funding for General Government Operations, Environmental Program Management, Environmental Protection Operations and many of the water commissions would be increased. The Delaware River Master, the Susquehanna River Basin Commission, the Interstate Commission on the Potomac River, the Delaware River Basin Commission, the Ohio River Valley Water Sanitation Commission would also all see increases under this budget. These investments are critical to water quality and monitoring and these river basin commissions are being proposed at full-share funding this year.

Figure 35



The General Fund accounts for a small share of total funding for DEP as Figure 36 shows. Total funding for DEP from all sources is close to doubling. This is due to a huge influx in federal funds as well as other

22 Commonwealth of Pennsylvania Office of the Governor, “Executive Budget, 2022-2023,” E18-1, [https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23\\_Web%20Version.pdf](https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23_Web%20Version.pdf).

23 House Appropriations Committee staff, “2022/23 Executive Budget Briefing,” House Appropriations Committee, February 8, 2022, [https://houseappropriations.com/Topic/2022-2023/696#TOC\\_13](https://houseappropriations.com/Topic/2022-2023/696#TOC_13).

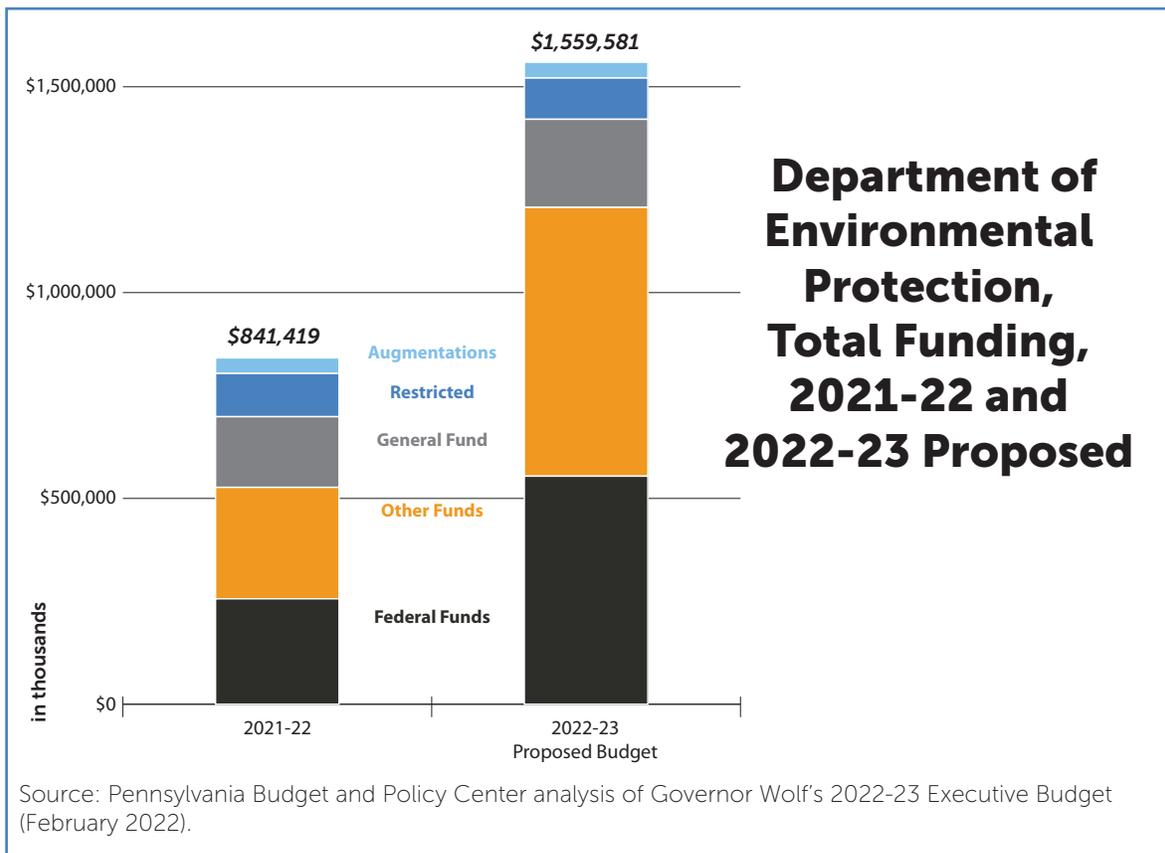
24 Rep. Greg Vitali, “Gov. Wolf’s 2020-21 budget should address environmental protection,” PennLive, January 24, 2020, <https://www.pennlive.com/opinion/2020/01/gov-wolfs-2020-21-budget-should-address-environmentalprotection-opinion.html>.

state funds, especially the Clean Air Fund (a Pennsylvania special fund).<sup>25</sup> The governor’s budget relies on the federal Infrastructure Investment and Jobs Act (IIJA) funds for \$117.6 million in new federal funds for DEP. This includes assistance to small and disadvantaged communities (\$28 million), orphan well plugging (\$25 million), DOE energy programs (\$22.3 million), electric grid resilience (\$13 million), abandoned mine reclamation (\$25 million), and energy efficiency and conservation (\$4 million).<sup>26</sup>

Pennsylvania has nearly 27,000 orphan wells that need to be plugged currently on the books. The \$25 million grant for this purpose would allow the state to plug high-priority wells, and additional funding of hundreds of millions of dollars could be available in future years for other orphan wells. This would be a huge influx of funds considering that DEP spent \$37 million over 32 years between 1989 and 2021 and plugged 3,000 wells total.

The \$25 million proposed for Fiscal Year 2022-2023 for abandoned mine cleanup would address environmental hazards at those sites. Through the IIJA, \$245 million would be available over the next 15 years for this purpose. IIJA would provide additional funds for drinking water upgrades, lead line servicing replacement and addressing algal blooms in Lake Erie.<sup>27</sup>

Figure 36



25 Commonwealth of Pennsylvania Office of the Governor, “Executive Budget, 2022-2023,” H22, [https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23\\_Web%20Version.pdf](https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23_Web%20Version.pdf).

26 House Appropriations Committee staff, “2022/23 Executive Budget Briefing,” House Appropriations Committee, February 8, 2022, [https://houseappropriations.com/Topic/2022-2023/696#TOC\\_13](https://houseappropriations.com/Topic/2022-2023/696#TOC_13).

27 Patrick McDonnell, “Prepared Testimony of Patrick McDonnell, Secretary of PA Department of Environmental Protection before the House Appropriations Committee,” February 28, 2022, <https://houseappropriations.com/files/Documents/DEP%20FY2022-23%20House%20Budget%20Hearing%20Testimony.pdf>.

In October 2021, Governor Wolf established the Office of Environmental Justice, the Environmental Justice Advisory Board, and the Environmental Justice Interagency Council at DEP to make sure that environmental justice advocates are included in state-wide conversations about local environmental concerns. It is DEP's hope that integrating these voices into state policy conversations more officially will have a positive impact on PA's environment and ensure low-income communities and communities of color are not bearing the brunt of high pollution levels and other negative environmental impacts.<sup>28</sup>

Pennsylvania announced its intention to join the Regional Greenhouse Gas Initiative (RGGI) in 2019. Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, Vermont, and Virginia are members of this cooperative, market-based program, created to reduce greenhouse gas emissions and generate economic growth by establishing a regional cap on CO<sub>2</sub> emissions.<sup>29</sup> The expectation is that by participating in RGGI, Pennsylvania could reduce carbon pollution from electric generation by 97 million tons to 227 million by 2030.<sup>30</sup> Participating states can generate proceeds by selling carbon dioxide "allowances," i.e. rights to generate emissions, at quarterly regional auctions. States can then invest these proceeds in several areas including energy efficiency, renewable energy, greenhouse gas abatement and advancement of green technologies. The Department of Environmental Protection estimates that between 2022 and 2030, Pennsylvania's gross state product could see an increase of about \$2 billion after joining RGGI with an estimated net increase of 30,000 jobs.<sup>31</sup>

Governor Wolf also proposes to spend \$100,000 to support an industrial sector decarbonization plan by deploying carbon capture, utilization, and storage (CCUS) and hydrogen technologies in Pennsylvania. By creating a strategic plan for CCUS, Pennsylvania hopes to attract new investments in commercial scale projects and move more rapidly towards reaching our greenhouse gas emission reduction goals of 80% by 2050 while capitalizing on new federal infrastructure money and creating good-paying jobs.<sup>32</sup>

## Department of Conservation and Natural Resources (DCNR)

The COVID-19 pandemic brought to light the importance of our state's natural resources and parks as residents across the Commonwealth headed out to the great outdoors in the face of few other entertainment options. The state established the Department of Conservation and Natural Resources (DCNR) in 1995. Its mission is to "maintain, improve and preserve state parks; to manage state forest lands to assure their long-term health, sustainability and economic use; to provide information on ecological and geological resources; and to administer grant and technical assistance programs that will benefit river conservation, trails and greenways, local recreation, regional heritage conservation and environmental education programs across the commonwealth."<sup>33</sup>

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28 Patrick McDonnell, "Prepared Testimony of Patrick McDonnell, Secretary of PA Department of Environmental Protection before the House Appropriations Committee," February 28, 2022, <https://houseappropriations.com/files/Documents/DEP%20FY2022-23%20House%20Budget%20Hearing%20Testimony.pdf>.

29 Regional Greenhouse Gas Initiative (website), <https://www.rggi.org/>.

30 Commonwealth of Pennsylvania Office of the Governor, "Executive Budget, 2022-2023," E18-10, [https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23\\_Web%20Version.pdf](https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23_Web%20Version.pdf).

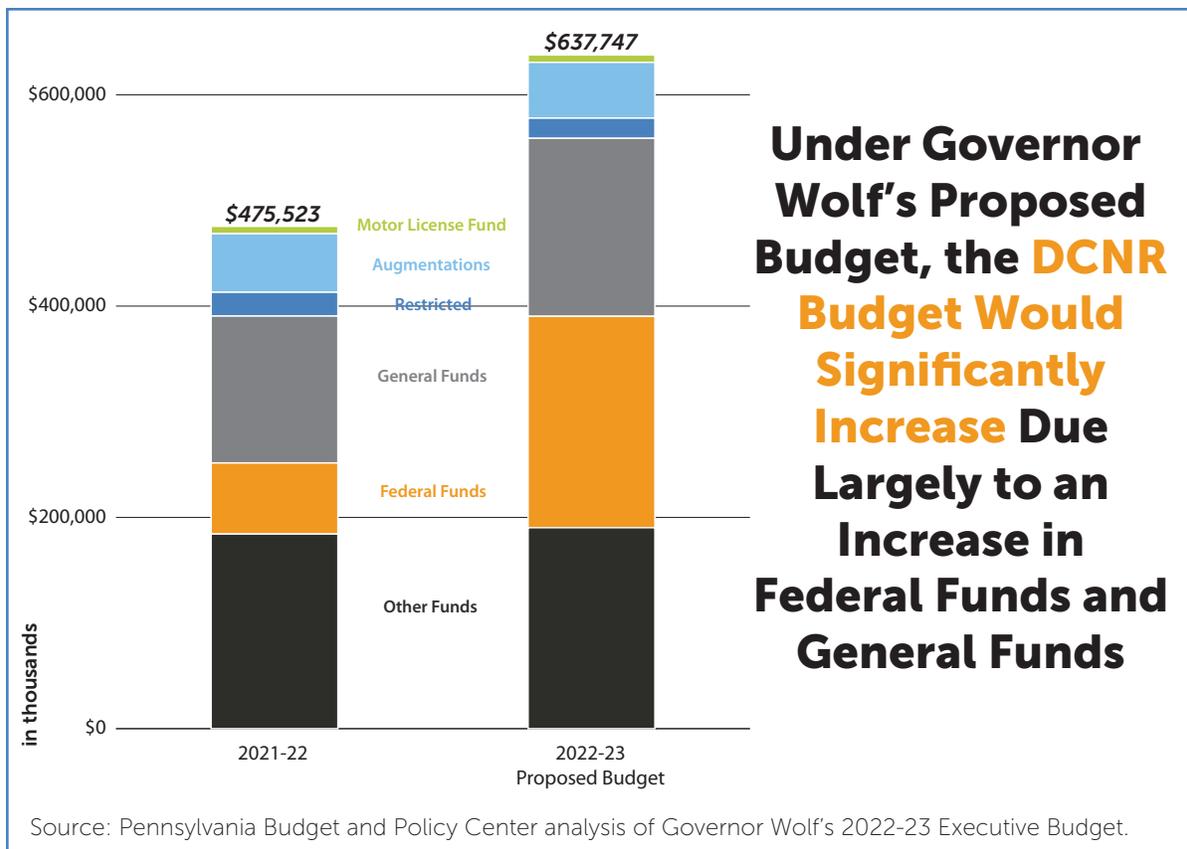
31 See DEP's webpage on RGGI at <https://www.dep.pa.gov/Citizens/climate/Pages/RGGI.aspx>.

32 Commonwealth of Pennsylvania Office of the Governor, "Executive Budget, 2022-2023," A1-15, [https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23\\_Web%20Version.pdf](https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23_Web%20Version.pdf).

33 Commonwealth of Pennsylvania Office of the Governor, "Governor Tom Wolf Executive Budget 2020-2021," February 2, 2021, E12-1, <https://www.budget.pa.gov/PublicationsAndReports/CommonwealthBudget/Documents/2021-2022%20Executive%20Budget%20Book.Web%20Version.UPDATED.pdf>.

Like DEP, the Department of Conservation and Natural Resources would also see large budget increases if the proposals for it in 2022-23 Executive Budget are adopted. Figure 37 shows the funding breakdown by source for 2021-22 and the proposed 2022-23 budget. As you can see, the total budget for DCNR would increase 34% or \$162 million. This is largely due to an increase in federal funds by \$132 million and an increase in General Funds of \$29.4 million. Much of these increased federal funds would occur only if the state makes State Fiscal Recovery investments from the ARP as part of the Growing Greener III program, which Governor Wolf recommended as part of his Brighter PA proposal to allocate the rest of the ARP funds. Some of the General Fund increase is for expanding staff positions in the department for outdoor recreation and state forest operations.

Figure 37



## Transportation

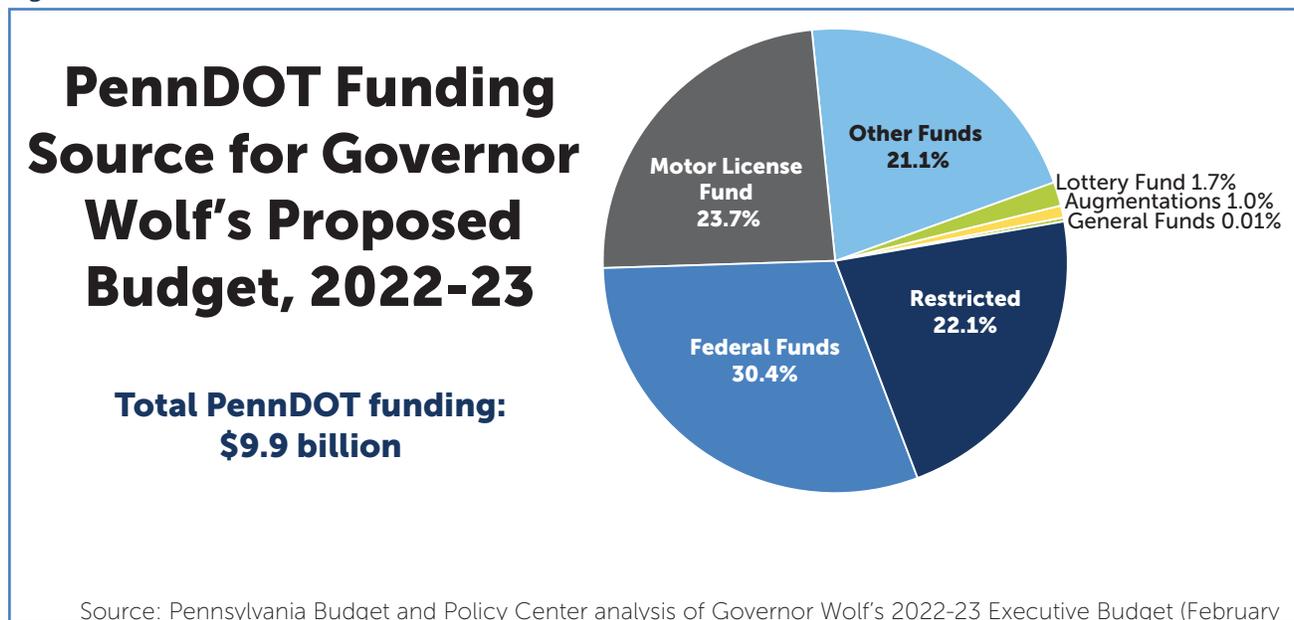
PennDOT is responsible for almost 40,000 miles of highways and more than 25,000 bridges across the Commonwealth. Pennsylvania currently ranks second in the nation for the number of bridges in poor condition with more than 2,500 bridges in need of repair across the state. Adequately funding our infrastructure and transportation systems, as the collapse of Pittsburgh's Fern Hollow Bridge shows us so clearly, is critical to keeping us safe and ensuring people and goods can travel easily and safely across our state.

Governor Wolf established the Transportation Revenue Options Commission (TROC) in March 2021. It is made up of transportation experts and stakeholders from across the state. The commission was tasked with creating a comprehensive strategic proposal report for addressing Pennsylvania's multimodal transportation funding needs. The TROC report estimates that PennDOT has a \$9.35 billion

state funding gap: \$8.15 billion in highways and bridges and \$1.2 billion in multimodal transportation.<sup>34</sup> It is important to note that this might even be an underestimation of need; public transit stakeholders across the state estimate that an investment of \$1.65 billion is actually needed for multimodal transportation to strengthen our public transit system and support the state's Public Transit Trust Fund.<sup>35</sup> The funding gap is estimated to increase from \$9.35 billion to \$14.5 billion In the next ten years as costs rise and assuming funding remains relatively constant.

Only 0.01% of funding for the Department of Transportation comes from the General Fund. As Figure 41 shows below, three-quarters of the department's funding comes from three sources: federal funds (30%), restricted funds (22%), and the Motor License Fund (24%).

Figure 38



PennDOT's total budget would be \$9.9 billion for 2022-23 as proposed by Governor Wolf, a \$713 million (-6.7%) decrease in funds from last year. The Motor License Fund contribution to the PennDOT budget is increasing by 16.6% (\$334 million), while federal funds are decreasing by 17.4% (-\$633 million), as is the General Fund (-62%) and augmentations<sup>36</sup> (-20%). State funds make up an estimated 70% of PennDOT's funding this year, with the rest coming from federal funds.

34 Transportation Revenue Options Commission (TROC), "Pennsylvania Transportation Revenue Options Commission: Final Report and Strategic Funding Proposal," July 30, 2021, <https://www.penndot.pa.gov/about-us/funding/Documents/TROC-Final-Report.pdf>.

35 Transportation Revenue Options Commission (TROC), "Pennsylvania Transportation Revenue Options Commission: Final Report and Strategic Funding Proposal," July 30, 2021, 7 & 8, <https://www.penndot.pa.gov/about-us/funding/Documents/TROC-Final-Report.pdf>. Also see Transit for All PA's platform at: <https://www.transitforallpa.org/platform/>.

36 Augmentations are funds from such things as institutional billings or fees credited to a specific appropriation of state revenues. See p. 14 of Governor Wolf's 2022-23 Executive Budget, [https://www.budget.pa.gov/Publications%20and%20Reports/Documents/OtherPublications/Budget%20Book%202022-23\\_Web%20Version.Updated.pdf](https://www.budget.pa.gov/Publications%20and%20Reports/Documents/OtherPublications/Budget%20Book%202022-23_Web%20Version.Updated.pdf).

Table 6

| <b>PennDOT Funding, All Sources, 2019-20 through 2022-23 Proposed (in thousands)</b> |                    |                    |                     |                    |   |  |
|--|--------------------|--------------------|---------------------|--------------------|---|--|
|  | <b>2019-20</b>     | <b>2020-21</b>     | <b>2021-22</b>      | <b>2022-23</b>     | <b>\$ change between 2021-22 and 2022-23 (proposed)</b> | <b>% change between 2021-22 and 2022-23 (proposed)</b> |
| General Fund   | \$3,445            | \$3,128            | \$2,970             | \$1,129            | -\$1,841  | -62.0%   |
| Motor License Fund   | \$1,845,956        | \$1,826,631        | \$2,013,190         | \$2,347,247        | \$334,057   | 16.6%  |
| Lottery Fund   | \$170,907          | \$170,907          | \$170,907           | \$170,907          | \$0   | 0.0%   |
| Federal Funds  | \$1,929,000        | \$2,181,648        | \$3,637,780         | \$3,004,815        | -\$632,965  | -17.4%   |
| Augmentations  | \$82,840           | \$84,969           | \$125,376           | \$100,036          | -\$25,340   | -20.2%   |
| Restricted   | \$2,176,456        | \$1,934,491        | \$2,132,147         | \$2,188,076        | \$55,929  | 2.6%   |
| Other Funds  | \$1,980,337        | \$2,508,052        | \$2,527,543         | \$2,084,259        | -\$443,284  | -17.5%   |
| <b>Total Funds</b>   | <b>\$8,188,941</b> | <b>\$8,709,826</b> | <b>\$10,609,913</b> | <b>\$9,896,469</b> | <b>-\$713,444</b>                                       | <b>-6.7%</b>   |
| <b>Total State Funds</b>   | <b>\$6,259,941</b> | <b>\$6,528,178</b> | <b>\$6,972,133</b>  | <b>\$6,891,654</b> | <b>-\$80,479</b>  | <b>-1.2%</b>   |

Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2022-23 Executive Budget (February 2022) and previous budgets.

Bridge and highway funding comes largely from gas taxes in Pennsylvania, and the state relies too heavily on this source. People have been traveling less, and drivers are using less gas due to the increasing number of fuel-efficient vehicles on the market. In fact, in recent years the gas tax made up about 78% of our total transportation funding, which is much higher than surrounding states. In New York, for instance, the gas tax makes up only 18% of the state's total transportation funding.<sup>37</sup>

Also, federal funds have been unpredictable—for example, the federal gas tax hasn't increased for about 30 years, but costs have increased with inflation. However, the federal Infrastructure Investment and Jobs Act (IIJA) will bring much-needed federal resources back into Pennsylvania for road and bridge maintenance and repair and other infrastructure projects. The 2022-23 Executive Budget includes \$748,039 in IIJA funds for the Highway and Safety Capital Projects. Based on formula funding alone, the state could receive about \$4 billion in new, core highway money in the next five years, but to take advantage of full match opportunities via the IIJA, Pennsylvania would need to raise \$1 billion in new state revenue.<sup>38</sup>

Below, Table 7 shows PennDOT funding by program area—this includes all funds, including federal funds. Highways and bridges receive the most funding and will see a decrease of 5.1% from last year. The Multimodal Transportation Fund provides support for the state's non-highway infrastructure, including public transportation, aviation, bicycle, rail, and ports. The largest funding source for public transportation is the Public Transportation Trust Fund, funded by the Pennsylvania Turnpike Commission (PTC) contributions, state lottery funds, sales tax, and taxes on vehicle leases and rentals, among other sources. This year, the Public Transportation Trust Fund budget is decreasing by \$437 million, from \$2.04 billion to \$1.60 billion.

The long-term status of public transportation funding is in question in Pennsylvania. Act 89, the Comprehensive Transportation Funding Plan (2013), allocated all Act 44 payments to public transit but lowered the annual obligation of the Pennsylvania Turnpike Commission (PTC) for public transportation subsidies from \$450 million to \$50 million starting in 2023. This \$400 million reduction

37 Transportation Revenue Options Commission (TROC), "Pennsylvania Transportation Revenue Options Commission: Final Report and Strategic Funding Proposal," July 30, 2021, <https://www.penn.dot.pa.gov/about-us/funding/Documents/TROC-Final-Report.pdf>.

38 Keystone Transportation Funding Coalition (KTFC), "KTFC Policy Issues, Draft," January 2022, [https://www.paconstructors.org/wp-content/uploads/2022/01/KTFC-policy-issues-January-2022\\_Clean.pdf](https://www.paconstructors.org/wp-content/uploads/2022/01/KTFC-policy-issues-January-2022_Clean.pdf).

in annual PTC contributions will be made up with the transfer of sales and use tax in 2022-23.<sup>39</sup> Via the IJA, federal funds will provide a 30% increase to transit agencies going forward.<sup>40</sup>

Table 7

| <b>PennDOT Funding by Program, 2019-20 through 2022-23 Proposed (in thousands)</b> |                    |                    |                     |                    |                          |                         |
|--|--------------------|--------------------|---------------------|--------------------|--------------------------|-------------------------|
|  | 2019-20            | 2020-21            | 2021-22             | 2022-23 Proposed   | \$ change from last year | % change from last year |
| Transportation Support Services  | \$62,078           | \$229,045          | \$78,684            | \$77,776           | -\$908                   | -1.2%                   |
| Highways and Bridges   | \$4,602,109        | \$4,491,623        | \$6,422,903         | \$6,094,426        | -\$328,477               | -5.1%                   |
| Local Highways and Bridges   | \$846,276          | \$839,313          | \$905,349           | \$933,479          | \$28,130                 | 3.1%                    |
| Multimodal Transportation  | \$2,429,133        | \$2,877,165        | \$2,891,568         | \$2,458,797        | -\$432,771               | -15.0%                  |
| Driver Vehicle Services  | \$249,345          | \$272,680          | \$311,409           | \$331,991          | \$20,582                 | 6.6%                    |
| <b>Total Funds</b>   | <b>\$8,188,941</b> | <b>\$8,709,826</b> | <b>\$10,609,913</b> | <b>\$9,896,469</b> | <b>-\$713,444</b>        | <b>-6.7%</b>            |

Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2022-23 Executive Budget (February 2022).

PennDOT's financial state is less than ideal, in part, because of the ongoing diversion of funds from the Motor License Fund to the state police, which began in FY 2012-13. Nearly one-third of the MLF expenditures fund the state police, not the improvement of roads and bridges. As noted earlier, the governor is proposing \$141 million be used from the General Fund to fund the PA State Police, therefore decreasing the reliance on the Motor License Fund and freeing up money for critical transportation and infrastructure repairs.

## Department of State

The Department of State exists, in part, to promote and preserve the integrity of our elections in Pennsylvania. The governor proposes a 16.3% increase in General Funds for the Department of State—from \$36.4 million in 2021-22 to \$42.4 million proposed for 2022-23. The largest increase is in General Government Operations, which is proposed to increase by 158.3%, or \$9.2 million, and includes \$2 million for voter outreach and \$3.6 million to hire 22 additional staff members to modernize Pennsylvania's elections and notary licensing. These increases are partially offset by the reduction of \$2.9 million for the publishing of new decennial state and federal reapportionment maps which is once in a decade expense.<sup>41</sup>

## Pensions

Governor Wolf's proposed 2022-23 budget, for the sixth year in a row, would meet the actuarially required contributions for Pennsylvania's pension system—the State Employees' Retirement System (SERS) and the Public School Employee's Retirement System (PSERS) with \$2.9 billion for PSERS and

39 Commonwealth of Pennsylvania Office of the Governor, "Executive Budget, 2022-2023," H98, [https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23\\_Web%20Version.pdf](https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23_Web%20Version.pdf).

40 PennDOT budget hearing, <https://pcntv.com/pa-budget/>.

41 Commonwealth of Pennsylvania Office of the Governor, "Executive Budget, 2022-2023," E38-6, [https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23\\_Web%20Version.pdf](https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23_Web%20Version.pdf); and House Appropriations Committee staff, "2022/23 Executive Budget Briefing," House Appropriations Committee, February 8, 2022, [https://houseappropriations.com/Topic/2022-2023/696#TOC\\_13](https://houseappropriations.com/Topic/2022-2023/696#TOC_13).

\$2.35 billion for SERS.<sup>42</sup> This full funding is a significant achievement since these pension systems had been underfunded for more than a decade before his leadership.

## Rainy Day Fund

Governor Wolf proposes no new transfers to the Rainy Day Fund at the end of this fiscal year. At the end of the last fiscal year (2020-21), the full General Fund surplus—\$2.6 billion—was transferred to the Rainy Day Fund, a large influx of funds compared to recent years. Currently, there is more than \$2.8 billion in the Rainy Day Fund, which represents 7.1% of expenditures and would cover the state for 26 days in reserves (bringing us much closer to 28.5 days, the median of all states).<sup>43</sup>

While building a substantial rainy day fund is important to the state, we do want to raise one caution. Many Pennsylvanians live under a constant financial cloud and that cloud has created thunderstorms during the past two years of the COVID-19 crisis. We do not want to build a rainy day fund at the expense of investments in education and social supports that so many Pennsylvanians need and that would contribute far more to the long-term fiscal health of our state than a larger rainy day fund.

## Conclusion

We conclude where we began—with the recognition that the governor’s budget, despite some false steps such as his embrace of a flawed corporate tax proposal, seeks to do what Pennsylvanians want: provide opportunities and hope for everyone, no matter what they look like, where they live, and what their aspirations are. The budget offers opportunity and hope to many families that are still suffering from the pandemic—to people who need help securing health care, to caregivers and parents who need help affording child care so they can return to work, to workers whose wages are far too low, to people who hope that they or their children can get an education second to none, to high school graduates who are looking for training or a college degree, and to the business owners in our commonwealth who need trained and educated workers.

Embedded in Governor Wolf’s budget are the aspirations of the people of Pennsylvania. A responsible General Assembly would take the governor’s budget as a blueprint for its work this year.

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42 Commonwealth of Pennsylvania Office of the Governor, “Executive Budget, 2022-2023,” H98, [https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23\\_Web%20Version.pdf](https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23_Web%20Version.pdf); and House Appropriations Committee staff, “2022/23 Executive Budget Briefing,” House Appropriations Committee, February 8, 2022, [https://houseappropriations.com/Topic/2022-2023/696#TOC\\_13](https://houseappropriations.com/Topic/2022-2023/696#TOC_13).

43 Pew Trusts, “Fiscal 50: State Trends and Analysis,” February 17, 2021, <https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2014/fiscal-50#ind5>.