



Some Steps Forward Amid Major Disappointments: Pennsylvania's Enacted Budget 2019-2020

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Introduction

Pennsylvania enacted a \$33.997 billion budget on June 28, 2019. And for the second year in a row, the budget was in place by the June deadline. This year, unlike his first few years in office, Governor Wolf did not seek major spending initiatives and ask for new broad-based revenues. And that made it easier to reach agreement with the Republican-controlled General Assembly. Indeed, it was the members of his own Democratic Party who expressed the most dissatisfaction with the final budget, largely because it did not include the increase in the minimum wage he requested and eliminated the General Assistance program he proposed to fund after it was restored by the Courts last year.

We share the disappointment about these two parts of the budget and also regret that the state's current politics doesn't allow our government to address the deep and persistent public investment deficit to which we have been pointing for a number of years.

What did not make it into the 2019-20 enacted budget?

While there are bright spots in the 2019-20 budget and advancements made in several areas, there are many things Governor Wolf proposed in his Executive Budget that did not move forward. The enacted budget is \$149 million less than the governor's Executive Budget. Before examining what did pass in this year's budget, let's first examine the proposals Governor Wolf put forward that were not enacted.

The Minimum Wage

The minimum wage has not been raised in Pennsylvania for over a decade, even though all of Pennsylvania's neighbors have raised their minimum wages above the federal minimum. Our state's minimum wage is still set at \$7.25 per hour and is even lower for tipped workers at \$2.83 per hour. In his 2019-20 Executive Budget, Governor Wolf proposed to increase the minimum wage to \$12 immediately followed by yearly increases of \$.50 per hour per year, until in 2025 the wage would reach \$15 per hour. He also proposed eliminating the tipped minimum wage to create what proponents of this policy call "one fair wage." Governor Wolf has put forward similar proposals in the past that were quietly ignored. This year, partly as a result of the development of a strong grassroots movement to increase the minimum wage, serious discussion of the issue took place.¹ Republican lawmakers were not able to reach any consensus position and decided to leave the issue until the fall. Democrats in the House strongly protested this decision, as well as Speaker Turzai's unwillingness to allow a debate to take place about the minimum wage. And Governor Wolf said that he hoped to revisit the issue in the fall.

¹ <https://www.apnews.com/f415abfb7aac435c9dfc4ea144caa945>

General Assistance

Perhaps an even more contentious part of the final budget debate was the elimination of General Assistance. General Assistance is an income support program that supports individuals who do not qualify for TANF but who are in desperate need of support. It provides small amounts of cash, about \$200 a month, to some of Pennsylvania's most vulnerable citizens, including people who need help because they are temporarily or permanently unable to work due to a disability, are survivors of domestic abuse, are caring for ill or disabled family members, or are in a drug treatment program. Many are waiting for Social Security disability payments to be approved. (When they are approved, the state is reimbursed for the cost of General Assistance.) The program was restored in the fall of 2018 after the Supreme Court ruled that the termination of the program in 2012 was unconstitutional. After the Supreme Court decision, individuals began reapplying for the program to get benefits. Since November 2018, about 11,000 people have signed up for the benefit.²

Funding for General Assistance was part of the budget Governor Wolf proposed. It was eliminated once again via Act 12 of the Human Service Code this June. Because Republicans included the renewal of the hospital assessment program, which raises a substantial amount of money necessary to fund Medicaid / Medical Assistance, in the Human Services Code, the governor was left with little choice but to sign the bill.

Before he did so, however, Democrats in the Senate made their disappointment clear. National news was generated by the June 26th battle of wills on the Senate floor between Senator Katie Muth, who was determined to read the testimony of a homeless man who relied on the \$200 per month benefit, and Senate Majority Leader Jake Corman, who wanted the discussion shut down on procedural grounds.

The end of General Assistance is a real and sad loss for those Pennsylvanians who relied on the meager cash payments provided by the program to help pay for things not covered by other programs, including rent, transportation, and toiletries.

Minimum Teacher Salaries

The governor proposed raising the minimum salary for teachers from the \$18,500 per year set in the 1980s to \$45,000 per year. Estimates are that such a change would raise the salaries of about 3,200 teachers, school nurses, counselors, and other professional staff primarily in rural Pennsylvania. This also did not pass.

State Police Fee

Again, the governor proposed a fee for municipalities that rely on state police coverage, but this provision had no traction, specifically among Republican lawmakers in more rural areas.

² House Democratic Appropriations Committee. "Memo to all Democratic Members." January 31, 2019. Accessed at http://www.pahouse.com/Files/Documents/Appropriations/series/3076/CTC_MM_Combined_013119.pdf.

Community College Debt

Governor Wolf also proposed a new grant program to community college graduates that would help students pay off their debt if they were to stay in Pennsylvania. This did not move forward.

Combined Reporting

On the revenue side of the budget, the governor again proposed elimination of the Delaware loophole in the Corporate Net Income Tax combined with a gradual reduction in the rate of the tax. Once again, the General Assembly showed that it cares more for large multi-national and multi-state corporations than for local Pennsylvanian corporations by ignoring the proposal.

Severance Taxes and Restore PA

Every year in office, Governor Wolf has proposed a severance tax to ensure Pennsylvania taxes the natural gas industry as all other natural gas-producing states do, but every year it has not passed. This budget cycle, Governor Wolf took a different approach. He made the severance tax proposal separate from the budget process and tied the severance tax into an infrastructure plan for the state, which has bipartisan support. This plan, called Restore Pennsylvania, would generate \$4.5 billion over 20 years and would be used to pay back in bonds this money that would be used to support local projects for flood mitigation, blight removal, improved internet access, public transit and other things. While the investment in infrastructure has bipartisan support, Republican lawmakers and some environmentalists do not support the plan. The former opposes a tax on the natural gas industry and the latter criticize the funding for this plan arguing that it further, and unnecessarily, embeds natural gas drilling into Pennsylvania's economy of the future. This plan is expected to be discussed in more depth when lawmakers return in the Fall 2019.

Revenue in the Enacted Budget

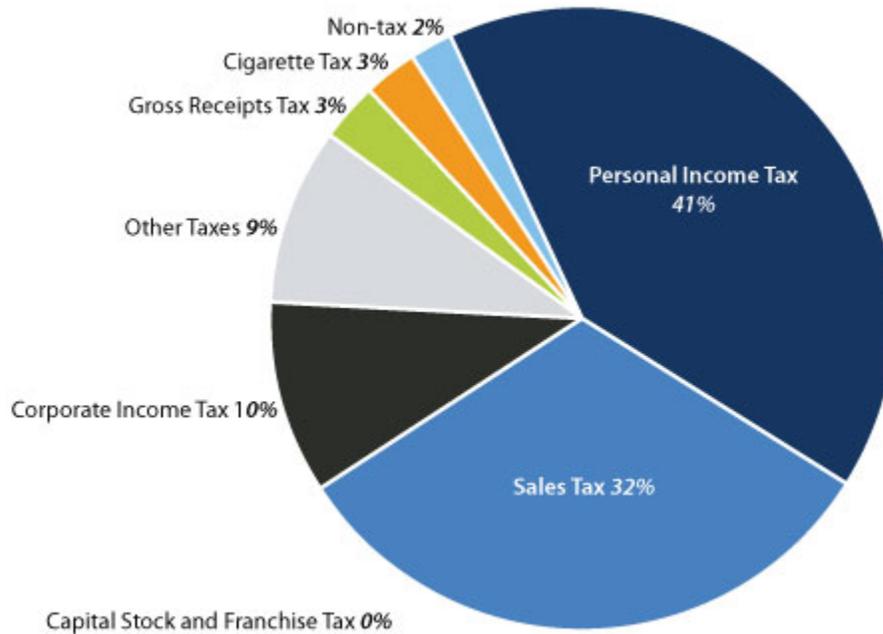
Expected tax and non-tax revenue for 2019-20 is \$35.5 billion which is a growth of 1.8% from last year. The enacted budget contains no tax increases.

Total Revenues

Nearly three-quarters of the General Fund revenue comes from personal income tax and sales tax as shown in Figure 1. Corporate income taxes only account for 10% of the General Fund revenue. One corporate tax, called the Capital Stock and Franchise tax, has been eliminated entirely.

Figure 1

General Fund Revenue, 2019-20: \$35.5 Billion



Source: Pennsylvania Budget and Policy Center analysis of 2019-20 Budget (June 28, 2019).

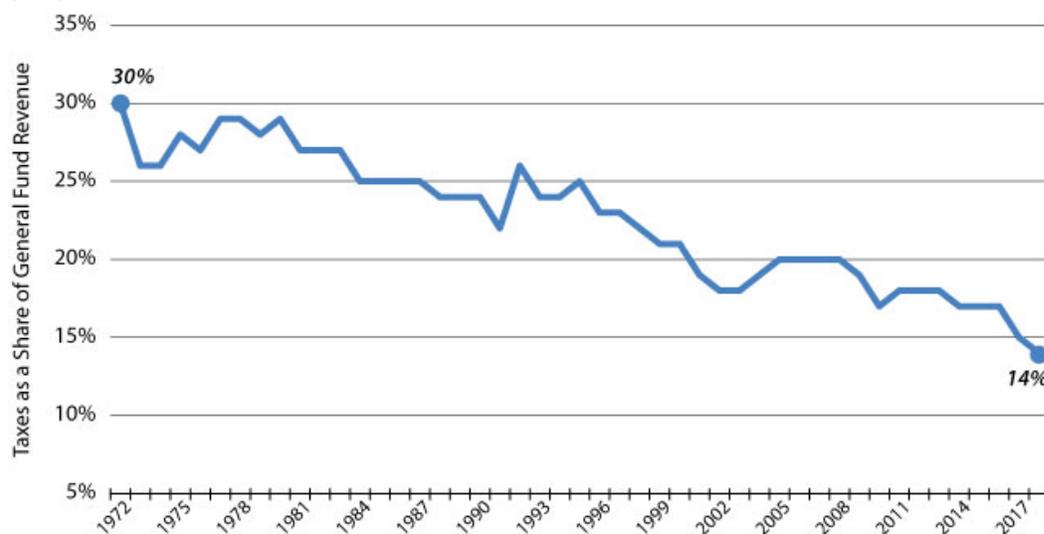
Corporate Tax Revenues

Overall, corporate taxes in Pennsylvania provide less than half of the share of the General Fund as they once did. As Figure 2 shows, corporate taxes in Pennsylvania once brought in 30% of the General Fund revenue in the early 1970s. Today, taxes on corporations only bring in 14% of the General Fund revenue.

Figure 2

Corporate Taxes Are Providing a Smaller Share of General Fund Revenue Over Time

Corporate taxes, as a share of General Fund revenue, account for less than half (14%) today of what it did in 1972 (30%).



Source: Pennsylvania Budget and Policy Center based on Pennsylvania Department of Revenue, Bureau of Research, The Statistical Supplement to the Tax Compendium, various years.

Revenue Projections in 2018-2019 and 2019-2020

Pennsylvania brought in \$883 million more in revenue in the 2018-2019 fiscal year than was projected in the official budget estimate of June 2018. Higher revenues were driven by higher than expected corporate, income, and sales and use taxes. The increases in those taxes were partly the result of better than expected economic growth. But at least the higher corporate and personal income tax increases were likely the result of the decision by well-off taxpayers to push off income from calendar year 2017 to calendar year 2018 in order to take advantage of the tax cut they expected President Trump to propose. Since it is difficult to estimate how important this last factor is—and because a recession in the 2019-2020 fiscal year is possible—we need to be prepared for tax revenues falling behind projections this year.

The higher than projected revenues in 2018-2019 were largely offset by supplemental appropriations for mandated expenses as the enacted budget once again underestimated Medicaid payments.

In addition to the expansion of the EITC / OSTC program discussed in the next section, a number of small changes in a number of tax credit programs were included in the Tax Reform Code Amendment, Act 13. Together they will result in a total loss of \$51.6 million in revenue in 2019-2020 for the state. This revenue loss is offset by extending the 2% tax on gross table games revenue beyond the previous expiration date of June 30, 2019.³

³ A list of the tax credit changes can be found in House Appropriations Committee Democrats. “2019/20 Budget in Depth: Budget Briefing,” July 3, 2019, pp. 7-9.

EITC-OSTC Expansion

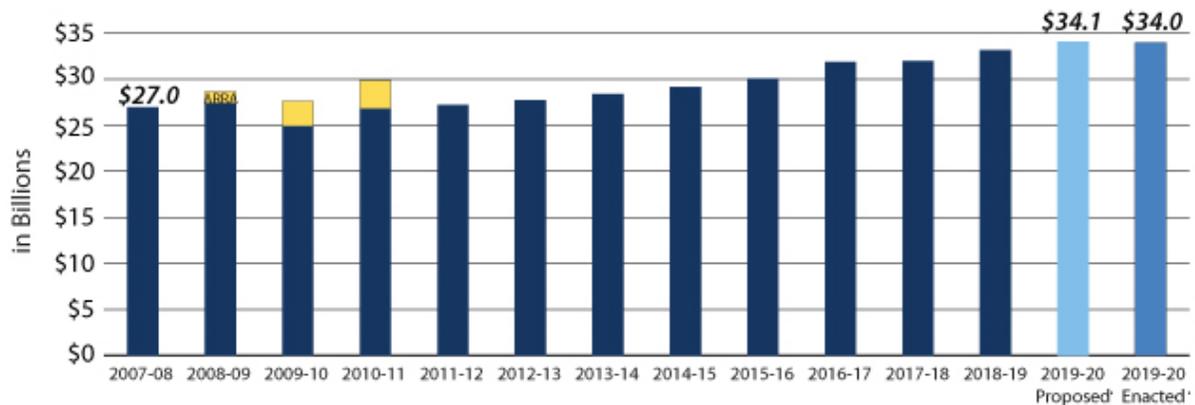
One of the most significant tax changes in the 2019-20 budget is embedded in the public school code. This is an increase in the cap for the Educational Improvement Tax Credit of \$25 million and in the Opportunity Scholarship Tax Credit of \$5 million. Together the expansion of these programs will cost the Commonwealth \$30 million in revenue. EITC allows corporations to take a tax credit for donations that go toward tuition assistance for kids who attended private or religious schools. While defenders of the program often say that it helps children from low-income families attend private schools, one-third of the schools that benefit from this public money have reported teaching no low-income students.⁴ And this year, the cap on the family income of children who benefit from the program was raised \$5,000 to \$121,000.⁵ Republicans initially sought a much larger increase of \$100 million in the EITC program but Governor Wolf vetoed it.

Expenditures in the Enacted Budget

The 2019-20 enacted budget increases General Fund spending by 2.8% from last year for a total of \$33,997 million as shown in Figure 3. This is \$149 million below the \$34.1 billion the governor proposed in February.

Figure 3

The 2019-20 Budget Increases General Fund Spending by 2.8% From the Prior Year



Source: Pennsylvania Budget and Policy Center analysis of 2019-20 Budget (July 28, 2019) and previous budgets.

The distribution of General Fund spending among different government functions is shown in Figure 4. As usual, three-fourths of General Fund spending in 2018-19 will be on preK-12 education (37%) and human services (38%), including medical assistance, long-term living, and other human services. Criminal justice makes up 8% of the General Fund budget while higher education is only 5%.

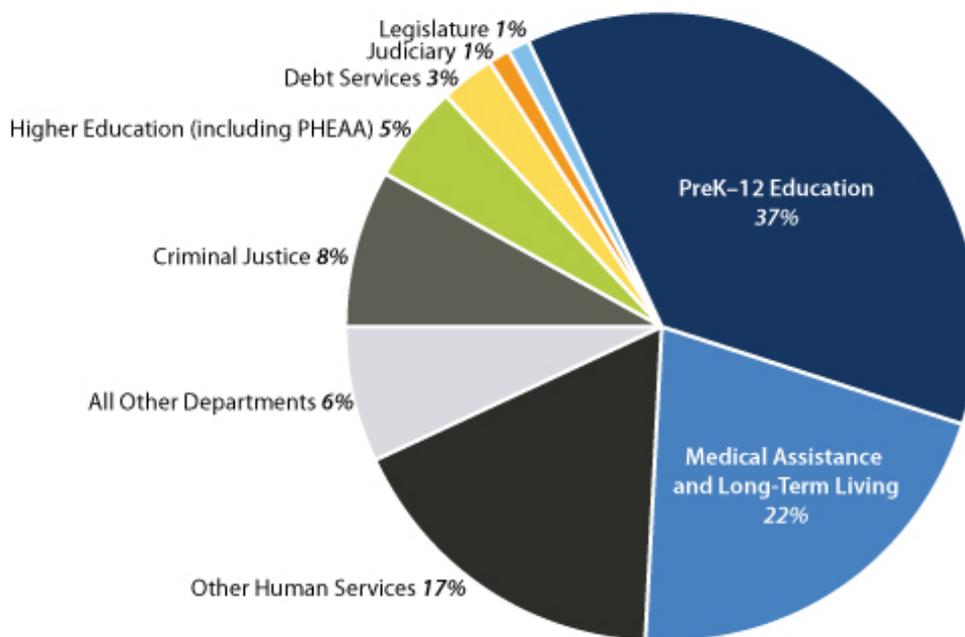
⁴ <https://why.org/articles/trapped-on-the-main-line-expensive-private-schools-that-benefit-from-pa-tax-credits-report-zero-low-income-students/>

⁵ <http://educationvoterspa.org/blog/the-good-bad-ugly-unconscionable-in-the-2019-2020-pa-budget/>

Figure 4

2019-20 General Fund Expenditures

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



Source: Pennsylvania Budget and Policy Center analysis of the 2019-20 Budget (June 28, 2019).

Below, we review some of the main areas of General Fund expenditures and how this compares to the governor's proposal and last year's budget.

PreK-12 Education

Overall PreK-12 Funding

The state shares responsibility for funding K-12 schools with 500 local school districts across the Commonwealth. Funds raised locally, primarily through property taxes, supplement inadequate state funds. A relatively low share, 37%, of total funding for K-12 education comes from the state, compared to the national average of 47%.⁶ This leads to an overreliance on local taxes, and especially property taxes, to fund schools. And that, in turn, results in great disparities between school districts based on the income and wealth of community residents. Pennsylvania has the greatest disparities of all other states with poor districts paying 33% less than the state's most affluent districts.⁷ This extreme inequity will not be reduced unless the state's share of education

⁶ Data from https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=SSF_2014_00A05&prodType=table.

⁷ Data from the National Center for Education Statistics found at https://nces.ed.gov/edfin/Fy11_12_tables.asp. Also see https://www.washingtonpost.com/news/local/wp/2015/03/12/in-23-states-richer-school-districts-get-more-local-funding-than-poorer-districts/?utm_term=.54a7f95dfead.

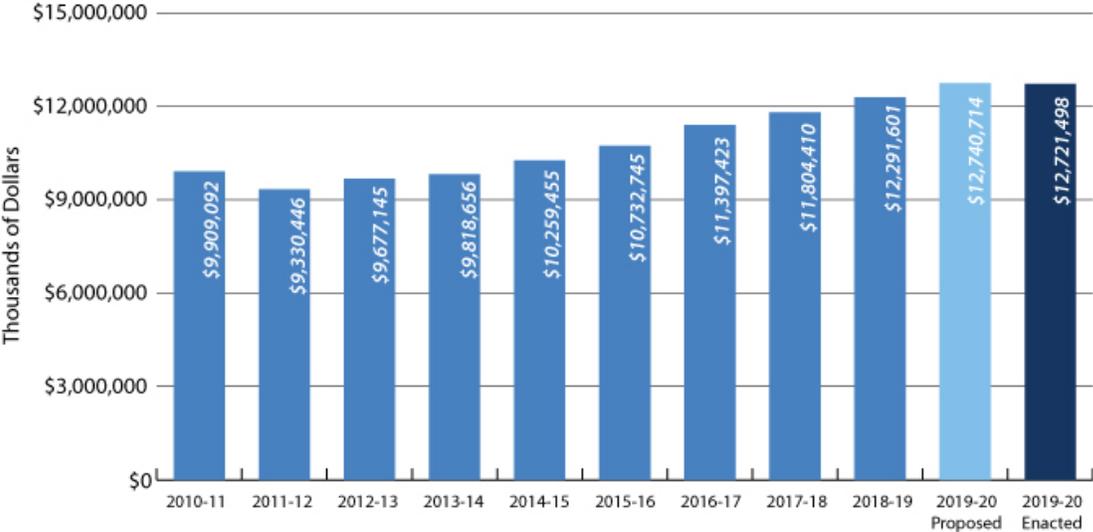
funding is increased. In the most recent PASBO/PASA survey, 74% of school districts reported they will be increasing property taxes this coming year in order to try to make up for low state investment.⁸

The 2019-20 budget will increase funding for preK-12 education by 3.5%, for a total of \$12.7 billion (Figure 5). This is an increase of \$430 million from last year.

Figure 5

The 2019-20 Budget Will Increase Spending on PreK–12 by 3.5% from Last Year

Total PreK–12 spending 2010-11 to 2019-20.



Source: Pennsylvania Budget and Policy Center analysis of the 2019-20 Budget (June 28, 2019) and previous budgets.

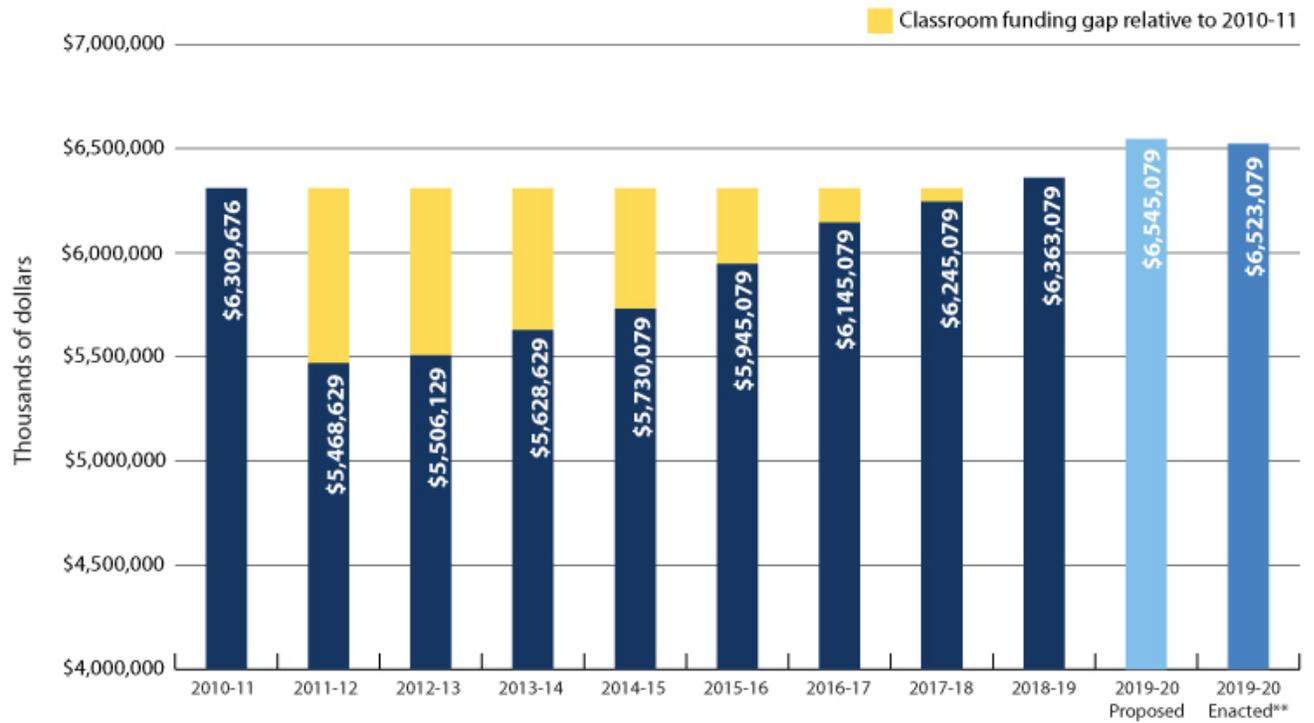
Figure 6 below shows classroom funding in Pennsylvania since 2010-11. “Classroom funding” is our term for funding that goes directly to the classroom and doesn’t include transportation costs or retirement costs for school staff. As Figures 6 and 7 below show, in 2011-12 Governor Corbett drastically cut classroom funding, including an \$841 million cut in one year. These cuts led to massive layoffs of teachers, guidance counselors, and nurses as well as the elimination of programs in schools across the Commonwealth.⁹ It took seven years of gradual spending increases to restore these drastic cuts. Last year classroom funding was restored, on a nominal basis, although it is important to note we still have not met the 2010-11 funding levels after adjusting for inflation. And much of the increase in state funding has helped local school districts meet pension costs.

⁸ “PASBO/PASA School District Budget Report.” June 2019. Accessed at: <https://www.pasbo.org/Files/2019-spring-budget-report%20FIXED1.pdf>.

⁹ Pennsylvania Association of School Administrators and Pennsylvania Association of School Business Officials. “Continued Cuts: The Fourth Annual PASA-PASBO Report on School District Budgets.” June 2014. Accessed at <http://archive.pasbo.org/2014%20PASA%20PASBO%20Report%20on%20School%20District%20Budgets.pdf>; Megan Healy. “Failure to Fund Schools Would Result in the Loss of 23,000 Educators.” February 22, 2016. Accessed at <https://www.governor.pa.gov/blog-failure-to-fund-schools-would-result-in-the-loss-of-23000-educators/>.

Figure 6

The 2019-20 Budget Will Increase Classroom Funding by 2.5% From the Previous Year
 Classroom funding* 2010-11 to 2019-20

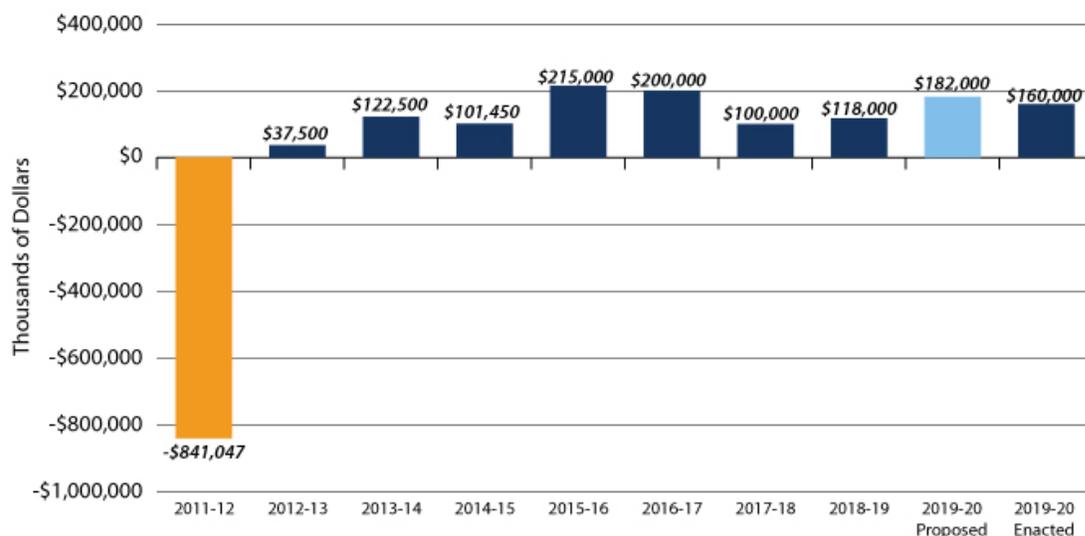


*Classroom funding includes the basic education subsidy plus formula enhancements, charter reimbursements, accountability block grants, and American Recovery and Reinvestment Act (ARRA) funding.
 ** In 2019-2020, the General Assembly combined the Teacher Social Security line item with Basic Education funding, increasing the BEF by \$487,749,000. We have reduced the enacted BEF total by that amount in order to make year to year accurate comparisons in state support for K-12 classroom spending possible.
 Source: Pennsylvania Budget and Policy Center analysis of the 2019-20 Budget (June 28, 2019) and previous budgets.

Figure 7

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

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



Source: Pennsylvania Budget and Policy Center analysis of the 2019-20 Budget (June 28, 2019) and previous budgets.

This year’s budget will provide \$6.26 billion for Basic Education funding (BEF)—an increase of \$160 million from last year. Note that the General Assembly decided this year to roll state funds used to pay school employees’ Social Security into a Basic Education funding line item. This adds \$488 million to that line item. In order to make accurate comparisons between enacted school funding for 2019-20 with previous years, we have reduced that funding by \$488 million in our presentation.¹⁰

The Role of the Fair Funding Formula

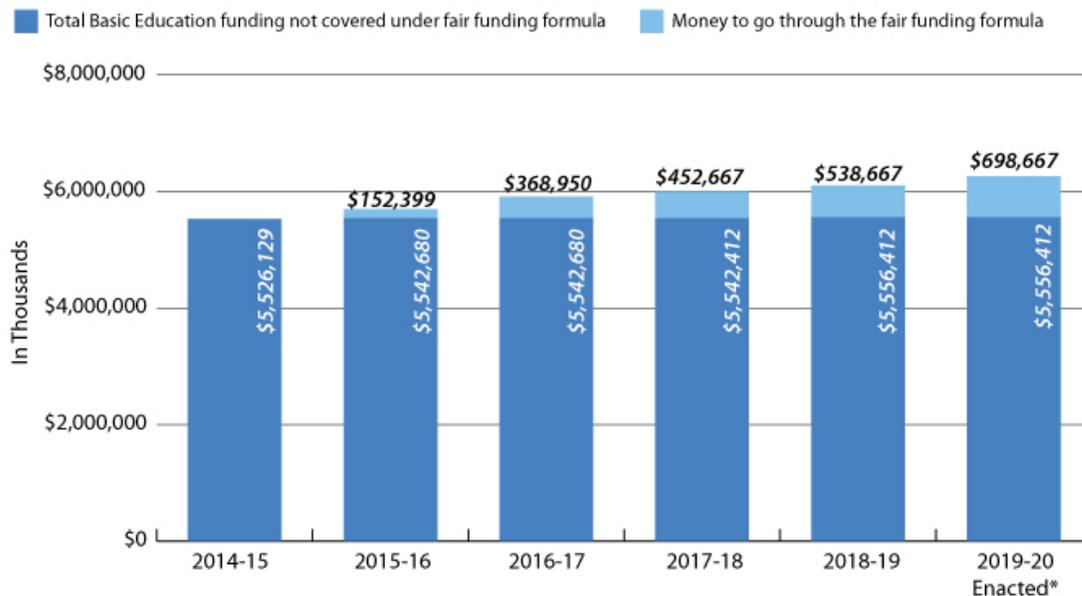
All new Basic Education funds above the 2014-15 funding levels are distributed as required by the Fair Funding Formula, which was enacted in June 2016 and aims to address the disparities that exist between rich and poor school districts across the state. It ensures that new funding takes into account each school district’s specific needs, including the number of students, the number of children living in poverty, the number of English language learners, and the overall income and wealth of the district.

As Figure 8 shows this year, \$699 million of Basic Education funds will go through the formula (shown in light blue). While the amount of money going through the formula has increased each year, it is still only 9% of the total of \$6.26 billion.

¹⁰ We won’t comment on whether the decision to roll Social Security funds into Basic Education funding was a deliberate attempt to make the increase in BEF look larger than it really is. We do think that this change is potentially misleading.

Figure 8

Basic Education Funding by Share Going Through the 2016 Enacted Fair Funding Formula



Note: The base amount (pre-formula money) has changed slightly in 2015-16 and 2017-18 due to changes in the base allocation for certain school districts. For more information, see the Pennsylvania Democratic House Appropriations Committee's report "Governor Wolf's 2019/20 Executive Budget." Also see p. 8 of http://www.pahouse.com/Files/Documents/Appropriations/series/3013/BEFC_BP_011018.pdf.

*In 2019-2020, the General Assembly combined the Teacher Social Security line item with Basic Education funding, increasing the BEF by \$487,749,000. We have reduced the enacted BEF total by that amount in order to make year-to-year accurate comparisons in state support for K-12 classroom spending possible.

Source: Pennsylvania Budget and Policy Center analysis of the 2019-20 Budget (June 28, 2019) and data downloaded on basic education funding from: <https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Education%20Budget/Pages/default.aspx>

Special Education Funding

The 2019 PASBO/PASA school funding report shows that costs of special education funding has become a serious burden on the financial health of school districts all over the state. Asked "What is the most significant school district revenue concern in the next three fiscal years?," 70% of school districts responded it's the low/declining state share of special education.¹¹ Even though special education costs are increasing for Pennsylvania school districts, the state only covers some of the mandated special education costs, leaving school districts and local taxpayers to pick up the check. (The cost of charter schools are another serious burden on local school districts). Governor Wolf has sought—and the General Assembly has provided—more than \$140 million in new special education funding since he took office; the state share of this funding has dropped from 32% in 2008-09 to 23% in 2016-17.¹²

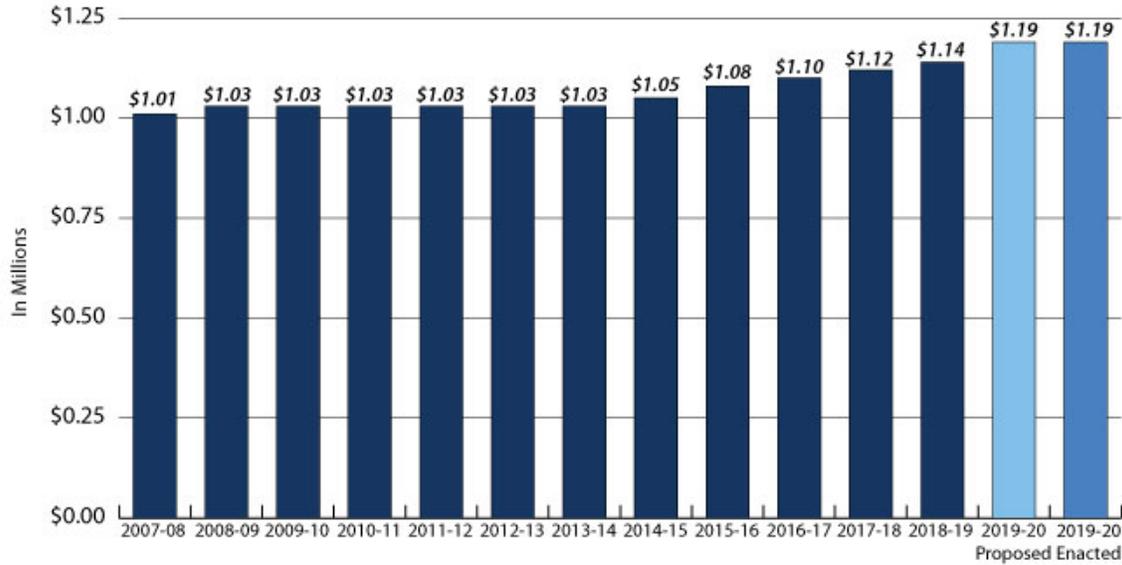
The enacted 2019-20 budget accepts Governor Wolf's proposal for a \$50 million increase for special education, a 4.4% increase from the prior year.

¹¹ <https://www.pasbo.org/Files/2019-spring-budget-report%20FIXED1.pdf>

¹² Education Law Center and PA Schools Work. "Shortchanging Children with Disabilities: State Underfunding of Special Education in Pennsylvania." October 2018. Accessed at: <https://www.elc-pa.org/wp-content/uploads/2018/10/Special-Education-Report-Online.pdf>.

The 2019-20 Budget Increases Special Education Funding by 4.4% From Last Year

Increases for Special Education would total \$140 million since Governor Wolf took office, an increase of 13.4% after years of flat funding.



Source: Pennsylvania Budget and Policy Center analysis of the 2019-20 Budget (June 28, 2019) and previous budgets.

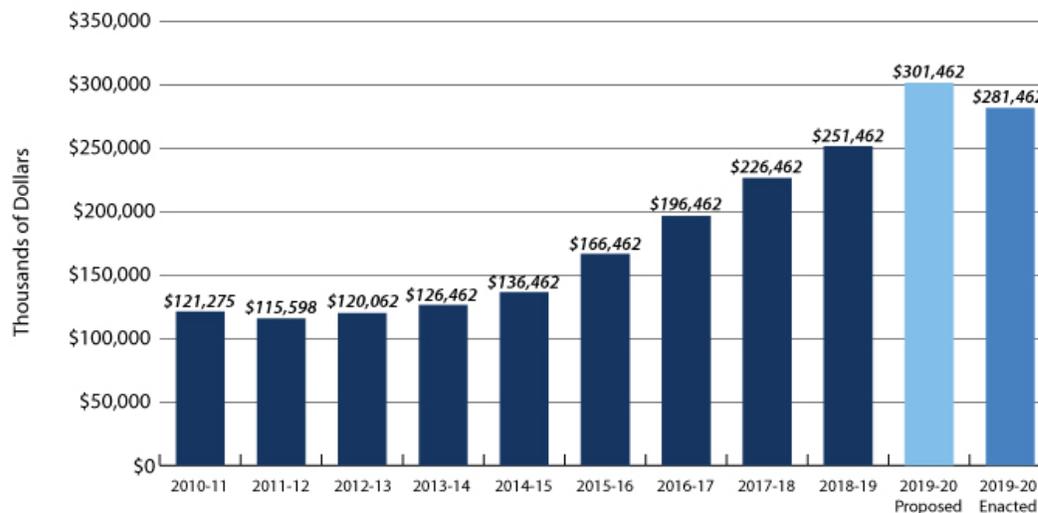
Pre-K Funding

Governor Wolf proposed an increase of \$50 million for pre-K education, including \$40 million for PreK Counts and \$10 million for Head Start Supplemental Assistance. The final budget only included an additional \$30 million for pre-K—\$25 million for PreK Counts and \$5 million for Head Start. This is a 12% increase from last year. The additional money for PreK Counts will allow 2,200 more children to enroll in publicly subsidized pre-K programs. The additional funding for Head Start Supplemental Assistance will create an additional 465 slots.

Figure 9

The 2019-20 Proposed Budget Will Increase Spending on Pre-K by \$30 Million, a 12% Increase From the Previous Year

Pre-K spending over time from 2010-11



Note: Data is for Pre-K spending only (Pre-K Counts and Head Starts Supplemental Assistance).
Source: Pennsylvania Budget and Policy Center analysis of the 2019-20 Budget (June 28, 2019) and previous budgets.

Funding for School Safety

The 2019-20 budget approves \$71 million for school security grants to improve school safety for every public school district. School districts will get grants of \$30,000 to \$45,000 depending on enrollment, up from \$25,000 last year. While the majority of money will go to securing public schools across the Commonwealth, about \$3.2 million will go to religious schools.¹³

Expanding Pennsylvania's School Age Requirements

Governor Wolf's proposal to lower the minimum age for entry into school from eight to six and raise the drop-out age from 17 to 18 years old was included in the 2019-20 budget. The governor estimated lowering the required entry into school to six years old will result in an estimated 3,300 more kids enrolled in school next year across the state. The hope is that raising the drop-out age will result in more youth finishing high school.

Public Libraries

Public libraries received a significant increase in this year's budget with a 9.2% increase of \$5 million to \$59.5 million. Funding for public libraries were deeply cut during the Great Recession, and even with this increased funding total spending remains more than \$17 million below the 2007-08 appropriation of nearly \$76 million.¹⁴

¹³ <https://expo.pennlive.com/news/g66l-2019/06/d206ed9ed33523/10-key-elements-in-the-pa-state-budget-package.html>

¹⁴ House Appropriations Committee Democrats. "2019/20 Budget in Depth: Budget Briefing." July 3, 2019.

Higher Education Funding

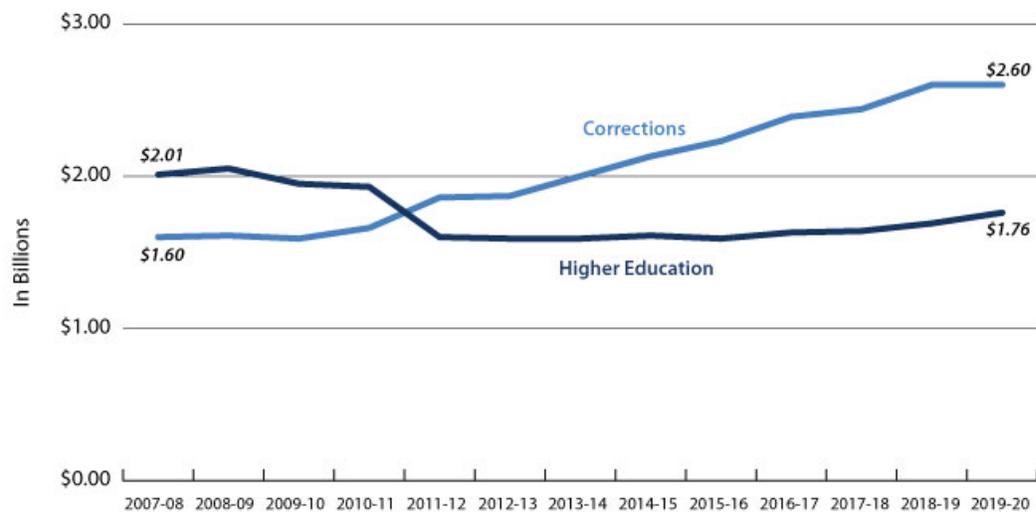
Funding for higher education in the enacted budget exceeds the amount Governor Wolf proposed in his 2019-20 Executive Budget.¹⁵ The governor proposed a 3.4% increase for higher education to \$1.74 billion, but a 4.5% increase was approved for a total higher education budget of \$1.76 billion. The state system will receive an increase of \$2.3 million. Partly as a result of that increase, the Chancellor of the Pennsylvania State System of Higher Education has decided that he will freeze tuition this year, the first time in 21 years the system hasn't increased tuition. The state-related universities (Penn State, University of Pittsburgh, Temple University and Lincoln University) saw an increase in state funding as well.

Despite these increases in funding, Pennsylvania's rank among the states in per capita investment in education—which was 47th out of 50 states last year—is unlikely to change. Pennsylvania has been spending \$132.44 per capita on higher education compared to the national average of \$259.18 per capita. This level of investment has forced Pennsylvania state-supported colleges to make up the difference by charging higher tuition and fees, making Pennsylvania the third highest in the nation for in-state tuition and fees for public four-year colleges.

Funding for higher education dropped significantly in 2011-12, and since then Pennsylvania has been paying more for criminal justice than it has on higher education, as the graph below shows. Funding for higher education has yet to return to its peak level of \$2.01 billion in 2007-08, not including inflation.

Figure 10

State Funding for Criminal Justice Surpassed Funding for Higher Education in 2011-12 and Has Been Steadily Growing Ever Since and Leveling Off This Year



Note: In 2017-18, the Department of Probation and Parole merged with the Department of Corrections and Rehabilitation to form the Department of Criminal Justice, so in 2017-18, 2019-19, and 2019-20, these numbers include Probation/Parole.
Source: Pennsylvania Budget and Policy Center analysis of the 2019-20 Budget (June 28, 2019) and previous budgets.

¹⁵ A common bit of budget gamesmanship in recent years involves the governor not proposing any funding for the state-related universities, fully expecting that the Republican Senate, which is led by Senator Jake Corman (D-Centre County) will restore that funding and propose an increase.

Pennsylvania GI Bill

New funding through the Department of Military and Veterans Affairs will help National Guard members and their families secure a higher education. If National Guard members sign up for an additional six years of service, they can get access to five years', or 10 semesters', worth of higher education benefits for them and their spouse and children. This program can benefit up to 8,000 military families.

A new appropriation for the National Guard Youth Challenge Program of \$1 million will help youth interested in joining the National Guard support to complete high school.

Workforce Development

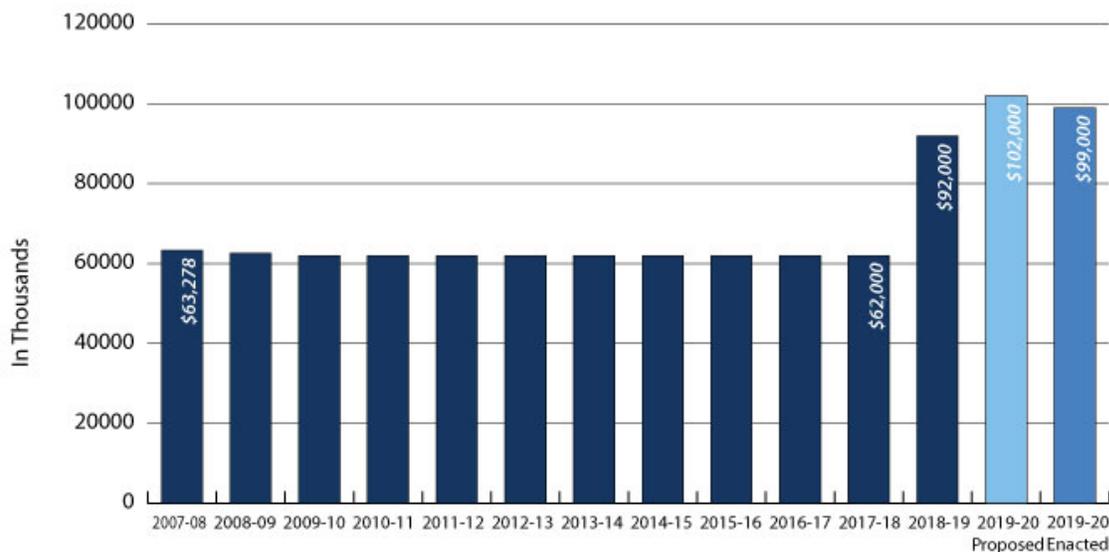
The 2018-19 budget increased funding for Career and Technical Education (CTE) by 48% from \$62 million to \$92 million after 10 years of flat funding. This new funding was a part of the governor's PA Smart program which increased the CTE subsidy, funds for STEM and computer science programs, and apprenticeship and industry partnerships.

Governor Wolf proposed an additional increase of \$10 million for 2019-2020, for a total of \$102 million. The enacted 2019-20 budget increased CTE funding by only \$7 million. An additional \$3 million will go towards a career and technical education equipment grants program.¹⁶ After being increased last year, industry partnerships and apprenticeship (funded for the first time last year) will both be flat funded this year.

Figure 11

The 2019-20 Budget Will Further Increase Funding for Career and Technical Education this Year; Over the Last Two Years, Funding Has Increased by 60%

Career and Technical Education funding between 2007-08 and 2019-20



Source: Pennsylvania Budget and Policy Center analysis of the 2019-20 Budget (June 28, 2019) and previous budgets.

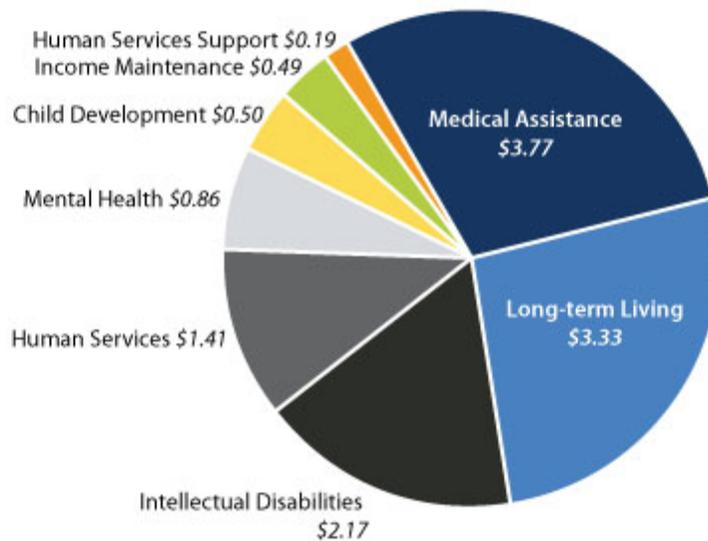
¹⁶ House Appropriations Committee Democrats. [“2019/20 Budget in Depth: Budget Briefing.”](#) July 3, 2019.

Human Services

The human services budget accounts for 38% of the total General Fund budget at \$12.7 billion. Figure 12 below shows the funding distribution within human services. Over half of human services funding goes to Medical Assistance—which is what Medicaid is called in Pennsylvania—(30%) and Long Term Living (26%). Intellectual disabilities receives 17% of the human services funding, mental and behavioral health, 7%, and both child development and income maintenance receive 4% of the human services budget.

Figure 12

Human Services Funding for the 2019-20 Enacted Budget (in Billions)



Source: Pennsylvania Budget and Policy Center analysis of the 2019-20 Budget (June 28, 2019) and previous budgets.

Medical Assistance and Long Term Care

As Table 1 below shows, funding for the Department of Human Services in 2019-20 will decline by \$97.3 million after a supplemental increase for the 2018-19 budget of \$650.5 million. Medical Assistance expenditures in the 2019-20 General Fund budget will decline by 18% while expenditures for Long Term Care increase by 20% for a net decline of \$273 million.

The reduction in Medical Assistance spending is due to several factors. One is that the state is going through a transition in long-term care for the aged and disabled from a fee-for-service system to a consolidated, capitated, managed long-term services and supports system called Community Health Choices. Pennsylvania has committed itself to prioritizing community-based long-term care for seniors and adults with physical disabilities to ensure that as individuals age or need support, they can do so in place whenever possible. Community Health Choices was initially rolled out in January 2018 in southwest PA. It started in the southeast in January 2019 and will move into its final implementation phase on January 1, 2020. During this transition, funding is being transferred from six Medicaid appropriations (home and community-based services, long-term care, services to persons with disabilities, medical assistance capitation, Medical Assistance fee-

for-service and attendant care) to the CHC program. This is one reason that funding has increased for long-term living and decreased for Medical Assistance.

Some reasons for the decline in Medical Assistance spending are concerning in that they will not recur next year. A delay in managed care payments will shift \$587 million in Medicaid payments to 2020-21. In addition, \$145 million in Medical Assistance expenditures will be covered by prior year funds.¹⁷

In addition there is reason to believe that Medical Assistance capitation and Community Health Choices funding does not fully take into account likely cost and enrollment trends which will mean that they will, as in recent years, require significant supplemental funding.

Medical Assistance spending is supported by the reauthorization of several Medical assessments in the Human Services Code (Act 19 and Act 12). The nursing facility assessment is \$180 million, the Philadelphia hospital assessment is \$60 million, and an assessment on the intermediate care facilities for individuals with intellectual disabilities is \$18 million. Together they generate \$248 million for the Medical Assistance program. The legislation that reauthorized the nursing facility assessment also caps the Medical Assistance rates paid to nursing facilities through the Budget Adjustment Factor (BAF). This will reduce state spending by \$360 million.¹⁸

Also included in several appropriations related to long-term care is an investment of \$12 million for a 2% rate increase for direct care workers, effective in 2020.

Income Maintenance

Income maintenance spending is reduced in 2019-2020 from \$24.5 million in 2018-19 to \$18.2 million this year. Part of the decline is the result of the elimination of the General Assistance program (see above). Funding for income maintenance is also decreasing due to a declining TANF caseload, resulting in savings of \$7.17 million compared to last year.

Mental Health

Mental health services will see an increase from last year of \$26 million (about \$2 million less than the governor had proposed), while behavioral health remains flat funded. Increases in mental health services will continue the current program, pay for the ACLU settlement regarding mental health care of inmates and mental health hospitals and help more individuals transition from state hospitals to home- and community-based services.

Intellectual Disabilities

Funding for intellectual disabilities programs increases by \$88 million. The Intellectual Disabilities Community Waiver services line item receives the bulk of this increase, \$84 million. Of this funding, \$15 million will enable an additional 865 individuals with intellectual disabilities from a waiting list of 5,306 people to receive home care.

¹⁷ House Appropriations Committee House Appropriations Committee Democrats. [“2019/20 Budget in Depth: Budget Briefing.”](#) July 3, 2019. More details on the possible underfunding of Medical Assistance and other programs can be found later in this paper. “2019/20 Budget in Depth: Budget Briefing.” July 3, 2019.

¹⁸ House Appropriations Committee Democrats. [“2019/20 Budget in Depth: Budget Briefing.”](#) July 3, 2019.

Table 1

Human Services Funding for 2014-15, 2018-19 and the 2019-20 budgets, in thousands				
	2014-15	2018-19	2019-20	change from 2018-19
Medical Assistance and Long-Term Living				
Medical Assistance	\$ 5,148,554	\$ 4,587,996	\$ 3,765,364	\$ (822,632)
Long Term Living	\$ 1,454,131	\$ 2,775,576	\$ 3,325,420	\$ 549,844
Other Human Services				
Human Services Support*	\$ 151,354	\$ 180,847	\$ 194,840	\$ 13,993
Income Maintenance	\$ 565,371	\$ 478,231	\$ 476,030	\$ (2,201)
Mental and Behavioral Health	\$ 774,701	\$ 834,002	\$ 860,318	\$ 26,316
Intellectual Disabilities	\$ 1,529,359	\$ 2,084,700	\$ 2,173,353	\$ 88,653
Other Human Services**	\$ 1,204,942	\$ 1,358,671	\$ 1,405,802	\$ 47,131
Child Development	\$ 451,510	\$ 501,583	\$ 503,186	\$ 1,603
<i>Human Services Total</i>	\$ 11,279,922	\$ 12,801,606	\$ 12,704,313	\$ (97,293)

* Human services support includes general government operations and information systems.
** Other Human services includes line items such as County Child Welfare, Domestic Violence services and homeless services.
Source: Pennsylvania Budget and Policy Center analysis of the 2019-20 Budget (June 28, 2019) and previous budgets.

Domestic violence

For the first time in three years, funding for domestic violence and rape crisis programs will increase both by 10% for a total of \$30 million.

Early intervention

Early intervention programs provide services and support for young children with developmental delays or disabilities. Governor Wolf proposed an increase in general funds for Early Intervention of \$5 million; \$2.3 million was approved. This, combined with \$1.8 million in federal funds partly go to providing a 3% rate increase for providers which will help the program attract and retain a qualified workforce.

Child care

Funding for subsidized child care from the General Fund will decrease, but overall spending for child care will increase after taking into account increased federal funding. The waiting list for child care services is 4,700 and the additional federal investments (\$15 million) will remove 970 infants from the waiting list. Governor Wolf also proposed \$5 million in state funds to expand home visiting that support pregnant women and at-risk infants and toddlers to reach an additional 800 families, which was approved in the final budget.

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

The state constitution mandates that the government protect our right to clean air, water, and land. But this budget does little to add to the capacity of the state to protect the environment. Governor Wolf has made progress in increasing funding for DEP over his first four years in office. However, this year General Fund funding for DEP is reduced to around the amount appropriated during his first year in office, \$135 million, or 13.4% less than spending in 2018/19. Since 2007-08, DEP

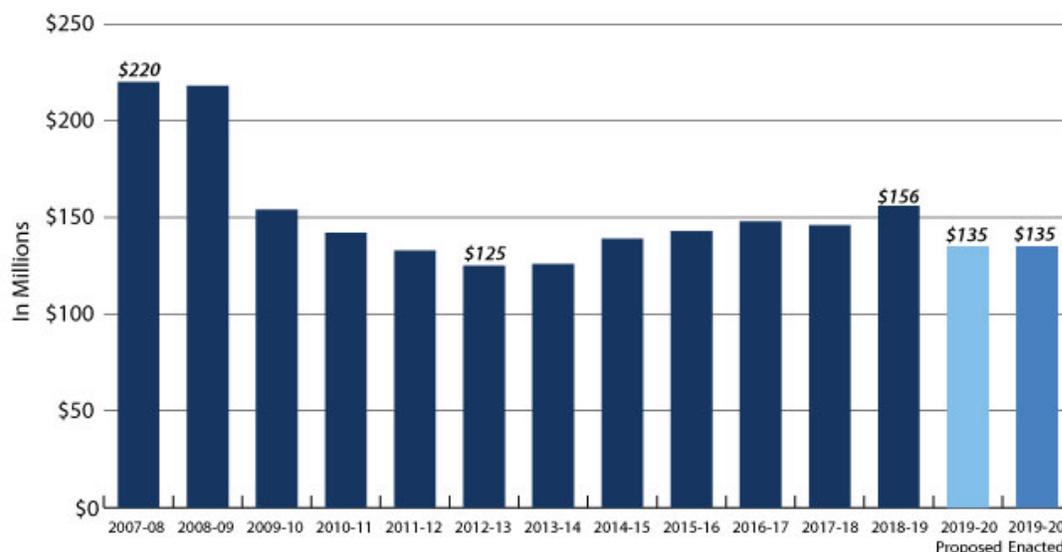
funding has decreased by 39%. DEP needs additional resources to provide the staff to investigate instances of water and air pollution.

The reduction in General Funds for DEP is partly compensated by transfers from special funds dedicated to environmental protection, the Environmental Stewardship Fund, and the Recycling Fund. Funding for the Susquehanna River Basic Commission, the Chesapeake Bay Commission, and the Delaware River Basic Commission, which have traditionally been provided in the General Fund is provided by the Environmental Stewardship Fund in the 2019-2020 budget. Even with this, this budget provides only \$217 million of Pennsylvania’s fair share of funding (\$893 million) for the Delaware River Basin Commission, an interstate agency that protects the 15 million people who rely on the Delaware River for their water supply. This has been an ongoing battle since the Corbett years as Republicans have blocked full funding since the Commission refused to allow fracking in the Delaware River Basin.¹⁹

Figure 13

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

The 2019-20 Budget will cut Department of Environmental Protection funding 13% from last year.



Source: Pennsylvania Budget and Policy Center analysis of the 2019-20 Budget (June 28, 2019) and previous budgets.

One last minute addition to the budget process was a provision put in by the Senate majority leader, Jake Corman, that prohibits the state or local governments from placing regulations related to the use of plastic bags for one year until the Independent Fiscal Office (IFO) has time to release a study on its impact.²⁰

The governor had proposed significant changes to the Department of Conservation and Natural Resources as well. The governor’s 2019-20 Executive Budget proposed replacing \$30 million in

¹⁹ <https://www.pennlive.com/opinion/2019/07/pa-budget-shows-little-understanding-concern-for-the-environment.html>

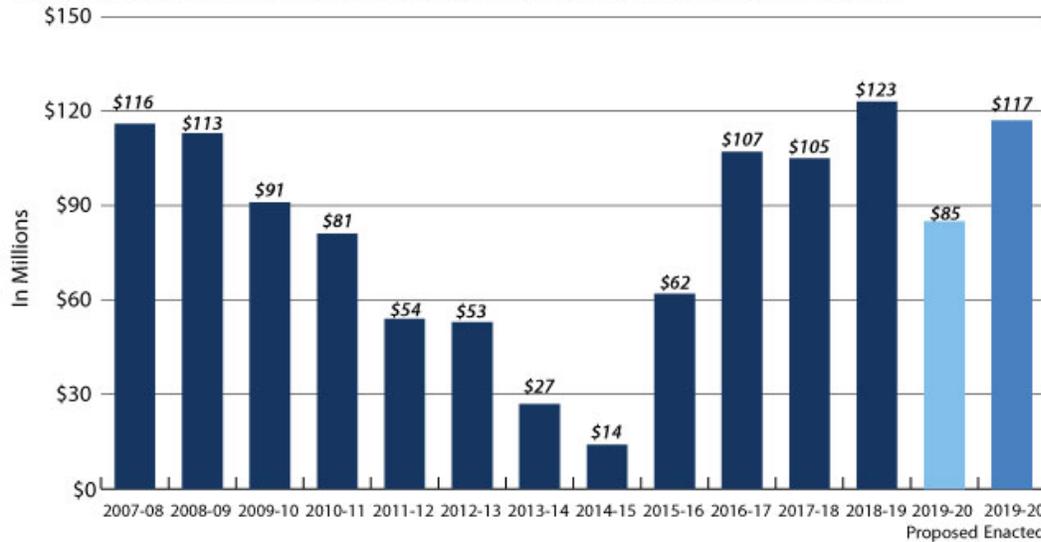
²⁰ <https://www.pennlive.com/opinion/2019/07/pa-budget-shows-little-understanding-concern-for-the-environment.html>

General Funds with a transfer from the Keystone Recreation, Park and Conservation Fund for DCNR operations. This was rejected in the enacted budget and the General Assembly provided \$117 million, \$32 million more than proposed by the governor. However, the enacted budget uses \$21 million from the Oil and Gas Lease Fund, and \$2 million from the Environmental Stewardship funds to pay for operations previously paid for in the General Fund.²¹

Figure 14

The 2019-20 Budget Will See a 4.5% Decrease in General Funds for the Department of Conservation and Natural Resources (DCNR)

The governor had proposed a 30.5% decrease, proposing that much of it shift to special funds.



Source: Pennsylvania Budget and Policy Center analysis of the 2019-20 Budget (June 28, 2019) and previous budgets.

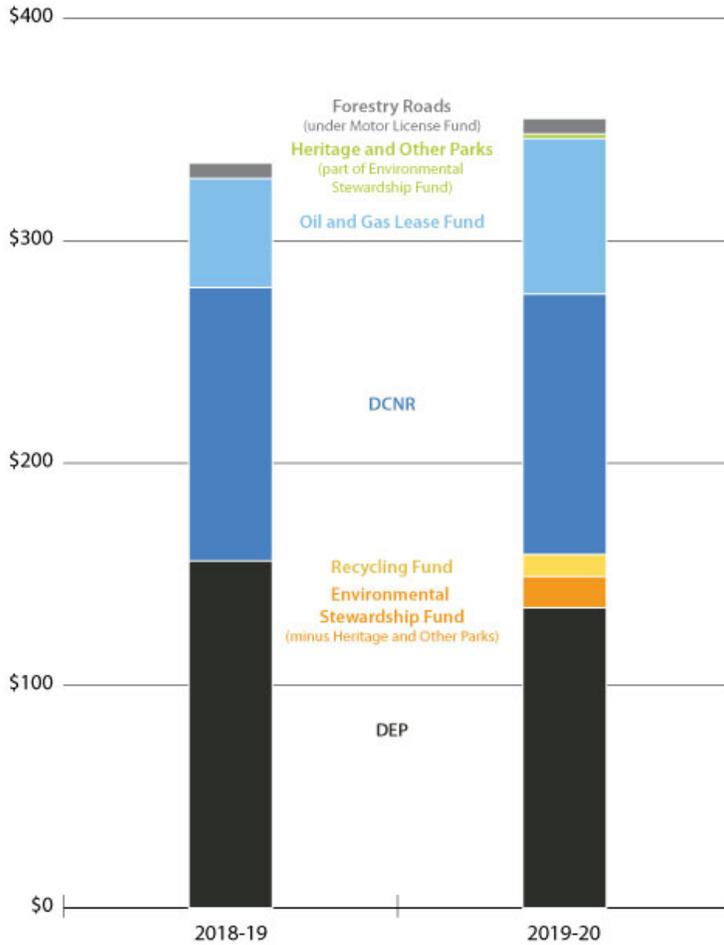
As Figure 15 shows, a total of \$47 million will be shifted from Environmental Stewardship, Recycling, and Oil and Gas Lease funds to pay for DEP and DCNR operations previously covered by the General Fund. The combination of General Fund and special fund support for DEP and DCNR will allow total expenditures for these two departments to grow from last year to this year, which is commendable. While supporting these departments from special funds is not unprecedented, we are concerned that taking significant amounts of money from these funds will threaten their unique purpose. Here is one more place where the problem of insufficient General Fund revenues can be seen.

²¹ The transfer of money from the Oil and Gas Fund to the General Fund is subject to continued litigation. The PA Environmental Defense Fund has been seeking a court ruling holding that these transfers were and continue to be unconstitutional. The total of such transfers between the 2011-12 budget and the current year budget total \$311.5 million. See, [Commonwealth Court Rules Two-Thirds State Forest Drilling Money Transferred Out Of The Oil & Gas Lease Fund Was Part Of The Public Trust; PEDF Says Court Ignores PA Supreme Court Decision](#), PA Environmental Digest Blog, June 30, 2019, accessed August 26, 2019.

Figure 15

Department of Environmental Protection (DEP) and Department of Conservation and Natural Resources (DCNR) Budgets Along With Their Special Funds

How funding has changed from 2018-19 to 2019-20.



Source: Pennsylvania Budget and Policy Center analysis of the 2019-20 Budget (June 28, 2019) and previous budgets.

PA Farm Bill – Funding for Agriculture

The governor proposed a Pennsylvania farm bill as a comprehensive package to support farming and agriculture in the state. Numerous appropriations connected to the proposed farm bill were included in the Department of Agriculture total appropriation of \$171 million, an increase of 13% from the last year. New resources will be available for agricultural business development and succession to provide training and opportunities for farm workers, to expand dairy and meat processing capabilities, to expand the organic agriculture sector, and to support urban agriculture. In addition, some regulatory burdens for farmers will be removed.

Funding for New Voting Machines

The General Assembly provided \$90 million to help counties pay for new voting machines, which is significantly more than the \$15 million down payment on a five-year, \$75 million program ally

proposed by the governor.²² The General Assembly appropriation was about 60% of the \$150 million the counties will need. However, Republicans included a proposal to end straight-party voting in this legislation which led the governor to veto it and rightly so.²³ The governor has directed the Pennsylvania Economic Development Financing Authority to issue \$90 million in bonds to reimburse counties for new voting machines. Republicans are challenging his authority to do this without legislative approval.²⁴

Rainy Day Fund

For the second year in a row, a budget surplus has enabled the state to make a deposit to the state's Rainy Day Fund, which is meant to provide funds to support state spending in event of a recession. The transfer this year was a substantial \$316.9 million. While this is an important accomplishment, the total in the Rainy Day Fund is less than \$400 million which will be helpful, but not nearly sufficient, to support ongoing state spending in a recession.

Is the Budget Truly Balanced?

We have focused, to this point, on the revenue and expenditure proposals in the enacted 2019-2020 budget. Before we conclude, however, we want to point to a number of reasons to be concerned about both whether the enacted budget is truly balanced and also, about the prospects for future budgets that will be based on this one.

Our concerns about whether the enacted 2019-2020 budget is truly balanced are summarized in Table 2. We believe that some expenditures are underestimated, and some revenues overestimated in the budget. It has become a Pennsylvania budget habit to underestimate the costs of Medical Assistance and then backfill those costs with a supplemental appropriation. As we pointed out above, we believe that this year is no different. It is almost as common to book revenues that are unlikely to be raised. In particular, it does not appear likely that all the expanded gaming licenses that are on offer will be sold next year. And, for the third year in a row, the General Assembly has proposed to fund part of Medical Assistance with \$200 million from the JUA medical malpractice fund, even though the courts have ruled against doing so twice before.

²² <https://www.witf.org/state-house-sound-bites/2019/06/house-plans-to-give-wolf-more-than-he-bargained-for-in-voting-machine-bill.php>; and <https://www.witf.org/news/2019/06/winners-and-losers-in-pas-34-billion-state-budget-package.php>

²³ The reasons for keeping straight ticket voting can be found in Kadida Kenner, "[How a GOP bill getting rid of straight ticket voting will silence minority voters, Pennsylvania Capital-Star, June 28, 2019.](#)

²⁴ <https://www.inquirer.com/politics/pennsylvania/pa-voting-machine-funding-90-million-20190709.html>

Table 2

Questionable savings and revenues in the 2019-2020 Enacted Budget	
Amounts in millions of dollars.	
Questionable Savings Included in FY 2019-2020 enacted budget	
Potential underfunding of human services programs (MA Captitation, MA Community Health Choices, Disability Services, County Child Welfare including amounts underfunded in 2018-2019 to be paid in 2019-2020	\$ 381.9
Sub-total	\$ 381.9
Questionable revenues included in enacted 2018-2019 budget	
Medical Assistance captitation expenditure funded with JUA Transfer	\$ 200.0
Licences for interactive gaming at airports	\$ 3.8
Sorts wager licencese	\$ 40.0
Satellite casino table games	\$ 12.5
Satellite casino license fees	\$ 7.5
Sub-total	\$ 63.8
Total	\$ 445.70
Source: PBPC based on House Appropriations Committee Democrats. "2019/20 Budget in Depth: Budget Briefing." July 3, 2019, p. 5-6	

Note that the estimated \$445.7 million shortfall we expect in the 2019-2020 budget assumes that revenue projections are on target. As we noted above, there is some reason to be concerned that revenue targets will not be met, especially if the economy enters a recession sometime during the fiscal year.

In addition to having to meet any current year budget shortfall in the 2020-2021 budget, the General Assembly will also have to fill holes in the budget that are being filled this year with one-time savings or revenues and by General Fund expenditures supported by transfers from special funds or moved off-budget. We list the major areas of concern in Table 3. The one-time savings and revenues will have to be replaced by other savings or revenues next year. And while it may be possible to support General Fund expenditures with transfers from special funds, doing so will require unwelcome cutbacks in the operations of the special funds.

Table 3

Holes to be filled in future budget years	
One-Time Savings Included in FY 2019-2020 Enacted Budget	
Medicaid / Medical Assistance expenditures rolled back to 2018/2019	\$ 15.8
Medical Assistance expenditures funded with prior year funds	\$ 145.0
School transportation underfunding leading to delayed payments	\$ 37.0
One-time savings from managed care payment change	\$ 216.6
Use of PHEAA funds to reduce General Fund expenditures for higher education	\$ 30.0
PlanCon appropriations replaced by bond issue	\$ 193.3
Deferred repayment of Underground Storage Tank Indemnification Fund	\$ 7.0
Sub-total	\$ 644.7
General Fund Expenditures shifted off-line or to special funds	
Increase in Medicaid / Medical Assistance funded through Lottery Fund	\$ 28.2
Use of special fund to offset General Funded for DCNR /DEP	\$ 47.0
Sub-total	\$ 75.2
Total	\$ 719.90
Source: PBPC based on House Appropriations Committee Democrats. "2019/20 Budget in Depth: Budget Briefing." July 3, 2019, p. 5-6	

Questionable savings and revenue together with one-time savings and revenues total over \$1 billion. Taking into account the likely growth in mandatory spending (primarily for employee costs, pensions costs and Medical Assistance), we expect that when the governor and General Assembly begin to consider the 2020-2021 budget, they will be looking at a budget deficit of at least \$1.5 billion and far more if a recession develops.

Conclusion: The Continuing Public Investment Deficit and How to Meet It

The prospect of a budget deficit at the start of the next fiscal year shows that Pennsylvania’s problem of recurrent budget deficits has not been resolved.

And neither has the problem of our continuing public investment deficit. The enacted budget makes important investments in many areas. But when one looks at the budget as a whole, it is difficult not to conclude that it does not really meet the challenges Pennsylvania faces this year or prepare us to meet them in the next 10 years. For many years, Pennsylvania has faced a public investment deficit. And that public investment deficit continues in the current budget.

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

our health and the natural beauty of the state is compromised by environmental degradation. Prosperity for all is stunted.

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

In our state's public education system, the public investment deficit means concretely that our state is behind most other states. Pennsylvania is ranked 46th in terms of the percentage of K-12 funding that comes from the state. It is 37% in Pennsylvania, but the national average is 47%. And that is why Pennsylvania has the most unequally funded K-12 schools in the country.

In terms of higher education, our state ranks 47th in the nation in terms of our public investment per student²⁵ and students are graduating with some of the highest debt in the country. Pennsylvania ranks third highest for in-state tuition and fees for public four-year colleges and universities.²⁶ This means that fewer low- and middle-income students can afford to attend college, which affects future earnings and career options. Those who fund higher education through debt find their legs are kicked out from under them before they even begin their careers.

We underserve those who are intellectually and physically disabled, those who suffer from mental illness, women and children who need protection from abuse, and those who through no fault of their own cannot find steady work or cannot afford childcare so that they can work.

At a time when the rapid expansion of natural gas fracking has created new threats to our air and water, we still suffer from the deep cuts made a decade ago to the Department of Environmental Protection.

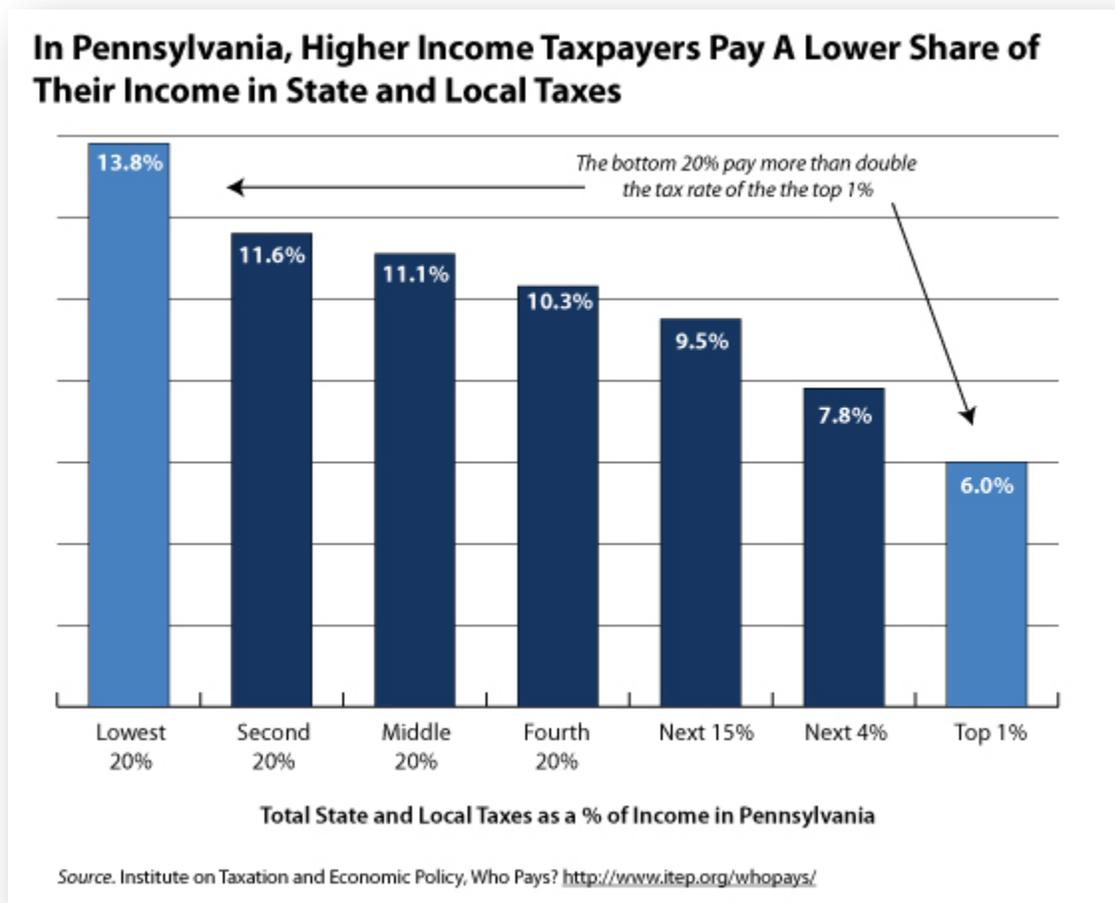
Pennsylvania workers continue to suffer from low wages because we have not raised the minimum wage for over 10 years. Pennsylvania's minimum wage is lower than any of our surrounding states. Wage growth for everyone in the bottom 90% in Pennsylvania is below that of our surrounding states. And, not surprisingly,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

The fundamental reason that we cannot invest more in the public goods that will create prosperity for all is that our tax system fails to bring in sufficient revenue. And that does not mean we should raise taxes on everyone. Taxes in Pennsylvania are too low for the richest among us. Figure 16 shows how upside-down our tax system is. Families in the bottom 20% of incomes, making less than \$20,000 a year, pay 13.8% of their income in taxes. Families in the top 1% pay at state and local taxes at less than half the rate of those at the bottom.

²⁵ University of Illinois Grapevine database Table 4, online at <https://education.illinoisstate.edu/grapevine/tables/>

²⁶ Data downloaded from: <https://trends.collegeboard.org/college-pricing/figures-tables/2016-17-state-tuition-and-fees-public-four-year-institutions-state-and-five-year-percentage>

Figure 16



This is not the place to present a complete antidote to a tax system that is not only unfair but fails to bring in sufficient revenues to bring public investment up to the appropriate level. We will just say that our Fair Share Tax plan would bring in \$2.3 billion in new revenues with the vast majority coming from the top 5%.²⁷ Almost 60% of Pennsylvania families would see their taxes cut. Couple the Fair Share Tax with a reasonable severance tax on natural gas drilling and corporate tax reform that closes the Delaware loophole and the state would have about \$3 billion in new revenues, allowing new investment in education at all levels, in human services, in our infrastructure, and in environmental protection.

So, the 2019-2020 enacted budget is a step in the right direction. But the state budget is far from where it should be if we want our Commonwealth to thrive.

²⁷ Marc Stier and Diana Polson, A Fair Share Tax to Support Public Investment in Pennsylvania, Pennsylvania Budget and Policy Center, April 15, 2019 online at https://www.pennbpc.org/sites/default/files/A_Fair_Share_Tax-Updated_for_2019.pdf