

Memo

To: Editorial Page Editors, Editorial Board Members & Columnists

From: Sharon Ward, Director of the Pennsylvania Budget and Policy Center

Date: May 21, 2010

Re: State Budget Status

Now that the dust has settled after Tuesday's primary elections, the Pennsylvania General Assembly will turn its attention back to the state budget.

On Friday, May 21, the Pennsylvania Budget and Policy Center hosted a conference call with editorial page editors and columnists on the state budget. This memo summarizes the presentation I made during that call. You can also listen to a podcast of the call at www.pennbpc.org/editorial-board-call.

House Revenue Package

There is an important vote scheduled in the House of Representatives next week on a revenue package that is expected to raise about \$350 million to help balance the 2010-11 budget. House Bill 2435 will end special tax preferences, close loopholes and reform the business tax system in order to preserve critical public services like education and health care:

- HB 2435 will enact an excise tax on smokeless tobacco and other tobacco products. Pennsylvania is the only state that doesn't tax smokeless tobacco and one of only two without a cigar tax.
- HB 2435 will enact a severance tax on natural gas drilling, bringing Pennsylvania in line with every other mineral-rich state in the nation.
- HB 2435 will end a special sales tax preference for retail vendors that primarily benefits the state's largest retailers.
- HB 2435 will close corporate tax loopholes and use a portion of the revenue to make business tax changes long sought by the business community.

You can read a detailed overview of HB 2435 and link to fact sheets on each of these revenue measures at <http://www.pennbpc.org/pa-house-revenue-package-will-close-tax-loopholes-while-preserving-critical-services>.

Taking a Balanced Approach to the Budget

Throughout this budget season, we have called for the Legislature to take a balanced approach to the budget crisis by finding savings and efficiencies and raising revenue. HB 2435 is part of balanced approach. Without those revenues, the Legislature could be forced to cut as much as \$800 million from the proposed budget.

Some lawmakers are advocating for those types of deep cuts to resolve the budget shortfall. A cuts-only approach, however, would damage core services like health care, education and services for vulnerable Pennsylvanians, and undermine investments in assets vital to our economic success.

It's also important to remember that Pennsylvania has already made large cuts in the current year budget. The state eliminated 142 line items and made cuts in every department. 769 state employees were laid off, and 2,200 vacant positions were eliminated. Funding for economic development and environmental protection was cut significantly. WAMs were largely eliminated. Cuts to services for children and vulnerable adults have been felt statewide. And even lawmakers acknowledge the impact of cuts to critical services like food inspections.

Going forward, Pennsylvania lawmakers can protect working families by taking a more balanced approach to the budget. That begins next week with HB 2435.

The Broader Context

The recession has increased demand for health care, food stamps and human services while at the same time reducing state revenues. Pennsylvania is not alone: 48 states have experienced budget shortfalls this year and last. Despite signs of economic recovery, state revenues continue to lag behind projections.

In March, the state House approved a budget bill that mirrored Governor Ed Rendell's proposed 2010-11 budget. The Senate has not taken any action on that bill, nor has it made public its own budget proposal.

Since the House passage of the budget bill, the current year revenue shortfall has grown to \$1.1 billion. After accounting for savings proposed by the Governor, the year-end deficit is estimated to be in the range of \$500 million to \$750 million, depending on whose estimates you use.

The Governor has announced several measures that are largely expected to close that gap, including one-time transfers from fund surpluses, \$275 million in additional federal funding through a redefinition of eligible Medicaid expenditures, and \$125 million in estimated tax refunds that went unclaimed.

The 2010-11 Budget

The Governor's 2010-11 executive budget proposes \$29 billion in spending, an increase of \$1.1 billion.

Spending increases are not what they seem. Health care, public safety and education would receive funding increases in the Governor's proposal, while most programs would continue to be funded at levels below 2008-09, reflecting the ongoing effect of the national recession. Most departments would see General Fund cuts.

The \$354 million proposed increase for education simply restores state funds for education that were cut from the budget last year and backfilled with federal recovery dollars. More than \$800 million in

additional Medical Assistance money replaces current year funding that was pushed back to the 2008-09 budget.

A Choice for Lawmakers

The choice for lawmakers is to take a balanced approach to the budget crisis or to make cuts that will have a real impact on Pennsylvania families and the economy.

If the choice is between deep cuts to children's programs or a slight increase in the price of a \$2 cigar, we're better off choosing children's programs.

If the choice is between starving higher education or requiring natural gas producers to help pay for the environmental impact of drilling, we're better off choosing higher education.

Lawmakers will have to decide whether it makes sense to continue a state policy that encourages companies who can make effective use of tax loopholes to shift the cost of public services onto companies that can't. Thanks in large part to those tax loopholes, 71% of Pennsylvania corporations pay no corporate income tax at all.

Little Change After the Primary Election

It's no secret that House and Senate members were waiting until after the Primary to get down to business on the budget, and that the outcomes of the election would influence their actions.

It's safe to say that the Primary brought very little change. A number of incumbents faced tea party challenges and survived them. There was very little indication that national issues like health care reform or the federal recovery act were foremost in voters' minds. The races appeared to turn on local issues.

As lawmakers return to session next week, perhaps it will be easier for them to adopt a balanced approach to the budget, knowing that voters won't punish them if they act in the best interests of Pennsylvania families and the economy.