



PENNSYLVANIA

Budget and Policy Center

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Governor Shapiro's First Budget: The Right Priorities But Inadequate Funding

Governor Josh Shapiro's first budget sets all the right priorities—the ones he campaigned in support of during the 2022 election and that the voters overwhelmingly supported. He understands the importance of educating not just children but adults and calls for investing more in pre-K, K-12 education, higher education, as well as workforce training and career and technical education. He understands that we must create higher paying jobs and he calls for raising the minimum wage. And he calls for helping new businesses that will generate high wage jobs get established and grow in the state by helping them secure the well-trained workers they need and also gain access to new technologies and technical assistance. He also broadens the state's efforts by investing more in the arts. He understands that it has become increasingly difficult to recruit nurses, teachers, and police officers and proposes a refundable tax credit to help attract them to our local governments, schools, and hospitals. He understands that the government-supported safety net provides critical services and proposes new investments for seniors, individuals with disabilities, families who have difficulty affording child care, and those who need health care. He understands that rural communities and urban communities suffer from similar problems and need state support to revive and thrive. And he recognizes that Pennsylvanians have a right to clean air and pure water and proposes new investments to protect them.

These new initiatives—some of which we discuss more below—are exactly right. Yet while Governor Shapiro's priorities are right, we show below that the level of new spending he is proposing in many of these areas is too low. The total General Fund budget increases by almost 8%. But at a time when the consumer price index increased by about 8% in 2022 and, is projected by the administration to increase by 4% in 2023, the budget barely keeps pace with inflation. Indeed, as a share of gross state product, the budget is basically unchanged from last year at 4.71%. And the low level of new investment in some critical areas is especially disappointing when the state is flush with cash—with a budget surplus that the governor's proposal expects will reach \$7.8 billion by the end of this fiscal year on June 30 (which is similar to our own recent projection) and there is \$5 billion in the Rainy Day Fund. While we always take the seven-year financial statement that accompanies the executive budget with a grain of salt, we are concerned that it presents a plan to cover projected operating deficits in the next five years with first the surplus in the General Fund and then the Rainy Day Fund. Spending over those years is projected to grow only with inflation. If this plan is followed beyond next year, the state will have not invested sufficiently in the critical areas, especially education at all levels from pre-K to higher education and workforce development.

We understand that new governors have an almost herculean task in preparing a budget in their first year in office and that we are at a highly uncertain economic moment, when the pandemic and a fast economic recovery from it has led to a period of inflation as well as other economic dislocations that we are only starting to understand. Perhaps this budget is meant to temporize as Governor Shapiro and the rest of us evaluate the current situation. And all the inadequacies in

funding we identify below pre-date the Shapiro administration, in some cases by decades. So we should not hold the governor responsible for them. Still, given the needs, especially for meeting the challenge of fully and fairly funding K-12 education, we can't but hope that the governor's budget will be a starting point for efforts in the General Assembly to increase spending in some areas beyond what he has proposed.

We focus on a number of critical areas of the budget below. Our full analysis of the budget will be available soon.

Minimum Wage

The boldest part of Governor Shapiro's budget is his call for the state to raise the minimum wage to \$15 per hour on January 1, 2024. In the past, we joined former Governor Wolf in calling for an immediate increase to \$12 per hour with step by step increases to \$15 over six years. Governor Shapiro's call for an immediate increase to \$15 per hour recognizes the long delay in increasing the minimum wage in Pennsylvania as well as how the tight labor market has already raised wages in much of the state. Despite current wage increases, we believe that an increase in the minimum wage will raise wages for hundreds of thousands of Pennsylvania workers whose current hourly wage is either below or just above \$15 per hour. It will also add hundreds of millions of dollars to consumption in the state, helping businesses in our communities.

We also note that the Governor has not only called for stronger enforcement of Pennsylvania minimum wage laws and other labor laws but has proposed adding \$1.28 million to the budget to hire more labor law compliance investigators. We hope that Governor Shapiro's proposed minimum wage legislation also calls for removing the preemption on local governments raising the wage above the state's level, which recognizes the diversity in the cost of living in different parts of the state; ends the lower tipped minimum wage; and institutes a permanent cost of living increase for the minimum wage.

Education

Throughout his campaign, and in his speech today, Governor Shapiro recognized the moral necessity of fully and fairly funding K-12 schools in Pennsylvania. And as attorney general he joined the plaintiffs in asking that the Commonwealth Court ruling declare the school funding system in Pennsylvania unconstitutional. The recent decision by President Judge Renée Cohn Jubelirer affirmed that conclusion. In response to it, we joined our colleagues at the Pennsylvania Schools Work campaign in calling for a significant down payment on the \$4.6 billion in new state funding of our 500 school districts necessary to meet the state's own standard of what constitutes an adequate and equitable education for every child in our state.

Governor Shapiro's first budget falls far short of this mark. His proposed \$567 million increase in basic education funding keeps up with general inflation but does little more. And his budget does not include any new Level Up funding to help the 100 least-well-funded school districts in the state catch up. Nor does the proposed increase of \$103 million in special education make more than a dent in this increasingly costly burden on school districts. While a \$100 million per year investment in environmental repairs and improvements is welcome, and it still falls short of the need to repair or replace toxic schools in every part of the Commonwealth.

We are encouraged that Governor Shapiro presented his education funding as the first year in a two-year down payment on meeting the constitutional requirement of creating a thorough and

efficient system of education funding. We encourage the General Assembly to make a bigger investment in this first year.

The executive budget proposal for higher education keeps pace with inflation but does not provide any mechanism to reduce tuition at our state colleges and community colleges, which is among the highest in the nation relative to our median income.

The budget proposal includes \$24.7 million in refundable tax credits, up to \$2,500 per year over three years, to encourage people to become teachers as well as nurses and police officers. This is a smart investment at a time when it has become more difficult to recruit people to these professions.

Human Services

Governor Shapiro proposes a \$19 billion General Fund budget for Human Services, which is 43% of the total General Fund budget. In the area of human services, there are two particular areas where the Governor has focused new spending—mental health care and services to support the elderly and people with disabilities.

Through the School-Based Mental Health Supports Block Grant, Governor Shapiro will provide \$100 million to strengthen mental health supports for students and staff and to bolster the pipeline of mental health professionals trained for this work. Community-based mental health services would see a \$20 million increase in base funding to provide mental health services and also support the growth of this workforce. Additional funding will be invested in suicide prevention call centers and farmers' mental health services.

The Governor also proposes new spending to assist seniors and individuals with disabilities through a variety of programs. Governor Shapiro proposes to expand eligibility and benefits for the Property Tax and Rent Rebate program, which helps the elderly and disabled individuals keep their homes through tax relief. Due to stagnant eligibility standards, fewer people are benefiting from this program every year. But with this change, an additional 173,000 people would receive assistance, and the maximum benefit would increase from \$650 to \$1000. The governor also proposes the same eligibility standards for homeowners and renters, which is a long overdue change to the program.

Many of Pennsylvania's older population prefer to age in place. The Governor proposes an additional \$10 million to decrease the waitlist for the OPTIONS program, which helps older people stay in their homes. Additional funding has been proposed for services for people with disabilities to address the staffing shortages at state Centers for Independent Living and provide assistive technology devices to help people live independently.

The federal pandemic SNAP emergency allotment, which had increased the amount of food stamps people had access to, ended last month (February 2023). This, along with increasing food prices, will increase food insecurity. In an effort to address food insecurity among the elderly and individuals with disabilities, Governor Shapiro has also proposed a \$16 million investment to increase the minimum SNAP benefits—from \$23 per month to \$35 per month. More than 100,000 Pennsylvanians receive the minimum SNAP benefit and would receive this increase if enacted. However, it's important to note that even with this increase many individuals will be seeing much less in food assistance with the end of the federal SNAP emergency allotment.

Governor Shapiro proposes new funding for individuals with an intellectual disability and/or autism. An investment of \$17.5 million in state funds will serve an additional 750 people in the

Community Living Waiver program and 100 people in the Consolidated Waiver program and will help individuals live more independently in their homes and communities.

A particular area where the Governor's intentions are good, but his spending proposal is too low is with regard to funding for Child Care Works. He proposes additional spending to ensure that up to 75,000 low-income families will stay on the program. But he does not propose enough new money to make a dent in the large waiting list of families who are eligible but unable to get into a program. A Pennsylvania Association for the Education of Young Children (PennAEYC) survey of more than 1,100 child care programs in Pennsylvania found that 84% of programs have a staffing shortage, in large part due to low wages and lack of benefits, and that over 38,000 children currently sit on waiting lists. Given the Governor's focus on the inability of public and private sector employers to hire enough employees, we find this low investment surprising. Lack of affordable child care is a serious barrier for many people who would like to join the labor market. Providing more support for affordable child care would help businesses and workers while also reducing poverty.

Workforce Development

One of the most innovative parts of Governor Shapiro's proposed budget seeks to build economic prosperity through key investments of nearly \$25 million to support partnerships between education and training programs and industries that pay well and have jobs in demand. These investments represent a down payment on [Governor Shapiro's campaign plan](#) to "drastically increase career and technical education" for high school students, triple state funding for apprenticeships, and expand Pennsylvania's industry partnership grants.

The Governor's proposed investments include more than \$12 million for three programs that directly support Career and Technical Education (CTE) in schools:

- \$3.3 million in new funding to ensure educational facilities and schools with Career and Technical Education programs can purchase and upgrade technology and equipment.
- \$4 million for career and technical centers to support employment and expand program offerings in high-demand areas of health care, STEM, energy, and infrastructure trades.
- \$5 million in secondary career and technical education for increasing computer science and STEM programs statewide.

It also includes \$8.5 million for two programs that would strengthen CTE's connections to industry, increasing students' career prospects and meeting industry skill needs.

- \$2 million to establish a state-level industry in the school program that will allow for industry professionals to teach and build interest among students in the classroom.
- \$3.5 million for a new PA Schools-to-Work program that supports workforce development partnerships between schools and employers, organizations, and associations that will create robust training and career pathways.

Governor Shapiro further proposes to invest \$3 million in a new "Foundations in Industry program" to cover a portion of the in-classroom instruction for registered apprenticeships and pre-apprenticeships. Co-investment by government in classroom education that complements private investment in on-the-job learning is the approach that other countries use to scale apprenticeship to many times the level in the United States.

The Governor's CTE and apprenticeship/pre-apprenticeship proposals embrace many of the systemic reform [we have proposed](#). The level of funding, however—particularly for the core subsidy for CTE education—is insufficient to move Pennsylvania's enrollment in CTE up from its current level of one-third of the average in our surrounding states. Given strong, bipartisan support for CTE, the legislature has an opportunity to enhance Governor Shapiro's strategic investments in industry-aligned education and training with a bump in the state CTE subsidy. The current, paltry state subsidy of 8.5% of CTE costs is the major bottleneck to more Pennsylvania students enrolling in career-related learning.

Communities

Finally, the Governor's budget recognizes the need to invest in both urban and rural communities to create jobs and help them thrive. He proposes to add funding to two important programs:

- **\$20 million to help** historically disadvantaged businesses leverage the capital they need to sustain or expand their business operations.
- an additional investment of **\$8.6 million** in the Keystone Communities program.

These programs are necessary to ensure that rural, suburban, and urban communities—people in every region in the state—can advance. But again, while the programmatic direction is right, these programs need additional funding than what is proposed in this budget. We hope that the Governor's proposal is a first step in a longer path to supporting every community in our Commonwealth.

Taxes

Governor Shapiro's budget does not propose an acceleration of the corporate income tax that was enacted in June. We continue to think that reducing our corporate net income tax below 6.5% is a [mistake](#), especially if we do not adopt combined reporting.

The proposed budget includes revenues from taxing adult-use cannabis which would, of course, require legalizing it.