MOVING FORWARD UNDER DIFFICULT CIRCUMSTANCES

An Overview of the Governor’s Proposed 2018-19 Budget

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Designed by Stephanie Frank
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Introduction

While the details are different, the basic theme of our analysis of the governor’s budget proposal this year is essentially unchanged from last year and the year before. Once again, Governor Wolf has presented another austere budget that, within the political limits of Harrisburg, makes progress on issues critical to Pennsylvanians. But because of those political limits – and through no fault of the governor – it does not make fast enough progress.

By now, the nature of those limits is obvious to all observers of Pennsylvania politics. We do not live in normal political times. The give-and-take that long characterized politics in Pennsylvania, as in the rest of the United States, has broken down. Politics in our state was once characterized by civil, if sometimes difficult, debate among mostly pragmatic political leaders. In both parties there were those who sought a bit more investment in public goods and the social safety net and those who sought a bit less. Today, however, government in Pennsylvania suffers from a deep ideological rift that has partly partisan dimensions.

On one side is a pragmatic view held by most Democrats and many Republicans in Harrisburg and among citizens in communities far and wide in our state. It holds that the public sector plays a critical role in creating shared prosperity. Those who hold this view, including Governor Wolf and we at the Pennsylvania Budget and Policy Center, believe that state government has a responsibility to the families of this state to make public investments in education, workforce development, infrastructure, environmental protection, and human services. We believe that without these investments, the diverse communities across the state will not thrive. We believe that without the human services delivered by state agencies or non-profits funded by the state, we cannot ensure that every citizen of Pennsylvania lives a dignified life. We believe that without investments that allow young people to secure a good education and to get the post-secondary training or college education that is right for them, the lives of our young people and the economic prosperity of our state will be stunted. We understand that without these public investments, as well as the proper regulations that ensure that wages are fair and sufficient to support families, the entrepreneurial initiative of business leaders will be thwarted and will not lead to broadly shared prosperity.

We do not seek an endless expansion of government or a public sector that dominates the private sector. But go to communities in every corner of this state, whether they are urban, suburban or rural, and you will find a majority of people who understand that there are some goods we can only secure as a community. They are willing to pay taxes to meet needs they see in their communities — to improve their schools, to build a needed road or bridge, to sustain a public transit system, or to ensure that those who are mentally ill or suffer from substance abuse disorder can secure the treatment they need. It is said that there are no atheists in foxholes. Similarly, there are no libertarians who are seriously engaged in local politics.

But when it comes to thinking about matters that are a bit more distant, such as the policies adopted in our very large state, many Pennsylvanians — far less than a majority, but still too many — have embraced radical ideological ideas that call into question almost everything government does. And a political system that empowers ideologues has led the Republican Party, especially in the Pennsylvania House of Representatives, not only to embrace this ideology but to do so in an extremist way that gives
them power far beyond their numbers in Harrisburg.¹

The result has been that even when Governor Wolf presents an austere budget that seeks new funding in only a few, broadly popular areas — education, substance abuse treatment, and reduction of waiting lists for services to the intellectually disabled — he has found it almost impossible to secure support for the revenues necessary to fund those initiatives, let alone fund bolder ones. And that is true even when Governor Wolf embraces ideas that should be attractive to those on the right, as he did last year when he called for $2 billion in savings and efficiencies in government.

This year, Governor Wolf has again put out a responsible budget, which moderately increases funding for Pre-K, and K-12 education. The governor’s proposal this year would fully restore classroom funding that was cut so drastically in 2011-12.

The budget includes new funding for the Pennsylvania State System of Higher Education, although funding for community colleges and the state-related institutions (Penn State, Lincoln University, Temple University and the University of Pittsburgh) remain flat. There is also substantial new funding for workforce development, including career and technical education, apprenticeships, and industry partnerships.

Governor Wolf has also included bold proposals for increasing the minimum wage and ramping up overtime pay. He calls for immediately increasing the minimum wage to $12. This increase is past due, as the Commonwealth has not increased the minimum wage for over 10 years. Inflation has reduced the value of the minimum wage. All of Pennsylvania’s surrounding states have minimum wages higher than Pennsylvania’s. Outside of the budget process, the governor has also proposed to roughly double the threshold under which employers must pay salaried workers overtime from $23,600 to over $47,000.

Together with public investments in education and workforce training, these policies will lead to higher wages for Pennsylvanians and stronger economic growth throughout the state.

There are some new investments in human services as well. The governor’s budget focuses on fighting the opioid epidemic and provides increases for childcare and for intellectual disability services. Other human services, such as cash grants, homeless assistance, and domestic and rape crisis services would be flat funded this year.

¹ Our political system magnifies the power of this minority in four ways. First, it enables a minority of aggressive ideologues to dominate political party primaries, especially in our small state representative districts. Second, a combination of geographic self-sorting among party members and gerrymandering leads to districts that are dominated by one party or another. So, in many districts, Republican candidates cannot lose a general election no matter how radical they are. Third, because ideological extremists are a majority of the House of Representatives, they elect the majority party leadership. And because the majority party leadership has almost total control over what legislation and amendments come to the floor of the House, they can block almost any proposal, even when there is a bipartisan majority of Democrats and Republicans who favor it. And finally, because no legislation can be enacted without the concurrence of the House of Representatives, so long as the extremist Republican leadership in the House is willing to hold the rest of the government hostage, it can block almost any legislation, even if a majority of the House and Senate and governor support it.

Because senators are elected from larger, more competitive districts, the Republican leadership of the Senate is far more moderate. It is conservative, of course. But it is willing to act in concert with and compromise with Democrats to accomplish the business of government. So, it is no surprise that last year, looking at the House’s obstruction of a plan to finance the budget, Senate President Joe Scarnati remarked, “This is not governing; this is an embarrassment.”
There are small increases in the budget for protecting the environment.

The governor recommends piloting a body camera program for state police and once again proposes a fee for counties who rely solely on state police services.

These proposals do not require substantial new revenues. For the fourth year, Governor Wolf proposes a severance tax on natural gas drilling, which he estimates will bring in $248 million in 2018-19 and more in future years. Governor Wolf also proposes to reduce the Corporate Net Income Tax rate, which is the second highest in the nation at 9.99%, while at the same time closing the Delaware loophole by enacting combined reporting (although these changes will not take effect this year). This would ensure that the 71% of corporations doing business in the state that escape from the Corporate Net Income Tax – mostly large multi-state/multi-national corporations – pay their fair share, as small, Pennsylvania-based businesses do now. The PA Lottery will bring in additional revenues to protect older Pennsylvanians because of Act 43 of 2017.

The governor’s priorities match our own. We believe that it is time to invest more heavily in education at all levels: to raise wages through regulatory initiatives; to reduce waiting lists and other barriers faced by the most vulnerable Pennsylvanians who rely on human services; and to do more to protect the environment. We believe that new revenues to fund these and other initiatives should come from those most able to pay and especially from natural gas drillers and Pennsylvania’s untaxed corporations.

But while the governor’s priorities are right, his budget does not go nearly far enough to meet the needs of the state. A series of austere budgets have enabled the state to partly overcome the deep structural deficits that Governor Wolf inherited when he took office, although we note that this achievement is precarious and has been attained with substantial borrowing. But while spending restraint has gone some way to closing the structural deficit, the much more important public investment deficit is still large, as the state has gaping needs that must soon be filled if Pennsylvania is not to stagnate.

Education funding in Pennsylvania remains a moral scandal and a pragmatic disaster. We are behind many other states in investment in Pre-K education. We rank 46th for our state share of investment in education – 37% of Pennsylvania’s K-12 funding comes from our state coffers compared to the national average of 47%. We have the most unequally funded K-12 schools in the country. The zip code, and even neighborhood, in which a child grows up has a greater effect on his or her future economic success in Pennsylvania than in any other state in the country. Frankly, this is morally obscene. It is also disastrous for all of us who care about whether Pennsylvania is prosperous. We all lose when the natural talents of so many of our children are stunted by inadequate education.

We rank 47th in the nation in terms of our public investment in higher education 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.

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2 Data downloaded from https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=SSF_2014_00A05&prodType=table
3 University of Illinois Grapevine database Table 4, online at https://education.illinoisstate.edu/grapevine/tables/
In a twenty-first century world in which education and skills are at a premium, we simply cannot expect our children to do well as individuals or to live their lives in an increasingly prosperous community if we continue to underinvest so drastically in education.

Pennsylvania workers suffer every day because we have not raised the minimum wage for over 10 years. Of all Pennsylvania’s surrounding states, our minimum wage is the lowest. Wage growth for everyone below the top 10% 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. Far from undermining job creation, it appears that raising the minimum wage encourages it.

We underserve those who are intellectually and physically disabled, those who suffer from mental illness and women and children who need protection from abuse, as well as those who through no fault of their own cannot find steady work. The opioid crisis, with overdose deaths in our state nearly twice the national average, is a sign of our failure to adequately fund human services.5

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 that Governor Corbett made to the Department of Environmental Protection.

While these challenges are deep and profound, we cannot lay blame them at the feet of Governor Wolf. The priorities evinced in his budget tell us that he would do more if political realities allowed. But it was extremely difficult to enact budgets the last three years, even though the governor’s proposals were moderate and austere. Perhaps a delay in enacting a budget will be avoided this election year, when all sides would rather not be embarrassed by a long, drawn-out budget process. But given the politics of this state, a budget that is done on time will be a budget that leaves many needs unmet.

The stalemate that makes it impossible for Governor Wolf and the pragmatic political leaders of both parties to address our long-standing public investment deficit will not be settled until the voters of Pennsylvania choose between the two visions of government before them.

We are a non-partisan organization, dedicated to research and analysis. We don’t make recommendations about how Pennsylvanians should vote. All we can do is lay out the facts before our fellow citizens. And the facts we present in this analysis of the governor’s budget point to the critical choice Pennsylvanians will make in November between the pragmatic, common sense approach that seeks to use government to advance opportunity and prosperity while protecting the vulnerable and the radical ideology that only wants to cut taxes and spending no matter the consequences.

What Happened to the Structural Deficit?

Since the start of the great recession, discussion of the Pennsylvania budget has been framed by the notion that the state faces a structural deficit.

A structural deficit exists when the expenditures necessary to maintain the current level of government service is greater than the revenues expected under current law. That is, the expected revenues do no match the previous year’s spending plus 1) spending increases that are mandatory either because of federal laws that require the state pay part of the cost of entitlement programs; 2) already enacted state spending provisions; 3) required payments of pensions and debt services; and 4) contracts with employees and providers.

And so, in recent years, we began budget discussions with the need to close a projected deficit before we could even think about new public investment. Because the Pennsylvania Constitution prohibits the state from running a deficit, as the federal government is allowed to do, it was necessary for the governor and General Assembly to either cut ongoing expenses or raise revenues to balance the budget. And where governors and legislators sought to increase spending to do more than the state had done before, they had to make further cuts or seek additional revenues to avoid a deficit.

The structural deficit, as well as the political divisions described above, have led to contentious struggles within the General Assembly and between the General Assembly and the governor. Those struggles – and the political division discussed above – were the main reason budgets have been late one year after another. The last three years, Governor Wolf has asked for tax increases to close the deficit. But, as we shall see in a moment, the General Assembly has refused most of his requests and funded the budget with one-time revenues.

The budget process for the current year was no different. When the funding mechanism was finally put in place for Fiscal Year 2017-2018 budget last fall, we warned that the use of one-time revenues to balance that budget was likely to create a structural deficit at the beginning of 2018-2019. We were not alone. As Figure 1 shows, In November 2017, the five-year Budget Outlook released by the Independent Fiscal Office (IFO) projected an almost $1 billion deficit for 2018-2019 and growing deficits in subsequent years.
Governor Wolf’s budget projects a small surplus for 2018-2019 and subsequent years. And while it may seem odd to begin our detailed analysis of his budget with a discussion of a problem that perhaps no longer exists, we think it is important to both understand why Pennsylvania has had a structural deficit problem in the past and whether, and with what confidence, we can say that is now resolved. The absence of a structural deficit is worth examining both because it helps understand the fiscal status of our Commonwealth in the recent past and the near future.

We begin with an analysis of the source of the structural deficits Pennsylvania has faced in recent years.

**Where the Structural Deficit Came From**

**Increases in Spending Do Not Account for the Structural Deficit**

We will begin with a common explanation of the structural deficit from those on the right, one in which the evidence suggests is entirely mistaken: that state government spending in Pennsylvania has been rapidly increasing.

As Table 1 and Figure 2 shows, as a percentage of the Gross State Product – a measurement of the size of the state’s economy - spending has shrunk over time. During the 15 years between 1997 and 2011, expenditures average 4.66% of GSP. They shrunk to 4.25% during the Corbett years and have shrunk again during the first three years of the Wolf Administration. This is a 10 percent reduction from the
If the Governor’s proposed budget for 2018-19 were adopted in toto, spending would shrink further to 4.12% of GSP. And if his projections for future years became reality, spending would shrink again to 4.09% – a 12% reduction since the 1997-2011 period.

Table 1

<table>
<thead>
<tr>
<th>Fiscal year ending</th>
<th>Expenditures / GSP</th>
<th>Revenues / GSP</th>
<th>Reduction in Spending Compared to 1997-2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average 1997 to 2011</td>
<td>4.66%</td>
<td>4.85%</td>
<td></td>
</tr>
<tr>
<td>Average 2012 to 2015</td>
<td>4.25%</td>
<td>4.37%</td>
<td>-9%</td>
</tr>
<tr>
<td>Average 2016-2018</td>
<td>4.23%</td>
<td>4.37%</td>
<td>-9%</td>
</tr>
<tr>
<td>Governor's Budget 2018-2019</td>
<td>4.17%</td>
<td>4.53%</td>
<td>-10%</td>
</tr>
<tr>
<td>Projections 2020 to 2023</td>
<td>4.09%</td>
<td>4.25%</td>
<td>-12%</td>
</tr>
</tbody>
</table>


Figure 2

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

Mandatory Spending Increases

It is, of course, true that while spending has declined as a percentage of the Gross State Product, it has grown in absolute terms. But this is not a sign of government growing in scope but, rather, of population growth and inflation in the cost of government carrying out the same level of activity. Government mostly provides people with services, such as education and human services, not goods. Inflation for service tends to be higher than inflation for goods because they are labor intensive.

Indeed, much of the increase in spending every year consists of mandated spending, that is spending that is required to provide the same level of services the previous year (including providing services to new people entitled to them under state or federal law); to contractually obligated increases to employers and vendors; to make the annually-required employer contribution to state pension systems; and to pay debt service. Of the $990 million proposed increase in spending in 2018-2019, $685 million is mandatory as show in Table 2.

<table>
<thead>
<tr>
<th>Spending Category</th>
<th>Increase in Spending (in Millions)</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pensions</td>
<td>$275</td>
<td>New Mandated pension contributions.¹</td>
</tr>
<tr>
<td>Medical Assistance (mandatory spending increase)</td>
<td>$4</td>
<td>Total increase to pay for additional recurring program costs due to, changes in enrollment, increased costs, etc. minus recurring reductions due to changes in reimbursement rates and efficiencies.²</td>
</tr>
<tr>
<td>Medical Assistance (one time, non-recurring costs)</td>
<td>-$29</td>
<td>Total one-time savings including one-time cost increases minus one-time revenues and savings.²</td>
</tr>
<tr>
<td>Long Term Living</td>
<td>$92</td>
<td>Includes increases to continue current programs in home and community-based services, long-term care managed care, services to persons with disabilities and attendant care.³</td>
</tr>
<tr>
<td>Prisons</td>
<td>$106</td>
<td>Includes increases to continue current operations, medical care, inmate education, field supervision, parole board, etc. ⁴</td>
</tr>
<tr>
<td>Debt</td>
<td>$69</td>
<td>Total increase in Debt Service.⁵</td>
</tr>
<tr>
<td>Other</td>
<td>$168</td>
<td>Mostly contractually required increases in wages and benefits and payments to providers of goods and services.</td>
</tr>
<tr>
<td>Total</td>
<td>$685</td>
<td></td>
</tr>
</tbody>
</table>

¹ Governor's 2018-19 Executive Budget, p. A1-7
² Governor's 2018-19 Executive Budget, p. E22-22
³ Governor's 2018-19 Executive Budget, p.E22-25
⁴ Governor's 2018-19 Executive Budget, p. E12-11 & E12-13
⁵ Governor's 2018-19 Executive Budget, p. G7

Source: Pennsylvania Budget and Policy Center based on Governor's 2018-19 Executive Budget, Feb. 7, 2017
Pensions Costs

The decline in state spending as a share of GSP is even more remarkable given the costs and achievements of the last three years in meeting the state’s pension costs. As Figure 3 shows, the decline in government spending has taken place even as one of the mandatory costs, employee pensions contributions, has increased dramatically. Increased pension costs are not a sign of pensions becoming more generous. The Act 120 reforms of 2010 actually made them less generous, as will the reform in Act 5 of last year, which sets up a defined contribution option for new employees. Rather, the state is finally meeting its actuarially-required employer contributions after a long period of not doing so. In 2018-2019, the state will meet its actuarially-required employer contribution to PSERS for the third year in a row (and only third year in 17 years) and to SERS for the second year in 17 years. At this rate of state contribution to the pensions funds, 75% of PSER contributions go to reducing unfunded pension debt and 85% of the SERS contributions go to the debt. If the state continues to meet its actuarially-required contributions, the unfunded debt of PSERS will be retired by 2035 and of SERS by 2040.

Meeting the actuarially-required contributions to PSERS and SERS is a major accomplishment of Governor Wolf and the General Assembly in the last few years, one that should be more widely acknowledged.

Figure 3

Pension Costs in Pennsylvania

**Long-Term Causes of the Structural Deficit**

If state spending has not been growing, then the cause of the structural deficit must be found on the revenue side. As Figure 4 shows, three main pillars make up the General Fund estimate: Personal Income Tax (PIT), which provides 41% of General Fund revenue in the governor’s proposed budget; The Sales and Use Tax (SUT), which provides 31% of general fund revenues and corporate taxes, including the Corporate Net Income Tax, other business taxes, and the severance tax, which total 16% of general fund revenues.

**Figure 4**

![Governor’s Proposed General Fund Revenue, 2018-19: $34.2 Billion](source)

**Corporate Tax Cuts: The Primary Long-Term Reason for the Structural Deficit**

The primary reason why the Commonwealth faces a structural deficit is because we have radically reduced corporate taxes.

As Figure 5 below shows, corporate taxes once are providing half of what they were in 1972. That year, corporate taxes provided for 30% of the state’s General Fund revenue. As of 2017, that share had decreased to 15%.
Figure 5

Corporate Taxes are Providing a Smaller Share of General Fund Revenue Over Time
Corporate taxes as a share of General Fund revenue account for half (15%) 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.

One corporate tax, the Capital Stock Franchise Tax, was been entirely phased out last year. Meanwhile, the Corporate Net Income Tax has generated less than it would have had the state not adjusted the way corporations calculate their taxable income. As Figure 6 shows, which is drawn from a forthcoming paper, these reductions in corporate taxes cost the state $3.3 billion in 2015/16. As we have shown, these corporate tax cuts do not appear to have increased economic growth in Pennsylvania any more than similar policies did when they were enacted in Kansas and Louisiana. Without these tax reductions, not only would the state have faced no structural deficit problem, but there would be additional funds to invest in education, human services, infrastructure, and protecting our air and water.

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Figure 6

Annual Costs of Corporate Cuts Exceeds $3 Billion

<table>
<thead>
<tr>
<th>Year</th>
<th>CSFT Rate Cut</th>
<th>Other Corporate Tax Breaks</th>
<th>Tax Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>$796M</td>
<td>$1.7B</td>
<td></td>
</tr>
<tr>
<td>2006-07</td>
<td>$2.3B</td>
<td>$1.7B</td>
<td></td>
</tr>
<tr>
<td>2009-10</td>
<td>$2.7B</td>
<td>$2.3B</td>
<td></td>
</tr>
<tr>
<td>2012-13</td>
<td>$3.3B</td>
<td>$2.7B</td>
<td></td>
</tr>
<tr>
<td>2015-16</td>
<td>$3.3B</td>
<td>$2.7B</td>
<td></td>
</tr>
</tbody>
</table>

Source: Pennsylvania Budget and Policy Center based on Pennsylvania Department of Revenue data and the Governor’s Executive Budget 2017.

Failure to Adjust Our Tax System to Economic Changes and Our Aging Population

A second, but far less important, source of the structural deficit is that we have not adjusted our tax system to changes in our economy and population. This is especially noticeable with regard to the sales and use tax. Revenues from this tax have not kept pace with the growth in the economy for two related reasons. First, while our sales tax falls on most goods except food, medicine, and bizarrely, private planes and helicopters, it does not fall on many services. Most entertainment, for example, is not taxed. Yet in recent years, services have been growing as a share of all production while goods have been shrinking. This trend is exacerbated in Pennsylvania by the aging of our population as older people tend to consume more services, and especially medical and long-term care services, than goods. So, the Pennsylvania budget is stressed by our aging population not only by the increased services they demand but also because those services are untaxed.

Our Upside-Down Tax System

A final source of our structural deficit is our upside-down tax system. As Figure 7 shows, our state taxes a far higher percentage of income from low- (12%) and middle-income (10%) Pennsylvanians than it does from those whose incomes are in the top 5% (6.8%) and 1% (4.2%). Because of the uniformity clause of the Pennsylvania Constitution, our state cannot use graduated income tax rates to compensate for the tendency of sales and property taxes to fall more heavily on those with low rather than high incomes. Other states, including all of our neighbors, use graduate taxes to create a much more level tax system. Delaware and New Jersey basically have flat tax systems taken as a whole.
This feature of taxes in Pennsylvania is not only unfair, it is scandalous. Yet that is not the only problem. Incomes in Pennsylvania, like the rest of the country, have been rising far more for those with high rather than low incomes. Since 1979, the income of the top 1% has grown by 125% while the incomes for the bottom 99% has grown by only 12%. Pennsylvania simply cannot bring in enough revenues to avoid structural deficits if it fails to tax those whose incomes are rising quickly.

Figure 7

In Pennsylvania, Higher Income Taxpayers Pay A Lower Share of Their Income in State and Local Taxes

Short-Term Reasons for the Structural Deficit: Lack of Recurring Revenue

While corporate tax cuts and the failure of the sales tax to keep pace with economic growth have created our long-term revenue problem, the state has taken short-term actions that have made matters worse. Our legislators in recent years have rarely raised recurring revenues – that is taxes that bring in revenues year after year. Instead they have relied on one-time sources of revenue and budget gimmicks – borrowing from other funds, sales of licenses for new gaming and liquor outlets, as well shifting revenues forward and payments back – to close the deficit. This failure to address the long-term budget

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8 Estelle Sommeiller, Mark Price, and Ellis Wazeter, Income Inequality in the U.S. by state, metropolitan area, and count, Economic Analysis Research Network (EARN) Report, 1016.
problem resulted in Pennsylvania’s credit rating being downgraded in September of 2017 by Standard and Poor’s (S&P), the second such downgrade in recent years. S&P cited the Commonwealth’s chronic structural deficit and ongoing reliance on one-time revenue solutions.

Tables 3 and 4 below show recurring and non-recurring sources of new revenue in 2016-17 and 2017-18. In 2016-17, our state raised 47% of its new revenue from recurring sources, including things such as the Cigarette Tax, the Sales Tax on digital downloads, and the Table Games tax. Non-recurring revenue (53%) made up the rest. In last year’s budget analysis, we showed that this heavy reliance on one-time revenue sources was a serious problem.

### Table 3

<table>
<thead>
<tr>
<th>Source of Revenue</th>
<th>Recurring Revenue (millions of dollars)</th>
<th>Non-recurring Revenue (millions of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cigarette Tax</td>
<td>$431</td>
<td>$100</td>
</tr>
<tr>
<td>E-Cigarettes</td>
<td>$13</td>
<td>$100</td>
</tr>
<tr>
<td>Smokeless Tobacco</td>
<td>$48</td>
<td>$149</td>
</tr>
<tr>
<td>Roll you own</td>
<td>$3</td>
<td>$50</td>
</tr>
<tr>
<td>Cap sales tax vendor discount</td>
<td>$56</td>
<td>$25</td>
</tr>
<tr>
<td>Sales tax on digital downloads</td>
<td>$47</td>
<td>$29</td>
</tr>
<tr>
<td>Personal income tax on lottery winnings</td>
<td>$16</td>
<td>$20</td>
</tr>
<tr>
<td>Bank shares tax</td>
<td>$24</td>
<td>$37</td>
</tr>
<tr>
<td>Table games tax 2% increase</td>
<td>$17</td>
<td>$200</td>
</tr>
<tr>
<td>Minor tax changes</td>
<td>$-2</td>
<td></td>
</tr>
<tr>
<td>Education Improvement tax credit</td>
<td>$-25</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal recurring revenue</strong></td>
<td><strong>$627</strong></td>
<td><strong>$709</strong></td>
</tr>
<tr>
<td><strong>Total new revenue</strong></td>
<td><strong>$1,336</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Revenues not realized as of March 2017

Source: Pennsylvania Budget and Policy Center analysis of 2016-2017 budget

In the current budget year (2017-18), the problem has gotten even worse. Our reliance on non-recurring revenue this year was much larger; 98.6% of the new revenue came from non-recurring sources, especially borrowing against future Tobacco Settlements Payments. A recent report that grades states on their fiscal health and stability gave Pennsylvania a country-worst “D-“ rating because of our use of one-time maneuvers. Despite Governor Wolf’s proposals last year to create several recurring sources of revenue, the leaders of the House of Representatives refused to budge on their opposition to new taxes.

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11 More information can be found at [https://www.volckeralliance.org/pennsylvania](https://www.volckeralliance.org/pennsylvania).
Table 4

New Revenue in 2017-18 (millions of dollars)

<table>
<thead>
<tr>
<th>Recurring Revenue</th>
<th>2017-18</th>
<th>Non-Recurring Revenue</th>
<th>2017-18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Tax remittance requirements for online marketplace providers</td>
<td>$8.0</td>
<td>Borrowing against future Tobacco Settlements</td>
<td>$1,500</td>
</tr>
<tr>
<td>Fireworks tax</td>
<td>$2.8</td>
<td>Transfer from the Joint Underwriting Association</td>
<td>$200</td>
</tr>
<tr>
<td>Revenue maximization on current taxes</td>
<td>$19.8</td>
<td>Fund transfers to be determined by the governor*</td>
<td>$300</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Table Game License Fee</td>
<td>$24.75</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Gaming Expansion</td>
<td>$200</td>
</tr>
</tbody>
</table>

Subtotal $30.6 Subtotal non-recurring revenue $2,225
 Total new revenue $2,255.35

*Governor Wolf plans to raise this $300 million by means of (1) a leasing arrangement on the Farm Show for $200 million, (2) $45 million in debt refinancing, about (3) $40 million from various settlement agreements and other leave payout accounts. Fund transfers of the kind proposed by the House Republicans will not take place.


Where did the structural deficit go this year?

Given this bleak picture of the public fisc in Pennsylvania, how has Governor Wolf been able to present a budget that has a small surplus for 2018-2019? There are basically three answers, which we present below.

Figure 8

The Governor’s Proposed 2018-19 Budget Increases General Fund Spending by 3.09% from the Prior Year

Source: Pennsylvania Budget and Policy Center analysis of Governor’s 2018-19 Executive Budget (February 6, 2018) and previous budgets.
Spending Restraint

The first is that, as we have seen, spending in Pennsylvania has been restrained. As Figure 8 shows, the governor proposes a budget increase for 2018-2019 of only 3.09%, which does not keep pace with projected growth in GSP or Personal Income in the state.\textsuperscript{12} As we have seen, this includes $685 million in mandated new expenditures and only $303 in new spending initiatives.

The limited increase in spending is largely a result of a general policy of spending restraint by the governor and General Assembly and the result of the governor’s proposals last year to make government more efficient by various efforts to combine departments or their support services, to reduce the number of state offices, to close a prison and reduce the state inmate population, and through other means.\textsuperscript{13} The state has also been aggressive in seeking to limit increases in two areas where spending has historically grown much faster than inflation, Medical Assistance and Long-term Care. The state has carefully managed the Medicaid population and sought to maximize federal support for the program. Our Medicaid managed care providers help keep cost increases below that of many other states. New initiatives, such as the Community Health Choices project, which rolled out in Western Pennsylvania last year and will be expanded to other parts of the state this year, have helped keep increases in spending for the elderly in check. These efforts, and a recalculation of the required pension contribution, allows the governor to project that spending next year will be $529 million below what the IFO projected in November, despite $310 million in new program initiatives.\textsuperscript{14}

Spending restraint is not the whole story behind the closure of the structural deficit in 2018-2019. Revenues are also higher than projected earlier in the year, especially for the Personal Income Tax and Sales and Use Tax. This recovery in state revenues may partially result from people putting off the receipt of income to this year with the expectation of a federal tax cut taking effect in January 2018. In addition, revenues from gaming licenses have come in higher than many projected last year. After appearing in the state budgets for the last three years, the sale of the second Philadelphia casino license for $50 million will finally happen.

The bottom line of the governor’s budget also benefits from $248 million from his proposed severance tax on natural gas drilling and $63 million from his proposed $25 tax per person to pay for state police protection in municipalities and counties that do not have their own police forces.

New Revenues: Severance Tax

This year as he has in his first three budgets, Governor Wolf again proposes that Pennsylvania institute a severance tax on natural gas production. Pennsylvania is the only natural gas-rich state that does not impose a severance tax tied to the volume of gas extracted from our state’s land. While Pennsylvania does have an Impact Fee, this is a per-well fee and it brings in significantly less than a reasonable severance tax would. In 2014, Pennsylvania became the second-largest natural gas producer in the

\textsuperscript{12} Economic projections from Independent Fiscal Office, Economic and Budget Outlook, Fiscal Years 2017-2018 to 2022-2023, November 2017.


\textsuperscript{14} Comparing the Governor’s proposal to the IFO projection of November 2017 shows that the Governor proposes spending $187 million less for SERS, $215 million less for PSER, and $177 million less for Human Services than the IFO projected.
country. While gas production has increased steadily since 2010, revenues raised from the Impact Fee have been decreasing since 2014.

Table 5

<table>
<thead>
<tr>
<th>Tax Changes</th>
<th>Revenue (in millions)</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Severance Tax</td>
<td>$248.70</td>
<td>The severance tax would go into effect July 1, 2018. The tax would be based on volume of production and rate schedule.*</td>
</tr>
</tbody>
</table>

Total New Tax Revenues $248.70

Source: Governor Wolf’s 2018-19 Executive Budget (February 6, 2018). *See p. C1-6 for rate schedule.

The severance tax rate that Governor Wolf proposes would be tied to the price of gas. He projects that it would raise $248.7 million in the next year, and more in subsequent years. The Independent Fiscal Office estimates that over 80% of the severance tax would be paid for by natural gas customers in other states. The establishment of the severance tax in Pennsylvania would not affect or change the current structure of the Impact Fee. Sixty percent of the revenue from the Impact Fee goes to counties or municipalities that bear the burden of natural gas fracking.

Raising the Minimum Wage

An increase in the minimum wage is an important part of Governor Wolf’s Executive Budget. He calls for raising the minimum wage to $12 an hour this year. His budget director has indicated the governor also supports indexing the minimum wage to the cost of living.

Based on our estimates, the governor’s proposal to increase the minimum wage to $12 would lift the wages of 1.6 million workers or 28.9% of the workforce, boosting annual wages by $3.9 billion. This increase in the minimum wage would bring more purchasing power into our economy and decrease reliance on public assistance saving the state an estimated $101 million annually. But even more importantly, it will begin to provide further economic security and peace of mind to more than a third of Pennsylvania’s workers. The governor’s proposal is a step in the right direction that puts us on a path to raise the minimum wage to $15 by 2024.

Raising the minimum wage contributes to balancing the budget in two ways. A higher minimum wage accounts for $100 million in reduced spending by the Department of Human Services and in the neighborhood of $100 million in new Personal Income Tax and Sales Tax Revenues.

Possible Difficulties Balancing the 2018-2019 Budget

While the governor has proposed a balanced budget, it is important to note that there are some key sources of revenue and reductions in expenditures that depend on approval of key initiatives by the General Assembly, which has rejected these initiatives in the past. We summarize them in Table 6.

Table 6
Revenues and Reductions in Expenditures Requiring General Assembly Approval

<table>
<thead>
<tr>
<th>New Revenues</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Severance Tax</td>
<td>248</td>
</tr>
<tr>
<td>Revenues due to Minimum Wage increase to $12 / hour</td>
<td>100</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td><strong>348</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reductions in Expenditures</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Human services due to Minimum Wage increase</td>
<td>100</td>
</tr>
<tr>
<td>Community Payments for State Police protection</td>
<td>63</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td><strong>163</strong></td>
</tr>
<tr>
<td>Total</td>
<td><strong>511</strong></td>
</tr>
</tbody>
</table>

One-Time Revenues

Governor Wolf’s budget also relies on some one-time and other possibly questionable revenues, which are listed in Table 7. In particular, the Human Services budget benefits from a last receipt of $351.7 million from Managed Care Organization Gross Receipts Tax, which the federal government has prohibited the state from collecting in the future.17 It also relies on a $42.8 million payment of the one-time gaming license fees. Given that sales of gaming licenses during the current year have come in better than many expected, this is not an unreasonable projection.

Table 7
One-Time Revenues / Savings In Governor Wolf’s Budget

| Managed Care Organization Gross Receipts Tax | 351.7  |
| Gaming Expansion                            | 42.8   |
| **Total**                                    | **394.5**|

Where did the structural deficit go in following years?

Not only does Governor Wolf propose a balanced budget for 2018-2019, he projects small surpluses for budgets in the next few years, in effect holding that the structural deficit problem has been solved. How does the governor accomplish this and how likely is it to result?

The governor’s projection of balanced budgets over the next few years relies on continued spending restraint. His projections do recognize mandatory increases for such things as pensions, Medicaid, and

17 More precisely, the federal government has prohibited MCOs from seeking federal reimbursement for the payment of the tax and, as a result, the state has agreed to stop collecting it.
Long-term Care and also include proposals for small increases in Basic Education Funding, Pre-K, Higher Education, and Intellectual Disabilities among other areas. The long-term budget outlook projects flat funding of many other areas.

The governor's projection of balanced budgets in the future also incorporates a major increase in corporate tax revenues.

**Reducing the Corporate Net Income Tax Rate and Closing the Delaware Loophole**

Governor Wolf proposes to implement combined reporting for the Corporate Net Income Tax in January 2020 and to slowly decrease the tax rate, which is currently the second-highest in the country at 9.99%. The rate would decline to 9.49% in 2020 and 7.99% by 2023.

Combined reporting would close the Delaware loophole by making it almost impossible for multi-state and multi-national corporations to continue to skirt corporate tax payments by requiring that they report profits nationally from all of their combined operations, and then pay taxes on that total based on the ratio of their Pennsylvania-to-national sales. This would ensure the 71% of corporations operating in Pennsylvania that do not currently pay the Corporate Net Income tax – mostly large multi-state and multi-national corporations – pay their fair share of taxes as local, small corporations operating wholly in Pennsylvania do today.

While combined reporting along with a gradual decline in the corporate tax rate from 9.99% currently to 7.99% in 2022-2023 adds no new revenue in 2018-2019, it adds substantially to the state's revenues in the following years. It is difficult to make precise estimates of the consequences of these tax changes, or for us to know exactly what the administration itself projects, but it appears that the administration is counting on between $800 and $900 million in addition revenues per year in fiscal years 2019-2020 and 2020-2021 and between $400 and $500 million in additional revenues in subsequent years.

The administration has not discussed the importance of these new corporate tax revenues to its future budget projections, but they clearly are important. And given that we find the sources of structural deficits in deep cuts to the taxes paid by corporations, we believe this policy change to be long overdue. Indeed, we would encourage the governor and General Assembly to reduce the corporate tax rate even more slowly and consider leaving the rate at 8.5%.

**Is the Structural Deficit Really Dead?**

Governor Wolf’s long-term projections are thus dependent on a number of assumptions:

- Corporate tax revisions that bring in between an additional $800 to $900 million a year initially and then $400-500 million a year once the CNIT rate is reduced in out years.
- A severance tax, which is projected to bring in almost $375 million by 2020-21.
- Continued spending restraint with very small increases in education and human services.

18 Delaware is considered a tax haven for public companies because corporations are allowed to incorporate in their state and take advantage of their no tax on "intangible assets." In states without "combined reporting," companies are allowed to avoid paying state taxes in the state they operate in by shifting the money they earn to the subsidiary incorporated in Delaware. This result is states losing out on millions of dollars that could be taxed to help pay for education, human services, and other critical state services. Also see Pennsylvania Budget and Policy Center report on Corporate Tax Cuts. Report forthcoming, March/April 2018; and https://www.theatlantic.com/business/archive/2016/10/dont-blame-delaware/502904/
How likely are these assumptions? Given the current makeup of the General Assembly, it will be difficult for Governor Wolf to secure support for his tax proposals, although we think they are very much justified. It will be easier to restrain spending, although the governor’s long-term projections are for declining spending in many areas after inflation. And we believe that, given the deep public investment deficit faced by Pennsylvania, additional spending restraint is also contrary to the public good.

We should also note that the governor’s projections assume continued moderate economic growth. However, it has been almost nine years since the end of the last recession. Despite the horrible experience of the Great Recession, periods of recession have become shorter and less frequent since the 1980s. Yet, especially given the conflict and uncertainty in federal politics, it is hard to believe that the United States will avoid another recession of some kind in the next five years. While the Wolf administration admirably calls for putting aside surpluses in the states’ Rainy Day Fund, the projected surpluses are too small to set enough aside for even a mild, let alone deep recession.

And finally, the governor’s projections could be upset by other events. A decision by the Pennsylvania Supreme Court that our present system of funding public education is unconstitutional could require major new spending. And, of course, the election of a very different General Assembly, one that seeks to reduce our public investment deficit, could remove some of the restraints on public spending we see today. Either of those transformations in our politics would make balancing the state’s budget without major new revenues very difficult.

Thus, we conclude that it is too soon to pronounce the structural deficit dead. Especially if the General Assembly rejects the governor’s tax proposals and again relies on even more one-time revenues to balance the budget, the state might be facing a structural deficit again a year from now or in subsequent years.
General Fund Expenditures

This year the governor has proposed a 3.09% increase in General Fund spending for a total budget of $33 billion. As we suggested in the introduction, this budget addresses many critical needs in the state. But in many places, it does far less than we need. The most critical problem our state faces is a public investment deficit – our failure to invest in the public goods we need to create thriving, healthy communities across the Commonwealth.

Figure 9 below shows the major spending categories in the 2018-19 budget. Nearly three quarters of state funding goes towards PreK-12 education funding (38%) and human services (35%), including both Medical Assistance and Long-Term Living (19%) and other human services (16%). The corrections budget represents 7% of the total General Fund, which is more than current investments in higher education, which is just 5% of the state budget.

Figure 9

Governor’s Proposed General Fund Spending, 2018-19

Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf’s 2018-19 Executive Budget (February 6, 2018).

Above we discussed mandatory spending increases – those increases necessary to continue to serve the same number of individuals in a particular program. The Executive Budget includes these mandatory spending increases as well as funding for new initiatives. Table 8 below outlines the new initiatives (or new funding to expand existing initiatives) proposed by Governor Wolf. This includes $225 million in Education, $10 million in Labor and Industry, $5 million in Community and Economic Development, $52.2 million in Human Services, $118.3 million in police and infrastructure and other initiatives. Below we take a more in-depth look at many of these proposals.
### Table 8

**New Initiatives Proposed by Governor Wolf, 2018-19 (In millions)**

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Education</strong></td>
<td></td>
</tr>
<tr>
<td>Basic Education Subsidy</td>
<td>$100.0</td>
</tr>
<tr>
<td>Special Education</td>
<td>$20.0</td>
</tr>
<tr>
<td>Early Childhood Education</td>
<td>$40.0</td>
</tr>
<tr>
<td>Higher Education</td>
<td>$15.0</td>
</tr>
<tr>
<td>Career and Technical Education</td>
<td>$50.0</td>
</tr>
<tr>
<td><strong>Labor and Industry</strong></td>
<td></td>
</tr>
<tr>
<td>Apprenticeship</td>
<td>$7.0</td>
</tr>
<tr>
<td>Industry Partnerships</td>
<td>$3.0</td>
</tr>
<tr>
<td><strong>Community and Economic Development</strong></td>
<td></td>
</tr>
<tr>
<td>Pennsylvania First</td>
<td>$5.0</td>
</tr>
<tr>
<td><strong>Human Services</strong></td>
<td></td>
</tr>
<tr>
<td>Child Care (^1)</td>
<td>$24.2</td>
</tr>
<tr>
<td>Intellectual Disabilities and Autism</td>
<td>$16.0</td>
</tr>
<tr>
<td>Opioid Epidemic (^2)</td>
<td>$7.3</td>
</tr>
<tr>
<td>Lyme Disease</td>
<td>$2.5</td>
</tr>
<tr>
<td>Efficiency for Birth Certificates Records</td>
<td>$2.4</td>
</tr>
<tr>
<td><strong>Police, Infrastructure (^3)</strong></td>
<td></td>
</tr>
<tr>
<td>Body Cameras for Police</td>
<td>$6.0</td>
</tr>
<tr>
<td>Police Cadet classes</td>
<td>$12.3</td>
</tr>
<tr>
<td>Roads and Bridges</td>
<td>$100.0</td>
</tr>
<tr>
<td><strong>Environment</strong></td>
<td></td>
</tr>
<tr>
<td>Staffing and other needs</td>
<td>$2.5</td>
</tr>
<tr>
<td><strong>Agriculture</strong></td>
<td></td>
</tr>
<tr>
<td>To address Spotted Lanternfly</td>
<td>$1.6</td>
</tr>
<tr>
<td><strong>Executive Offices</strong></td>
<td></td>
</tr>
<tr>
<td>To provide additional support and resources for victims of sexual misconduct</td>
<td>$0.6</td>
</tr>
<tr>
<td><strong>Multiple Departments (^4)</strong></td>
<td></td>
</tr>
<tr>
<td>Upgrading radio system</td>
<td>$13.9</td>
</tr>
<tr>
<td><strong>Subtotal - General Fund only</strong></td>
<td>$303.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$429.3</strong></td>
</tr>
</tbody>
</table>

\(^1\) Includes $10 m to serve additional kids, $10 m for STARS recalibration, $3 m infant/toddler, $1.2 nurse family rate increase

\(^2\) Includes $4.5 for community-based family centers, .8 m rate increase, $2 m for PA Commission on Crime and Delinquency

\(^3\) Roads and Bridges paid for by the Motor License Fund. Police line items paid for by the General Fund and Motor License Fund combined

\(^4\) Radio upgrades as a new initiative is occurring in Conservation and Natural Resources, Criminal Justice, Emergency Management Agency, Environmental Protection, Military and Veterans Affairs and General Services. Some of this money is paid for by the General Fund, other parts paid for with other funds

*Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf’s 2018-19 Executive Budget.*
Education

Governor Wolf has made education a priority in his previous three budgets, and he did the same this year. His proposal would increase education funding in Pre-K, K-12, Special Education, higher education, and career and technical education.

PreK-12 Spending

The Pennsylvania Budget and Policy Center analyzes education funding in two primary ways – overall spending on PreK-12 and what we call “classroom funding,” which for the most part is the funding provided to local school districts to fund classroom education.19

K-12 Spending

The state government shares responsibility for funding K-12 schools, with 500 local school districts across the Commonwealth. State funds supplement funds raised locally, primarily through property taxes. Compared to other states, a relatively low share of total funding for K-12 education comes from the state. Only 37% of K-12 funding comes from the state, compared to the national average of 47%.20 Pennsylvania’s over-reliance on local school districts to fund schools leads to great disparities between school districts based on the income and wealth of community residents. In fact, Pennsylvania has the greatest disparities of all other states with poor districts paying 33% less than the state’s most affluent districts.21

As Figure 10 shows below, Governor Wolf proposes an overall spending increase on PreK-12 by 5.1% to $12.4 billion.

Figure 11 below shows the yearly change in PreK-12 funding since the 2011-12 cuts to education put in place by Governor Corbett. These figures do not account for inflation.

19 Classroom funding is the primary vehicle for closing the wide gaps between school districts that are generated by a heavy reliance on local property taxes for school funding. It excludes spending that does not directly affect what goes on in the classroom, such as transportation costs, as well as spending on pensions, which does not affect the quality of education in solely one year. For our methodology and data sources see Waslala Miranda, Undermining Educational Opportunity: Pennsylvania’s Unequal Restoration of School Funding, Pennsylvania Budget and Policy Center, October 21, 2015, especially Box 1 and “Methodology and Data Sources” (at the end of the brief); online at https://pennbpc.org/sites/pennbpc.org/files/finaledcutsbrief.pdf.

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

21 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
The Governor’s Proposal Will Increase Spending on PreK–12 by 5.1% in 2018-19

Total PreK–12 spending 2010-11 to 2018-19.

Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf’s 2018-19 Executive Budget (February 6, 2018) and previous budgets.

Yearly Change in PreK–12 Funding in Pennsylvania, 2011-12 to 2018-19

Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf’s 2018-19 Executive Budget (February 6, 2018) and previous budgets.
Classroom Spending

Classroom spending excludes funding for, among other things, pensions and transportation. It only includes the money that goes directly to school districts across the state to pay for classroom education.

The gap between overall education and classroom spending is primarily due to increased state funds going to teachers’ pensions. After years of the state failing to meet pension contributions, the Pension Reform Act of 2010 mandated the state to phase in full funding of these pensions at the level actuaries say is required. As we saw above, this is why pension spending for the State Employees’ Retirement System, (SERS) and the Public School Employees’ Retirement System (PSERS) has increased since 2010. Wolf’s proposed budget reaches these “actuarially required contribution” levels, which should level off and slowly reduce pension debt, now about $65 billion. These increases in pension payments by both the state and each school district are significant and have accounted for half of overall General Fund increases over the last three years.22

As Figure 12 below shows, Governor Wolf’s proposal this year would finally restore, after eight long years, the drastic budget cuts from then-Governor Corbett in 2011-12. Corbett’s devastating cuts led to tens of thousands of teachers, guidance counselors, and school nurses being laid off. Students suffered due to declining staff and the elimination of programs.23

Figure 13 below shows the yearly change in classroom funding. Increases in classroom spending over the last eight years totaling $876.5 million finally exceed the cuts to classroom funding enacted in 2011-12, $841 million. Keep in mind, however, that this means that school funding will be only about the same in 2018-19 as in 2010-11, a period over which inflation will be about 15%.24

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22 Governor Wolf’s 2018-19 Executive Budget (February 6, 2018).
24 This inflation estimate is based on the CPI-U-RS available online at https://www.bls.gov/cpi/research-series/home.htm and assumes inflation of 2% between now and 2018-19.
Figure 12

The Governor’s Proposed 2018-19 Budget Would Increase Classroom Spending by 1.6% From the Previous Year, Which Would Restore Classroom Spending Prior to the Corbett Cuts in 2011-12

Classroom funding 2010-11 to 2018-19

*Classroom funding includes the basic education subsidy plus formula enhancements, charter reimbursements, accountability block grants, and American Recovery and Reinvestment Act (ARRA) funding.

Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf’s 2018-19 Executive Budget (February 6, 2018) and previous budgets.

Figure 13

Yearly Change in Classroom Spending in Pennsylvania, 2011-12 to 2018-19

Total increase in classroom spending between 2012-13 and the 2018-19 proposed budget is $876,450, which would finally make up for the Corbett cuts in 2011-12.

Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf’s 2018-19 Executive Budget (February 6, 2018) and previous budgets.
Basic Education Subsidy and School Inequities

Pennsylvania has several problems in how we fund our schools. The first is that, as we pointed out above, funding is highly unequal in large part because the state share of funding is so low. State funding of local school districts comes in the form of various state subsidy payments, the largest of which is the Basic Education subsidy. Governor Wolf’s proposes increased funding for Basic Education by $100 million, a 1.7% increase, to about $6.1 billion.

A fair funding formula was enacted in Pennsylvania aimed at addressing the disparity that exists between rich and poor school districts in June 2016. This new legislation requires all new education funding to be distributed using this new funding formula. The formula ensures that new funding takes into account each school district’s distinct needs, including the number of students, the number of children living in poverty, the number of English language learners, the overall income and wealth, and the “tax effort” made by each district, that is, how much money it raises for schools locally relative to its income and wealth.

Figure 14 below shows the distribution of new funding in 2018-2019 based on the number of children living in poverty within each school district. In this figure, Pennsylvania’s 500 school districts are divided up into four groups of 125 based on the percent of children living below the poverty line. The first quartile is made up of the school districts with the most children living in poverty and the fourth quartile is made up of those with the least. Figure 12 below shows how new funding for education will be distributed; more money will go to school districts with the greatest needs.

**Figure 14**

**New Student Funding in Governor Wolf’s 2018-19 Budget Proposal**

<table>
<thead>
<tr>
<th>Quartile</th>
<th>New Funding Per Student 2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$129</td>
</tr>
<tr>
<td>2</td>
<td>$31</td>
</tr>
<tr>
<td>3</td>
<td>$26</td>
</tr>
<tr>
<td>4</td>
<td>$22</td>
</tr>
</tbody>
</table>

Note: Poverty rates are based on 2012-2016 American Community Survey 5-year Estimates. Enrollment weights are based on a 3-year average ADM as of February 2018 see tab “Student-Weighting” column V in “2018-19 Proposed BEF.xlsx” online at https://gpo.gov/Buxas0k. Student funding includes the basic education subsidy and the ready to learn block grant.

Source: Pennsylvania Budget and Policy Center analysis of data from the Pennsylvania Department of Education.
While this fair funding legislation and the new funds that flowed through the formula have been critical to restoring the Corbett cuts, it does not resolve all funding inequities, including those already in place before the Corbett cuts. It cannot do so because the funding formula only applies to new money added to the Basic Education subsidy since 2014-15. Figure 15 below shows the percentage of funding (in light blue) that has or will go through this fair funding formula. While the money going through the formula has increased each year since 2014-15, it is a relatively small percentage of the total funding distributed. If the governor’s proposed Basic Education subsidy is adopted, the total amount of basic education funding distributed through the fair funding formula will increase to $539 million, which is only 9.7% of the total Basic Education funding appropriation.

**Figure 15**

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Basic Education Funding</th>
<th>Money to go through the fair funding formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>$5,526,129</td>
<td>$5,526,129</td>
</tr>
<tr>
<td>2015-16</td>
<td>$5,542,680</td>
<td>$5,542,680</td>
</tr>
<tr>
<td>2016-17</td>
<td>$5,542,680</td>
<td>$5,542,680</td>
</tr>
<tr>
<td>2017-18</td>
<td>$5,542,412</td>
<td>$5,542,412</td>
</tr>
<tr>
<td>2018-19</td>
<td>$5,556,412</td>
<td>$5,556,412</td>
</tr>
</tbody>
</table>

*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 p. 8 of [http://www.pahouse.com/Files/Documents/Appropriations/series/3013/BEFC_BP_011018.pdf](http://www.pahouse.com/Files/Documents/Appropriations/series/3013/BEFC_BP_011018.pdf).*

*Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf’s 2018-19 Executive Budget (February 6, 2018) and data provided from the House Democratic Appropriations Committee.*

**How Much Funding is Needed?**

We have, to this point, focused mainly on restoring cuts and reducing inequity in funding. Another critical question, however, is adequacy of funding. Even if we were to make school funding more equal, many school districts would not spend enough to give their students an adequate education.

The Public Interest Law Center conducted research to figure out how much state funding all Pennsylvania schools need to properly educate their students, which they refer to as the State Adequacy
Cost. The total money required to reach funding adequacy would be $3.26 billion as of December 2017.

Below in Figure 16, we again divide up the 500 school districts in Pennsylvania into four quartiles based on the percent of children ages 5-17 living below the poverty level. The first quartile includes districts with the highest number of children living in poverty while the fourth quartile includes the lowest. We then show the average amount of funding needed for each group of districts to provide an adequate education by this standard. This figure shows that the gap in funding to reach adequacy is much wider for the higher poverty districts. To reach adequacy, funding in the poorest districts would need to increase by $3,614 per student. While the lowest poverty school districts’ gap is much smaller (with $839 per student needed to reach adequacy), it is important to note that a gap still exists.

Figure 16

The Gap Remaining Between Current Per Student Funding and Guaranteeing that All Pennsylvania Schools have what They Need to Properly Educate Their Students

Note: The states 500 school districts are broken down into four groups of 125 school districts based on the percent of children age 5 to 17 living below the poverty line. The highest poverty districts are in the 1st quartile and the lowest poverty districts in the 4th quartile. The per student adequacy gap listed for each quartile above is a weighted average within each quartile of the Public Interest Law Center’s estimate of the state adequacy. Note these figures do not reflect the $100 million in new funding proposed for 2018-19. The statewide total required to arrive at adequacy as of December 2017 was $3.26 billion ($100 million is 3.1% of that total).

Source: Pennsylvania Budget and Policy Center based on data provided by the Public Interest Law Center.

25 For more information on the cost of adequate education funding in Pennsylvania, see the Public Interest Law Center’s website at https://www.pubintlaw.org/cases-and-projects/the-cost-of-adequate-education-funding-an-updated-report/.

26 This graph does not take into account the governor’s proposed increase of $100 million. This proposed increase is only 3.1% of the total needed to reach adequacy ($3.26 billion).
**Special Education**

Governor Wolf’s proposal is to increase funding for Special Education by $20 million, following a total increase of $75 million for Special Education over the last three years. That brings total spending for Special Education to $1.14 billion. This funding is administered by school districts and charter schools and serves 288,728 students across Pennsylvania. Similar to the Fair Funding Formula, a special education funding formula went into effect in 2014-15, which directs new monies invested in Special Education towards the school districts most in need.

Early Intervention is a program that aims to provide services and supports for young children with developmental delays or disabilities. Funding for children ages 0-3 years old is embedded in the Early Intervention appropriation in the Department of Health and Human Services, while funding for children ages 3-5 are in the Early Intervention line item in the Education budget. Early Intervention funding for youth ages 3-5 would increase by $11.6 under with the governor’s proposal. This would result in an additional 1,100 youth and families being served under this program.

**Early Childhood Education**

As shown in Figure 17 below, Governor Wolf proposes a $40 million increase to early childhood education, which includes $30 million for Pre-K Counts, and $10 million for Head Start Supplemental Assistance. This increase of 18% from last year’s budget for a total amount of $266 million would allow an additional 4,400 children to enroll in these early childhood programs across the state.

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

Including the additional funding proposed for 2018-2019, the governor will have doubled funding from $97 million $202 since 2014-15. Given the extensive evidence on the contribution of early childhood education to lifelong success, this is a critical investment.

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29 For more information see [http://www.dhs.pa.gov/citizens/childcareearlylearning/headstart/](http://www.dhs.pa.gov/citizens/childcareearlylearning/headstart/)
As we have shown in previous reports and is shown in Figure 18, Pennsylvania ranks 47th out of 50 states in per capita investment in higher education spending, only $132.44 per capita, substantially below the national average of $259.18 per capita. Low state investment leads to higher tuition and costs – in fact Pennsylvania ranks third highest in the nation for in-state tuition and fees for public four-year colleges and universities.\footnote{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} This weighs heavily on graduating students, as Pennsylvania graduates face the second highest average student debt in the nation.\footnote{Richie Bernardo. “2017’s States with the Most and Least Student Debt.” WalletHub, August 2, 2017. Accessed at https://wallethub.com/edu/best-and-worst-states-for-student-debt/7520/}
Governor Wolf called for boldly increasing the higher education budget to restore the budget cuts from 2011-12 in his first few years in office, but the General Assembly rejected his proposals. As Figure 19 below shows, funding for higher education remains below the pre-Corbett funding levels of $272 million in 2010-11. Since 2014-15, funding for higher education has increased by just 3.4%. This barely makes a dent in restoring the funding cut from Governor Corbett in 2011-12 of 17%.

The governor’s proposed $15 million increase for higher education this year is directed to the Pennsylvania State System for Higher Education (PASSHE). The 14 PASSHE colleges and universities would receive an increase of 3.3% from last year, while funding for community colleges and state-related universities (Pennsylvania State University, University of Pittsburgh, Temple and Lincoln) would remain flat. PHEAA would see a slight decline this year in Education Assistance Grants to Students (following a trend since 2014-15 for a total decline of 18% from 2014-15 to 2017-18).
Our state’s low investment in higher education is deeply troubling. Not only does it limit individual economic opportunity, but economic research shows that reduced higher education funding would compromise Pennsylvania’s future economic growth. This is particularly true in rural counties where educational attainment is low and students do not even have access to a community college branch campus.32

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Workforce Development

Perhaps Governor Wolf’s most targeted investment this budget cycle is his focus on improving workforce development efforts across the state through the PASmart initiative (www.pa.gov/smart). This commitment, in part, comes out of the work of the bipartisan Middle-Class Task Force that Governor Wolf established last year. The task force members supported state investment in education and training leading to careers-in-demand because these can deliver a double benefit for individuals and businesses: Pennsylvania’s young people gain greater economic opportunity along with industry-recognized credentials and, in many cases, college credit, and businesses facing skill shortages and heavy retirements gain new recruits with the attitudes, aptitudes, and technical knowledge needed for high productivity. The Task Force initiative thus led to budget proposals spanning multiple departments – the Department of Education, the Department of Labor and Industry and the Department of Community and Economic Development.

Career and Technical Education (Department of Education)

Most of Governor Wolf’s proposed additional investments in career training and workforce development are included in new funding of $50 million for Career and Technical Education (CTE). After being flat funded for at least the last 10 years at around $62 million, Governor Wolf’s proposal will raise funding to $112 million, an increase of 81%.

Ten million dollars of the $50 million increase would go through the existing Career and Technical Education formula. The remaining $40 million funds PASmart. The project will improve coordination between state agencies that deal with workforce development in some capacity or another, as well as further align these efforts with K-12 and higher education.

The $40 million is broken down as follows:

- Twenty-five million dollars would expand STEM (Science, Technology, Engineering, and Math) and computer science education in secondary and postsecondary programs. This includes:
  - $15 million to improve access to STEM and computer science education. New courses, computer science certifications and credentials, and paid work opportunities will be offered to students in secondary and postsecondary schools;
  - $5 million towards educator and staff development;
  - $5 million to expand post-secondary STEM and computer science programs. These funds will go towards adult learners and incumbent worker training, with a focus on supporting historically underrepresented students in high-need areas.
- Ten million dollars would improve access and affordability for CTE and STEM career pathways. This funding will increase associate degree attainment to make higher education more affordable and to decrease the time it takes for students to enter the workforce.
- Five million dollars would promote employer engagement in postsecondary education. With this

33 The members of the task force includes: Rick Bloomingdale, president of the Pennsylvania AFL-CIO; Gene Barr, president of the Pennsylvania Chamber of Business and Industry; Suzie Snellick, currently chair of the Board of the Pennsylvania Workforce Development Association as well as executive director of Workforce Solutions for North Central Pennsylvania, and Sue Mukherjee, assistant vice chancellor of the State System of Higher Education.

34 For more information on the CTE funding formula, see: http://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Education%20Budget/Pages/Secondary-Career-and-Technical-Education-Subsidy.aspx
funding, up to 10 business-education consortiums will be created to ensure strong alignment between courses offered at colleges and universities and in-demand skills from employers to improve employability and job placement for students.

**Apprenticeship and Industry Partnerships (Department of Labor and Industry)**

The other $10 million in new CTE investment is designed to help Pennsylvania’s workforce develop new skills. It will be funneled through the Department of Labor and Industry. Seven million dollars will go towards a state investment in apprenticeship and other work-based learning initiatives, with a goal of doubling the number of registered apprentices in the state by 2025. In the spring of 2016, Governor Wolf established an Apprenticeship and Training Office (ATO) aimed at increasing the number of registered apprenticeship opportunities for workers across the Commonwealth. Apprenticeship is a proven work-based training model that allows individuals to earn while they learn and receive industry-recognized credentials that lead to good paying careers. Since the establishment of the ATO, registered apprenticeships have seen a 14.5% increase in the Commonwealth.

The final $3 million will support Industry Partnerships in Pennsylvania. Industry Partnerships enable employers to come together to more efficiently address their common skill needs, including through more effective collaboration with public sector workforce partners.

**Manufacturing PA and Economic Development Initiatives**

In October of 2017, the Manufacturing PA initiative was launched and delivered through DCED. The governor’s budget proposes to maintain funding of $12 million for Manufacturing PA, which has three main components:

- Pennsylvania’s Industrial Resource Centers (IRCs), part of a national network of Manufacturing Extension Partnerships (MEPs), provide low-cost technical assistance to small and medium-sized manufacturing employers. The MEP name communicates the aim of IRCs (and other MEPs) to be like “Agricultural Extension” for farmers. Agricultural Extension is one of the rare examples of longstanding U.S. government assistance to industry seen across the political spectrum as highly successful.
- The Pennsylvania Manufacturing Innovation Program seeks to spawn collaboration between business and industry to boost innovation. One of its first initiatives has been to establish a Manufacturing Fellows program to connect students at the undergraduate and graduate level with industry.
- The Pennsylvania Manufacturing Training-to-Career Grant Program provides grants to manufacturing employers to partner with training facilities or community colleges to meet their workforce needs.

With CTE programs in PDE and apprenticeship and industry partnerships in PDL&I, the Manufacturing Training-to-Career Grant Program means the state will have programs that could help manufacturers address their skill requirements in three separate departments. Given this proliferation, one important priority for PAsmart and for the Wolf Administration will be overcoming agency and

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35 Governor Wolf’s 2018-19 Executive Budget (February 6, 2018), P. A1-16.
program silos, and making sure different programs come together into an integrated approach. One possible tool for achieving this could be to reestablish the state’s public-private Center for Advanced Manufacturing Careers. In the 2000s, this Center, which had a private-sector advisory board consisting of manufacturing leaders, worked closely with the State Workforce Board and regional industry partnerships to identify critical skill gaps and promote best practices across the state’s once-14 manufacturing industry partnerships.

Also within the Department of Community and Economic Development budget, Governor Wolf proposes an increase in funding of $5 million (to $20 million) for the Pennsylvania First program. The Corbett Administration consolidated Pennsylvania First from other business subsidy programs to provide flexible support (e.g., capital, training, or infrastructure) to businesses locating or expanding in Pennsylvania. With this additional investment, the program is expected to retain 14,000 jobs and create 3,800 jobs.

**Other Initiatives for Workers from the Governor**

In the Executive Budget, Governor Wolf outlined several other policies aimed at raising standards for workers in our state with its changing workforce. The governor wants to modernize the state’s 50-year old Equal Pay Law to address discrimination in pay, hiring and employment practices that perpetuate the gender pay gap, as well as develop an anonymous reporting tool for workers in the Commonwealth to report sexual misconduct.

He also proposes an earned sick days law in Pennsylvania that would require all businesses with 25 or more employees to offer at least one hour of earned sick time for each 40 hours of paid work. Eight states currently have earned sick days laws. His plan would exclude businesses with fewer than 25 employees. Only the Connecticut law has an exemption as large as the one Governor Wolf proposes. Given that the policy rationales for earned sick days – ensuring workers can keep their pay/job when sick or caregiving, avoiding having ill employees in the workplace, reducing turnover, etc. – apply as much or more to small businesses, PBPC recommends not having a carve-out for small business and instead exploring other ways to modify the law to achieve bipartisan support.

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36 For information about statewide earned sick days laws, see https://www.abetterbalance.org/resources/paid-sick-time-legislative-successes/

37 Alternatively, you could implement these changes: workers in small businesses (10-15 or fewer employees, not 25) could earn fewer days. Small businesses (1-15 or fewer) could have a staggered implementation—start offering sick days 6 months later than everyone else.

**Human Services**

Last year, Governor Wolf proposed massive restructuring of state government in order to improve
government efficiency and transparency while saving the state money. One of those proposals was
to consolidate four departments, Human Services, Health, Aging, and Drug and Alcohol, to form a
merged Department of Health and Human Services. This process of consolidation wasn’t realized, but
the governor proposes merging the Department of Health and the Department of Human Services
again this year. The goal of the merger is to reduce costs by consolidating both support functions and
the number of employees who provide services to the public while also giving individuals and families
who benefit from a range of state services one point of contact for all of them.39

The governor proposes an overall state budget for Health and Human Services of $12.56 billion,
an increase of 1.8% from last year.40 More than half of the human services budget goes to Medical
Assistance/Medicaid spending for both health care and long-term care services. Medical Assistance and
Long-Term Living increases 1.7%, from $6.9 billion last year to $7.0 billion in the governor’s proposed
budget. The increases are due to both a larger number of recipients in some programs and general
medical inflation. They are mitigated by savings from cost containment and operational efficiencies.41

**Child Care**

Governor Wolf proposes to invest an additional $25 million in state funds, matched with $5 million in
federal funds, to expand access to quality childcare across the state. This investment is aimed at low-
income women and families who have difficulty staying in the workforce due to the high cost of child
care.

Wolf proposes increasing state appropriations for Child Care Services, state funds that go towards
child care costs for low-income working families, to $182.8 million this year. Pennsylvania also
receives federal funds for this program. Ten million dollars would provide more than 1,600 additional
children and families with access to high quality child care, another $10 million (plus $5 million of
federal funds) would recalibrate tiered reimbursement rates for the STARS program to promote better
quality care through incentives to improve STAR ratings, and $3 million would go towards a pilot
program to improve access to care for infants and toddlers. The increased investment in Child Care
Services acknowledges and begins to address the difficulty many low-wage Pennsylvania workers face in
securing care for their children.

The Nurse Family Partnership also would see an increase of $1.2 million.42 This funding would
increase rates for Nurse Family Partnership providers who conduct home visits to low-income women
who are pregnant for the first time. These rate increases would help the program attract and retain high
quality staff.

40 The total funding for Health and Human Services is $42.3 billion, from all sources (Governor Wolf’s 2018-19 Executive
Budget, P. A1-29).
41 Governor Wolf’s 2018-19 Executive Budget (February 6, 2018), P. A1-29.
42 A total of $2 million will be spent on rate increases for home visits—$1.2 million will go to Nurse Family Partnership and
$800,000 will go to Community-Based Family Centers for home visits to those families impacted by opioid use disorder. http://
Early Intervention for children ages 0-3 would serve the same number of children (39,930) as last year, but would rely on $4.97 million of one-time 2016-17 expenses that were rolled forwards to do so.\(^{43}\) One critical need not addressed in this year’s budget is the fact that rates for early intervention professionals have not increased for going-on 11 years.

State funds for Child Care Assistance, subsidies for TANF recipients/former recipients and SNAP recipients, is flat funded this year at $139.9 million, although it is important to note there is a $19.6 million increase in federal funds.

### Services for Individuals with Intellectual Disabilities and Autism

The Department of Health and Human Services provides an array of services to individuals of all ages with intellectual disabilities and Autism Spectrum Disorder. This includes people living in their own homes, in residential facilities or with family members. The governor’s proposal would increase investment in intellectual disability services, including autism services by 2.25% from $1.69 billion to $2.01 billion. Since 2014-15, funding for intellectual disability services has increased 31%.

Increased funds include $16 million that will go towards services for individuals with intellectual disabilities and autism. New funding is proposed for 800 individuals transitioning out of high school special education and into adult services in 2018 and for one month of services for 800 graduates in 2019.\(^{44}\) The one month of funding for 2019 graduates ensures a smooth transition for students transitioning to adult life and services, regardless of what happens in the next budget cycle. This funding increase will also include money to expand home- and community-based services to 100 individuals who are currently on the waiting list. While an investment to get 100 individuals off the wait list is important, it barely makes a dent in meeting the existing need. Currently there are approximately 5,000 people on the emergency waitlist for home- and community-based services, living in near-crisis situations without access to critical supports.\(^{45}\)

Increases will also support 40 individuals entering the Adult Community Autism Program and 25 individuals moving from state centers into community programs. Funding for “Intellectual Disabilities – State Centers” will decline by $11.5 million due to cost savings related to the closure of the Hamburg Center and savings from the GO-Time initiative.

Over 35,000 Direct Support Professionals (DSPs) who provide the support those with intellectual and developmental disabilities need to live in their community received a rate increase in last years’ budget. However, despite the critical work performed by these professionals, their average hourly wage hovers at around $11.54/hour. At the current rate, it is very difficult to attract and retain quality staff, which leaves families bearing the brunt of a high-turnover and low-wage occupation that is underfunded by

\(^{43}\) Governor Wolf’s 2018-19 Executive Budget, P. E22-54.
\(^{44}\) Governor Wolf’s 2018-19 Executive Budget, P. E22-35; Also see Department of Health and Human Services pdf on Governor’s proposed budget, [http://www.dhs.pa.gov/cs/groups/webcontent/documents/document/c_269706.pdf](http://www.dhs.pa.gov/cs/groups/webcontent/documents/document/c_269706.pdf)
the state. A rate increase will be especially necessary if the minimum wage is increased.

**Fighting the Opioid Epidemic**

A focus of the 2018-19 Executive Budget is to invest further in battling the opioid crisis that burdens families across the Commonwealth and strains multiple human service programs. Governor Wolf’s approach to the opioid crisis focuses on providing treatment and recovery programs for substance abuse disorders rather than steering them into the criminal justice system. Additional monies will be invested in assisting new mothers struggling with substance use disorders.

These investments include $26.5 million in federal funds for Department of Drug and Alcohol programs aimed at expanding access to treatment and support; $2 million to continue last year’s effort to increase the number of accredited specialty drug courts which recommend treatment rather than criminalization; and a $4.5 million investment to train service providers on evidence-based home visiting models and serve 800 families who are impacted by opioid use disorders. The Community-Based Family Centers would see a total increase of $5.3 million, which includes this $4.5 million increase for home-based visiting models as well an $800,000 rate increase for services provided by Community-Based Family Centers.

**Mental Health Services**

Mental Health services would also see an increase in state funding this year of $14.5 million to $776 million, while Behavioral Health remains flat funded at $57.1 million. The increase in Mental Health services is to continue the current program. This funding would primarily go towards state hospitals ($13.7 million), while community mental health services would only see an increase of $711,000 statewide. This increase is not enough to provide all the services needed by those suffering from mental illness. The problem is exacerbated because the budget proposes a $4.4 million decrease in the 2018-19 federal block grant for community mental health services.

Funding for community mental health services is critically important so individuals can be served in their own communities. Money from the state is distributed to the counties, which use these dollars to provide services to those who do not have insurance or housing support. When individuals in need have little access to community mental health services, crisis intervention takes its place, which is costlier in the long run and a strain on the health care system.

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47 This funding is part of a two-year grant from the federal government—the state applied for $26.5 million for year two of funding for the Opioid State Targeted Response Grant.


49 Information from Governor Wolf’s 2018-19 Executive Budget, P. E22-31 and E22-32 and from mental health advocates.

50 Governor Wolf’s 2018-19 Executive Budget, P. A3-6.

51 Information from mental health advocates in PA.
Community HealthChoices

Governor Wolf’s 2015-16 budget proposed a new program called Community HealthChoices, which provides comprehensive, community-based, physical health and long-term care services for seniors and adults with physical disabilities. Implementation began in January 2018 in Southwestern Pennsylvania. Once complete, the program will offer high-quality care so that individuals can remain in their homes while saving on nursing home care. The budget proposes a $694 million increase for Community HealthChoices to pay for a full year of the program in the Southwest and expand to Southeast PA in January 2019.

Income Maintenance

State funding for cash grants under the Temporary Assistance to Needy Families program is flat funded this year. The cash grants program has experienced a reduction of 44% since 2014-15. New Directions, a program to help welfare recipients prepare for and retain employment, would also see a reduction of $6.1 million in state funds this year.52 This decline, coupled with the elimination of General Assistance in 2012, point to a disturbing trend away from supporting individuals in crisis. The elimination of General Assistance was catastrophic for individuals facing domestic abuse, waiting for short-term disability in recovery, or caring for a disabled relative. Although it was just $200 a month, these funds often meant the difference between having a roof over one's head or not.

Environmental Protection

At a time when demands on the Department of Environmental Protection have increased due to the growth of natural gas production in the state, funding has dropped 30% since 2007-2008. Staffing has declined by 40% in the last 15 years. This has had a negative impact on, among other things, the timely review of permits as well as reduced the frequency of inspections of air and water quality. Governor Wolf proposes a 5.5% increase in spending for 2018-2019. This will enable the department to add 35 new staff members to deal with inspections of high-hazard dams and sewage treatment expansion projects, monitor air quality in gas drilling areas, and conduct inspections on water quality.53

Figure 20

State Spending on the Department of Environmental Protection is Down 30% From Its Levels in 2007-08

In Millions

Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf’s 2018-19 Executive Budget (February 6, 2018) and previous budgets.

53 Capitolwire. “DEP budget hearing focuses on new hires.” February 26, 2018; Governor Wolf’s 2018-19 Executive Budget.