



PENNSYLVANIA

Budget and Policy Center

412 N. 3rd St, Harrisburg, PA 17101 • www.pennbpc.org • 717-255-7156

March 7, 2018

Moving Forward Under Difficult Circumstances:

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

By Diana Polson and Marc Stier

Introduction¹

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 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

¹ This analysis was prepared for attendees of the PBPC Budget Summit in Harrisburg, March 8, 2018. An updated version of this analysis will be released to the media and general public later in March.

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.²

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 to 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 ten 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.

² 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."

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.

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 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. He also calls for expanding the PA Lottery in order to bring in additional funding to protect older Pennsylvanians.

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 our state budget currently goes towards K-12 education compared to the national average of 47%.³ 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 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.

³ https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=SSF_2014_00A05&prodType=table

We rank 47th in the nation in terms of our public investment in higher education⁴ 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.⁵

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 ten 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.⁶

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.

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

⁵ 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>

⁶ <http://6abc.com/health/gov-wolf-declares-a-disaster-emergency-over-opioid-crisis/2924563/>