Calm Before the Storm: An Analysis of Governor Wolf's Proposed Budget for 2020-21

By Diana Polson, Stephen Herzenberg, and Marc Stier **March 18, 2020**

Introduction

The Impact of COVID-19 on the budget

We were in the last two weeks of work on this analysis of the Governor's proposed budget for the fiscal year beginning on July 1, 2020 when the political and economic world in which we had been living tilted on its axis. The coronavirus that is responsible for the COVID-19 pandemic was creating havoc in China, both to the health of the population and to the economy of the country. It was clear that this would have an economic impact on the United States as so many of the products we buy here are made there. And then the same virus was found in the United States. To anyone who had been following the course of the disease in China it was at that point obvious that it would spread in the United States as well and that the necessary response would be devastating to our economy.

It is now clear that the United State is heading into a recession. It is an unusual recession in that has both supply-side and demand-side elements. On the one hand, the measures taken in China, Europe and in the United States to contain the spread of the virus have caused production of many goods and services to come to a halt. Businesses of all kinds have been closed due to the necessity of social distancing to limit the spread of the virus. The supply-side consequences of business closures and social distancing were notable first for their impact on Chinese manufacturing. But these same measures are likely to be even more consequential for the economy of the United States because services, which involve a substantial amount of customer-business interaction, are a much larger share of our economy. Even at time when we can make purchases on the internet and have them delivered to our home, consumer spending is certain to drop substantially because of the closure of stores, entertainment venues, and restaurants and other businesses. This supply-side effect will then generate a demand-side effect—the halt in production of goods and services is already leading to a reduction in wages as people see their hours cuts and jobs eliminated.[1] That, in turn will lead to further economic decline.

If the efforts to suppress the spread of the coronavirus could be ended relatively quickly, our economy might also recover quickly. But is becoming increasingly clear that suppression efforts are not going to end soon. So long as the virus is found among unknown members of a community it will spread. So, until a vaccine is created, a prolonged period of social distancing is going to be necessary to reduce the number of infected people at any one time so that health care systems, and especially hospital intensive care units, are not overwhelmed. These efforts to suppress the virus can be relaxed when the point is reached at which the average person with it infects fewer than 1.1 other people. (The current reproduction rate, R-0 is estimated to be 2.2.) No one is quite sure what measures will have to be taken to reach that point but we have seen estimates that it will continue through April and perhaps to early June. But even if transmission of the virus declines at that point, it could start

[1] As the stock market declines, people with substantial holdings may reduce their spending as well. While the media pays pay a great deal of attention to the stock market, the declining stock market is not a main cause of the recession but a symptom of it.

spreading again and another round—or two or three—of business closures and social distancing will be necessary. This process is likely to continue until a vaccine and / or effective treatments for COVID-19 is found.[2]

So we should expect that the economy of the United States, and indeed the whole world, will suffer for some time. National efforts will help mitigate some of the damage. The Federal Reserve has been using all of its tools to reduce interest rates close to the lower bound of 0 and to ensure that credit markets are liquid. We can expect fiscal stimulus in a variety of forms from Congress and President Trump. But while fiscal policy can provide relief to individuals and the government, neither monetary nor fiscal policy can entirely overcome the supply-side impact of shuttered factories, stores, entertainment venues, and restaurants.

A recession will have a severe impact on the budget of Pennsylvania with regard to both revenues and expenditure. Revenues will certainly decline. And expenditures for human services—especially for Medical Assistance (Pennsylvania's Medicaid program), Unemployment Compensation, SNAP (formerly called Food Stamps), Temporary Assistance to Need Families (TANF)—will increase.

Since we do not know how steep the recession will be and how long it will last, it is impossible to estimate the impact on state revenues. We can, however, follow the Independent Fiscal Office, in looking back at the last two recession.[3] The mild recession of 2001-2002 led to a decline in state revenues of 2.6% in fiscal year 2001-02. The severe recession of 2008-09 led to a much steeper drop in revenues of 7.3%. Applied to the proposed 2020-21 budget of $37.3 billion, a 2.6% drop in revenues would cost the state about a billion dollars; a 7.30% drop would cost the state about $2.7 billion. At this point, our best guess is that the drop in revenues in the 2020-21 budget will bat at the middle or high end of this range, thus from $2 to 3 billion. We cannot now estimate the impact of the recession on expenditures but they will certainly be in the hundreds of millions of dollars.

The recession we are entering, then, will cause havoc to the state budget and thus the projections of spending contained in the governor's budget proposal, which we discuss in the rest of this document, are already out of date. Because t is too soon to analyze the impact of the recession on the details of either revenues or expenditures, we have left the text we completed a few weeks ago stand unchanged. Until we have further information, the governor's proposal relative to previous year revenues and expenditures will continue to be the base line by which revenue and spending changes are projected.

As we learn more about the impact of the recession, we are likely to additional analyses of the 2020-21. Here are the three issues we will be closely watching:

1**. What does and should the state do to relieve the suffering caused by the recession?** We have already put forward a policy brief, with immediate recommendations, some detailed and some less so, for the actions the state can take to protect the most vulnerable citizens of the commonwealth by expanding the safety net. We will be presenting other ideas and tracking the implementation of these recommendations throughout the year.

2. What does the federal government do to relieve the recession, support individuals and families, and provide funds to sustain the operations of the state? In the severe recession of 2008-09 the federal government provided substantial help to the state by, among other things, raising the federal share of Medical Assistance, / Medicaid costs, and providing funds that could be used to backfill lost state revenues. This enabled

[2] See Ezekiel J. Emanuel, Susan Ellenberg, and Michael Levy, "The Coronavirusis Here to Stay, So What Happens Next?," The New York Times, March 17, 2020.

[3] Independent Fiscal Office, Economic and Budget Outlook, Fiscal Years 2018-19 to 2023-24, pp. 22-24.

the Rendell Administration to avoid severe cuts to state expenditures. But when Republicans blocked an extension of federal stimulus programs the state ran into a fiscal crisis in fiscal year 2010-11. We expect a major stimulus program form the federal government but do not know what the Trump administration will propose or Congress will accept. And we are concerned that in an entirely necessary effort to protect vulnerable citizens and jumpstart our economy President Trump and the Congress will overlook the needs of state governments and the people they serve. Of course, it is possible we will have a new president in 2021 and possibly see a change in leadership of one or both houses of Congress. This may lead to a new direction in addressing the recession.

3. Is Governor Wolf and the General Assembly willing to raise revenues to stave off budget cuts if necessary? If the recession is severe, and federal support more limited than it should be, the state will be facing a serious budget deficit. It is imperative that state not respond to that deficit as it did during the Great Recession, with massive cuts to K-12 and higher education and human services. Such cuts would not only place an additional burden on those most devastated by the economic crisis, they would also reduce economic activity and deepen the recession in the state. Cuts to education would undermine the long-term economic prospects of everyone in Pennsylvania.

Instead of reducing expenditures, Pennsylvania should meet the coming budgetary crisis by raising taxes on those most able to afford them and save a substantial part of what they earn.[4] The state should embrace elements of our Fair Share Tax proposal, raising revenues from the richest Pennsylvanians in order to balance the budget by increasing taxes on what we call “income from wealth.” At the same time, the state could cut taxes on wages and interest to further protect working-class and middle-class Pennsylvanians from the burdens of fighting COVID-19 and to spur the consumption we need in order to limit the impact of a recession and restore economic growth.

The General Assembly should resist the strong temptation in an election year to enact a budget that is not balanced as was done a few years ago when the state was forced to securitize tobacco revenues to make up for a billion-dollar shortfall. Doing so would only push the deficit off for another year, a dangerous practice when raising taxes in the state is already so difficult.

The Governor’s Budget Proposal

Governor Tom Wolf’s 2020-21 Executive Budget calls for a number of major initiatives that will build a stronger, healthier and more secure Commonwealth. Two carry over from last year. First, he again calls for an increase in the minimum wage to $12 per hour with a path to $15 per hour. Our minimum wage has been stuck at $7.25 for well over a decade while surrounding states have increased theirs. Second, while it technically falls outside the budget, Governor Wolf is again putting forward his Restore PA proposal for infrastructure investment. While we question whether a severance tax is the right source of revenue for the bonds that would be issued under this proposal, we welcome the governor’s attention to the infrastructure needs of the state. In addition to these two ideas, the Governor Wolf proposes to enact much-needed charter school reform to ensure accountability and to make sure charters, especially cyber charters, are not being overpaid. He seeks a new scholarship fund that

[4] Public policy experts have long held that given the choice of budget cuts and tax increases in a recession, states should choose to raise taxes. A good summary of this research is Nick Johnson, “Budget Cuts or Tax Increases? Which is Preferable When the Economy is Weak, Center on Budget and Policy Priorities, April 28, 2010, https://www.cbpp.org/research/budget- cuts-or-tax-increases-at-the-state-level.

would enable more students to attend college and partly make up for the decades long underfunding of the State System of Higher Education. The governor, once again, proposes to close the Delaware loophole which currently allows multi-state and international corporations to avoid paying state taxes. He proposes significant investment in lead and asbestos cleanup in schools, child care centers, and homes. And he proposes grant funding to address barriers to employment and for the reduction of gun violence. Enactment of all these proposals would serve the Commonwealth well.

Governor Wolf also makes good, but less ambitious proposals, mostly to continue incremental increases in existing education, human services, and environmental protection funding, including for early intervention, basic education funding, special education, pre-K, services for people with intellectual disabilities, additional staff for the Department of Environmental Protection, and more. We are impressed by the governor's fine-grained proposals for small improvements in the government's operations and for targeted increases that will help Pennsylvanians. The governor and his administration are serious about making government more efficient and to move towards more investment despite a resistant legislature.

But while the Governor's proposed budget takes both major and minor steps forward, we can't help conclude, as we have in past years, that it falls short of what Pennsylvania truly needs.

We live in a time of exorbitant inequality. In Pennsylvania, the top 1% is earning 21.7 times what the bottom 99% earns.[5] More than a quarter (28%) of Pennsylvanians live below 200% of the poverty line.[6]

Pennsylvania investment too little in K-12 public education, leading to our state having the greatest disparity in funding between our wealthy and poor school districts.[7] This means that the wealth of a child's neighborhood will dictate the quality of their education.

We rank 48th in the nation for per capita investment in higher education with a per capita investment of less than half the national average. We rank number one in terms of highest student debt.

We, as a state, have reduced spending to protect the environment, and have lost over 900 positions over the last 18 years in our Department of Environmental Protection at a time of increasing concerns over global warming and air and water pollution.

We have enormous infrastructure needs, including the need for investments in maintaining roads and bridges and improving public transportation. And we will soon face a half billion dollar shortfall in subsidies for public transit.

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[5] Economic Policy Institute. "The Unequal States of America: Income inequality in Pennsylvania." Accessed at: https://www.epi.org/multimedia/unequal-states-of-america/#/Pennsylvania.

[6] Two hundred percent of the federal poverty line in 2020, for example, is equal to earning less than $25,520 for a single person and earning less than $52,400 for a family of four.

[7] Emma Brown. "In 23 states, richer school districts get more funding than poorer districts." The Washington Post, March 12, 2015. Accessed at: https://www.washingtonpost.com/news/local/wp/2015/03/12/in-23-states-richer-school-districts-get-more-local-funding-than-poorer-districts/#graphic; Kristen A. Graham. "Pa's school-spending gap widest in nation." The Philadelphia Inquirer, March 13, 2015. Accessed at: https://www.inquirer.com/philly/news/local/20150314_Pa__s_school-spending_gap_widest_in_nation.html. Updated Census data can be found at: https://www.census.gov/data/tables/2017/econ/school-finances/secondary-education-finance.html.

This is the reality for our state, all with the backdrop that on the national stage, environmental protections, food stamps, and other social programs are being attacked while Trump's Tax Cut and Jobs Act in 2017 have cut taxes for the very rich, exacerbating inequality while increasing the federal deficit.

Pennsylvania's public investment deficit is real. We need major new public investments to ensure that every resident of this state can share in a thriving economy. From this point of view, the budget falls short. Even with the governor's new proposals, we cannot ensure that every child has a chance to make the best use of his or her talents—and that the rest of us can benefit from them—when state support for K-12 and higher education remains far lower than it should be and is unfairly distributed. We cannot ensure that our economy will thrive at our current and inadequate level of spending on roads, bridges, and transit. We cannot ensure the safety of our air, water, and the avoidance of climate disaster at current levels of spending on environmental protection. And we cannot fund all those initiatives fairly when our tax system puts too much burden on working people while letting the richest Pennsylvanians, as well as multistate and multinational corporations, pay far less than their fair share.

Tinkering around the edges helps, but it's far from solving the state's problems. We face a General Assembly that takes its cues from the corporate elite, downplays the critical importance of government to solve social and economic problems in our state, and refuses to consider tax increases on corporations or the wealthiest of us.

But let's go a step further in our analysis. We do not hold Governor Wolf responsible for this. We recognize the political reality of our state and we know he does as well. Both houses of the General Assembly are controlled by leaders who, largely, do not share Governor Wolf's ideals and who are adamantly opposed to any increase in taxes no matter how necessary they are to solve our common problems.

Below we examine the governor's 2020-21 Executive Budget proposal for Pennsylvania, keeping in mind these questions: 1) how is spending changing from year to year, and where are the proposed new investments? and 2) does this budget begin to solve the public investment deficit our state faces?

Overview of Pennsylvania's Budget

Components of the Combined Operating Budget

As Table 1 and Figure 1 below show, Governor Wolf proposes $36.1 billion in General Fund spending for 2020-21, which makes up 40% of the state's total operating budget. Federal funds make up the second largest part of the operating budget (34%), followed by Pennsylvania's special funds, augmentations, and fees (20%). The total combined operating fund totals nearly $90 billion for 2020-21, an increase of 2.4% from last year.

Looking just at state funding, the General Fund makes up 62% of the total state budget. The more than 150 special funds make up the rest, including the Motor License Fund at 5% and the Lottery Fund at 3%. Because of its centrality to the state budget, our analysis focuses primarily, although not exclusively, on analysis of General Fund spending.

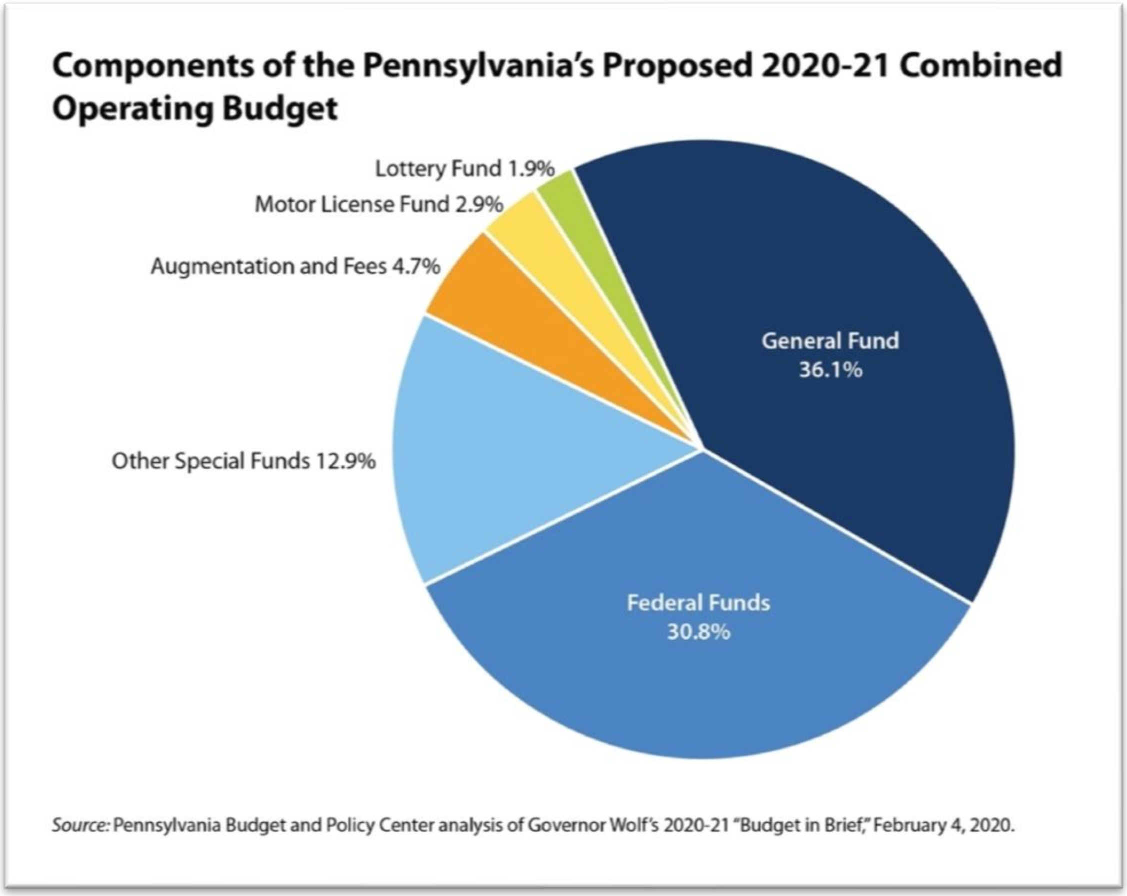
Table 1

Components of 2020-21 Combined Pennsylvania Operating Budget, in Billions

	FY 2019-20	FY 2020-21 Governor Proposed	Change from 2019/20 to 2020/21 proposed	2020/21 Percent of Total Operating Budget	2020/21 Percent of Total State Budget
General Fund	$34.64	$36.1	4.21%	40%	62%
Motor License Fund	$2.83	$2.9	2.62%	3%	5%
Lottery Fund	$1.87	$1.9	1.77%	2%	3%
Other Special Funds, Augmentation and Fees	$17.32	$17.6	1.64%	20%	30%
Federal Funds	$30.56	$30.8	0.79%	34%	
Total State Funds	$56.6	$58.5	3.27%		
Total Combined Operating Budget	$87.2	$89.3	2.40%		

Source: Pennsylvania Budget and Policy Center analysis Governor Wolf's 2020-21 "Budget in Brief" (February 4, 2020).

Figure 1



Structural Imbalances

Before turning to the details of the budget, we raise a general question about recurring structural balance in Pennsylvania budget. Governor Wolf's budget proposes $587 million in supplement appropriation in state funds for 2019-2020. A little over $492 million is in human services, with most of it for Medical Assistance / Medicaid capitation with about $75 million for state correctional institutions covering health care for incarcerated individuals.

During budget hearings, fingers have been pointed in both directions for the overuse of supplemental funds, particularly in human services. Republicans said Governor Wolf's administration was overspending, even though Medicaid is an entitlement and the state is obligated to pay for the care of everyone eligible to receive it. The administration said it was the General Assembly who knowingly underestimated caseloads for those programs to balance the state budget.[8] The truth of the matter is that underestimating Medical Assistance / Medicaid spending has become an art form in Pennsylvania budget politics. It is one of the ways that state policy makers keep up the pretense of enacting balanced budgets while not actually doing so. Another is the systematic

[8] Chris Comisac. "Lawmakers express concerns about underfunding PA pupil transportation during Education Department budget hearings." *Capitolwire*, 3/2/2020.

underfunding of student transportation which asks school districts to pay for transportations costs and then get reimbursed later.

The governor's budget proposal for 2020-21 is no different. It appears to underfund Medical Assistance/ Medicaid by over $300 million and shifts other spending in the program from 2020-21 to the following fiscal year in the amount of almost $350 million. The budget also engages in the usual political gamesmanship of cutting certain human services and other line items that it knows legislators will reinstate.

We expect that, once again, the General Assembly will embrace these ways of hiding deficits proposals and invent a few of its own before enacting a budget that looks balanced—but is not.

The reliance on supplemental appropriations and the underfunding of certain budget line items is a symptom of a disease, not the disease itself. The disease is a structural imbalance in which revenues do not grow fast enough to maintain the current level of services let alone adopt new initiatives, all the while leading the deep public investment deficit in K-12 education, higher education, infrastructure, and environmental spending to fester.

The governor's budget shows balanced budgets into the future. But those balanced budgets do not account for increases necessary to maintain current level of services. That is why the projects of the Independent Fiscal Office point to the same structural balance we identify here. It predicts that revenues will grow at a rate annually of 3.2%. But it estimates that expenditure will need to grow at 3.6% per year in order to maintain the same level of services provided in the 2019-20 base year.

Pennsylvania's ongoing reliance on one-time gimmicks to balance the budget is unsustainable. It is not just we and the IFO that say so but, also the Volcker Alliance's report, "Truth and Integrity in State Budgeting: The Balancing Act,"[9] which says

> "Pennsylvania has a history of enacting late budgets riddled with one-time actions to achieve balance. Even though the state's 2019 spending plan was passed a week before the start of the new fiscal year, timeliness didn't yield a higher grade in the budget maneuvers category. For fiscal years 2017 through 2019, the state averaged a D-minus, the lowest possible mark. It was faulted for balancing budgets by deferring recurring expenditures, shifting revenues and costs, funding recurring expenditures with debt, and using asset sales and upfront revenues to offset continuing spending."[10]

Pennsylvania was one of only three states in the nation that received the worst possible score of D-minus in the budget maneuvers category.[11] This clearly shows Pennsylvania's resistance to establishing stable, recurring revenue sources like corporate taxation and fixing our unfair tax system.

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[9] Former chairman of the Federal Reserve, Paul Volcker, founded the nonprofit, nonpartisan Volcker Alliance, which "advances effective management of government to achieve results that matter to citizens," and its annual report ranks all 50 states on budget practices, including transparency and fiscally sustainability.

[10] The Volcker Alliance. "Truth and Integrity in State Budgeting: The Balancing Act." New York, 2020, p. 106. Accessed at: https://www.volckeralliance.org/sites/default/files/attachments/Truth%20and%20Integrity%20in%20State%20Budgeting%20-%20The%20Balancing%20Act_0.pdf.

[11] Ibid, p. 17. Accessed at: https://www.volckeralliance.org/sites/default/files/attachments/Truth%20and%20Integrity%20in%20State%20Budgeting%20-%20The%20Balancing%20Act_0.pdf.

State Revenues and Expenditures Are a Shrinking Share of the State's Economy

Given an expanding population and increased costs, spending must increase in absolute terms from year to year in order to maintain the same level of state services. One measure of the size of our government that takes costs and population into account is revenues and expenditures as a percentage of gross state product (GSP), the measure of the size of the state's economy. As Table 2 and Figure 2 below show, both revenues and expenditures have been shrinking as a share of the state's economy over time. In the period of 1997–2011, the average expenditure relative to GSP was 4.66%. This decreased during the Corbett years and has continued to decrease since then. This year's budget is no exception. In fact, Governor Wolf proposes a spending plan that is 11% below the average spending plan relative to GSP between the years 1997 and 2011. Independent Fiscal Office projections show this trend is expected to continue.

Despite Governor Wolf's calls for increased spending in critical areas, the declining share of state spending relative to gross state product shows that his budget is austere. In our view, state spending is too small, relative to the state's economy, and this is the main reason we are unable to address the really big problems in our state such as our unequal public education system. If Pennsylvania's expenditures were still 4.66% of GSP, as it was on average between 1997 and 2011, we would have more than $4 billion in additional funding to fix our schools and infrastructure and to provide more services to Pennsylvania's most vulnerable via the Department of Human Services.

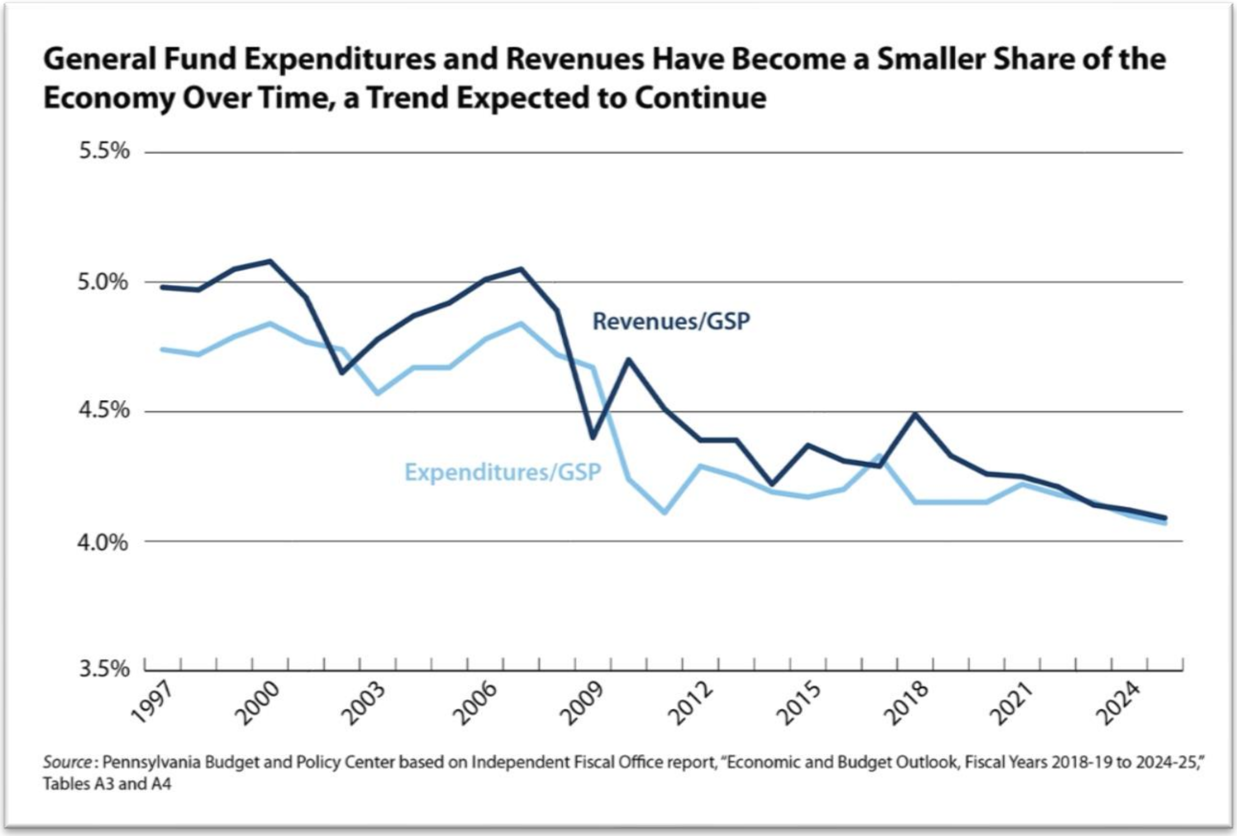
Table 2

Pennsylvania General Fund Expenditures and Revenues as a Percent of Gross State Product (GSP)

Fiscal year ending	**Expenditures / GSP**	**Revenues / GSP**	**Reduction in Spending Compared to 1997-2011**
Average 1997 to 2011	4.66%	4.85%	
Average 2012 to 2015	4.22%	4.34%	-9%
Average 2016 to 2019	4.22%	4.36%	-9%
Governor's budget 2020-21	**4.13%**	**4.26%**	**-11%**
Projections 2022 to 2025	4.04%	4.17%	-13%

Source: Pennsylvania Budget and Policy Center based on Independent Fiscal Office, "Economic and Budget Outlook, Fiscal Years 2019-20 to 2024-25," November 2019; and Governor's Executive Budget 2020-21, p. A2-3 (years 2019-20 and on).

Figure 2



The Governor's Priorities This Year

Governor Wolf makes very important and strategic proposals and investments given the limited funds he is working with. While we discuss these in depth in the analysis below, here are some of the highlights. Governor Wolf proposes

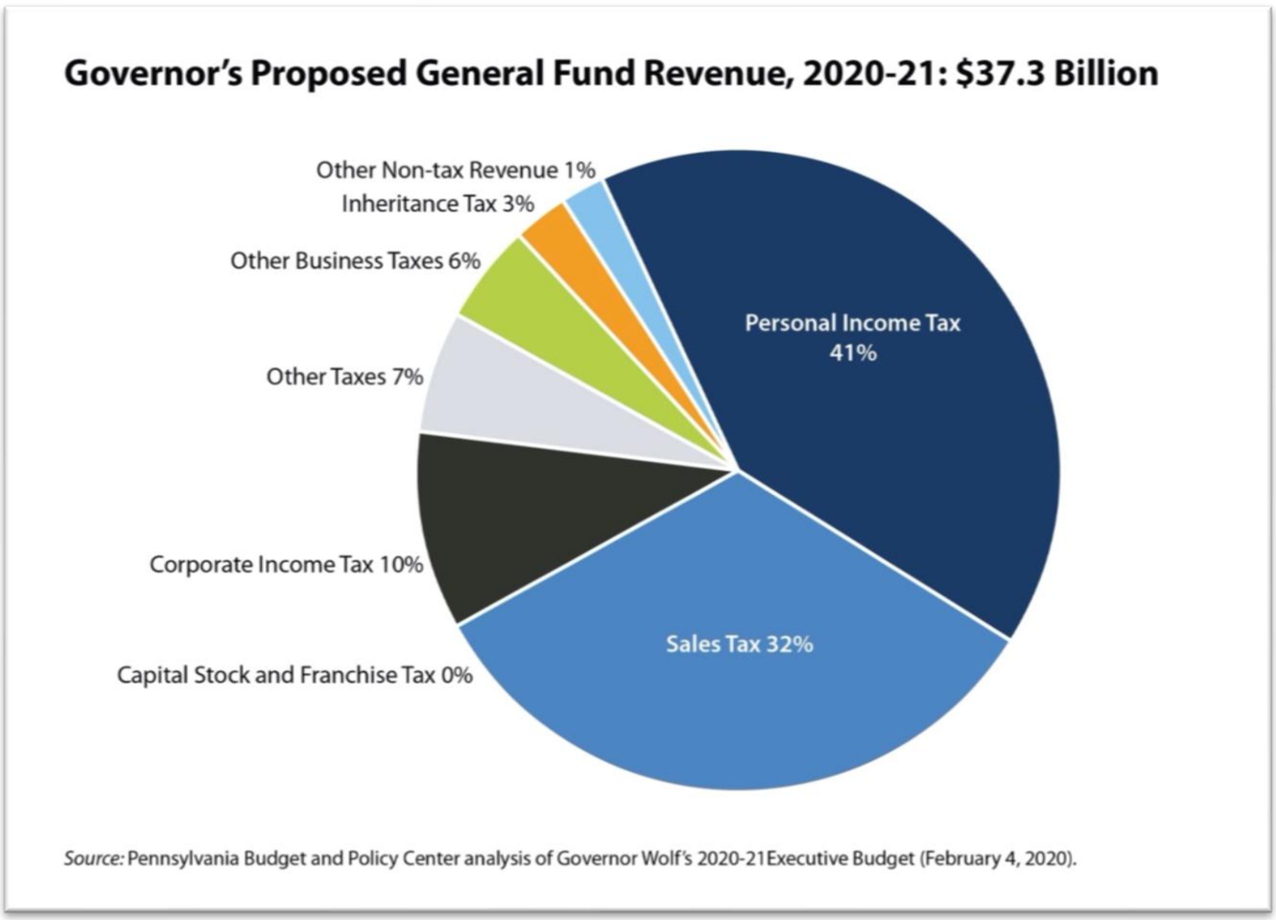
- to **raise the minimum wage** to $12 per hour starting July 1, 2020, increasing each year until the wage reaches $15 per hour;
- much-needed **charter school reform,** which would ensure we aren't overpaying charter schools and bring $280 million back into public schools;
- significant **investment in higher education**, including the establishment of a new Nellie Bly Tuition Program which would provide tuition for 25,000 students who attend one of the State System for Higher Education schools;
- a $1 billion investment to **address lead and asbestos in school** through a bond-funded redevelopment grant program;
- an effort **by** the state's Workforce Command Center **to address barriers to employment**, including access to affordable child care, job training, transportation, licensing, and challenges related to re-entry;
- **grants to reduce gun violence;** and
- **combined reporting** to close the Delaware loophole and ensure that all corporations pay the state Corporate Net Income Tax (CNIT) together with a decrease in the CNIT rate.

General Fund Revenues

General Fund revenue for fiscal year 2019-20 is expected to be $200 million above the enacted budget projections of $35.7 billion due to higher than expected sales and personal income tax revenues. The Corporate Net Income Tax was lower than expected, primarily due to federal tax changes.[12]

Governor Wolf projects $37.3 billion in General Fund tax revenues in 2020-21, an increase of 4.5%. He does not propose to increase taxes this year. As Figure 3 below shows, personal income tax (41%) and sales and use tax (33%) account for nearly three-quarters of the General Fund revenue. The Corporate Net Income Tax accounts for just 10% of General Fund revenue.

Figure 3



Pennsylvania continues to have an upside-down tax system where the poor and middle class are overburdened with taxes while the richest in the state don't pay their fair share. Pennsylvania families with the lowest 20% of incomes—who make, on average, less than $24,000 a year—pay 13.8% of their income in state and local taxes.

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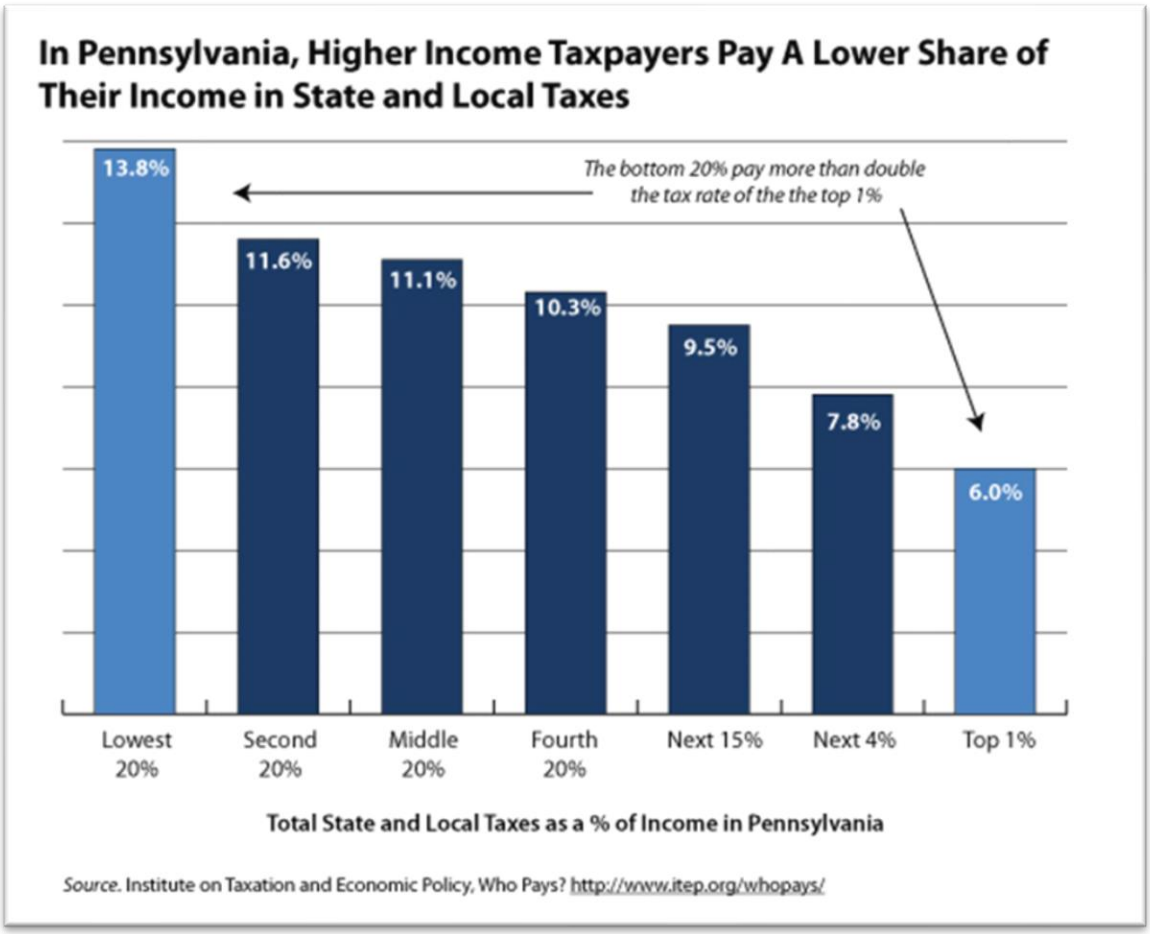
[12] House Appropriations Committee Democrats (HACD). "2020/21 Executive Budget Proposal: Budget Briefing." February 4, 2020.

That is more than double the 6.0% rate paid by the top 1% of households in the state whose annual incomes average $1.7 million (Figure 4).

Figure 4



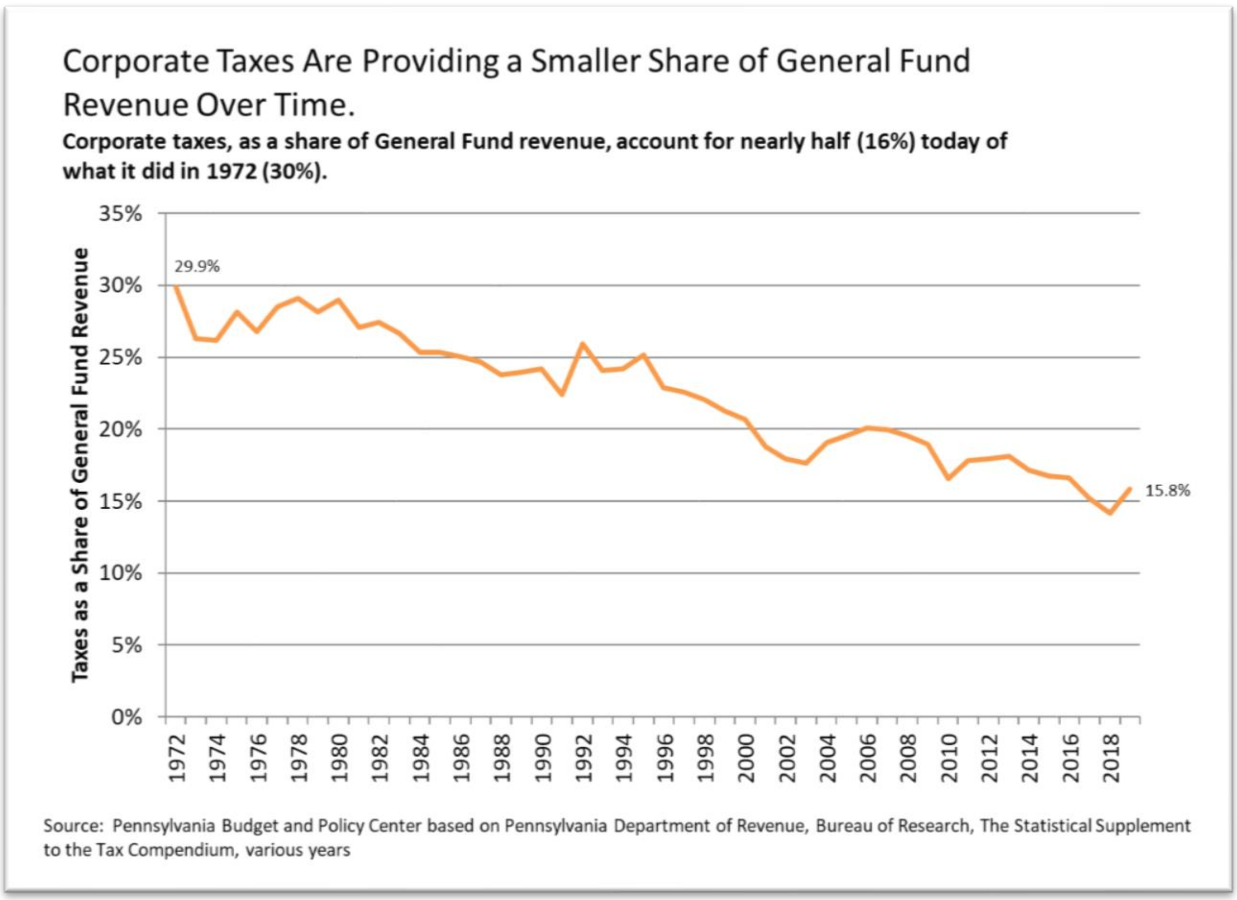
Pennsylvania's tax system is grotesquely unfair, and this unfairness is one of the main reasons that revenues are not growing as fast as in other states. At a time when an increasing share of income is going to the richest Pennsylvanians, the low taxes they pay has a severe impact on revenues.

Corporate Tax Reform: A Lower CNIT Rate and Combined Reporting

The other reason Pennsylvania revenues grow slowly is that the state is in need of corporate tax reform.

Cuts in corporate taxes since 2002 have reduced revenues in Pennsylvania by what is now $4.2 billion per year.[13] As Figure 5 below shows, corporate taxes provide only half (16%) of what they were providing in 1972 (30%). One corporate tax, the Capital Stock and Franchise Tax, has been completely eliminated, which has removed a large and reliable source of revenue from Pennsylvania's coffers. This tax was more stable than the Corporate Net Income Tax (CNIT) and had fewer loopholes. Changes in the CNIT and other tax breaks account for the other corporate tax changes that have led to declining corporate revenue over time. Corporate tax loopholes allow 73% of corporations that do business in Pennsylvania to pay no corporate net income tax at all. The result is that multi-state and multi-national corporations avoid paying state taxes while local companies are left paying our relatively high corporate net income tax (9.99%).

Figure 5



This year, as he did in FY 2019-20, Governor Wolf proposes corporate tax reform. His budget calls for instituting combined reporting, which would close the Delaware loophole making it harder for multi-state and multi-

[13] Stephen Herzenberg, Diana Polson, Marc Stier. "Corporate Tax Cuts Since 2002 Now Cost PA $4.2 Billion Yearly: Pennsylvania Should Pass Worldwide Combined Reporting." Pennsylvania Budget and Policy Center, January 27, 2020. Accessed at: https://www.krc-pbpc.org/wp-content/uploads/Corporate_Tax_Paper_Final.pdf.

national companies to avoid paying taxes in Pennsylvania while also reducing the relatively high CNIT rate of 9.99% to 8.99% in January 2021 with regular decreases until the rate equals 5.99% in 2025. In conjunction with CNIT rate reduction, combined reporting is projected to bring in an estimated $240 million in additional revenues in 2020-21 and $415 in additional revenues in 2021-22 before CNIT rate cuts reduce revenues.

We strongly support not only combined reporting, but worldwide combined reporting that would close what we have called the "Cayman Islands loophole" that allows corporations based in international tax havens to avoid paying Pennsylvania's CNIT. But we are concerned that the governor's proposals would cut the rate too much. Much of the CNIT is ultimately paid by the wealthiest people in our state and country, who we believe are taxed too little. Some reduction in the rate—to 6.99%-7.99%—would be desirable. Or, if Pennsylvania were to adopt our Fair Share Tax plan, which raises the tax on non-corporate business profits to 6.5%, it would make sense to set the Corporate Net Income Tax to the same level, eliminating any bias in the tax system toward one type of business organization over another.

Raising Pennsylvania's Minimum Wage

The governor again proposes an increase in the minimum wage to $12 per hour starting July 1, 2020, with $.50 yearly increases until the wage reaches $15 per hour in 2026. Tipped workers, who currently make only a state minimum of $2.83 per hour, would also see their minimum wage increase.

Pennsylvania's minimum wage is still stuck at the federal minimum of $7.25 per hour. For a full-time, full-year worker, this is equal to an annual income of only $15,080. For several years now, Governor Wolf has included an increased minimum wage in his budget proposals—but the General Assembly has resisted his proposals. In the fall of 2019, the state Senate voted for legislation that, for the first time in over a decade, would raise the state minimum wage in steps to $9.50 per hour by 2022. This is far from the minimum wage the state needs. But even this proposal was not accepted by the House.

This governor's proposal to increase the state's minimum wage would result in $133.3 million in additional personal income and sales tax revenues in 2020-21 due to workers earning more money and spending it within the local economy. By the time the wage would reach $15 per hour, Pennsylvania is estimated to generate more than $300 million in additional state tax revenue.[14]

State Police Protection

Even though the Pennsylvania State Police (PSP) provides local police support to 67% of the municipalities in the state, this service currently comes with no local cost to these municipalities.

The PSP is currently funded through a mix of general funds, motor license funds, and other funds. However, because of a statutory cap on how much the Motor License Fund can contribute to the PSP, which decreases annually by $32 million until it reaches $500 million by 2027-28, the governor is seeking a new solution to funding the state police. In previous budgets, the governor has proposed a flat fee or sliding scale based on population from communities that rely on state police coverage. This year, Governor Wolf proposes an alternative plan—a fee that would be assessed on every municipality across the Commonwealth but weighted by different factors, including incidents and coverage area, population, income, and whether municipalities

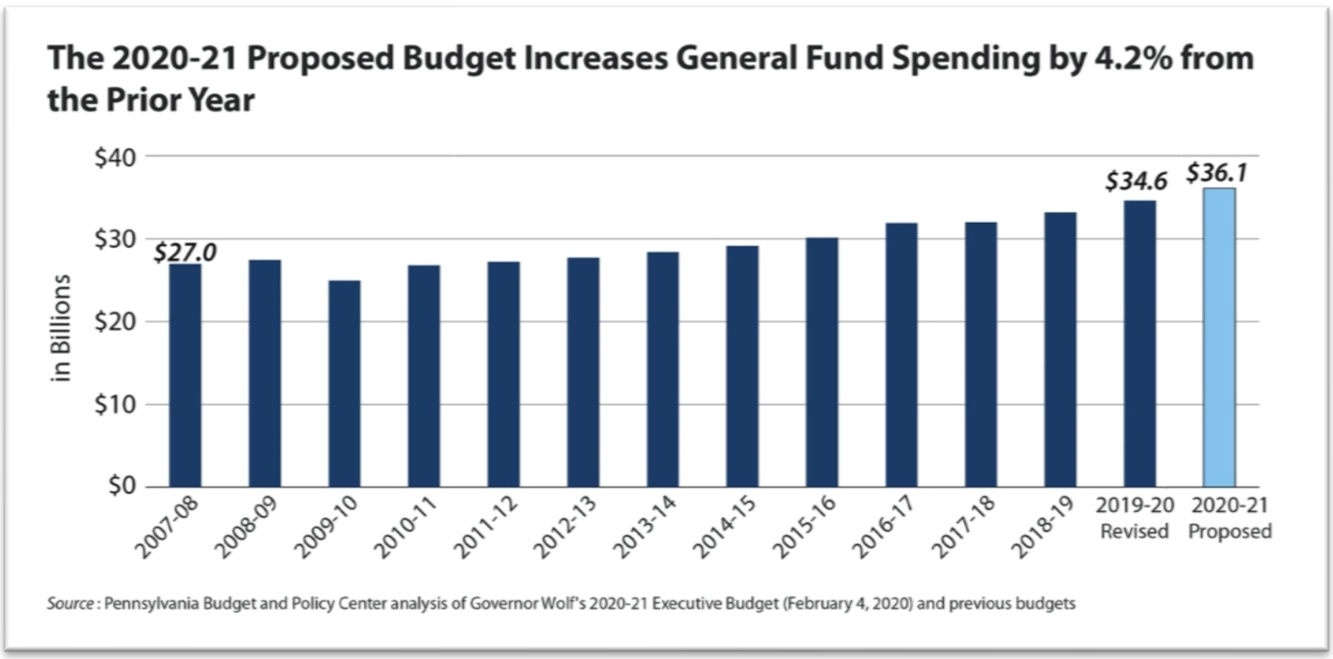
[14] Governor Tom Wolf's office. "Gov. Wolf Proposes Minimum Wage Increase for Sixth Time." January 28, 2020. Accessed at: https://www.governor.pa.gov/newsroom/gov-wolf-proposes-minimum-wage-increase-for-sixth-time/.

benefit from full or partial coverage.[15] This fee would amount to $136 million. Per capita, this fee would range from $0.25 to $146 depending on weighted factors.[16]

General Fund Expenditures

Governor Wolf proposes a $36.1 billion spending plan for 2020-21, which is an increase of nearly $1.5 billion, or 4.2%, from last year (Figure 6).

Figure 6



As Figure 7 shows, education and human services make up more than three-fourths of state expenditures. PreK-12 education spending makes up 36% of General Fund spending and human services, including Medical Assistance and Long-Term Living (23%), and the addition of other human services (17%) makes up 40%. Criminal justice is 7% and higher education just 5%.

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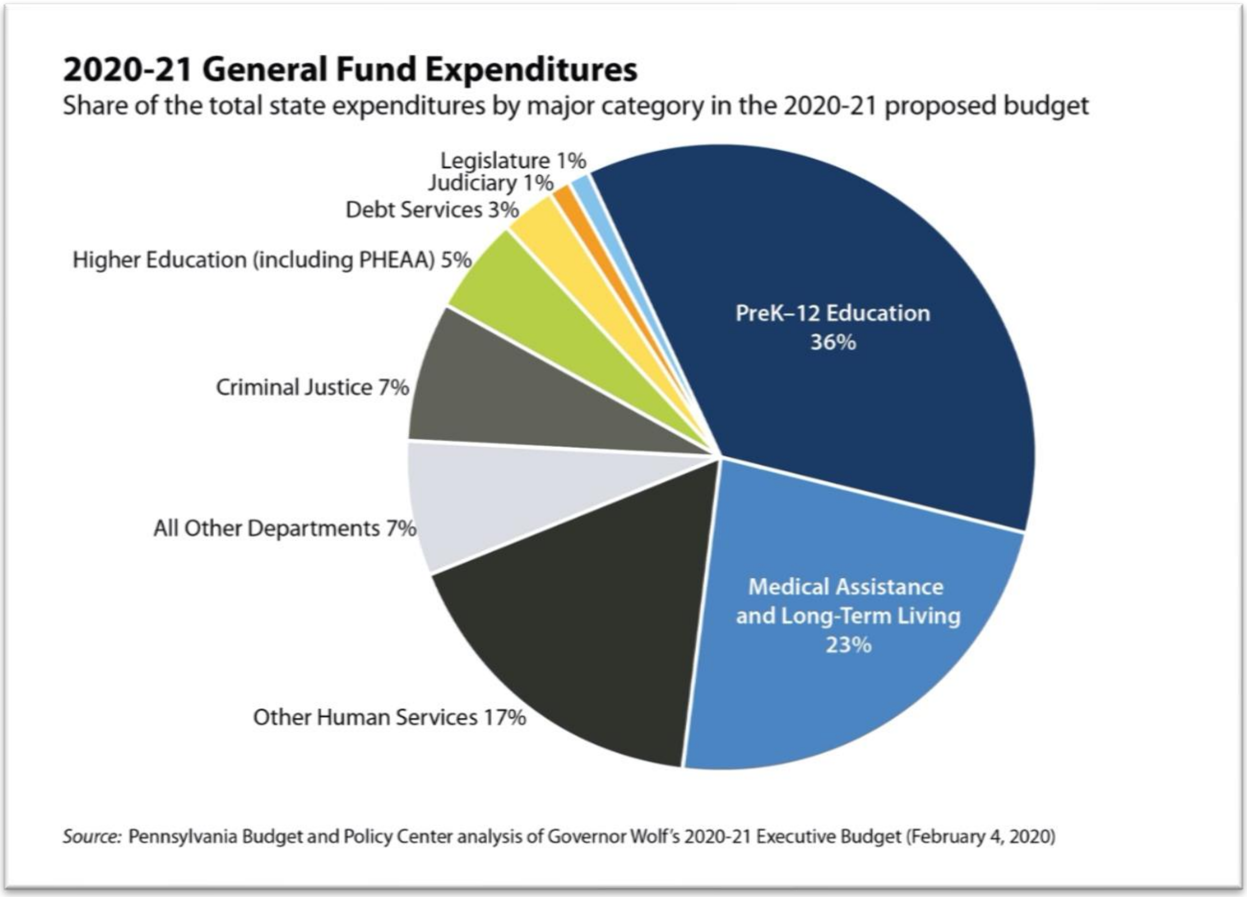
[15] Commonwealth of Pennsylvania Office of the Governor. "Governor Tom Wolf Executive Budget 2020-2021." Harrisburg, February 4, 2020.

[16] House Appropriations Committee Democrats (HACD). "2020/21 Executive Budget Proposal: Budget Briefing." February 4, 2020.

Figure 7

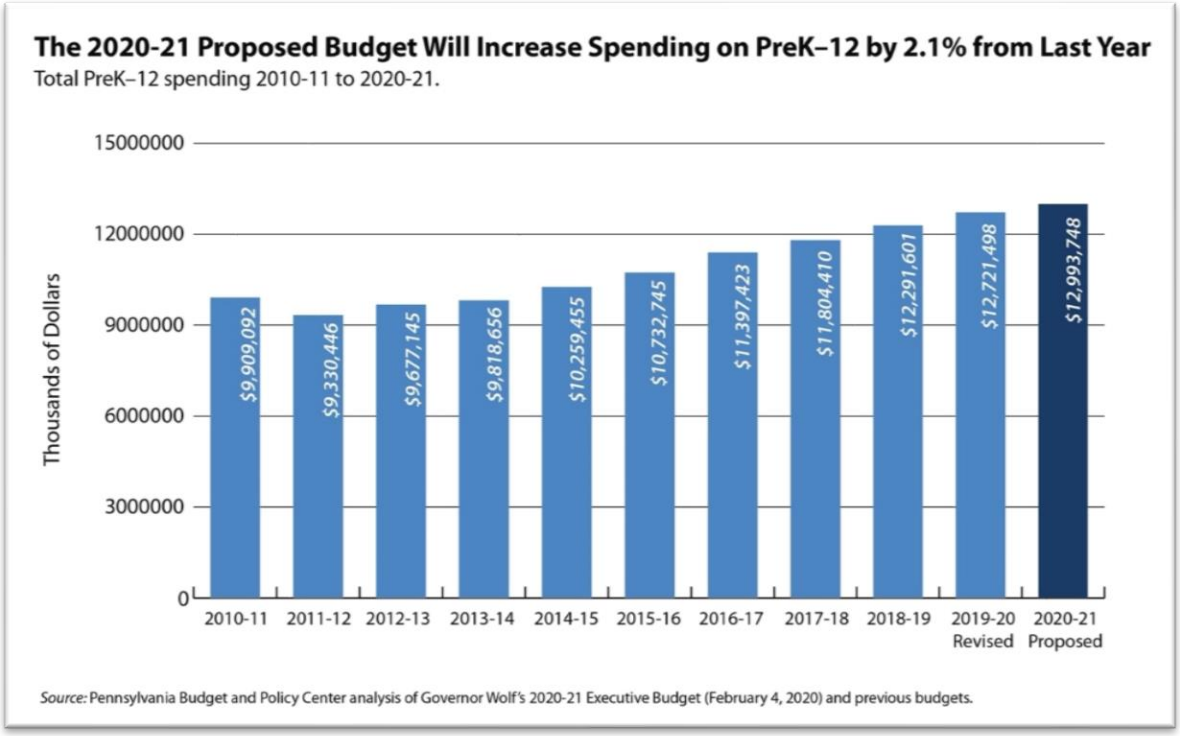


Education

Pennsylvania's public education system includes 500 school districts and more than 2,900 schools and early childhood centers. The governor made education funding a key priority of his first term and the same is true during his second term. Once again, Governor Wolf has proposed increases to K-12, early education, and higher education funding. While these increases in education funding move us in the right direction, we still face a seriously inadequate and unequal funding of K-12 schools in our state.

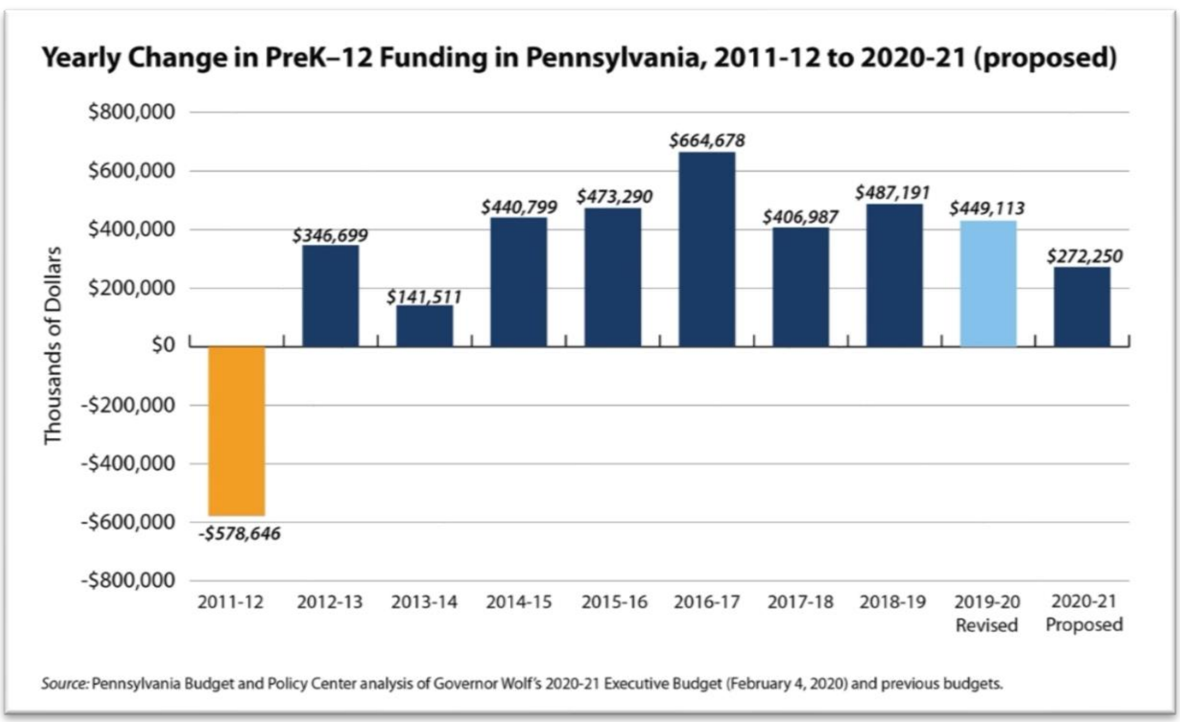
Governor Wolf proposes a 2.1% increase in preK-12 spending this year for a total preK-12 budget of nearly $13 billion as Figure 8 shows.

Figure 8



As Figure 9 below shows, the governor's proposed increase of $272 million this year is lower than those enacted since he's been in office.

Figure 9



Student transportation funding is flat funded this year at $549 million. Typically, however, the transportation needs of Pennsylvania's public schools usually exceed what is budgeted. Schools cover the additional costs with the state reimbursing them the following year. The 2020-21 appropriations will likely be partially used to cover costs not covered in 2019-20. School districts having to foot the bill, even temporarily, causes hardship for those districts already struggling.[17]

K-12 Classroom Spending

In this section we look at state expenditures that supports what happens inside the classroom, leaving aside state funding for non-classroom education spending for pensions and transportation and other items.

Figure 10 below shows that the governor proposes a $6.6 billion investment in K-12 classroom funding for 2020-21, which is an increase of $100 million from last year, or 1.6%. Classroom funding cut by Governor Corbett in 2011-12 was finally restored (in nominal dollars) in the 2018-19 enacted budget. However, school districts are still feeling the impact of this massive Corbett cut to public education which led to the layoff of tens of thousands of school teachers, guidance counselors, and school nurses across the Commonwealth.[18]

New funding has not kept paced with the costs faced by schools. As the 2020 Pennsylvania Association of School Administrators and Pennsylvania Association of School Business Officials (PASBO/PASA) School District Budget Report shows, part of the problem is that mandated expenses in special education, charter schools, and pensions are growing at a faster rate than state revenue. Between 2010-11 and 2017-18, these mandated costs increased by more than $4.6 billion, yet state support for them—through basic education funding, pension reimbursements, and special education funding—increased by only $2.24 billion, leaving a negative balance of $2.43 billion.[19] This deficit has been covered by either cuts to other spending or by increases in local taxes.[20]

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[17] Chris Comisac. "Lawmakers express concerns about underfunding PA pupil transportation during Education Department budget hearings." *Capitolwire*, 3/2/2020.

[18] Employment in Pennsylvania elementary and secondary schools (of teachers and other school workers) remained 27,845 lower in 2018 (the latest data available) than 2010, a decline of 9.9%. (Data accessed online at https://data.bls.gov/cgi-bin/srgate. (Enter ENU420001036111).) See also Pennsylvania Association of School Administrators and Pennsylvania Association of School Business Officials. "Continued Cuts: The Fourth Annual PASA-PASBO Report on School District Budgets." June 2014; and Megan Healy. "Failure to Fund Schools Would Result in the Loss of 23,000 Educators." February 22, 2016. Accessed at https://www.governor.pa.gov/blog-failure-to-fund-schools-would-result-in-the-loss-of-23000-educators/.

[19] Pennsylvania Association of School Business Officials and Pennsylvania Association of School Administration. "PASBO-PASA School District Budget Report." January 2020. Accessed at: https://www.pasbo.org/files/Final%202020.pdf.

[20] The PASBO-PASA report (mentioned in previous footnotes) says that many districts raise property taxes to address the deficit from the mandated cost increases, but the ability to raise property tax revenue is different for each school district, with limited board authority. "With limited board authority to generate additional property tax revenue, many school districts must rely on state revenue increases or cost avoidance/reductions to balance their budgets. They have little room to maneuver." The median board authority across all school districts was 1.19% of their total budget…the average increase in mandated costs statewide is 2.75% of total operating costs. See p. 13 from https://www.pasbo.org/files/Final%202020.pdf.

Figure 10

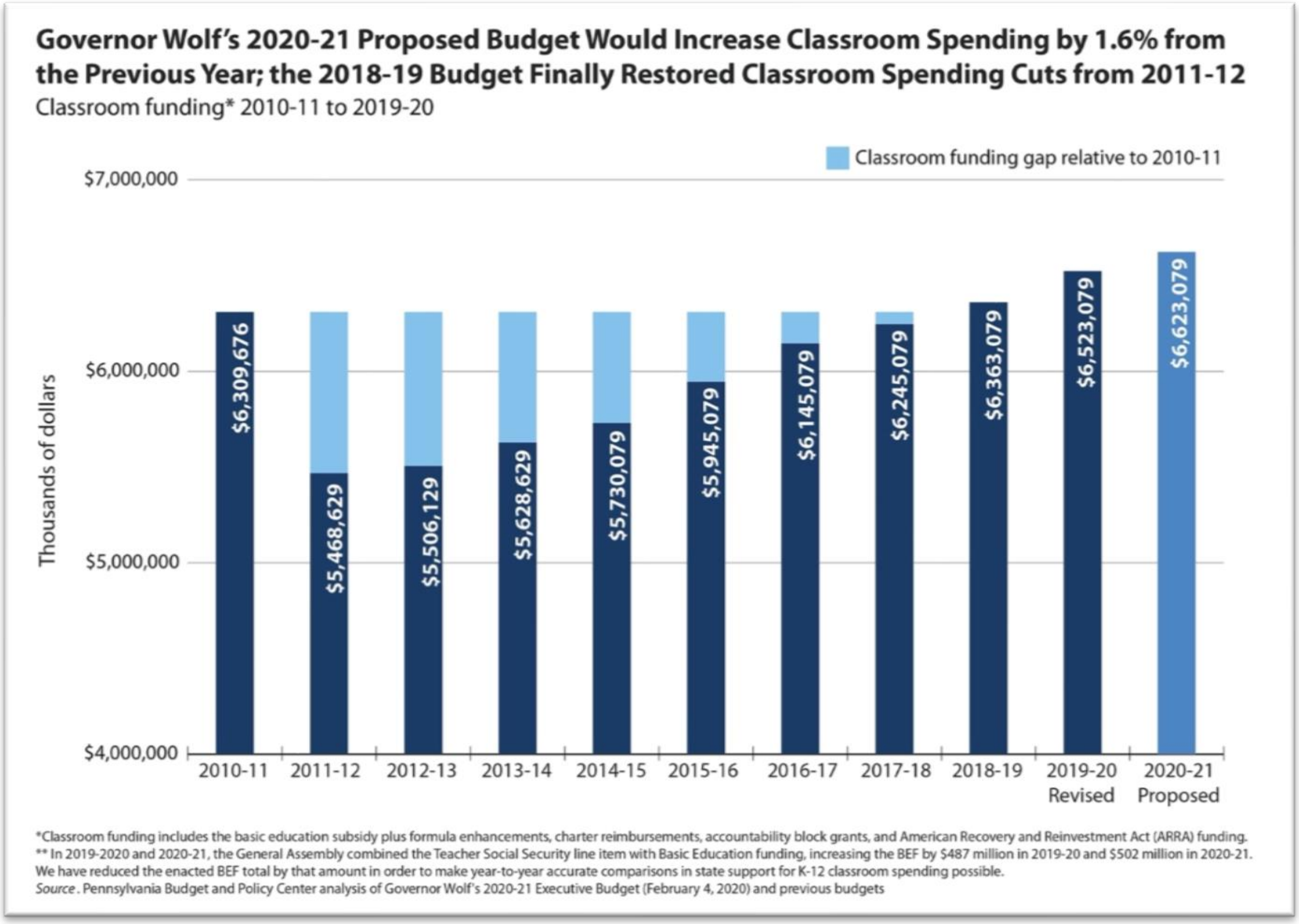
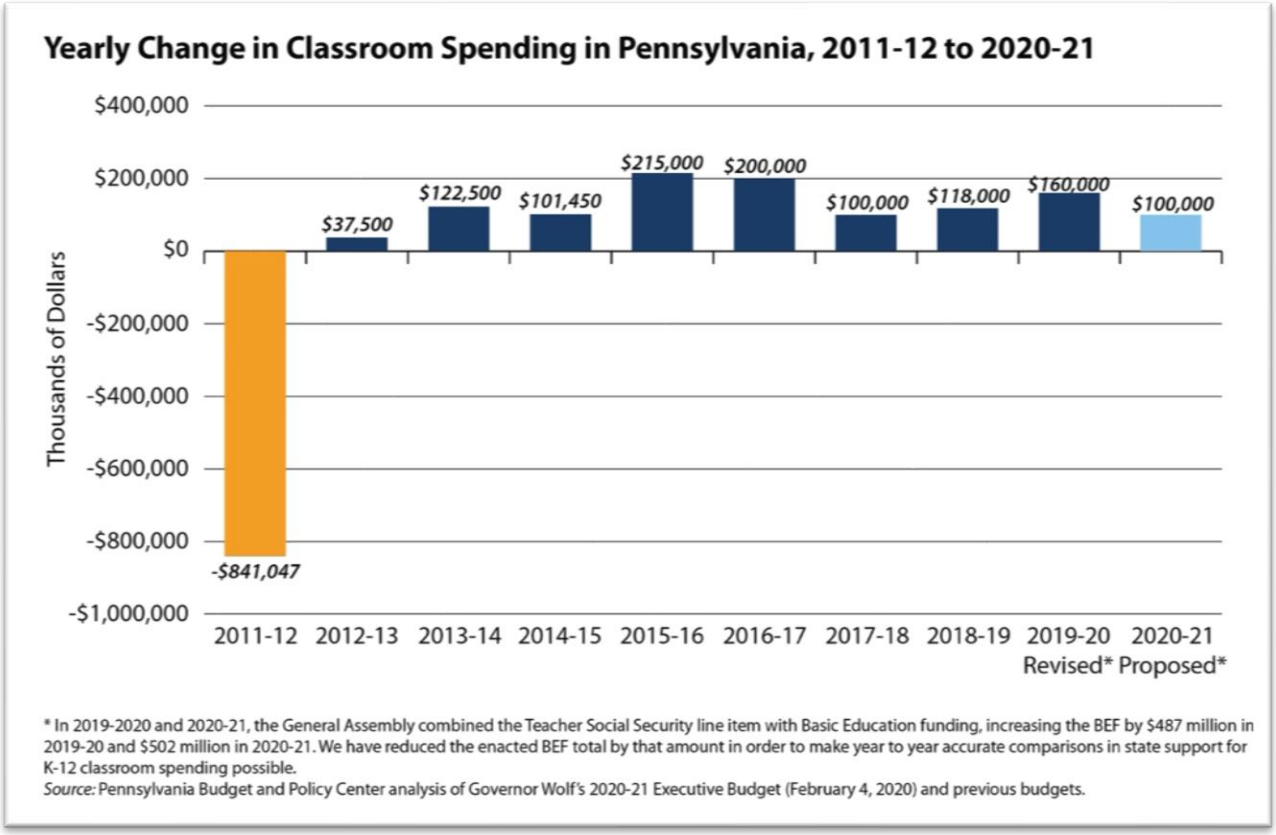


Figure 11 below shows the yearly change in classroom funding. Slowly, Governor Wolf has been adding funding back into the classrooms. While this year's funding increase of $100 million isn't as high as previous years, when considered with charter school reform, school districts would see additional funds.

Figure 11



Basic education funding and school inequities

Funding for K-12 education comes primarily from state and local governments. But because Pennsylvania provides a relatively low share of state funding for K-12—39% compared to the national average of 47%—Pennsylvania ranks 44th in the nation for the state share of total K-12 education funding.[21] The result is that local governments need to raise the rest of that money, which is primarily done through property taxes. This leads to great inequities in funding because school districts do not all have the same capacity to raise revenues locally due to variations in in the income and wealth of their taxpayers. Lower income school districts typically have higher property taxes but still raise less revenue than more wealthy districts. As a result, Pennsylvania actually has *the greatest* disparity in funding between our wealthy and poor school districts with students in poor districts receiving 33% less than students in the state's most affluent districts.[22]

This gap in per-student funding between the high-wealth and low-wealth school districts has grown. In 2012-13, a typical wealthy school district (defined as the median of the 100 wealthiest school districts in PA) paid $3,058

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[21] In Census link below, click on Summary Tables. Data is in Table 5: Percentage Distribution of Public Elementary Secondary School System Revenue by Source and State. Accessed at: https://www.census.gov/data/tables/2017/econ/school-finances/secondary-education-finance.html.

[22] 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-fundingthan-poorer-districts/?utm_term=.54a7f95dfead.

more per child than a typical poor school district (defined as the median of the 100 poorest school districts in PA). Between that fiscal year and 2017-18, that gap grew to $4,068.[23] This gap is growing even with steady increases in state funding for classroom education, signaling that much greater investment is needed to adequately address inequality in our schools.

The Fair Funding Formula and Racial Equity

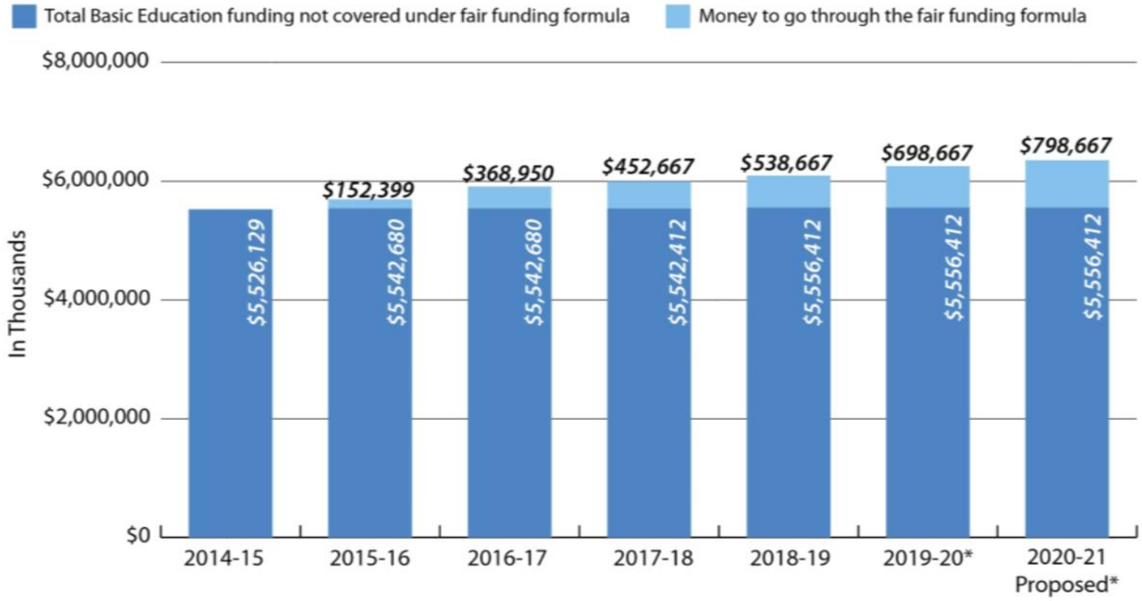
In an effort to try to address some of these inequities in school funding, Pennsylvania enacted the fair funding formula in June 2016. This formula requires all new basic education funding to run through a formula that takes into account each school district's distinct needs, including the number of students, the number of children living in poverty, the number of English-language learners, the overall wealth and income of the district, and the "tax effort" made by each district.

All new money added to the state's support of schools through basic education funding since 2015-2016 has been distributed through the fair funding formula. But even though it has been increasing each year, only a small portion of basic education funds are distributed through the formula. The rest is distributed in the way it was in 2014-2015 before the formula was adopted. In the governor's proposed 2020-2021 budget, about 12.6% of basic education funding would go through the fair funding formula.

[23] Mark Price. "In the Commonwealth Court of Pennsylvania, Docket No. 587 MD 2014, Declaration of Mark Andrew Price. Accessed at https://www.keystoneresearch.org/sites/default/files/KRC_Price_Declaration.pdf. Updated numbers for 2017-18 from Revenue data 2017-18 accessed at: https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Finances/AFR%20Data%20Summary/Pages/AFR-Data-Summary-Level.aspx#.VZvrX2XD-Uk. School district wealth is measured by STEB market value per student (ADM).

Figure 12

In the Governor's Proposed 2020-21 Budget, 12.6% of Basic Education Funding Will Go Through the Fair Funding Formula



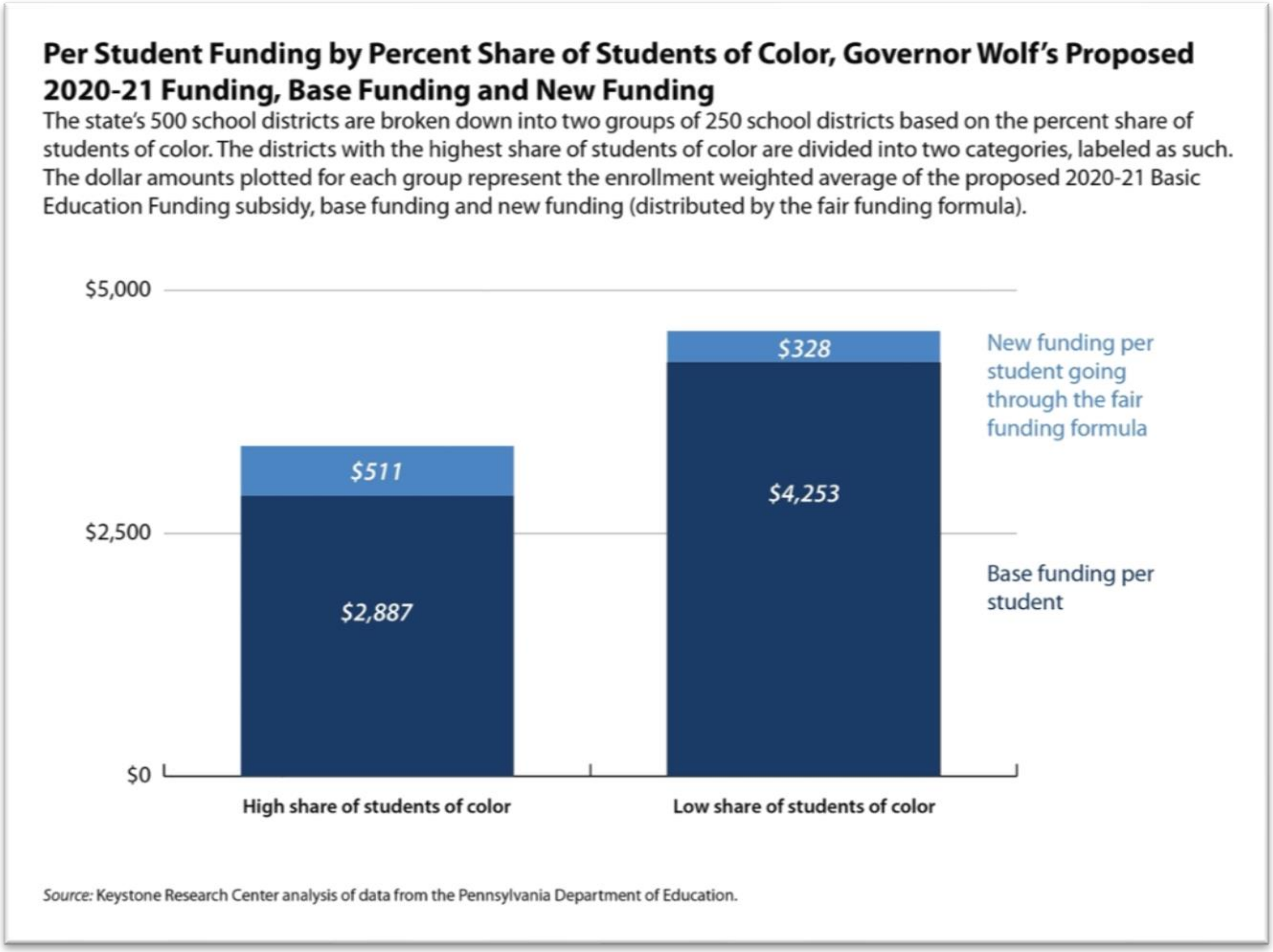
Note: The base amount (pre-formula money) has changed slightly in 2015-16 and 2017-18 due to changes in the base allocation for certain school districts. For more information, see the Pennsylvania Democratic House Appropriations Committee's report "Governor Wolf's 2019/20 Executive Budget." Also see p. 8 of http://www.pahouse.com/Files/Documents/Appropriations/series/3013/BEFC_BP_011018.pdf.
*In 2019-2020 and 2020-21, the General Assembly combined the Teacher Social Security line item with Basic Education funding, increasing the BEF. We have reduced the enacted BEF total by that amount in order to make year-to-year accurate comparisons in state support for K-12 classroom spending possible.
Source: : Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2020-21 Executive Budget (February 4, 2020) and data downloaded on basic education funding from: https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Education%20Budget/Pages/default.aspx

We can examine how the fair funding formula is working in practice by looking at its impact on racial equity in school funding. Racial equity "is the condition that would be achieved if one's racial identity no longer predicted, in a statistical sense, how one fares."[24] Figure 13 divides Pennsylvania's 500 school districts in half, separating those with the most students of color and those with the least.[25] It shows that schools with a higher share of students of color would receive, on average, $3,399 per student in state funding while schools with a lower share of students of color receive $4,581 per student, a difference of $1,182. Funding going through the fair funding formula (in orange) is more per student in schools with a higher percentage of students of color ($511 vs. $328). But this additional funding for schools with a higher share of students of color has not yet eliminated historical inequities.

[24] W.K. Kellogg Foundation. "Racial Equity Resource Guide Glossary." Accessed at: http://www.racialequityresourceguide.org/about/glossary.

[25] The schools with a higher percentage of students of color had an average nonwhite population of 30%. Those with a lower percentage of students of color averaged 5% nonwhite.

Figure 13



How Much Funding Is Needed to Reach Adequacy and Address Inequities?

The Public Interest Law Center has calculated an answer to this question based on an average of current school spending per student in districts that perform well weighted to take into account such factors as the share of students living in poverty and from families that speak a foreign language.[26] The Law Center estimates that the state would need an additional $3.8 billion in school funding to cover its share of bringing each school district to an adequate level.

Figure 14 below divides up Pennsylvania's 500 school districts into groups of 125 based on the share of people living in poverty, "1" being school districts with higher poverty and "4" being districts with lower poverty. The gap remaining to reach adequate funding is much greater for high than low poverty districts. High poverty school districts need an average of $3,748 in additional funding per student to provide an adequate education. The average low poverty school district need more money as well, but only $904 per student.

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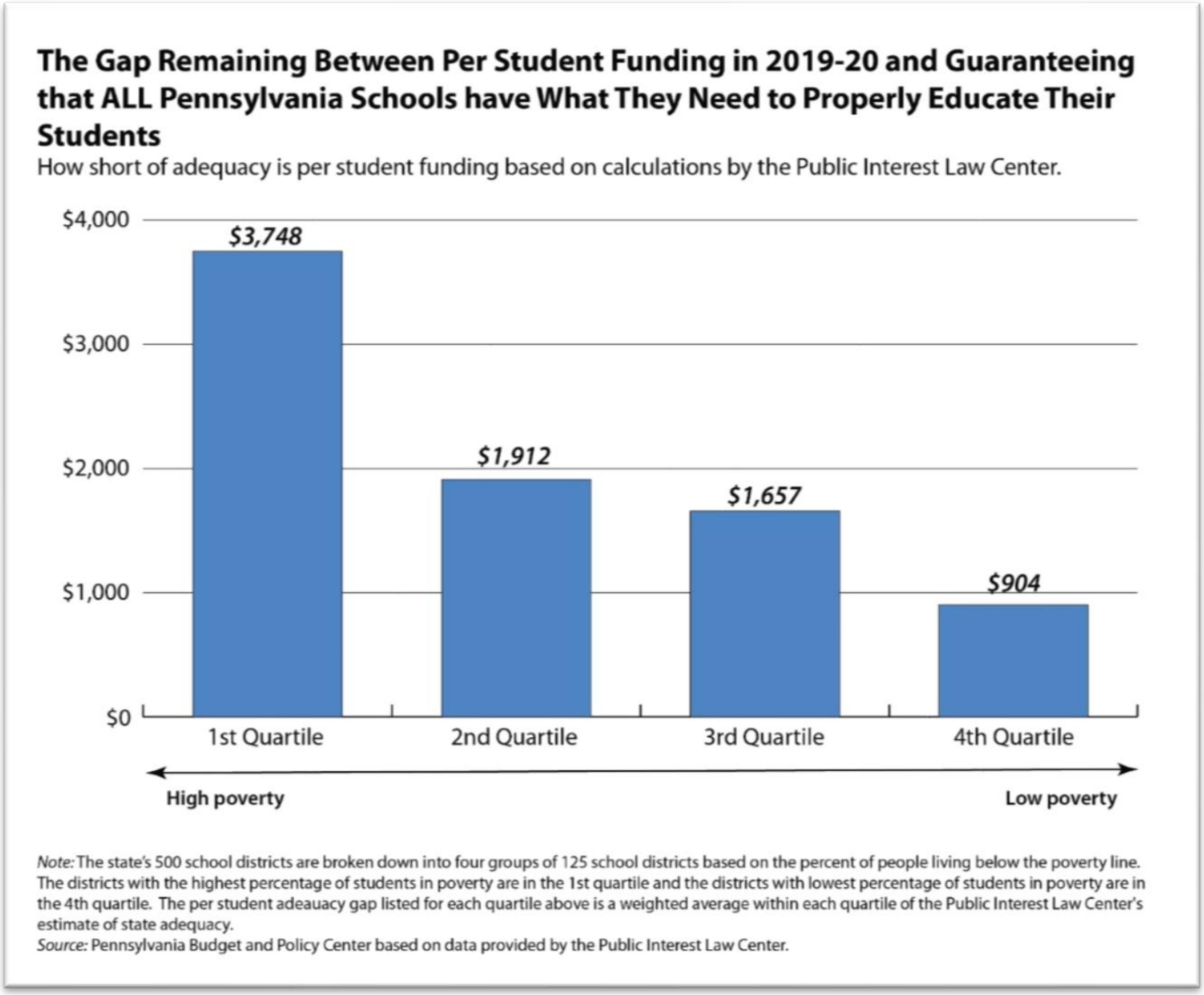
[26] For more information on the cost of adequate education funding in Pennsylvania, see the Public Interest Law Center's website at https://www.pubintlaw.org/cases-and-projects/the-cost-of-adequate-education-funding-an-updated-report/. For more information on the methodology for creating the State Adequacy Cost, see https://www.pubintlaw.org/cases-and-projects/befc-adequacy-calculation/.

Figure 14



Charter School Reform

Public charter schools in Pennsylvania were established in 1997. While some charters are fulfilling their mission to support innovation in partnership with public schools, others have problematic operational practices and poor outcomes for students. Charter school funding comes from local school districts which have to then educate the students remaining in traditional schools—and sustain the existing school infrastructure—with less money. Moreover, local school districts have only limited control over the creation and expansion of charter schools. Charter schools thus create an uncontrolled cost-driver for local school districts, worsening Pennsylvania's public school funding problems discussed above.

As part of his 2020-21 budget proposal, Governor Wolf calls for comprehensive charter school reform that addresses equities in how charter schools are reimbursed for providing special education and in how cyber-charter schools are reimbursed.

Special education costs in charter schools are calculated using an outdated model. They are currently paid a set rate for each student needing special education. One problem is that the per-district spending on special education is calculated on the assumption that 16% of the students at each school district are special education students. The correct number is 19.8%. Dividing total special education spending by a lower (and incorrect) number leads to a higher per-student cost that school districts have to pay charter schools. The second problem is even more serious. Some special education students need more services and others less. Because funding is not adjusted for the needs of special education students, charter schools have an incentive to enroll only students who require less support. As a result, charter schools are overpaid for the cost of educating students who require few services and are underpaid for students who require more extensive services.

The governor's proposal would use the four-tiered special education funding formula that school districts currently use to align charter school funding more closely with the needs of the special education students enrolled by each school. Using this formula is estimated to save school districts across the Commonwealth $147 million a year.

The number of cyber charter schools has grown tremendously in Pennsylvania in the past two decades. Conducting online education has significantly fewer costs than brick and mortar schools, yet they are funded by a per-pupil tuition rate that, depending on the average cost in a particular district, ranging from $7,700 to $21,400 per student annually. Governor Wolf proposes a statewide flat rate for cyber charter schools of $9,500 per student per year. This is a major reform, though it may still pay cyber charters more than they need. For comparison, intermediate units provide comparable online education with around $5,400 per student for the year. Reforms in reimbursing cyber charters would save school districts $133 million annually.

Lastly, the governor's charter school reform proposal would clarify the redirection process which exists to resolve disputes between a school district and charter schools on tuition payments, making the process fair, more transparent, and accountable.[27]

In total, these reforms would save school districts an estimated $280 million.

While we strongly support the governor's charter school reform proposal, we note that the proposed savings to K-12 schools of $280 million is the largest part of the new funding in his budget. If the General Assembly does not enact this proposal, K-12 schools will receive only $100 million in new funding from the state this year, far less than they need to keep up with rising costs, let alone to create adequate and equitable funding of K-12 education in the state.

Lead and Asbestos Clean-Up in Schools

One of Governor Wolf's major proposed investments in this budget cycle is a plan to reduce lead exposure in schools, housing, day care centers, etc. He proposes to do this in several ways, one of which we discuss here and the others we discuss later in the analysis.

The Redevelopment Assistance Capital Program (RACP) provides grants for improvement projects for regional recreational, economic, cultural, or historic purposes. The governor proposes to expand these projects through

[27] Commonwealth of Pennsylvania Office of the Governor. "Governor Tom Wolf: Executive Budget in Brief: 2020-21." February 4, 2020; and Education Voters of Pennsylvania. "What Governor Wolf's budget proposal means for your schools." February 5, 2020. Accessed at: http://educationvoterspa.org/blog/what-gov-wolfs-budget-proposal-means-for-your-schools/.

an additional $1 billion in the Capital Budget Itemization Act. This grant money would be available to schools for lead and asbestos remediation projects.[28]

Universal Kindergarten

The governor proposes to expand full-day, free kindergarten to all children in public and neighborhood charter elementary schools. Currently 82% of the 121,000 children in Pennsylvania who are enrolled in kindergarten go to full-day programs. Universal kindergarten would be available for the 22,000 kids that currently only attend half-day. Universal free, full-day kindergarten will have a positive impact on families who struggle to pay for childcare as well as on the long-term success of children. No state funding is available for this transition so the state is allowing school districts to apply for a hardship waiver if accompanied by a plan for how to build capacity moving forward.[29]

Increasing Minimum Teacher Salary

Last year, Governor Wolf proposed an increase in the minimum teacher salary, which is currently only $18,500 per year, or $8.90 per hour. The General Assembly rejected it. The governor again includes an increase for Pennsylvania's teachers, school nurses, and school counselors in the 2020-21 budget, calling for a minimum salary of $45,000 per year. This would help attract and retain quality teachers across the Commonwealth.

Special Education

School districts are mandated by state and federal law to cover the costs of special education for students who need it. There has been significant growth in the need for special education services, yet state funding has not kept pace with this growth, which puts school districts in more financial stress. Growth in the need for services is driven primarily by an increase in enrollment for special education services, which requires more special education teachers, support staff, transportation services, and outside placements, where school districts pay for private education for those students who they cannot adequately serve. An additional 356 teachers for special education were hired between 2017-18 and 2018-19. Special education costs are growing much faster than state funding for special education. This often results in school districts having to raise property taxes or eliminate other non-mandatory programs in order to meet the need for special education services.[30]

Governor Wolf proposes a $25 million increase, or 2.1%, for special education. Since taking office, Governor Wolf and the legislature have increased funding for special education by $165 million, or 15.8%. (See Figure 15 below.) Despite this investment, state funding is not keeping up with growing costs. As a result, the state share of special education funding has fallen from 32% in 2008-09 to just 23% in 2017-18.[31]

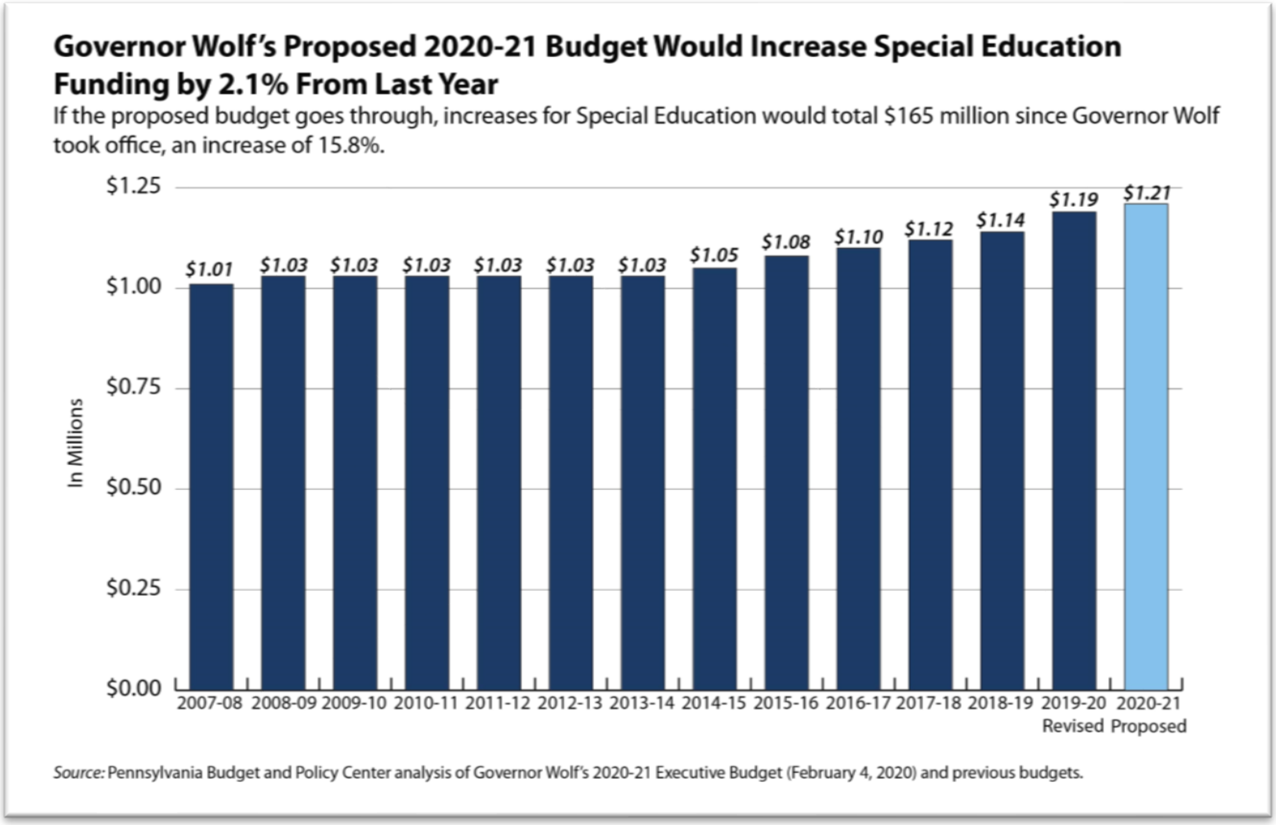
[28] Ibid, p. 20.

[29] Ibid, p. 9.

[30] PASBO-PASA. "PASBO-PASA School District Budget Report." January 2020. Accessed at: https://www.pasbo.org/files/Final%202020.pdf.

[31] HACD. "2020/21 Executive Budget Proposal: Budget Brief." February 4, 2020. Page 8.

Figure 15



Early Childhood Education

Governor Wolf has proposed significant investments in early childhood education funding since he took office, leading to a more than doubling of funding for pre-K. This has given an additional 13,627 children access to pre-K services. In the 2020-21 proposed budget, the governor recommends a $30 million increase, or 11%, from last year, which includes an additional $25 million for Pre-K Counts and $5 million for the Head Start Supplemental Program (Figure 16). This investment would open up an additional 3,267 slots for pre-K statewide.[32]

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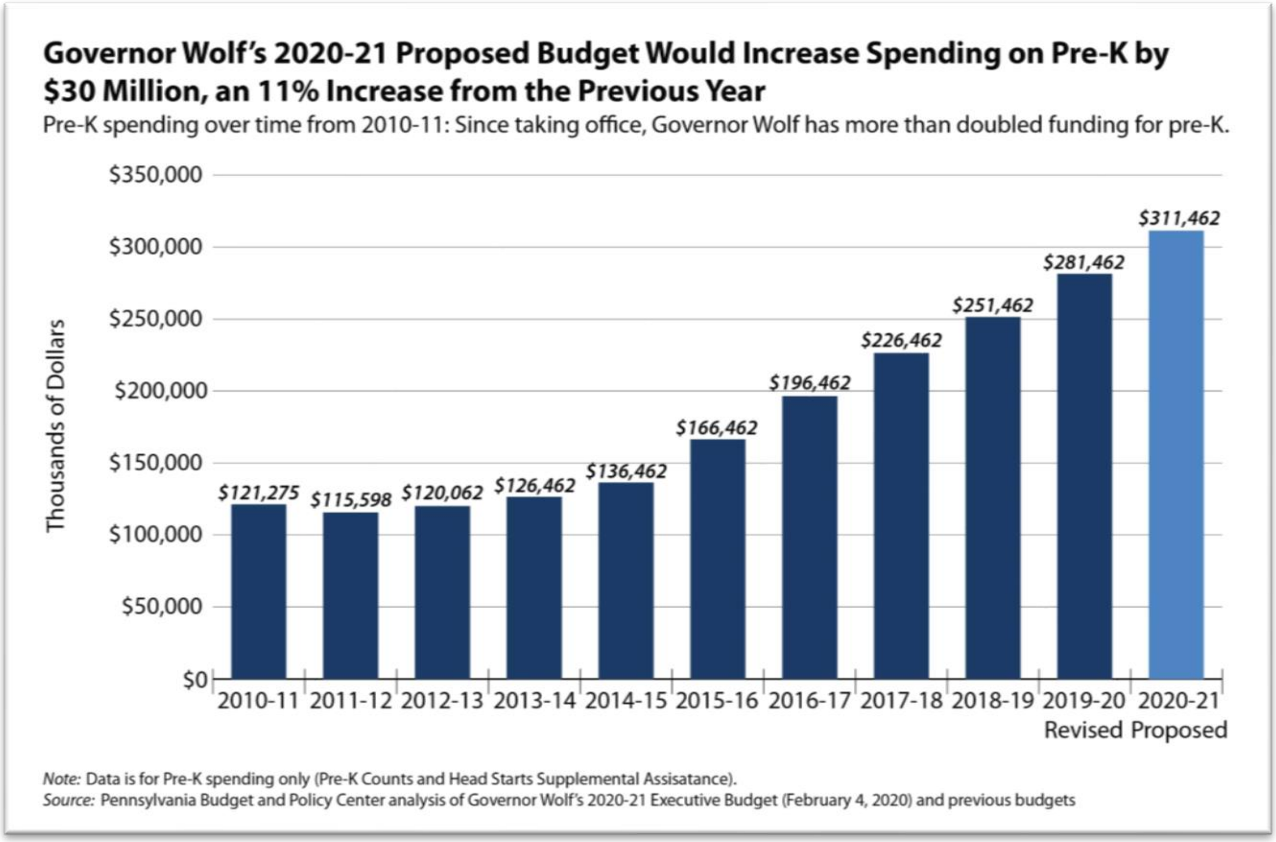
[32] Ibid, p. 9.

Figure 16



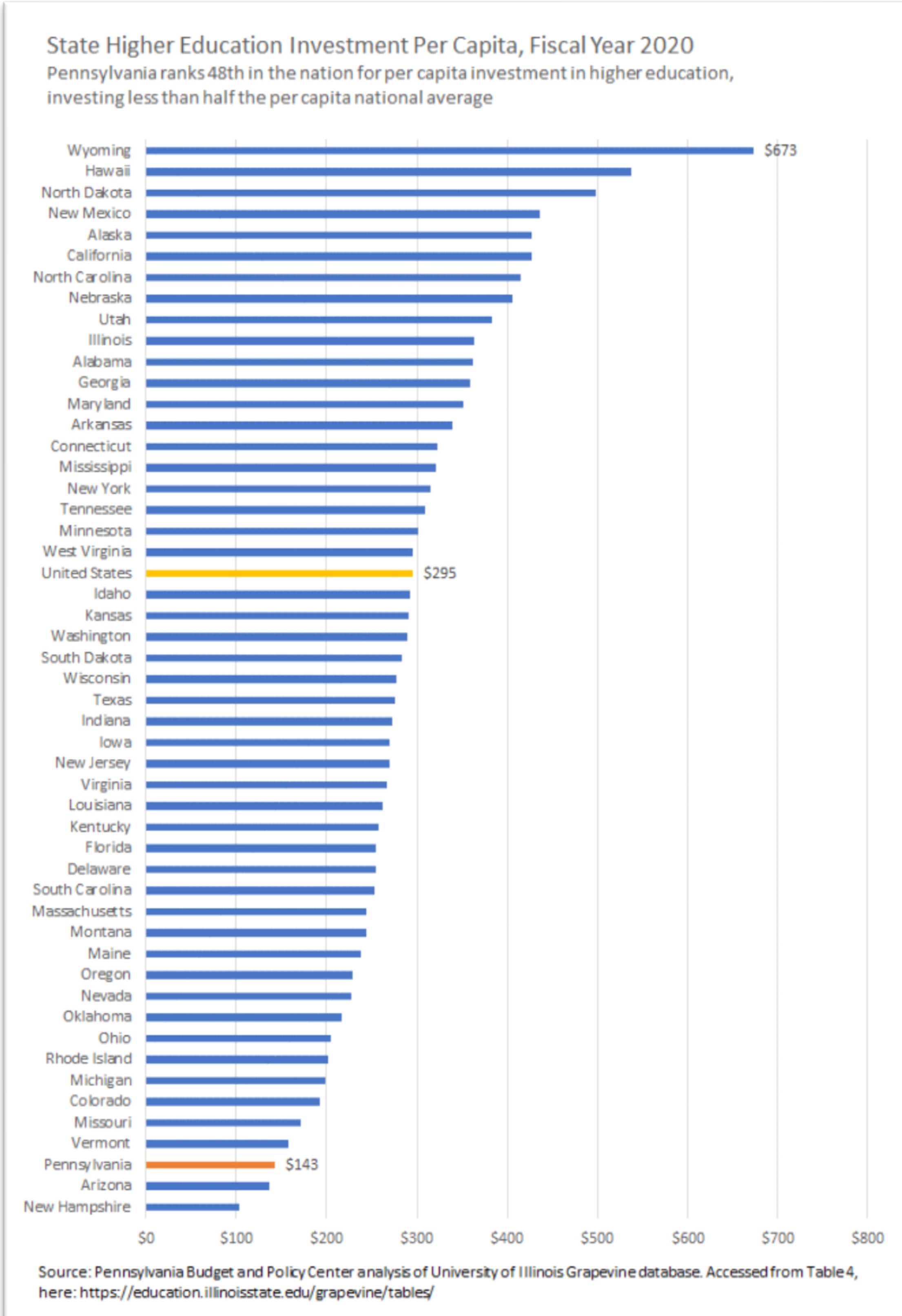
Higher Education

Higher education is one of the areas in which Pennsylvania has a substantial public investment deficit. The state now ranks 48th for per capita investment in higher education (Figure 17). As a result of this lack of investment, for in-state students in 2016-17, Pennsylvania ranked third highest for tuition and fees at public four-year colleges, fourth highest for total costs at public four-year colleges, and sixth highest for tuition and fees at two-year public colleges. Reflecting the lack of state investment, Pennsylvania ranks third to sixth highest for tuition and fees and for total costs (including room and board) at public four-year and two-year colleges.[33] The average debt among college students, $37,061, ranks second in the nation.[34]

[33] Table 330.20 online at https://nces.ed.gov/programs/digest/d17/tables/dt17_330.20.asp

[34] https://ticas.org/interactive-map/; these Figures are for graduates finishing in 2017-18.

Figure 17



State Higher Education Investment Per Capita, Fiscal Year 2020
Pennsylvania ranks 48th in the nation for per capita investment in higher education, investing less than half the per capita national average
Wyoming
Hawaii
North Dakota
New Mexico
Alaska
California
North Carolina
Nebraska
Utah
Illinois
Alabama
Georgia
Maryland
Arkansas
Connecticut
Mississippi
New York
Tennessee
Minnesota
West Virginia
United States
Idaho
Kansas
Washington
South Dakota
Wisconsin
Texas
Indiana
Iowa
New Jersey
Virginia
Louisiana
Kentucky
Florida
Delaware
South Carolina
Massachusetts
Montana
Maine
Oregon
Nevada
Oklahoma
Ohio
Rhode Island
Michigan
Colorado
Missouri
Vermont
Pennsylvania
Arizona
New Hampshire
$673
$295
$143
$0
$100
$200
$300
$400
$500
$600
$700
$800
Source: Pennsylvania Budget and Policy Center analysis of University of Illinois Grapevine database. Accessed from Table 4, here: https://education.illinoisstate.edu/grapevine/tables/

Lack of access to affordable college contributes to Pennsylvania's rank of 40th among states for the share of adults ages 25-64 with an education beyond a high school degree.[35] In more than half of Pennsylvania counties (35), most of them rural, the share of adults with more than a high school degree is lower than in any of the 50 states. These rural counties face a double whammy of high cost and lack of access:

- About half of Pennsylvania's 47 rural counties do not have ANY access to a community college, not even a branch campus.
- Most of the other rural counties do have a branch campus, but students still pay high tuition because their county or school district does not sponsor the college. [36]
- Low educational attainment correlates with poor economic outcomes for regions and for individuals.[37]
- For regions, each one-year increase in average education within U.S. metropolitan areas correlates with a 17% to 18% increase in GDP per capita.
- For individuals, wages are higher for those with more educational attainment and unemployment rates much lower.[38]

Increasingly, unaffordable college has gone along with an alarming erosion of higher education's historic role as an engine of intergenerational mobility. College attendance is increasingly restricted to more affluent families. Even Pennsylvania public colleges increasingly cater to the rich, the opposite of their historic role in helping students from the working class into the middle class.[39]

[35] The rest of this paragraph is based on Eugene Henninger-Voss and Stephen Herzenberg, "Pennsylvania Higher Education at a Crossroads," Keystone Research Center and Pennsylvania Budget and Policy Center, August 18, 2017, Figure 7 and pages 10-11; https://www.krc-pbpc.org/research_publication/pennsylvania-higher-education-at-a-crossroads-to-boost-opportunity-and-growth-pennsylvania-needs-to-invest-in-higher-education-2/.

[36] In theory, in Pennsylvania, funding for community college tuition is supposed to be one-third state funding, one-third local sponsor funding, and one-third student tuition (although the state and sponsoring localities sometimes fall short of their third). In counties which do not provide any funds to a community college that establishes a branch campus—i.e., do not "sponsor" that college—students ordinarily must cover the missing local funding as well as the students' own shares—hence the phrase "double" tuition.

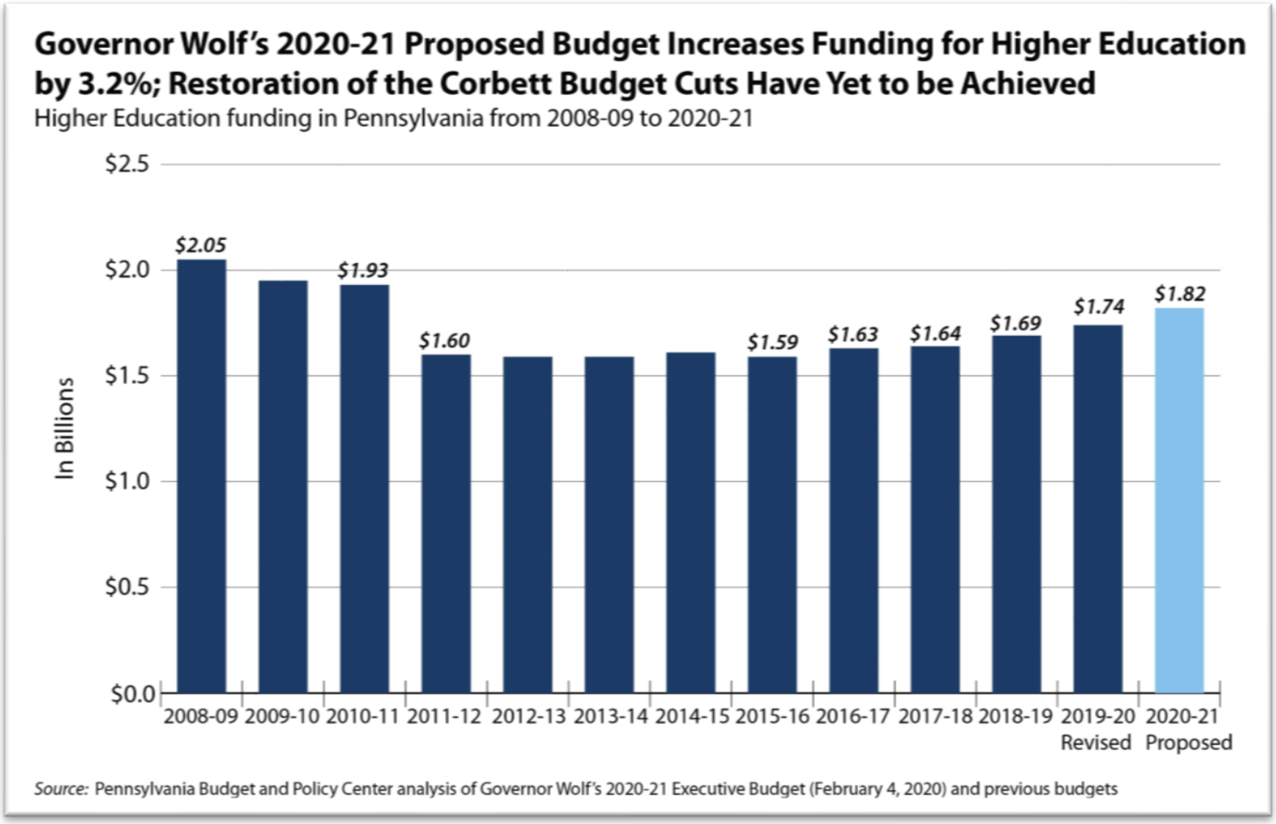
[37] Stephen Herzenberg, Mark Price, and Michael Wood, "A Must Have for Education, Part Two: Investment in Higher Education for Growth and Opportunity," Keystone Research Center and Pennsylvania Budget and Policy Center, October 2014, pp. 3-6; https://www.krc-pbpc.org/research_publication/a-must-have-for-pennsylvania-part-2-investment-in-higher-education-for-growth-and-opportunity/.

[38] For data on wages by education level, see Stephen Herzenberg and Mark Price, "The State of Working Pennsylvania 2016," Keystone Research Center, September 1, 2016, especially pages 5-9.

[39] The ratio of students from top 40% families to bottom 60% families for students attending state system schools climbed from 1.44 to 1 for the 1980 birth cohort (starting college around 1999) to 1.86 to 1 for the 1991 birth cohort (starting college around 2010). For elite colleges, the ratio for the 1991 cohort was 5.25 to 1, roughly eight times the ratio if college students were drawn equally based on population from each fifth of the income distribution. See Mark Price, "Pennsylvania's Great Working Class Colleges," Keystone Research Center and Pennsylvania Budget and Policy Center, April 2017; https://www.krc-pbpc.org/research_publication/pennsylvanias-great-working-class-colleges-4/.

Governor Wolf has been addressing this public investment deficit in higher education through small increases in funding since his first year in office. This year he proposes an increase in spending of $8 million or 3.2% (Figure 18). However, these new funds would still leave higher education funding below that of fiscal year 2010-2011, before the drastic Corbett cut in higher education spending.

Figure 18



Recognizing the negative consequences of Pennsylvania's higher education investment deficit and rural higher education deserts, the Pennsylvania Budget and Policy Center and Keystone Research Center in January 2017 proposed "The Pennsylvania Promise" to make public college tuition free. This proposal has been introduced as legislation in the last two legislative sessions.

Governor Wolf's 2020-21 budget proposes a major increase in higher education spending that moves in a similar direction. His Nellie Bly Tuition Program for Pennsylvania State System of Higher Education (PASSHE) students would repurpose $204 million from the Pennsylvania Race Horse Development Trust Fund to provide financial assistance to students who qualify for federal subsidized student loans and attend one of the PASSHE schools full-time. Students who benefit from the program must stay in Pennsylvania for the same number of years for which they receive the benefit. As with the PA Promise proposal (and many other state programs that aim to make college tuition-free), state assistance under the Nellie Bly program would kick in after students access available federal support. It would help fill the gap between existing financial aid and the full cost of tuition, fees, room, board, books, and other costs. The scholarship would convert to a loan if the student moves out of the commonwealth during the commitment period and can be deferred while the student pursues further education. This proposal will help reach the state's credential attainment goal (et by the State Board of Education of 60 percent of working-age Pennsylvanians having a postsecondary degree or credential by 2025.

To complement Nellie Bly scholarships, the Governor proposes also to increase by $30 million state grants through Pennsylvania Higher Education Assistance Agency (PHEAA) for Pennsylvania college students. With a $30 million PHEAA match, the total increase would be $60 million. In 2019, recipients of Pennsylvania State Grants through PHEAA graduated with an average student debt load of $28,000, below the $37,061 average for all students. Expanding grants for income-eligible students, including for room and board, makes sense because even for those who can attend tuition free, living expenses can limit access to college. The governor's proposal will allow PHEAA to increase the maximum state grant award.

As the legislature and the governor negotiate regarding his higher education proposal, we recommend several modifications:

- *Allow part-time or full-time community college students to qualify for Nellie Bly scholarships, consistent with the PA Promise model.* One rationale for this is fairness: community college students tend to have lower incomes than students in the state system. Access for part-time students would also open the program to working adults. A second rationale is that this would make the program more responsive to the short-term skill needs of business. A third rationale is that this would leverage more federal funds and a higher ratio of federal-to-state funds. Each dollar of state funds that supports community college students would likely draw down a higher ratio of federal dollars than state dollars going to PASSHE students because, first, a higher share of community college students likely access Pell grants; and second, Pell grants cover a higher share (sometimes 100%) of the cost of attending community college than state system schools. Another way to make the case for expanding eligibility to community college students is that this would allow Pennsylvania to draw down more of the $256 million in Pell grants we currently leave on the table. At present, Pennsylvania students attending public colleges draw down only $451 million compared to the $706 million amount that equals federal Pell grant dollars times Pennsylvania's share of the U.S. population between the ages of 19 and 34. Figure 19).[40]
- *Ensure that Nellie Bly scholarships (and other state assistance for students to attend college) are open to students of all immigration statuses.* While undocumented immigrants are not currently eligible for most federal financial aid for college (including Pell grants), Pennsylvania should ensure that they are eligible for its college affordability programs. The state of Maryland enacted a bill last year which provides model language. Penn State enacted a policy in January 2020 to make in-state students with all immigration statuses eligible for in-state tuition. These policies are a matter of basic fairness for "dreamers" brought to the United States by their parents before age 18 and are here for four or more years. The policies are also a good investment. With Pennsylvania's aging population, immigrants are an increasingly important part of the workforce and critical to avoiding a rapid decline in the state's

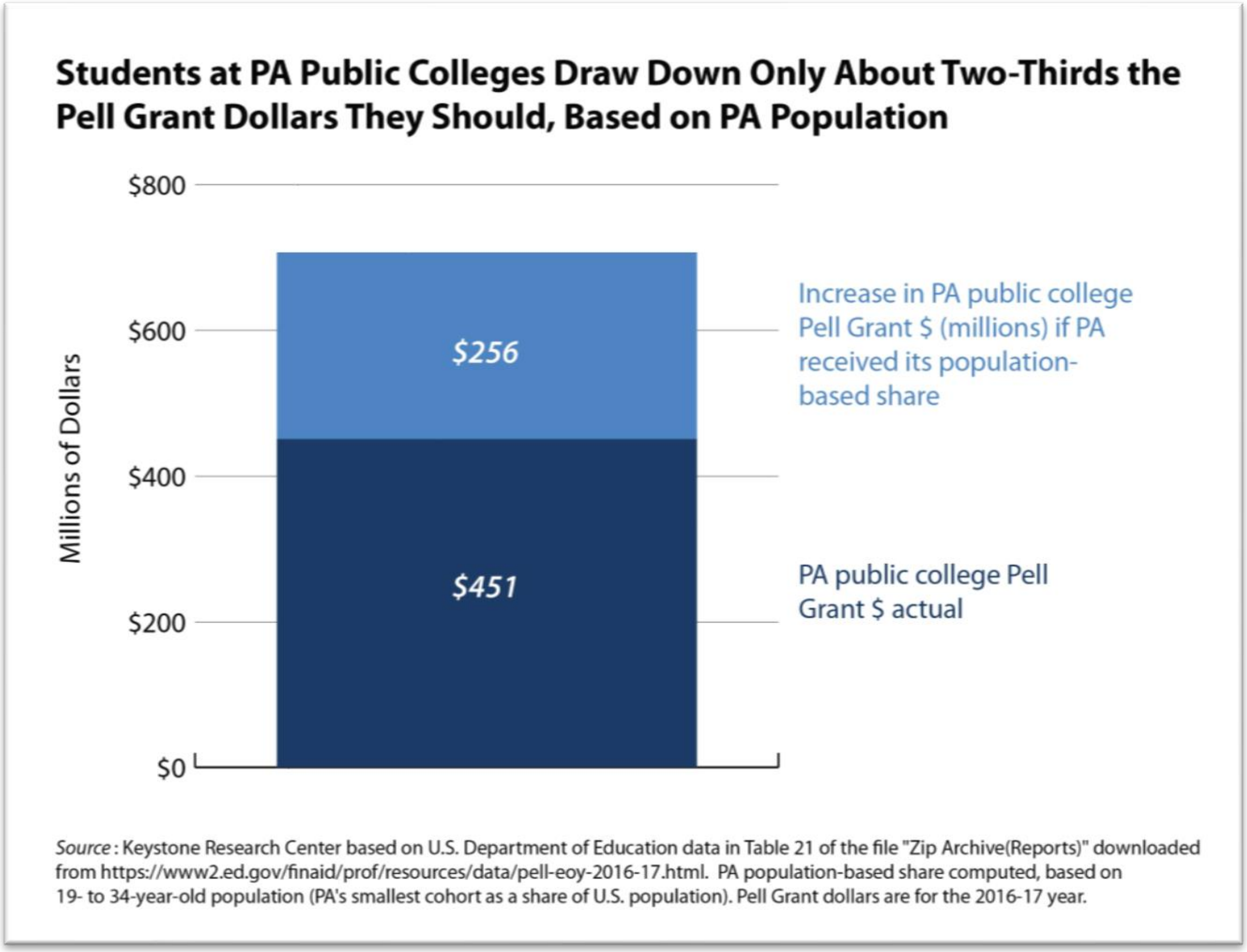
[40] You would expect Pennsylvania students at public colleges to access federal grant dollars less than students in other states, on average, for two reasons. All public colleges in Pennsylvania are more expensive than the national average, discouraging college attendance. Second, community college attendance—and drawdown of Pell grant dollars—is especially low in rural areas where there is no community college or only expensive (double tuition) community colleges. The Nellie Bly scholarship program addresses Pennsylvania students' low drawdown of Pell grants for PASSHE attendees but not those at community colleges.

population. Ensuring that young immigrants have the skills needed for the jobs of tomorrow will be vital to Pennsylvania's economic growth over the next several decades.

- *Allocate program development funds to create new Pell-eligible programs at community college sponsoring tuition rates in Pennsylvania's higher education deserts.* In some areas of the state, it's not enough to offer students free tuition: there are few or no programs nearby that qualify for federal Pell grants. This could be addressed by providing program development funds to create additional Pell-eligible programs in counties that have few or none.[41] Priority for receiving such funds should go to entities and proposals that commit to develop programs that lead to industry recognized credentials in shortage occupations that pay well. Additional program development funds could be awarded on a competitive basis to high-quality apprenticeship programs that agree to establish programming in higher education deserts in the state.
- *Enact an industry partnership tax credit, and establish industry partnership high performance standards, to strengthen industry-driven intermediaries that provide a connection to employers.* Such a program will increase (a) the quality and alignment with industry needs of postsecondary courses that also lead to industry recognized credentials, (b) the integration of work-based learning with classroom learning, and (c) the pathways from Pell-eligible postsecondary programs to good-paying jobs that also plug skill gaps for employers.
- *Integrate PASSHE system redesign with the development of a new Pennsylvania Higher Education Master Plan.* The governor's budget proposal also requests $12.9 million to support the PASSHE system redesign, now in its third year. It will include building out a shared IT infrastructure that will put systems in place for PASSHE universities to communicate and collaborate more efficiently and effectively serve students. Communication and collaboration make sense within PASSHE, but also between PASSHE and community colleges and with the high school programs that prepare students for college and career success. The gradual build-out of a statewide community college infrastructure to make Nellie Bly scholarships available to all parts of Pennsylvania should set the stage for the next State Master Plan for Higher Education—and the first since 2005—to provide an operational vision of an integrated public postsecondary education system that includes two-year and four-year colleges plus feeder programs from public high schools.

[41] In some counties, an existing community college that has a branch campus, or a state system school, could be provided with funds; in Cameron, Crawford, Elk, Forest, McKean, Potter, Venango, and Warren, the Northern Pennsylvania Regional College could be designated. In areas without a community college where local partnerships have advocated and advanced proposals for a local community, those partnerships could be designated or provide input (e.g., in Erie, which has a proposal to launch a community college before the state Board of Education; or in Montour, Northumberland, Union, and Snyder Counties, where the Susquehanna Valley Community Education project has been active for a dozen or more years.). In counties where no existing entity is the obvious choice, the state could use a competitive process. When allocating program development funds, the state could also require grantees to develop plans to establish a locally sponsored community college within five years.

Figure 19



A Pennsylvania Higher Education Leapfrog. One of the areas in which Pennsylvania's public investment deficit is most obvious is in higher education. Our skills development infrastructure is inadequate for employers. And our low rate of educational attainment—show by state's rural educational deserts, higher than average tuition rates, and low usage of federal Pell grants—are bad for businesses, for residents and the future of the state.

There is bipartisan support for addressing this situation. This budget proposal builds on Democratic Governor Wolf's long record of championing investments in education. And Republican state Senate president pro tempore Joe Scarnati has supported the Northern Pennsylvania Regional College for a decade. There is thus potential for a major step forward in higher education.

And that major step could put Pennsylvania far ahead. The silver lining of our underinvestment in higher education and the large geographic hole in our community college infrastructure, is that the state can design partly from scratch an education system for the 21st century from grades 11 to 16 and beyond—and in the process, leapfrog better-funded systems designed decades ago.

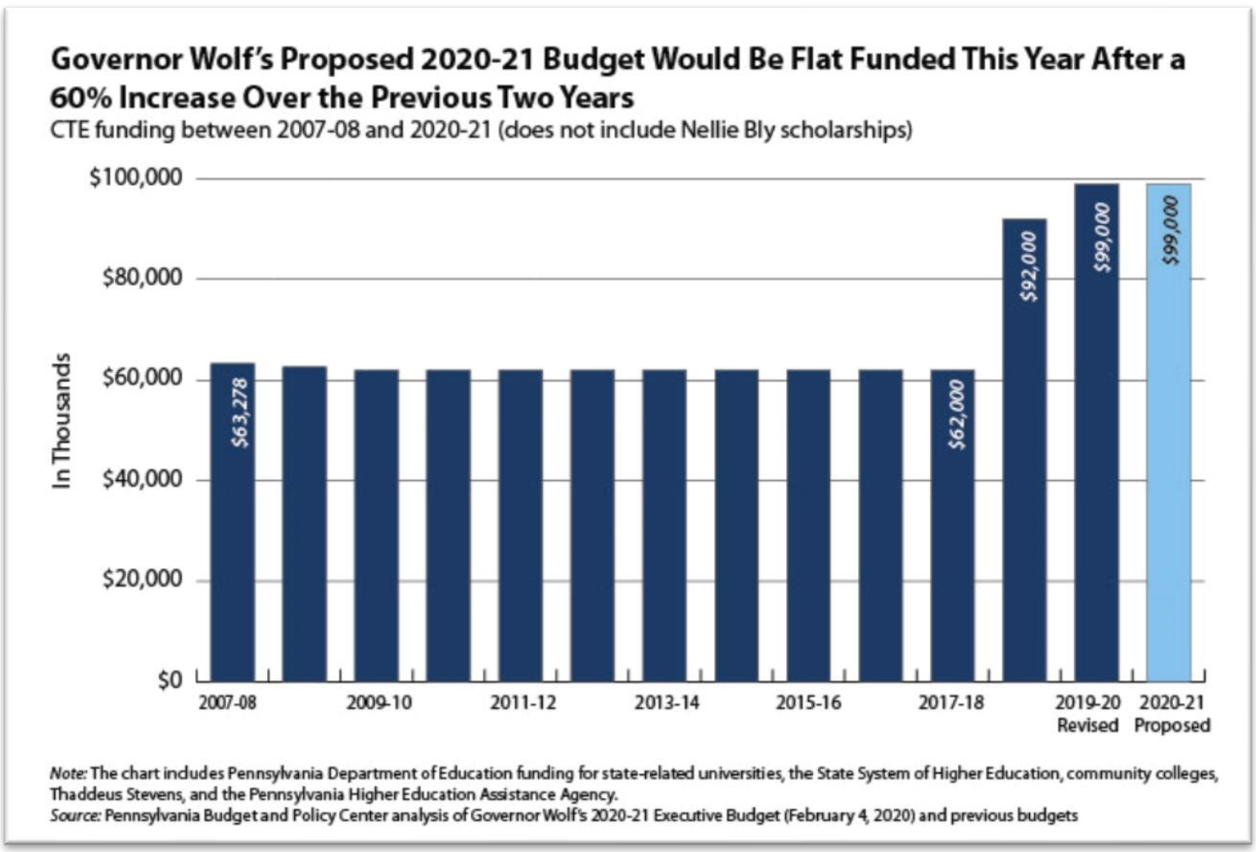
Many pieces needed for such a leapfrog are in place, from the decentralized delivery system of the NPRC adapted for low population density, to the governor's STEM education, CTE, pre-apprenticeship, apprenticeship, Next Gen Industry Partnership, and teacher-in-the-workplace initiatives, to PASSHE's system redesign.

For rural places in Pennsylvania, such a higher education "leapfrog" could not only expand college access to its rural students but also tip the balance from a vicious circle of disinvestment and population loss to a virtuous circle of reinvestment and renewal. In sum, the legislature should implement Nellie Bly and the Governor's other higher education proposals as a vital and self-conscious step towards a model 21 century integrated Pennsylvania system of grade 11-16 education for college, career, and life.

Workforce Development and Workforce Support/Advancement

Workforce development has been a priority of Governor Wolf's throughout his administration. After a number of years in which the governor has substantially increased funding for workforce development, it is flat funded this year (Figure 20).

Figure 20



While total spending is flat, the governor's budget proposal shifts funds from some programs to others. It includes an additional $2 million for the Workforce and Economic Development Network of Pennsylvania

(WEDnetPA) (p. A1-13), which provides incumbent workforce training to individual companies. But $2 million less is provided for Industry Partnerships (p. E31-9), a cut from $4.813 to $2.813 million. Industry Partnerships help identify and address the common training and other workforce needs of groups of companies in sectors that have overlapping skill requirements. We think the shift of funds from IPs to WEDnet is ill-advised and at odds with the governor's focus on the need for better coordination between education and training and the economy. Industry partnerships provide that missing coordination whereas WEDnetPA serves companies one at a time.

The governor has also included new funding in other parts of the budget that will build on the workforce development efforts in previous years.

Informed by the deliberations and final report of the public-private Keystone Economic Development and Workforce Command Center, the governor proposed a new $12 million competitive grant program within the Department of Community and Economic Development (DCED). This grant program would address five barriers to employment: transportation, child care, training, licensure, and re-entry from institutional settings. Funding priority will go to best practices that are scalable and can be replicated regionally or statewide. Businesses, education and workforce partners, community-based and non-profit organizations, institutions of higher education, child care providers, and transit organizations would be eligible to receive funds.

The context for the work and recommendations of the Command Center was a tight labor market and the opportunity that provides to bring additional groups of workers into paid employment—whether from low-income communities with expanded transportation and child care options or from the re-entry population. COVID-19 changes the economic and labor market climate in which a new DCED grant program would go into effect and may warrant some re-evaluation of funding priorities. For example, in a downsizing economy, grants that help transition workers from companies laying off to companies that are still short of workers might make sense—especially in sectors like manufacturing which is struggling to find "middle skill" workers. Similarly, programs to promote work sharing at manufacturing companies could ensure that workers with scarce skills are not lost to individual companies or to the industry and are available when the sector recovers. These examples illustrate a broader point: it may make sense to allow flexibility in the competitive grant program for entities to submit proposals that respond specifically to the challenges of an economy reeling because of COVID-19.

In an area where the Wolf administration has been a national leader, the governor's budget maintains $7 million for apprenticeship training (p. E31-9). The basic design of apprenticeship deeply integrates work-based and classroom learning. In addition, one of the fastest growing categories of apprenticeship program is "group apprenticeship" in which apprentices employed at multiple companies come together for classroom training that is coordinated across companies.

One priority for the last 30 months of Governor Wolf's second term could be to more fully institutionalize multi-firm group apprenticeships and industry partnerships that can help overcome two fundamental challenges the governor has sought to address. One is the fragmented nature of many workforce programs and agencies, and the difficulty of getting multiple programs to pursue an overall objective in a coordinated way. The fact that too many government programs operate in their own silos has preoccupied Governor Wolf since before he became governor (and was highlighted in his 2014 Fresh Start campaign plan). The second challenge is the aforementioned lack of coordination between education and training and the economy. At its core this second challenge is an institutional one—one that contributes to the persistence of the five barriers highlighted by the Command Center report. The solution to that institutional challenge, which could create a private sector counterweight to fragmented workforce development silos, is entities like group apprenticeships and industry partnerships.

In this year's budget, the governor again calls for the end of employment discrimination against LGBTQ individuals.[42] Pennsylvania is the only northeastern state without a law protecting individuals from this discrimination.[43]

Economic Development

Over the past two decades, the Keystone Research Center has consistently advocated that Pennsylvania economic development shift resources away from subsidies to recruit companies to the state and invest instead in "growing our own" businesses—those already in Pennsylvania—and in industry initiatives that help multiple companies become more productive.[44] Too often, company-specific subsidies are, or appear to be, corporate welfare—with no clear benefit to the Commonwealth. By contrast, smart investments in industry-university innovation partnerships, sectoral training consortia or technical assistance to startups and other small manufacturers pass a public good test: communities and workers benefit, as well as the companies.

The Wolf administration's proposed budget continues a gradual shift towards focusing our limited state economic development dollars on industry initiatives and on growing our own businesses, including by creating an innovation eco-system that supports new companies at every stage. This shift may have been encouraged by a 2019 Brookings Institution report.[45] The report credits Pennsylvania with being a leader in economic development in the past—e.g. when the Ben Franklin Technology Partnership (BFTP) launched around 1980 to help with "tech transfer," the movement of ideas from the university into job-creating businesses; or when Pennsylvania's Industrial Resource Centers (IRCs) pioneered the nation's "manufacturing extension partnerships" which, like agricultural extension agents, provide technical assistance so that small businesses can adopt modern methods. Brookings, however, suggested that Pennsylvania has not been an economic development innovator recently.[46]

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[42] Commonwealth of Pennsylvania Office of the Governor. "Governor Tom Wolf Executive Budget 2020-2021." Harrisburg, February 4, 2020.

[43] Office of Governor Tom Wolf. "Governor Wolf Calls for Vote on Stalled LGBT Non-Discrimination Protections." October 23, 2017. Accessed at: https://www.governor.pa.gov/newsroom/governor-wolf-calls-vote-stalled-lgbt-non-discrimination-protections/.

[44] See, for example, Marina Cristina Herrera, Stephen Herzenberg, and Michael Wood, "Good Jobs, Strong Industries, a Better Pennsylvania: Towards a 21st-Century State Economic Development Policy," Keystone Research Center, March 2010; https://www.keystoneresearch.org/sites/default/files/KRC2010report_0.pdf.

[45] Robert Maxim and Mark Muro, "Ideas for Pennsylvania Innovation: Examining efforts by competitor states and national leaders," August 2019; https://www.brookings.edu/research/ideas-for-pennsylvania-innovation-examining-efforts-by-competitor-states-and-national-leaders/.

[46] KRC made a similar point in a joint memo authored with the Pennsylvania Economy League (PEL) in 2008. See KRC and PEL State Office, "Policy Scope on Pennsylvania Economic Development Policy and Practice," November 2008. See also Stephen Herzenberg and John McAuliff, "All Pennsylvanians Prospering Together: A Pennsylvania Economic Development

The governor's proposed budget allocates $29 million to the Manufacturing PA program a $17 million increase compared to 2019-20.

- The increase would support $2.5 million in competitive grants to Industrial Resource Centers (IRCs) to partner with higher education to deliver innovative services to new and existing companies in areas such as talent pipeline, robotics utilization, 3-D printing, and advanced manufacturing techniques.
- The PREP Network, Small Business Development Centers, Local Development Districts, and Industrial Development Organizations will receive a $2.5 million increase, to be awarded competitively among the partners, requiring regions to be creative and innovative in their applications for service and to partner with institutions of higher education. This will drive greater impacts to accelerator participation, entrepreneurial internships, decreased student outmigration, and business incubation.
- The successful Invent Penn State will receive an additional $2.35 million. The program was launched in 2015, blending entrepreneurship-focused academic programs with business startup training and incubation. The program funds university, community, and industry collaborations, training, and commercialization to turn research into products and services that benefit Pennsylvanians. This coordinated effort spans the university's 24 campuses, all academic colleges, including the College of Medicine and Penn State Law. Entrepreneurs enjoy free access to accelerator programs, working space, mentorship, prototyping, and funding.
- Gov. Wolf also proposes $5 million, a 34.5 percent increase, to the Ben Franklin Technology Partnership to provide financing and technical assistance to startup companies. A new $2.35 million "Invent Penn State" appropriation would support university, community and industry partnerships that focus on turning research into actual products and services.

The governor's budget frees up funding for Manufacturing PA through a $13.3 million decrease in funding for the "Marketing to Attract Tourism" a prescient shift given the clamp down on traveling because of COVID-19. When the economy picks up again, DCED can tap "off-budget" funds from the Tourism Promotion Restricted Fund, established under Act 109 of 2018, for marketing.

The governor also proposes a $20 million decrease in the PA First appropriation, a program often used in the past for subsidies to individual companies. $12 million of this is a real cut; $8 million for the WEDNet program, customized training for individual companies that was discussed in the workforce development section, is a shift from the PA First line to a separate WEDnet appropriation.

The governor's DCED budget also includes two other new allocations. Governor Wolf proposes investing $5 million into a new State Facility Closure Transition Program to provide grants and loans to local municipalities impacted by the permanent closure of a state-operated or owned facility. Helping communities hit by job loss rebound could become a more important function for DCED over the next year, one for which the federal government may provide more resources. The governor's budget proposal also transfers $5.3 million to the Pennsylvania Economic Development Financing Authority (PEDFA) or debt service on voting machine reimbursement bonds issued under authority granted in Act 77 of 2019.

Strategy for the Long Term," February 27, 2015; https://www.krc-pbpc.org/research_publication/all-pennsylvanians-prospering-together-app-a-pennsylvania-economic-development-strategy-for-the-long-term/.

Apart from the changes above, most of the governor's $157.7 million DCED budget maintains last year's funding with some small, "cost-to-carry" funding increases. This level of funding is about one quarter of DCED's $611 million in state funding in 2007-08. This stunning reduction partly reflects the shrinkage in the "community development" function of DCED as well as reliance on tax credits more than on-budget state grants to assist communities. This reduction may also exaggerate the reduction in DCED's resources because special funds that don't appear within the department's General Fund allocation.

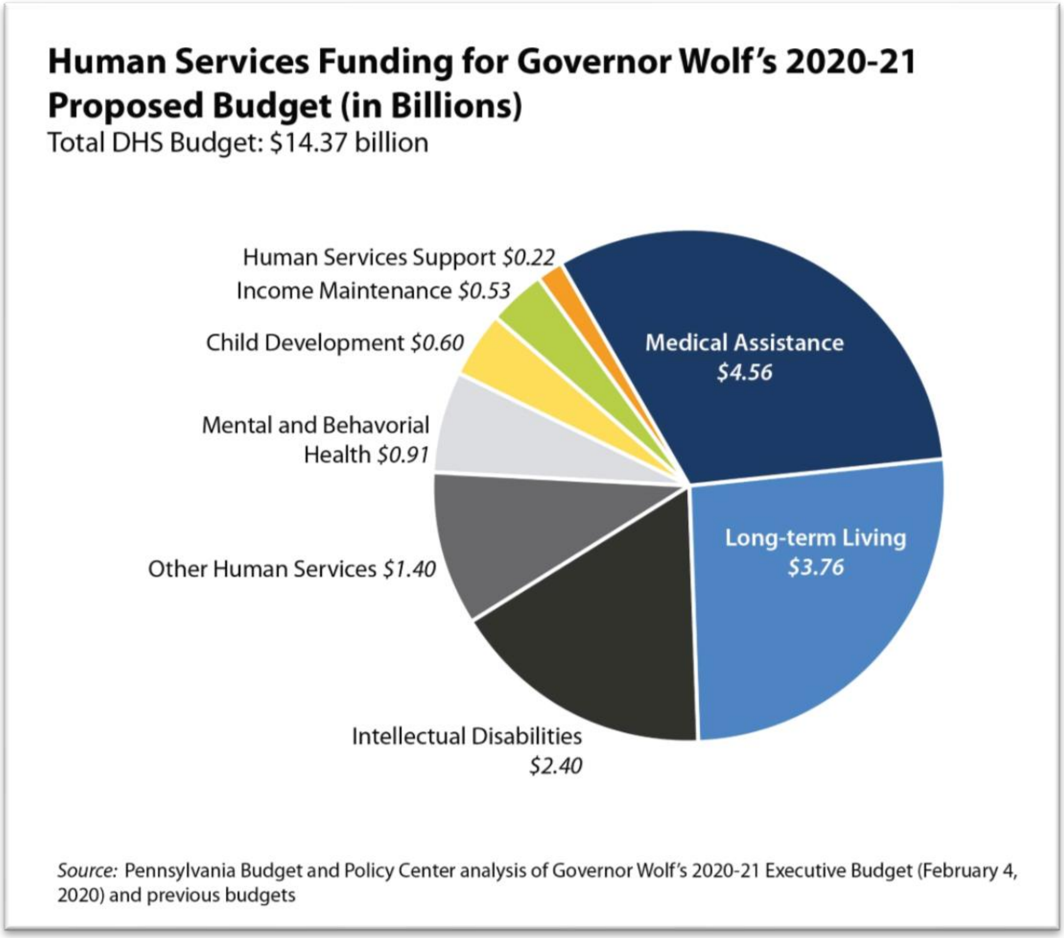
Manufacturing is critical to the health and prosperity of Pennsylvania's economy. Likewise, Industrial Resource Centers (IRCs) are critical to the small- and medium-sized manufacturers that make up more than 92 percent of the commonwealth's manufacturing base. The IRC network represents seven private, nonprofit IRCs located across the commonwealth that help manufacturers respond to changing markets, new technology, and remain competitive. The IRC network will receive a $2.5 million increase, to be awarded competitively among IRCs that propose partnerships with institutions of higher education and deliver innovative services to new and existing companies in areas such as talent pipeline, robotics utilization, 3-D printing, and advanced manufacturing techniques.

Human Services

The Department of Human Services (DHS) requested $493 million in supplemental funds to be used during fiscal year 2019-20 budget, primarily because Medical Assistance and Community HealthChoices was underfunded.

In 2020-21, $14.37 billion in funding for DHS makes up nearly 40% of the proposed General Fund budget. As Figure 21 shows below, more than half (58%) of DHS spending goes toward Medical Assistance and long-term living (which are part of the national Medicaid program). The next largest piece of the DHS pie is funding for intellectual disabilities (17%).

Figure 21



Governor Wolf's proposal would increase the DHS state budget by 9%, or $1.17 billion. (See Table 3 below.) The most significant growth from last year is Medical Assistance funding which increases by 17.4% from 2019-20. Other drivers related to DHS's increased budget include replacing non-recurring costs and revenue shifting from last year, which adds up to $742 million.[47]

[47] This includes $347 million of shifted prior year costs, including some managed care costs, to 2020-21; $200 million in funding due to a one-time transfer from the PA Professional Liability Joint Underwriting Association (JUA), which will not recur this year; $178.5 million in prior year funds no longer available this year; and $16.5 million due to a reduction in other funds, including funds from the tobacco settlement. Source: HACD. "2020/21 Executive Budget Proposal: Budget Brief." February 4, 2020, p. 12.

Table 3

Human Services State Funding for 2014-15, 2019-20 and 2020-21 budgets, in thousands					
	2014-15	2019-20 Revised	2020-21 Governor's Proposed	Change from 2019-20 to 2020-21	Percent change between 2019-20 and 2020-21
Medical Assistance and Long-Term Living					
Medical Assistance	$ 5,148,554	$ 3,979,779	$ 4,672,098	$ 692,319	17.4%
Long Term Living	$ 1,454,131	$ 3,623,787	$ 3,757,245	$ 133,458	3.7%
Other Human Services					
Human Services Support*	$ 151,354	$ 194,840	$ 215,512	$ 20,672	10.6%
Income Maintenance	$ 565,371	$ 475,793	$ 531,281	$ 55,488	11.7%
Mental and Behavioral Health	$ 774,701	$ 860,318	$ 905,558	$ 45,240	5.3%
Intellectual Disabilities	$ 1,529,359	$ 2,181,290	$ 2,398,425	$ 217,135	10.0%
Other Human Services**	$ 1,204,942	$ 1,405,802	$ 1,399,355	$ (6,447)	-0.5%
Child Development***	$ 451,510	$ 475,574	$ 491,000	$ 15,426	3.2%
Human Services Total	$ 11,279,922	$ 13,197,183	$ 14,370,474	$ 1,173,291	8.9%

* Human services support includes general government operations and information systems.
** Other Human services includes line items such as County Child Welfare, Domestic Violence services and homeless services.
***Child Development includes Family Centers, Child Care Assistance, Child Care Services, Nurse Family Partnership and Early Intervention.
Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2020-21 Executive Budget (February 4, 2020) and previous budgets.

Despite Governor Wolf's focus on protecting Pennsylvania's most vulnerable, he does not propose to bring back General Assistance or support the new Emergency Relief program being proposed by some legislators.

Medical Assistance

In this year's budget, the proposed state increases for Medicaid and CHIP can be partially attributed to the planned reduction in the federal Medicaid matching rate for both Medicaid expenditures and CHIP, which accounts for $240 million of the proposed increase to DHS. The Federal Medical Assistance Program (FMAP) matching rate for the Medicaid Expansion population decreased from 93% to 90% on January 1, 2020, as outlined by the Affordable Care Act. The FMAP for regular Medicaid and CHIP will be reduced from 52.25% to 52.20% on October 1, 2020. The governor's budget includes $166 million to account for this loss in federal funds for FMAP, $55 million for a federal reduction in CHIP FMAP, and $19 million for standard FMAP.[48] Other cost increases are due to increased costs and utilization for Medicaid and CHIP.

Community HealthChoices

Community HealthChoices is a managed care program for individuals in the state that are eligible for both Medicare and Medicaid, as well as those with physical disabilities and who are older and require long-term services. The program has been implemented in Pennsylvania in three phases: phase 1 focused on southwestern PA; phase 2 focused on southeastern PA; and phase 3 includes the rest of the state. Phase 3 started January 1, 2020, which brought in 145,000 more people to the program, now serving 360,000 people.

Cost Savings as a Result of a Minimum Wage Increase

Governor Wolf's proposal to raise the minimum wage to $12 per hour immediately with $.50 yearly increases until the wage reaches $15 per hour by 2026 would create cost savings for the Department of Human Services.

[48] HACD. "2020/21 Executive Budget Proposal: Budget Brief." February 4, 2020, p. 13.

Medicaid costs would decline by an estimated $20.5 million—when the minimum wage reaches $15 per hour, more than 93,000 individuals would leave Medicaid.[49] Also included in the budget are cost increases for human service providers who currently pay less than $12 per hour, which will currently cost the state a net of $10.7 million.[50] These costs will more than be offset by increases in personal income tax and sales tax (estimated to bring in $133.3 million in 2020-21).[51]

Medicaid Managed Care Assessment Renewal

Funding for the Medicaid program in the governor's budget presumes that Managed Care Organization (MCO) assessment will be reauthorized by June 30, 2020, in a Human Services Code bill. The MCO assessment generates revenue of roughly $1.7 billion that is necessary to fund the state's Medicaid program.

Child Care

The governor's 2020-21 budget proposes an increase of $15.3 million in federal funds for Child Care Works provider rates. Child Care Works is a program that allows children in families currently or formerly receiving TANF and other low-income families to access child care while working or attending training. The cost of child care continues to increase, yet payment rates for subsidized child care has not kept pace, making it difficult for centers to continue to provide child care services. This federal funding can help to stabilize the business environment for child care facilities so kids in families with low incomes can continue to get access to quality care.

Governor Wolf also proposes to restructure co-payment calculations in the Child Care Works Program so it is more gradual and equitable. Families will more gradually assume a greater share of the payment as they approach the income limit of the Child Care Program.[52]

Allowing TANF Recipients to Earn More Before Losing the Benefit

The governor proposes using 23.4 million federal dollars to fund a work expense deduction that allows TANF recipients to earn more before they lose benefits. TANF family size allowances, or the amount a family is eligible to receive in cash assistance before losing TANF, have not been changed since 1990. For example, a two-person family in many counties is eligible to receive a TANF cash monthly grant of only $316; a family of 4, $497.[53] To be eligible, one's income must be below the value of the grant. Because the family size allowances haven't changed since 1990, the value of the grant has decreased significantly over time due to inflation and it takes fewer hours worked to lose TANF eligibility even if an individual is working at minimum wage. The 2020-21 budget will use this federal funding for the expansion of a work expense deduction, likely increasing it from $50 to $200. This

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[49] Governor Tom Wolf's office. "Gov. Wolf Proposes Minimum Wage Increase for Sixth Time." January 28, 2020. Accessed at: https://www.governor.pa.gov/newsroom/gov-wolf-proposes-minimum-wage-increase-for-sixth-time/.

[50] These increases in provider rates by program are: $3.5 million for CHIP, $25.6 million for Community Health Choices, $2.1 million for county child welfare, $90,000 child care assistance, totaling $32.1 million.

[51] Commonwealth of Pennsylvania Office of the Governor. "Governor Tom Wolf Executive Budget 2020-2021." Harrisburg, February 4, 2020.; HACD. "2020/21 Executive Budget Proposal: Budget Brief." February 4, 2020.

[52] Commonwealth of Pennsylvania Office of the Governor. "Governor Tom Wolf: Executive Budget in Brief: 2020-21." February 4, 2020.

[53] To see what the family size allowances are by county, see here: http://services.dpw.state.pa.us/oimpolicymanuals/cash/168_Determining_Eligibility_and_Payment_Amount/168_Appendix_B.htm.

change would allow individuals to stay on TANF longer as they earn more income, which would reduce disincentives to work.

Employment and Training Program Redesign

The governor proposes to dedicate $14.8 million in Federal TANF funds to redesign the department's employment and training program for TANF and SNAP recipients. The redesign is meant to provide more individualized services that better prepare participants for jobs and improve the job retention rate.

Intellectual Disabilities–State Centers

Governor Wolf has proposed closing two state centers—Polk in the western part of the state in Venango County and White Haven in the east. He proposes spending $8.2 million to begin transitioning residents to community care.

Services for Individuals with Intellectual Disabilities and Autism

Governor Wolf proposes significant investments in the 2020-21 budget for programs supporting individuals with an intellectual disability and/or autism. The $15 million new investment would go towards moving 732 people from the emergency waitlist into the Community Living Waiver[54] and 100 individuals into the Consolidated Waiver, including 40 children with complex needs. Funds will also go towards providing individuals who face unanticipated emergencies and those transitioning from state hospitals or private care facilities with community services. As Graph X below shows, the governor has proposed an increase of 10% in funding for intellectual disabilities from last year. Since 2014-15, funding for intellectual disabilities increased by 57%. An additional $4 million is also proposed for counties to provide community support for individuals with intellectual disabilities and/or autism. The funding will be used to ensure independent incident investigations as well as better risk management.[55]

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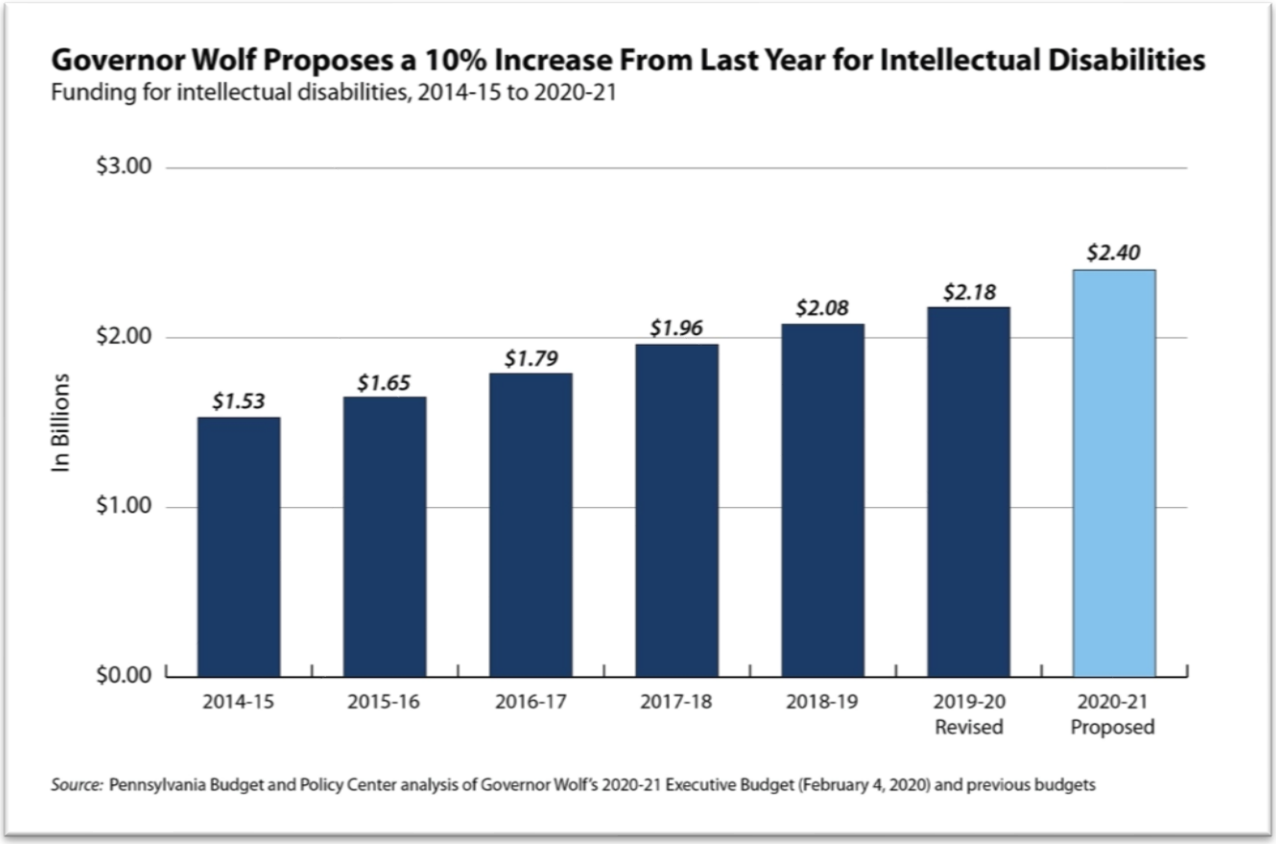
[54] The Community Living Waiver and Consolidated Waiver supports individuals with an intellectual disability, autism or developmental disability to live more independently in their homes and communities. Source: https://www.dhs.pa.gov/Services/Disabilities-Aging/Pages/Community-Living-Waiver.aspx and https://www.dhs.pa.gov/Services/Disabilities-Aging/Pages/Consolidated-Waiver.aspx

[55] Ibid.

Figure 22



Early Intervention

Early Intervention is a program that provides services to young children with developmental delays or disabilities. These funding streams are housed in two different places—funding for children ages zero to three are in the Department of Human Services budget and funding for children ages three to five are in the Education budget. Early Intervention has been shown to have tremendous impacts on a child's life moving forward, and the earlier services begin, the better. Investment in Early Intervention for children age 0-3 has increased by 50% ($64 million) since Governor Wolf began his tenure, resulting in a 30% increase in children receiving these services. This year the governor proposes to proposes an increase of $2.5 million for county administrative staff that supports the program, as the number of children who benefit from it has increased. For early intervention services for three- to five-year-olds, the governor proposes an increase of $11 million which would serve an additional 2,000 children.[56]

Mental Health Services

Mental Health and Substance Abuse Services are funded through several appropriations. The Mental Health Services appropriation, $848.4 million in state money, funds the six state mental hospitals and the South Mountain Restoration Center, as well as county community mental health services and the community hospital integration projects. As Table 3 shows, mental health services funding will increase by $45 million: $20.5 million

[56] Ibid.

goes towards replacing prior year federal funds; much of the rest continues the current program. There is a $1.25 million increase to transition 20 individuals from state hospitals to community care.[57]

The Medical Assistance Capitation Appropriation funds mental health treatment and substance use disorder treatment in both hospitals and communities for Medicaid-eligible individuals. This appropriation increases by $102.9 million to cover an increase in the per capita rate for service and an increase in the managed care organization assessment fee.

The Behavioral Health Services appropriation, which funds mental health and substance disorder services for individuals not eligible for Medical Assistance, is flat-funded at $57.1 million. The services help these individuals avoid costly inpatient services.

Increasing Administrative Supports for Programs Serving Vulnerable Populations

The governor proposes an $8.1 million initiative, $5.0 million in state funds and the rest in federal funds, to improve central office staffing support for programs operated by the Office of Mental Health and Substance Abuse Services (OMHSAS), the Office of Children, Youth and Families (OCYF), and the Office of Long Term Living (OLTL). Fourteen new program representatives and one program executive would be funded in OMHSAS to meet licensing requirements and improve county oversight. The OCYF would get 39 staff all together: 12 for Childline; 18 to support licensing, data collection and quality improvement; and 9 for fiscal management. The OLTL would get 22 additional licensing staff, and the Office of Administration would get 3 new staff to support the initiative.

Other Human Services Investments

Governor Wolf has proposed a number of new investments that aim to support vulnerable populations in Pennsylvania.

- $1.4 million for the Ventilator Dependent Grant Program. The governor proposes an adjustment to the eligibility criteria, including the list of supplies that will be reimbursable, which will be a help to nursing homes and those depending on these services.
- $3 million for Planned Parenthood towards increasing access to reproductive health services.
- $1 million towards providing low-income people (those under 125% of the federal poverty line) with legal assistance, including emergency protective services for victims of abuse.
- $2.4 million to expand home visiting programs and to replace decreasing federal funds.
- $1.2 million for the training of direct care workers who work with seniors and those with a physical disability living in the community. This is both a strategy to increase and support the direct care workforce as more workers are needed as well as an effort to ensure quality care will be provided to individuals, especially in consumer-directed services.[58]

[57] Commonwealth of Pennsylvania Office of the Governor. “Governor Tom Wolf Executive Budget 2020-2021.” Harrisburg, February 4, 2020. P. E27-28.

[58] HACD. “2020/21 Executive Budget Proposal: Budget Brief.” February 4, 2020; Commonwealth of Pennsylvania Office of the Governor. “Governor Tom Wolf Executive Budget 2020-2021.” Harrisburg, February 4, 2020.

Reducing Lead Exposure Across the Commonwealth
Governor Wolf's budget includes proposals to address lead exposure across Pennsylvania. One is for cleaning up lead and asbestos in schools through RACP, which we discussed above.

Pennsylvania is also working on a Health Services Initiative (HSI), called the Lead Exposure Reduction Program, with the Centers for Medicare and Medicaid Services that focuses on reducing lead exposure and poisoning in children. The program has three strategies: accessible testing, lead abatement activities, and outreach and education. State monies would be required this year, with a guaranteed federal match. With $4 million in state investment, $10 million in federal monies could be leveraged per year.

A federal legislative change recently has allowed states to transfer 5% of their federal grant dollars awarded for our clean water state revolving fund to its drinking water state revolving fund in order to address problems of lead in drinking water. Pennsylvania plans to take advantage of this, through PENNVEST, that will provide grants for the replacement of lead service lines. In 2020, PENNVEST will identify communities and potential projects and funding will start in 2021 for awardees. For this transfer to happen, that state must coordinate with EPA to get their support. This change could result in $90 million being available for grants to address lead in drinking water statewide.

Additionally, the governor proposes to convene grant recipients, awarded in September of 2019, who are conducting lead remediation projects in housing for low-income families in order to facilitate shared learning and collaboration.

Pennsylvania has also applied for a Lead Testing in School and Child Care Program Drinking Water grant for $1.7 million that would go towards the development and implementation of a lead testing program in schools and child care centers across the Commonwealth. It will include testing of 3,000 facilities and will target underserved and low-income communities and older facilities that are more likely to have lead pipes. Pennsylvania hopes to get this funding—awardees will be notified soon.[59]

Environmental Protection and Conservation and Natural Resources (DCNR)

The Department of Environmental Protection's (DEP) mission is to "protect Pennsylvania's air, land and water from pollution and to provide for the health and safety of its citizens through a cleaner environment."[60] The Department of Conservation and Natural Resources (DCNR) was established in 1995 and its mission is to "conserve and sustain Pennsylvania's natural resources for present and future generations use and enjoyment."[61]

[59] Office of Governor Tom Wolf. "Gov. Wolf Announces Billion-Dollar Plan to Fix Toxic Schools, Address Lead Across Pennsylvania." January 29, 2020. Accessed at: https://www.governor.pa.gov/newsroom/gov-wolf-announces-billion-dollar-plan-to-fix-toxic-schools-address-lead-across-pennsylvania/.
[60] Commonwealth of Pennsylvania Office of the Governor. "Governor Tom Wolf Executive Budget 2020-2021." Harrisburg, February 4, 2020, p. E18-1.
[61] Pennsylvania Department of Conservation and Natural Resources (DCNR) website. Accessed at: https://www.dcnr.pa.gov/about/Pages/default.aspx.

Protecting the air we breathe, the water we drink, and the natural world around us is critical for our and future generations' health and well-being. Our constitutional right to clean air and water is outlined in Article 1, Section 27 of the Pennsylvania Constitution which states:

"The people have a right to clean air, pure water, and to the preservation of the natural, scenic, historic and esthetic values of the environment. Pennsylvania's public natural resources are the common property of all the people, including generations yet to come. As trustee of these resources, the Commonwealth shall conserve and maintain them for the benefit of all the people."[62]

Despite these constitutionally protected rights, many communities across the Commonwealth face poor air quality and drinking water, as well as other environmental problems. General Fund support for the DEP and DCNR has been cut over time. Over the last two decades, the Department of Environmental Protection has been decimated. According to state Representative Greg Vitali, the department has experienced a 30% reduction in staff since 2002, losing over 900 positions.[63] This makes the critical work the DEP is charged to do—protecting our air and water, regulating oil and gas development, cleaning up hazardous waste sites, protecting the Chesapeake Bay and our rivers and streams—very difficult. General Fund support for DEP is now $30.5 million below where it was in 1994-95. Had DEP funds kept up with inflation and were funded at the same level as 1994-95, funding would be $286 million.[64]

Governor Wolf's budget proposal includes funding for increased DEP and DCNR staff. This includes $1 million to hire 10 additional staff members to implement Phase 3 of the state's Chesapeake Bay Watershed Implementation Plan (DEP). The Department's Bureau of Air Quality (part of DEP) would receive $1.5 million to hire 15 more staff to monitor air quality. The Department of Conservation and Natural Resources (DCNR) would receive additional funding of $2.5 million to hire 25 new park and forest ranger positions.[65]

The governor also proposes to stabilize the Hazardous Sites Cleanup Fund (HSCF). This fund provides the money for clean-up and restoration of hazardous waste sites in Pennsylvania, but the fund is projected to be financially insolvent by the end of 2020. The Capital Stock and Franchise Tax was the main funding source for this fund, but it was eliminated several years ago.[66] Governor Wolf proposes a $1 per ton increase to the tipping fee for municipal waste landfill deposits, estimated to bring in approximately $22.6 million, for this fund.[67]

Governor Wolf's budget calls for legislation to correct several problems related to pipeline safety. Pipeline operators currently are not required to: provide any information to child care centers or schools located near a

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[62] The Widener School of Law's Environmental and Natural Resources Law Clinic. "A Citizen's Guide to Article 1, 27 of the Pennsylvania Constitution." Accessed at http://blogs.law.widener.edu/envirolawcenter/files/2010/03/PA_Citizens_Guide_to_Art_I_Sect_27.pdf.

[63] Rep. Greg Vitali. "Gov. Wolf's 2020-21 budget should address environmental protection." PennLive, January 24, 2020. Accessed at: https://www.pennlive.com/opinion/2020/01/gov-wolfs-2020-21-budget-should-address-environmental-protection-opinion.html.

[64] David E. Hess. "Budget Background: Where Did the $2.93 Billion in Environmental Funding the General Assembly Diverted or Cut Go?" PA Environment Digest. Accessed at: http://www.paenvironmentdigest.com/newsletter/default.asp?NewsletterArticleID=49038.

[65] HACD. "2020/21 Executive Budget Proposal: Budget Brief." February 4, 2020.

[66] Ibid.

[67] Commonwealth of Pennsylvania Office of the Governor. "Governor Tom Wolf: Executive Budget in Brief: 2020-21." February 4, 2020.

pipeline; inform municipalities or residents that a pipeline project is about to begin; share critical safety information with county emergency officials; have safety valves in case of a potential leak; etc.[68]

In November of 2019, the Office of the Budget announced the transfer of $45 million to DEP and DCNR from non-environmental special funds, including the Baking Fund, the Volunteer Companies Loan Fund, the Machinery and Equipment Loan Fund, the Persian Gulf Veterans Compensation Bond Fund, and the Insurance Regulation and Oversight Fund.[69] Of these supplemental funds, $36.6 million are being used for this year's General Fund increase. They replace transfers from special environmental funds to pay for administrative expenses for these departments that were proposed by Governor Wolf last year and enacted by the General Assembly for the 2019-20 budget. DCNR will also use some of these supplemental funds to decrease reliance on the Oil and Gas Fund to pay for DCNR operating costs.[70]

The governor will also discontinue using the Environmental Stewardship Fund (ESF), which provides important funds for protection of our environment, to pay off debt service on the Growing Greener Fund.

While the above moves are positive, they still are inadequate to address the pressing environmental problems facing our state, especially considering looming and accelerating climate change.

One example of this underinvestment is as follows. The United States Environmental Protection Agency (EPA) found Pennsylvania has fallen 25% short of reaching the nitrogen reduction goals in the federally mandated Chesapeake Bay cleanup plan. Meeting this goal will take a total investment of $1.9 billion and Pennsylvania has no plan to meet the goals of the plan. This is one example of the ongoing problem Pennsylvania faces in terms of not coming up with new, recurring sources of revenue in order to meet the needs of the Commonwealth. Maryland's governor has told his attorney general to sue Pennsylvania because of our failure to reach our pollution clean-up goals for the Chesapeake.[71] Pennsylvania currently faces an annual gap of $320 million to meet its obligations of cleaning up Pennsylvania's rivers and streams.[72]

As Figure 23 below shows, General Fund spending on DEP is proposed to increase by 27% from last year. But, it's important to keep in mind that while the graph below shows a large increase in general funds for DEP, this is only part of the story.

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[68] Commonwealth of Pennsylvania Office of the Governor. "Governor Tom Wolf Executive Budget 2020-2021." Harrisburg, February 4, 2020. P. A1-17 and A1-18.

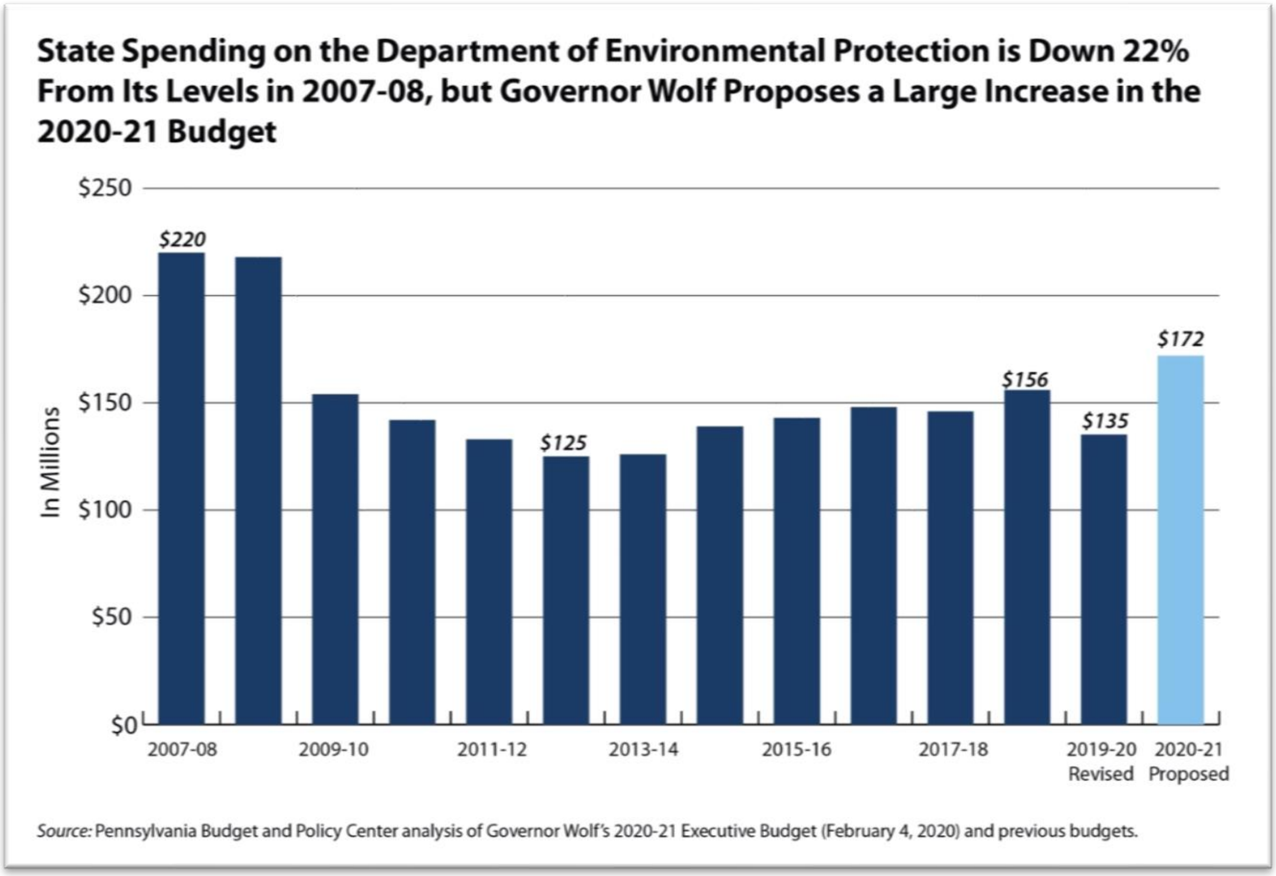
[69] David E. Hess. "Governor's Office Announces Transfer of $45 Million to Augment DEP, DCNR Budgets – Not New Money." PA Environmental Digest. Accessed at: http://www.paenvironmentdigest.com/newsletter/default.asp?NewsletterArticleID=48292&SubjectID=195. These transfers replaced

[70] We objected to these transfers and are gratified that the Wolf administration changed direction. For details see David E. Hess. "Gov. Wolf's Budget Proposal Repairs Damage To Environmental Funding Done Last Year; Proposes Additional Funding for FY 2020-21." PA Environment Digest Blog. February 4, 2020. Accessed at: https://paenvironmentdaily.blogspot.com/2020/02/gov-wolfs-budget-proposal-repairs.html.

[71] Rep. Greg Vitali. "Gov. Wolf's 2020-21 budget should address environmental protection." PennLive, January 24, 2020. Accessed at: https://www.pennlive.com/opinion/2020/01/gov-wolfs-2020-21-budget-should-address-environmental-protection-opinion.html.

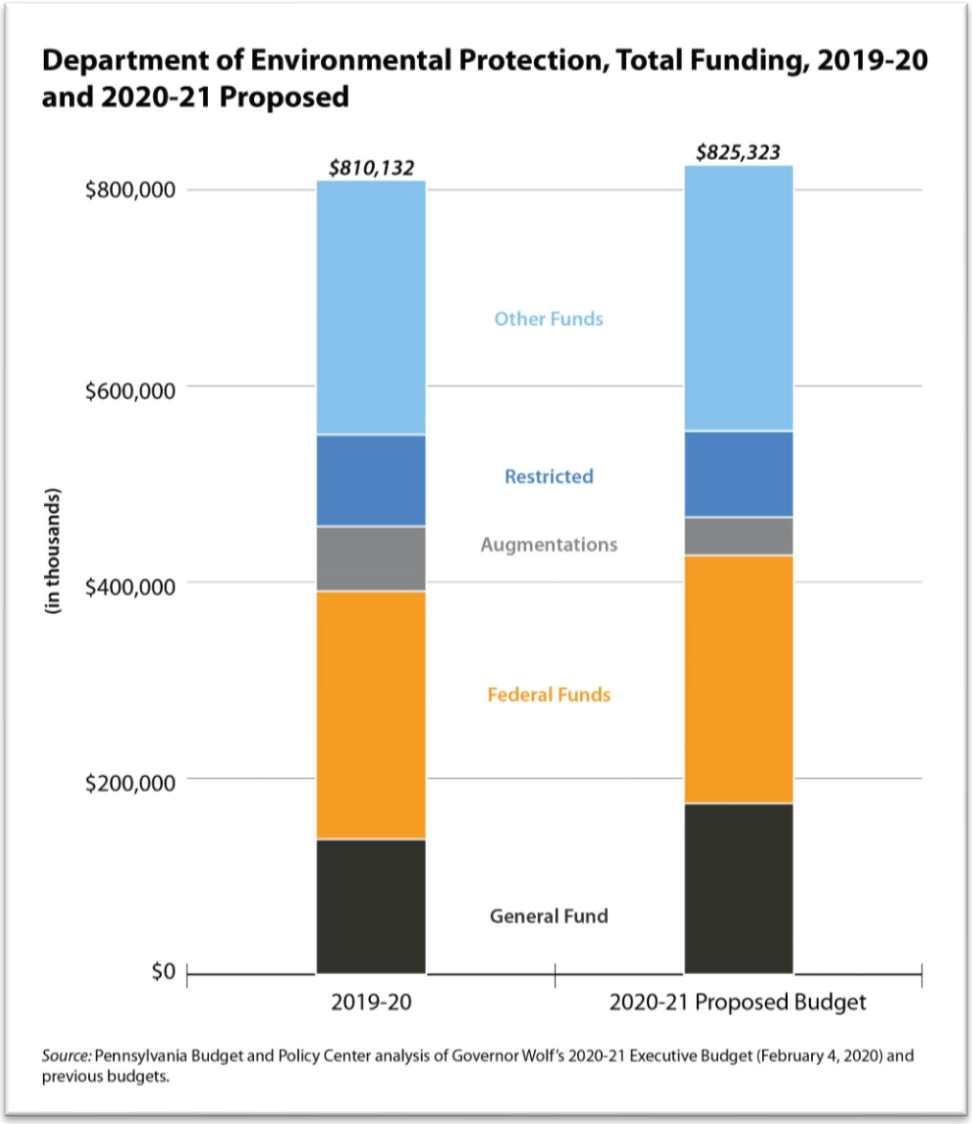
[72] Chesapeake Bay Foundation. "Pennsylvania's Budget Must Make Greater Investments in Clean Water." Press Statement, February 4, 2020. Accessed at: https://www.cbf.org/news-media/newsroom/2020/pennsylvania/pennsylvanias-budget-must-make-greater-investments-in-clean-water.html.

Figure 23



Funds for DEP come from a variety of sources and only 21% of total funding comes from the General Fund. Looking at total funds for DEP for 2019-20 and 2020-21 (proposed), you can see in Figure 24 below, that there is some increase in total funding, but it is only a $15.2 million increase, or 1.9%. This is a minimal investment compared to the environmental needs of the state.

Figure 24



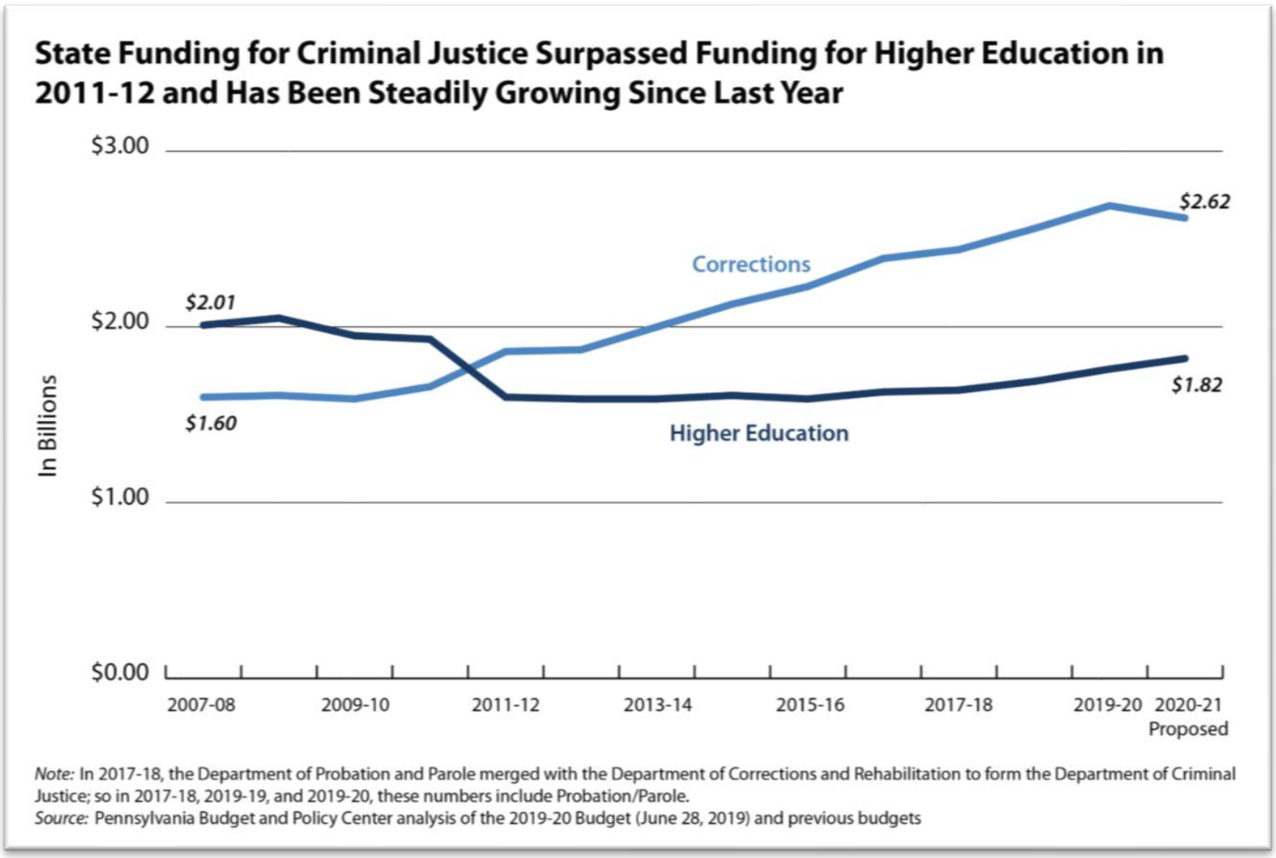
The same trend can be seen with DCNR—there is a significant increase in DCNR funding from the General Fund (24%) from the prior year. But looking at all of DCNR's funds, which includes federal funds, special funds, etc., total funding will increase from $436 million in 2019-20 to $440 million in the governor's proposed budget for 2020-21, an increase of $3.4 million, or 0.8%.

Criminal Justice

Criminal justice spending is proposed to decrease this year by $73 million, or -2.7%. Part of the reduction results from a plan to close the SCI Retreat facility due to decreasing inmate population. Inmates will be transferred to nearby state DOC facilities. This is projected to about $44 million per year.[73]

Despite this proposed decrease, corrections continues to be funded at a higher level than higher education in our state (Figure 25).

Figure 25



The 2019-20 enacted budget for corrections was $2.6 billion, but this increased during the fiscal year by $90 million in supplemental appropriations for inmate medical care and state correctional institutions. In this year's proposed budget, there is a $17.5 million line item related to inmate medical care noted as "loss of pharmaceutical rebates provided through Special Pharmaceutical Benefits Program to mitigate the costs of AIDS medication for incarcerated individuals."[74]

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[73] HACD. "2020/21 Executive Budget Proposal: Budget Brief." February 4, 2020. Office of Governor Tom Wolf. "Gov. Wolf Announces Decision to Close SCI Retreat." Accessed at: https://www.governor.pa.gov/newsroom/gov-wolf-announces-decision-to-close-sci-retreat/.

[74] Commonwealth of Pennsylvania Office of the Governor. "Governor Tom Wolf Executive Budget 2020-2021." Harrisburg, February 4, 2020. P. E13-9.

Agriculture

The Department of Agriculture (DOA) “promotes the viability of farms, protects consumers, and safeguards the health of people, plants, animals and the environment.” Governor Wolf proposes to decrease general funds for the Department of Agriculture by $4.4 million, or 2.6%. The governor, as he has in previous budgets, is proposing to eliminate a number of appropriations from the DOA which usually get put back in during negotiations on the final budget.[75]

Last year Pennsylvania enacted the PA Farm Bill, which included a number of new initiatives, including the creation of a dairy commission. This commission plans to release a report this spring, which will include recommendations of how to address the problems the dairy industry is facing.[76]

One program the governor has prioritized in this budget is the Pennsylvania Agricultural Surplus Program (PASS). He proposes a $1 million investment to address food insecurity in the state. The DOA would provide funding to farms to cover the costs of food production—harvesting, processing, packaging, transporting. The food would be donated to charities who provide food for those most in need.[77] As of November 2019, the program had distributed more than 11 million pounds of food to hundreds of thousands of families across Pennsylvania.[78]

Transportation

The mission of the Department of Transportation, often referred to as PennDOT, is to “provide a sustainable transportation system and quality services that are embraced by our communities and add value to our customers.”[79] Within PennDOT there are a number of programs including highways and bridges, local highways and bridges, multimodal transportation (to support public transportation), transportation support services, and driver and vehicle services. Funding for each of these programs come from a mix of General Fund, special funds, federal funds, and other funds. General funds actually account for only 0.01% of total PennDOT funding (Figure 26 and Table 4).

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[75] HACD. “2020/21 Executive Budget Proposal: Budget Brief.” February 4, 2020.

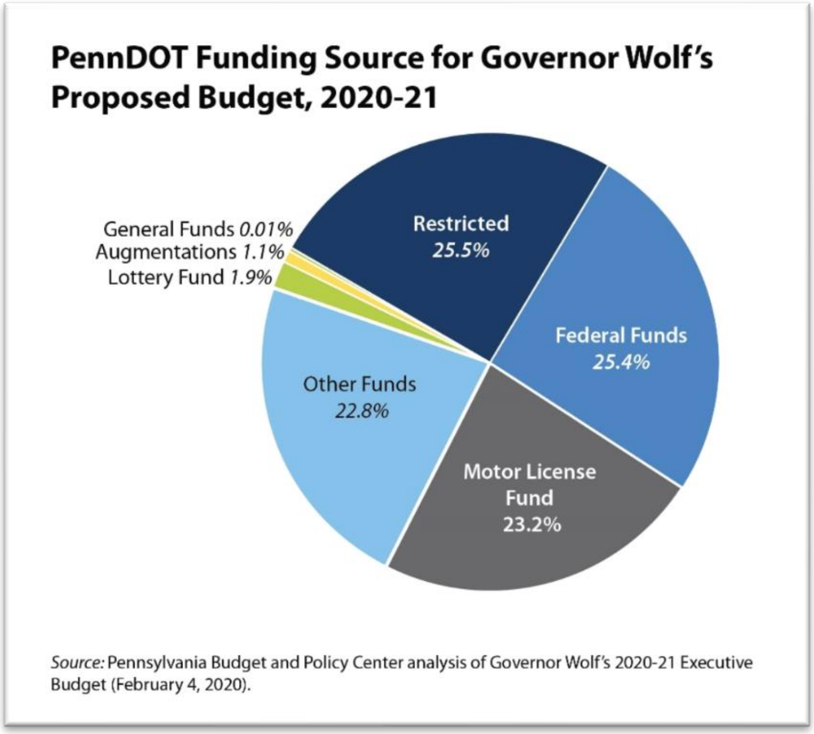
[76] Capitolwire. “Full plate of Ag issues discussed during agency's Senate budget hearing on Monday.” March 2, 2020.

[77] Commonwealth of Pennsylvania Office of the Governor. “Governor Tom Wolf: Executive Budget in Brief: 2020-21.” February 4, 2020.

[78] Rick Dandes. “PASS puts farm food destined for waste on tables of vulnerable families.” The Daily Item. February 22, 2020. Accessed at: https://www.dailyitem.com/news/local_news/pass-puts-farm-food-destined-for-waste-on-tables-of/article_af34ae88-2278-548d-98df-e8b956d863b4.html?fbclid=IwAR1GJawXoQc2HgPRfOyd45t-c5r8ngIWlDzkqWq-f8krllKKKebbXUeRodo.

[79] Commonwealth of Pennsylvania Office of the Governor. “Governor Tom Wolf Executive Budget 2020-2021.” Harrisburg, February 4, 2020. P. E41-1.

Figure 26



Total proposed funding for PennDOT in 2020-21 is $8.85 billion, up from $8.72 billion in 2019-20. This is an increase of $117 million or 1.3%. Total state funds are $6.59 billion and have increased 2% from last year.[80]

Table 4

PennDOT funding, all sources, 2019-20 and 2020-21 proposed (in thousands)

	2019-20	2020-21	$ change	% change
General Fund	$3,445	$1,228	-$2,217	-64.4%
Motor License Fund	$1,950,668	$2,048,827	$98,159	5.0%
Lottery Fund	$170,907	$170,907	$0	0.0%
Federal Funds	$2,265,811	$2,251,136	-$14,675	-0.6%
Augmentations	$129,864	$98,650	-$31,214	-24.0%
Restricted	$2,206,987	$2,256,921	$49,934	2.3%
Other Funds	$2,001,965	$2,018,765	$16,800	0.8%
Total Funds	$8,729,647	$8,846,434	$116,787	1.3%
Total State Funds	$6,463,836	$6,595,298	$131,462	2.0%

Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2020-21 Executive Budget (February 4, 2020).

[80] Augmentations are other monies which augment a state appropriation. Restricted funds are funds from a restricted account that is allowed to be used for only limited purposes. Commonwealth of Pennsylvania Office of the Governor. "Governor Tom Wolf Executive Budget 2020-2021." Harrisburg, February 4, 2020. P. 8.

All programs except for Transportation Support Services would see an increase in funding from last year (Table 5 below). Proposed increases are primarily due to shifts in cash flow for projects. Mass Transit will see an increase of $40 million, the Highway and Bridge Improvement proposal would see an increase of $80 million, and proposals related to Highway Maintenance and Local Highway and Bridge would increase by $44 million (not shown).[81]

Table 5

PennDOT funding by program, 2019-20 and 2020-21 proposed (in thousands)

	2019-20	2020-21	$ change	% change
Transportation Support Services	$68,590	$68,479	-$111	-0.2%
Highways and Bridges	$5,103,399	$5,138,476	$35,077	0.7%
Local Highways and Bridges	$922,122	$934,261	$12,139	1.3%
Multimodal Transportation	$2,359,518	$2,412,213	$52,695	2.2%
Driver Vehicle Services	$276,018	$293,005	$16,987	6.2%
Total Funds	$8,729,647	$8,846,434	$116,787	1.3%

Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2020-21 Executive Budget (February 4, 2020).

Moving forward, the Commonwealth must figure out how to replace $450 million in annual payments from the PA Turnpike Commission (PCT), which funds mass transit. Act 44 (2007) required the PCT to provide PennDOT with $450 million annually for highways, bridges, and public transit. Act 89 (2013) ensured this funding went toward mass transit. However, these funds will end in 2022 and funding will need to be provided by the General Fund.[82] Once again, we see the need to raise additional recurring revenue, this time to support roads, bridges, and public transit, which so many Pennsylvanians, especially low-income residents, rely on to get to work, school, the doctor, grocery stores, etc.

Pensions

Governor Wolf proposes to fully fund actuarial required contributions to the Public School Employees Retirement System (PSERS) for the fifth consecutive year and the State Employee’s Retirement System (SERS) for the fourth consecutive year. This comes after decades of systematic underfunding.

PSERS falls under the Department of Education and increases by $119 million, or 4.5%, from $2.63 billion to $2.75 billion. SERS is found across state agencies, along with personnel costs, and is proposed to be raised by $15 million (2.2%) in 2020-21.[83]

Governor Wolf and the General Assembly deserve praise for consistently meeting the required contributions to the state’s pension systems. While the state still has unfunded liabilities for both pension systems, they are

[81] HACD. “2020/21 Executive Budget Proposal: Budget Brief.” February 4, 2020.

[82] https://www.paturnpike.com/business/act44_plan.aspx

[83] HACD. “2020/21 Executive Budget Proposal: Budget Brief.” February 4, 2020.; Commonwealth of Pennsylvania Office of the Governor. “Governor Tom Wolf Executive Budget 2020-2021.” Harrisburg, February 4, 2020.

projected to shrink to zero sometime in the next decade. So long as required contributions continue to be made, the unfunded liability is no longer a serious problem for the state.

Democracy and Elections

The Department of State would see an increase of $3.9 million in state funding if Governor Wolf's budget goes through,[84] $795,000 of which would be used for election modernization through the General Government Operations appropriation. $1.8 million in new money would be used via the Statewide Uniform Registry of Electors to replace the loss of federal funds that are currently being used.[85]

The state should be investing far more in election administration to take advantage of the reforms enacted as part of Act 77. Counties need far more funds to be able to create and staff satellite voting centers, especially in areas where a low percentage of the voting age population registers and votes.

Addressing Gun Violence

Governor Wolf's 2020 budget address on February 4, 2020, focused extensively on the crisis surrounding gun violence. "We have gotten used to seeing bulletproof backpacks advertised during back-to-school sales. We have gotten used to hearing our young children talk about the traumatic lockdown drills they had to endure between science class and recess. We have gotten used to that little worry that creeps into the backs of our minds whenever we enter a shopping mall, or a sports stadium, or even a house of worship. And, unfortunately, we have also gotten used to hearing politicians offer their thoughts and prayers and little else."[86]

The governor proposes $6 million in new funds to be used towards grants for comprehensive gun violence prevention and reduction. These grants will go to communities implementing evidence-based strategies to reduce gun violence. This funding will go through the Commission on Crime and Delinquency (PCCD). Governor Wolf also urges the legislature to pass comprehensive gun safety reform.[87]

Rainy Day Fund

Governor Wolf, over the last several years has proposed transferring budget surpluses to the Rainy Day Fund. By June 30, 2020, the fund is estimated to have a balance of $341.3 million. There is a requirement for the state to transfer 25% of surplus funds at the end of the fiscal year into the Rainy Day Fund. In 2017-18, 50% of surplus funds were transferred to the Rainy Day Fund ($22.4 million) and in 2018-19, 100% of surplus funds were

[84] HACD. "2020/21 Executive Budget Proposal: Budget Brief." February 4, 2020.

[85] Commonwealth of Pennsylvania Office of the Governor. "Governor Tom Wolf Executive Budget 2020-2021." Harrisburg, February 4, 2020. P. E38-5.

[86] Office of Governor Tom Wolf. "Governor Wolf's 2020 Budget Address Remarks." February 4, 2020. Accessed at: https://www.governor.pa.gov/newsroom/governor-wolfs-2020-budget-address-remarks/.

[87] Ibid.

($316.9 million). For 2019-20 and 2020-21, the governor proposes transferring 25% of surplus funds, as required by statute, which would be an estimated $1.1 million and $1.5 million.[88]

Conclusion

We conclude this analysis with the same thoughts with which we began it. The proposed budget is that of a governor and administration committed to the right ideals, creative in attaining them, expert in devising ways to improve services, and yet ultimately unable to give Pennsylvania the budget it needs because of the unwillingness of the General Assembly to provide the revenues needed to close a public investment deficit that deepens every day.

This is a problem that no governor or members of the General Assembly can solve. It can only be solved by the people of Pennsylvania deciding to demand that their elected officials address it.

And, the necessity of addressing this issue is likely to become even clearer as we will soon be in a severe economic downturn created by COVID-19, one that will make it difficult to sustain even the austere expenditure plan in this budget without asking the wealthiest Pennsylvanians to pay their fair share of taxes.

[88] HACD. "2020/21 Executive Budget Proposal: Budget Brief." February 4, 2020.