

# A Bold Budget For This Moment of Crisis and Beyond

An Analysis of the Governor's  
Proposed 2021-22 Budget



**KEYSTONE RESEARCH CENTER**  
AND  
**PA BUDGET AND POLICY CENTER**

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## Introduction

Governor Wolf's budget for the current fiscal year, which was presented in February 2020, was partly overtaken by events six weeks later at the same time we were completing our analysis of it. The budget for the current year was put together in two steps: in June 2020, and then in November 2020, as Governor Wolf, the General Assembly, and the public at large struggled to understand the likely impact of the COVID-19 pandemic on the needs of Pennsylvanians, the economy and state revenues, as well as the federal government's likely response to the crisis.

### *The Costs of the COVID-19 Pandemic and the Continuing Uncertainty of this Moment*

Governor Wolf's "Executive Budget for 2021-22" was again presented at a time of uncertainty. Although vaccine development for COVID-19 has made it possible to envision an end of the pandemic, uncertainties remain about how long it will threaten the lives of Pennsylvanians and our economy. And at the time the governor presented his proposal, there remained great uncertainty about the types and level of aid that the federal government under President Biden and a Democratically controlled Congress would provide to the Commonwealth and its counties and municipalities.

The governor's budget was, however, shaped by what we have learned as a result of the pandemic with regard to both the immediate threat to our lives and the economy and the deep structural inequities in our society.

The pandemic created a deep economic contraction in Pennsylvania, not primarily because of the governor's necessary order to temporarily close businesses and stay at home, but because most of the people of Pennsylvania recognized the threat to their lives, and that of their families and friends, posed by COVID-19. People started staying home and businesses started closing before the governor's order to do so and continue to do so long after those orders were lifted. And they did so not only out of a reasonable fear but out of civic duty. Most Pennsylvanians understood that staying home and closing businesses—as well as wearing masks—was necessary not just to protect themselves and their families but to protect the community as a whole.

The economic crisis created by COVID-19 has been very costly to the state's economy and to state and local revenues. At the same time, the demands on the state to support its people with unemployment insurance and other benefits, to provide aid to businesses and to support health care, elder care, and child care systems that were near collapse, has been very costly.

Meeting those needs were beyond the capacity of state government and required federal intervention. While the federal government was at times slow to act, it has stepped up a few times, especially with the Families First Coronavirus Response Act of March 18, 2020, the CARES Act of March 27, 2020, and the Consolidated Appropriations Act of December 27, 2020. We are expecting another major proposal, the American Recovery Plan, to be passed roughly by the time this budget analysis is released in the second week of March, 2021. We are continuing to provide details about federal aid to the states and the impact it has on the state budget.<sup>1</sup>

### *The State's Role in Creating a Just Recovery*

Federal funds have been needed to meet the immediate needs of the Pennsylvanians who have lost work hours and the many who remain unemployed, businesses that have lost revenue, schools that have had to adjust to online learning, and medical, child care and eldercare facilities that have dealt with almost unimaginable

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<sup>1</sup> See: <https://krc-pbpc.org/federal-covid-19-relief-whats-in-the-mcconnell-plan/>; [https://krc-pbpc.org/research\\_publication/the-need-for-federal-aid-to-the-states-a-statement/](https://krc-pbpc.org/research_publication/the-need-for-federal-aid-to-the-states-a-statement/); [https://krc-pbpc.org/research\\_publication/what-we-know-about-the-senate-july-2020-covid-19-relief-bill/](https://krc-pbpc.org/research_publication/what-we-know-about-the-senate-july-2020-covid-19-relief-bill/).

challenges. But it is the state government, with federal support, that must deal with the long-term problems of recovery from the pandemic, and especially, of ensuring that the recovery addresses the economic and social inequities that—while known to many of us before March of 2020—have now been unmistakably revealed to all of us.

Governor Wolf has presented a bold budget plan that responds to the lingering economic problems created by the pandemic and the deep inequities we have all come to recognize. The governor has presented five major initiatives meant to address the following four deep-seated problems in the Commonwealth revealed by the pandemic.

First, as we and others have documented, **the impact of the pandemic on the economy has been felt most by low-income workers**—both those who have lost their jobs and those front-line essential workers who have kept them but at the cost of suffering much higher rates of death due to exposure to COVID-19.

Second, **the pandemic has revealed deep educational inequities**. Well-funded school districts in some parts of the state that cater to student bodies whiter and more prosperous than typical have adjusted to on-line learning effectively, while less well-funded schools in many other parts of the state, with a higher percentage of low-income students and students of color, have dealt with the crisis far less effectively. Similar inequities can be seen in higher education. While young people typically flock to college and graduate schools when the economy turns down, we have seen declining enrollments in many state colleges both because of the difficulties of carrying on their mission during the pandemic but also because tuitions are becoming out of reach for an increasingly large share of students.

Third, while we expect a strong economic recovery to begin soon, **in some cases, the pandemic has accelerated industry restructuring which requires a smart public policy response**. This is because the economy was not in recession before the pandemic and both pent-up buying power and another round of federal support should lead to an increase in consumption. The pandemic has led to a faster decline in some old industries that were already fading away, while also quickening the threat of on-line retailing to brick-and-mortar stores. At the same time, by threatening international supply chains, the pandemic has created opportunities for the development of new manufacturing and domestic supply chains.

Fourth, **the pandemic has revealed continuing inequities in the state's tax system**. Every state has seen a decline in revenues. But Pennsylvania's upside-down tax system which taxes those with low and moderate incomes at roughly twice the rate of those with high incomes, has been hit especially hard. That result is unavoidable. When those with low incomes, who pay taxes at high rates, have been suffering especially hard from unemployment and lost wages, while those with high incomes, who pay taxes at much lower rates, are doing much better, This has exacerbated the long-term structural imbalance of the state budget, created by a series of past budgets balanced with gimmicks and one-time revenues. And it has made the unfairness of Pennsylvania's tax system impossible to ignore.

### *Governor Wolf's Major Initiatives*

We look at most areas of the governor's budget in this report, but we focus on the five initiatives meant to address the four problems we have just identified.

The first is Governor Wolf's call for **raising the state's minimum wage**. This recognizes the long-term injustice of allowing a quarter of Pennsylvania's workforce to work for wages that do not lift them out of poverty, as well as the sacrifices low-paid essential workers have made in this dark time. Raising the minimum wage is also a critical step toward ensuring our economy recovers quickly, as the immediate step of raising the minimum wage to \$12 would add \$4 billion to both wages and consumption.

The second is **the governor's bold plan to reconfigure the way the state funds our schools and add more than \$1 billion to basic education funding.** His plan to distribute most basic education funding through the fair funding formula takes a major step forward in addressing the deep-seated economic and racial inequities in how we fund our schools, while also moving per-student funding in all schools closer to an adequate level.

The third is **the Nellie Bly Scholarship program, which would address the long-standing crisis in higher education funding** and the racial and economic inequities that prevent far too many talented young people from securing the education that would enable them, and all of us, to benefit from their natural talents.

The fourth is the **Back to Work PA investment program, which addresses our changing economy by providing new state funding for workforce development and training and new businesses** to take advantage of developing economic opportunities that have been accelerated by the pandemic. We provide a sketch of this program and the rationale for it below, but as it is technically outside the budget, we will address it in more detail at another time.

The fifth is **the governor's proposal for a major revision to the personal income tax.** This tax and his proposal for corporate tax reform are necessary to raise almost \$3 billion in new revenues needed to balance the budget at the time of his speech. They would also help overcome the long-term structural deficit that has been papered over by a series of state budgets balanced with gimmicks and one-time funds and to correct our deeply unfair tax system.

Skeptics may point out that these five proposals are not entirely new. Governor Wolf has proposed versions of most of them in previous budgets. But that's a testimony to his insight into the problems of the state, not to his lack of imagination. While the pandemic has revealed to most Pennsylvanians the deep inequities in our underfunded K-12 and higher education systems, the scandal of our low minimum wage, the need to invest more in workforce development and start-up businesses, and our upside-down tax system, these problems have long been known to Governor Wolf and close observers of state politics and policy. We have addressed these issues for years in budget analyses and policy papers, and they continue to be central to the We The People-PA campaign.

Our hope is what we have long known and said about public policy in Pennsylvania is now common knowledge among the public and that perhaps that will move a General Assembly that should have known about the problems Governor Wolf has long pointed out but, so far, has refused to address.

### *The Prospect of Additional Federal Support*

Governor Wolf presented his budget at a time when it was not clear what further aid to the states President Biden would propose or Congress adopt. As we are completing this paper, the outlines of the American Recovery Plan have become clear. And it is likely that under it, the state will receive roughly \$7 billion in new federal aid in the next few months. While no final legislation has been passed it is clear that the state will have a great deal of leeway in spending the money; the state, however, will, rightly, not be allowed to use federal relief to cut taxes or to pay down unfunded pension liabilities.

What should the state do with this additional funding? It is too early to provide definitive answers; but here are our first thoughts.

First, it is critical that the state actually spend the funds, not save most of them. The American Recovery Plan is designed, in part, to encourage a quick economic recovery. We believe that this is possible to achieve. Unlike the aftermath of the Great Recession when a large overhang of private debt made it difficult for middle- and upper-income families to return to or exceed pre-recession levels of spending, many upper middle- and

upper-income families have been spending less money during the pandemic. They have not been traveling or eating out or going to sports and entertainment venues. Once people are comfortable re-engaging in normal activities, we are likely to see a surge in pent-up consumer spending. But low- and middle-income families who have lost jobs and are behind in their rent and utilities may struggle to resume spending at pre-pandemic levels. It is important they have the support they need to do so. And it is also important that public spending rise to ensure the recovery takes place quickly. One of the lessons of the Great Recession is that insufficient government spending can delay an economic recovery. Thanks to federal support, our state government can act to spur a quick recovery, which will also make it possible for state and local revenues to recover more quickly.

Second, in deciding where to spend additional federal support, the state should try to fill gaps in providing relief to individuals and businesses. There are federal relief fund programs for both renters and those who pay a mortgage. Should they not prove sufficient, the state can use some general funding to help. The same goes for support for health care, including for individuals who still have trouble affording health insurance and for hospitals, for other medical facilities, and for nursing homes that remain under strained circumstances. The new recovery plan also includes more funding for small businesses, including the restaurant and hospitality industry; should some businesses fall through the cracks, federally funded state programs should fill them.

Third, the new federal funds provide an opportunity to move even more quickly than the governor proposes to address long-term state investment deficits, particularly in K-12 and higher education.

Fourth, while new federal funds may make it possible to balance the budget and expand support for education without any immediate increase in taxes, we would recommend that the governor's tax proposals still be implemented, although possibly on a different timeline. It still makes sense to fix an upside-down tax system that is deeply unfair by expanding the tax forgiveness program, instituting a state earned income tax credit, or both. But while new federal funds may allow the state to delay increasing the personal tax rate, it will at some point be necessary to replace federal support to overcome long-term structural budget deficits and to fund the tax reductions for those with low incomes while making our tax system fairer.

Finally, while we recommend spending most of the federal funds in the next fiscal year, some portion of the new funds might be saved in the rainy day fund for the 2022-2023 budget. While we expect that the bold federal recovery plan will help create a fast economic recovery, state revenues may take some time to fully recover. Given the challenges of a changing economy, it makes sense to hedge our bets and prepare for the possible failure of state revenues to return to their earlier path until the 2023-2024 fiscal year.

## Overview of Pennsylvania's Budget

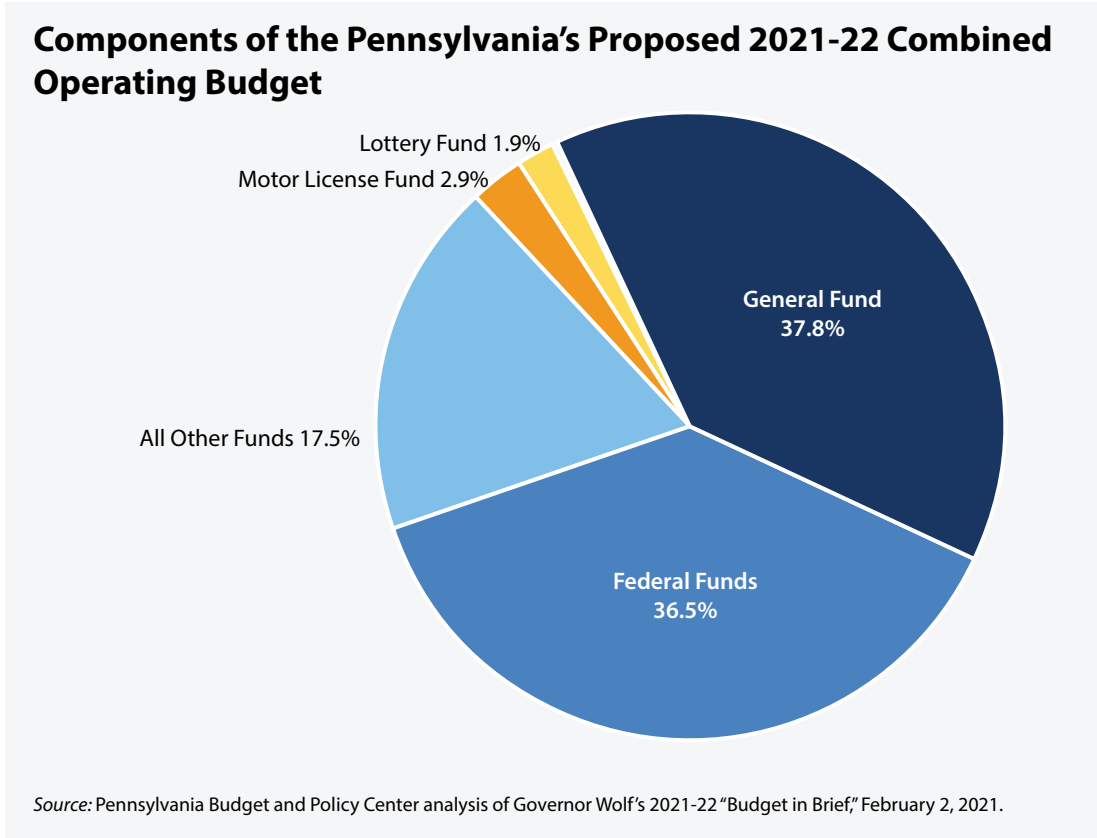
### *Components of the Combined Operating Budget*

This analysis is primarily focused on Pennsylvania's General Fund, which provides the bulk of state funding. However, it is important to understand that the total operating budget is larger than just the General Fund and includes a variety of special funds and federal funds. As Table 1 and Figure 1 below show, the proposed combined operating budget of \$96.7 billion is a reduction of 1.5% from 2020-21, before adding federal resources from the American Rescue Plan, which are not included in Table 1 and Figure 1. Similar proportions of the combined operating budget (nearly 40% in both cases) come from the General Fund (\$37.8 billion) and through federal funds (\$36.5 B). Governor Wolf proposes an increase to the General Fund of 11.1% this year, while federal funds are set to decline by 11.9%. However, new federal COVID relief is in the works and that will add to federal spending in the state.

<b>Table 1. Components of 2021-22 Combined Pennsylvania Operating Budget, in Billions</b>				
	<i>FY 2020-21</i>	<i>FY 2021-22 Governor Proposed</i>	<i>FY 2021-22 Percent of Total Operating Budget</i>	<i>FY 2021-22 Percent of Total State Budget</i>
General Fund	\$34.0	\$37.8	39%	63%
Motor License Fund	\$2.79	\$2.9	3%	5%
Lottery Fund	\$1.65	\$1.9	2%	3%
All Other Funds	\$18.30	\$17.5	18%	29%
Federal Funds	\$41.4	\$36.5	38%	
Total State Funds	<b>\$56.7</b>	<b>\$60.1</b>		
Total Motor License, Lottery and Other Funds	\$22.7	\$22.3		
Total Combined Operating Budget	<b>\$98.1</b>	<b>\$96.7</b>		

*Source:* Pennsylvania Budget and Policy Center analysis of Governor Wolf’s Executive Budget 2021-22 “Budget in Brief” (February 2, 2021); and the House Appropriations Committee “2021/22 Executive Budget Briefing,” Feb. 3, 2021.

Figure 1



## *Weathering the Storm: The Impact of the Pandemic and Federal Support on our Structurally Imbalanced Budget*

Pennsylvania has done better than many other states in managing the pandemic, even though over the last ten years, state budgets have been tenuously balanced with one-time funds and gimmicks. Budgets balanced in these ways are an indication of a structural imbalance in the state budget in that recurring revenues generally do not match the spending necessary to meet ongoing programs. Nor are they sufficient to meet the necessary long-term public investment in K-12 education, higher education, human services, and infrastructure.

The General Fund ran a \$2.7 billion deficit in fiscal year 19-20, in large part due to the reduction of tax revenues due to the pandemic and also due to the shift in the deadline for personal income tax filing from that fiscal year to the next. Yet, the current FY 20-21 budget is balanced, even though it covers that \$2.7 billion deficit. How has the state managed to do this? And how does Governor Wolf project a balanced budget for FY 21-22 with only about a \$1.9 billion increase in taxes? (The rest of the \$3 billion tax increase is for increasing investment in K-12 education.)

The answer is that the state has relied heavily on adopting an austere budget in the current fiscal year and on federal support. To see the extent of that support consider the following.

The state has lost substantial tax revenues due to the pandemic. The numbers are not precise because they require comparing somewhat uncertain projections made before the pandemic began with both actual results for FY 19-20 and projections for the current and next fiscal year. The IFO's February 2020 projection of General Fund revenues for fiscal years 19-20, 20-21, and 21-22 totaled \$111 billion. The actual results and the IFO's February 2021 projection for FY 20-21 and FY 21-22 total \$107 billion. That gives us an estimate of a three-year loss of \$4 billion in General Fund revenues.

The governor and General Assembly made the wise choice in June 2020 to wait to complete the budget until November, thus putting off the pressure for deep budget cuts until it was clear what level of federal COVID-19 relief would be provided to the states. And last November, the governor and the General Assembly decided to enact a mostly flat-funded budget with the knowledge that there were sufficient funds to avoid the deep budget cuts put in place in other states.

To this point, the state has relied on two main sources of federal support. The first was the enhanced FMAP rate, that is the 6.2 percentage point increase federal share of the cost of the traditional Medical Assistance / Medicaid program. This brought the state an additional \$1.1 billion in federal funds in FY19-20 and is projected to bring the state \$1.6 billion in FY 20-21 and \$2.4 billion in FY 21-22. The enhanced Medicaid reimbursement was always designed with two purposes in mind. The first is to cover some of the additional health care spending created by the pandemic because as people lost their jobs and employer-based health care, many had to rely on Medicaid. The second is a federal replacement of state revenues lost due to the recession created by COVID-19. It is difficult to estimate what part of the addition to the Medical Assistance caseload was due to the pandemic and what part of it would have happened due to changes in the population or the expansion of the Community HealthChoices programs, which encouraged more people to sign up for benefits. We are also not sure how people who joined the Medical Assistance program because of the COVID-19 crisis are covered. Some of them are in expanded Medical Assistance—for which the state pays a much lower share of the cost which was not changed by enhancement of FMAP. And some of them are in traditional Medical Assistance where the state pays a larger share which was reduced by enhanced FMAP. So we don't really know how much of the additional funds received through the FMAP enhancement mechanism covered additional health care costs and how much was available to replace lost General Fund revenues. It is clear, however some good portion of the \$5.1 billion received because of the enhanced FMAP rate has been used to replace lost revenues.



The other federal program that replaced lost revenues was the final \$1.3 billion received from the CARES Act. The \$3.9 billion in CARES Act funds designated for state government—which we discuss further below—was not meant to be used to backfill the hole in General Fund revenues. But a change in federal regulations allows the CARES Act funds remaining in November 2020 to be used for this purpose.

In addition to helping balance the budget, federal support also met critical needs in the state. We have written about federal support for local school districts and the distribution of CARES Act funding elsewhere. We do want to note however, that without federal support the state would have been unable to meet the critical needs of Pennsylvanians during the COVID-19 crisis in many areas. Federal funds are supporting education at all levels and helping county governments meet their responsibilities. They are making it possible for health care and elder care institutions to deal with the challenges of the pandemic. They pay for COVID-19 testing and tracking cases and now are paying to vaccinate the people of the state. They are helping businesses and farmers weather the storms of the pandemic. And they are keeping people in their homes.

Federal support and flat-funding most expenditures, by themselves, did not give us a balanced budget in FY 20-21. There were a number of the usual budget devices to close what would have been a deficit including \$431 million in transfers from special funds, a transfer of \$100 million from the Rainy Day Fund, rolling some Community HealthChoices and County child welfare payments forward to FY 21-22, and the usual underestimation of Medical Assistance and other Department of Human Services caseloads.

The use of these one-time revenues reminds us of the persistent problem the state has in balancing its budget year after year. Before the governor introduced his budget this year, the Independent Fiscal Office's offered an analysis of long-term trends in the General Fund. The IFO projections combine estimates of the revenue brought in by current tax law and estimates of a current services budget, which adjust current expenditures for demographic changes and inflation. Using this method, the IFO projected deficits of at least \$2 billion per year from FY 21-22 and future years (and for a few years, \$2.5 billion). This is a yearly deficit that's \$1 billion higher than the Office projected in 2020, largely because of the long-term impact of the COVID-19 crisis on revenues and the costs of human services.<sup>2</sup>

Governor Wolf projects balanced budgets with surpluses next year. His projections differ from that of the IFO, in part, because he expects lower spending in some areas (despite proposing an increase in Basic Education funds of more than \$1 billion), as well as higher tax revenues as a result of his proposed tax changes this year.<sup>3</sup>

Long-term budget projections are difficult and they change greatly depending on what assumptions one makes about economic conditions and the policy choices we make in the short term. But what is demonstrated by the projections made by both the IFO and the governor's budget office is that the state still has a chronic structural deficit that cannot be eliminated without substantial new revenues. That structural deficit will not only make the annual budget process difficult, but it will prevent the state from addressing the long-term needs for public investment in education at all levels and in infrastructure, human services, and environmental protection.

The additional federal support provided by the American Recovery Plan may help the General Assembly balance the budget next year and maybe even the year after. But until the leaders of the General Assembly are as honest with the public as Governor Wolf has been about both the need for additional spending in education and other areas and for the tax revenues to close both the structural and public investment deficits, balancing the state budget will continue to be a struggle year after year.

<sup>2</sup> Independent Fiscal Office. "Economic and Budget Outlook, Fiscal Years 2020-21 to 2025-26." January 2021. P. 22, Accessed at: [http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Five\\_Year\\_Outlook\\_2020.pdf](http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Five_Year_Outlook_2020.pdf).

<sup>3</sup> Governor Tom Wolf. "Executive Budget in Brief, 2021-2022." Accessed at: <https://www.budget.pa.gov/PublicationsAndReports/CommonwealthBudget/Documents/2021-2022%20Budget%20In%20Brief.Web%20Version.pdf>, p. C1-9

### How Large is the State Budget?

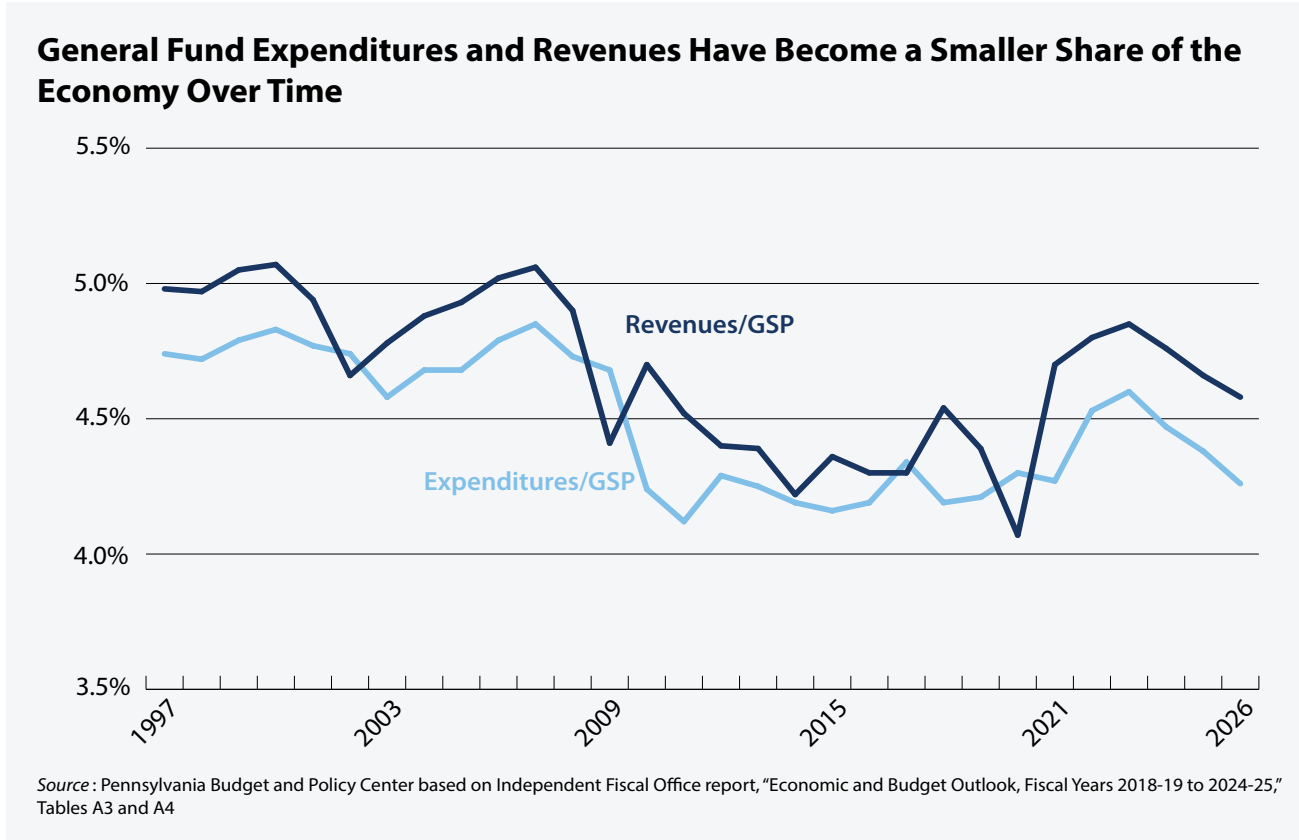
An expanding population and increasing costs require increased funding from year to year to maintain the same level of state services. One measure of the size of our government that takes costs and population into account is revenues and expenditures as a percentage of gross state product (GSP), the size of the state's economy. Table 2 and Figure X show revenues and expenditures as a share of the state's economy over time. As you can see in Table 2, both expenditures and revenues have been decreasing over time. Expenditures were, on average, 4.66% of the economy between 1997 and 2011, shrinking to 4.22% during Governor Corbett's tenure and 4.25% during Wolf's first term, a decrease of about 9% from 1997-2011. In our view, state spending has been too small in recent years, relative to the state's economy, and this is the main reason we have not been able to address some of the big problems our state faces.

Governor Wolf's 2021-22 budget proposal seeks to reverse this trend. As Table 2 and Figure 2 show, although his Executive Budget spending proposal would still be below the 1997-2011 average expenditure level as a share of gross state product, it is headed in the right direction. Higher state spending would help us come out of this crisis healthier. It would set our economy up for a quicker recovery and enable the state to address its long-term public investment deficit.

<b>Table 2. Pennsylvania General Fund Expenditures and Revenues as a Percent of Gross State Product (GSP)</b>			
<i>Fiscal year ending</i>	<i>Expenditures / GSP</i>	<i>Revenues / GSP</i>	<i>Reduction in Spending Compared to 1997-2011</i>
Average 1997 to 2011	4.66%	4.86%	
Average 2012 to 2015	4.22%	4.34%	-9%
Average 2016 to 202	4.25%	4.32%	-9%
<b>Governor's Budget 2021-22*</b>	<b>4.53%</b>	<b>4.80%</b>	<b>-3%</b>
Projections 2023 to 2026*	4.43%	4.71%	-5%

\*Years 2021 to 2026 are budget numbers and projections from the Governor's budget. Prior years are from the IFO.  
*Source:* Pennsylvania Budget and Policy Center based on Independent Fiscal Office, "Economic and Budget Outlook, Fiscal Years 2020-21 to 2025-26," January 2021; and 2021-22 Executive Budget (February 2, 2021).

Figure 2



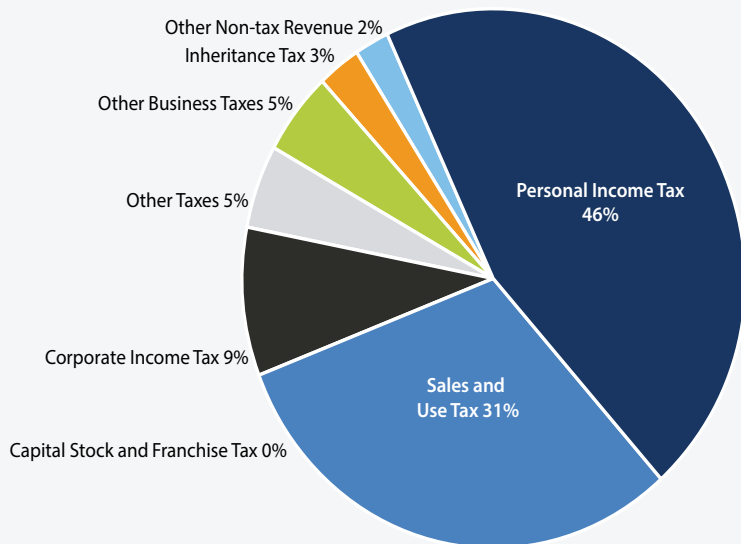
## General Fund Revenues and Taxation

### Sources of General Fund Revenues

As Figure 3 below shows, projected revenue for 2021-22 is \$40.1 billion. More than three quarters of this revenue comes from the personal income tax (46%) and sales and use tax (31%). The rest of the General Fund

Figure 3

### Governor’s Proposed General Fund Revenue, 2021-22: \$40.1 Billion



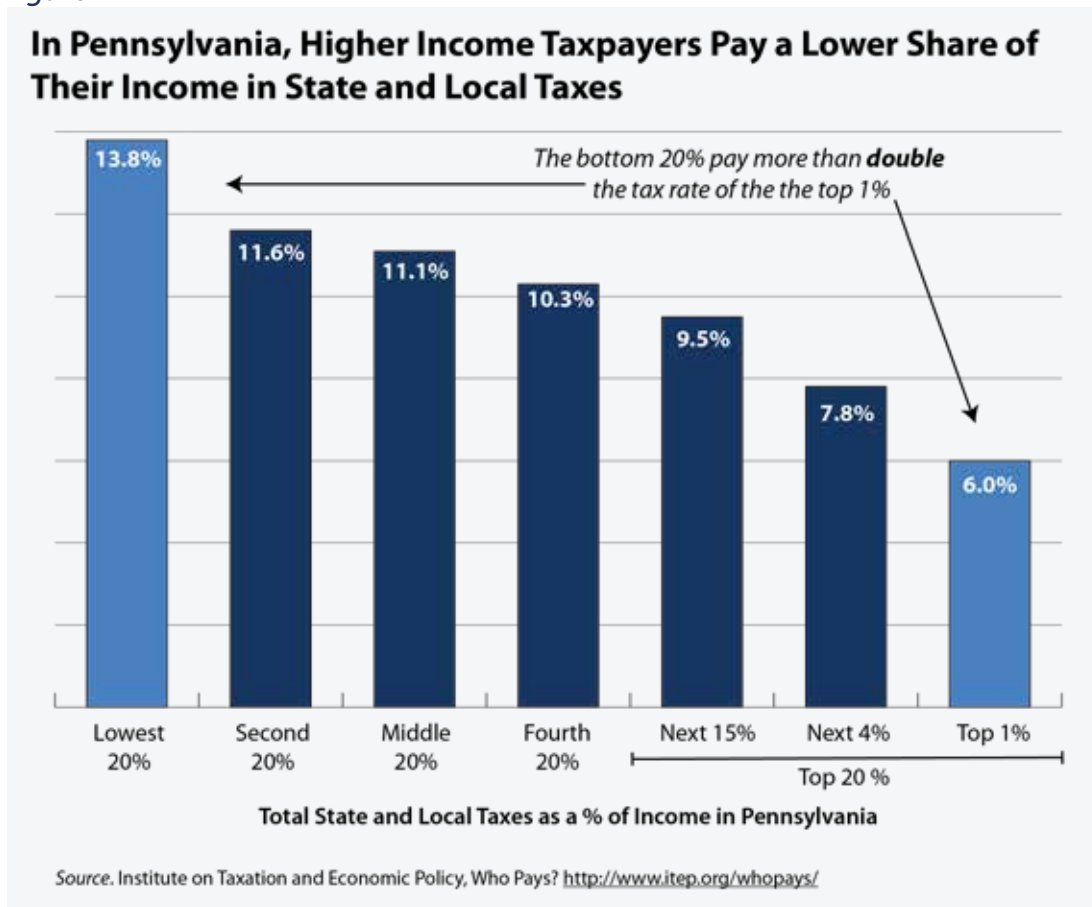
revenue comes from the corporate net income tax, inheritance taxes, other taxes, and non-tax revenue.

Pennsylvania ranks among the “terrible ten” most regressive tax states in the country. Figure 4 below shows that Pennsylvania’s poorest residents (who make less than \$24,000 a year) pay more than double their share of income on state and local taxes (13.8%) than the top 1% does (6%), whose average income is \$1.7 million a year. Pennsylvania’s “upside-down tax system” overly burdens residents with the fewest resources, while those with the most ability to pay are not paying their fair share. This

Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf’s 2021-22 Executive Budget (February 2, 2021).

limits Pennsylvania’s ability to raise substantial revenue as incomes have been rising much faster at the higher end than the lower end of the income scale.

Figure 4



### Personal Income Tax

In the 2021-22 Executive Budget, Governor Wolf proposes steps to begin to fix our upside-down tax system. He proposes an expansion of Pennsylvania’s tax forgiveness program alongside an increase of the personal income tax. He also again proposes corporate tax changes.

Pennsylvania established a tax forgiveness program in 1974. The General Assembly decided that those living in poverty would be overburdened by paying the personal income tax, depriving them of the ability to pay for life’s basic necessities.<sup>4</sup> Current eligibility for the program was established in 2004.<sup>5</sup> The tax forgiveness program provides a reduction in tax liability for those whose earnings are under a certain threshold. The amount of tax forgiveness varies with both income and the number of people in a family.

Governor Wolf proposes to increase the personal income tax (PIT) rate from 3.07% to 4.49%. Alongside this increased rate would be the expansion of Pennsylvania’s tax forgiveness program, so the increase would not

4 See Pennsylvania Department of Revenue’s webpage on tax forgiveness: <https://www.revenue.pa.gov/FormsandPublications/PAPersonalIncomeTaxGuide/Pages/Tax-Forgiveness.aspx#:~:text=Tax%20Forgiveness%20Special%20Tax%20Provisions%20For%20Poverty%20-,Commonwealth,%20because%20of%20poverty,%20needed%20special%20tax%20provisions.>

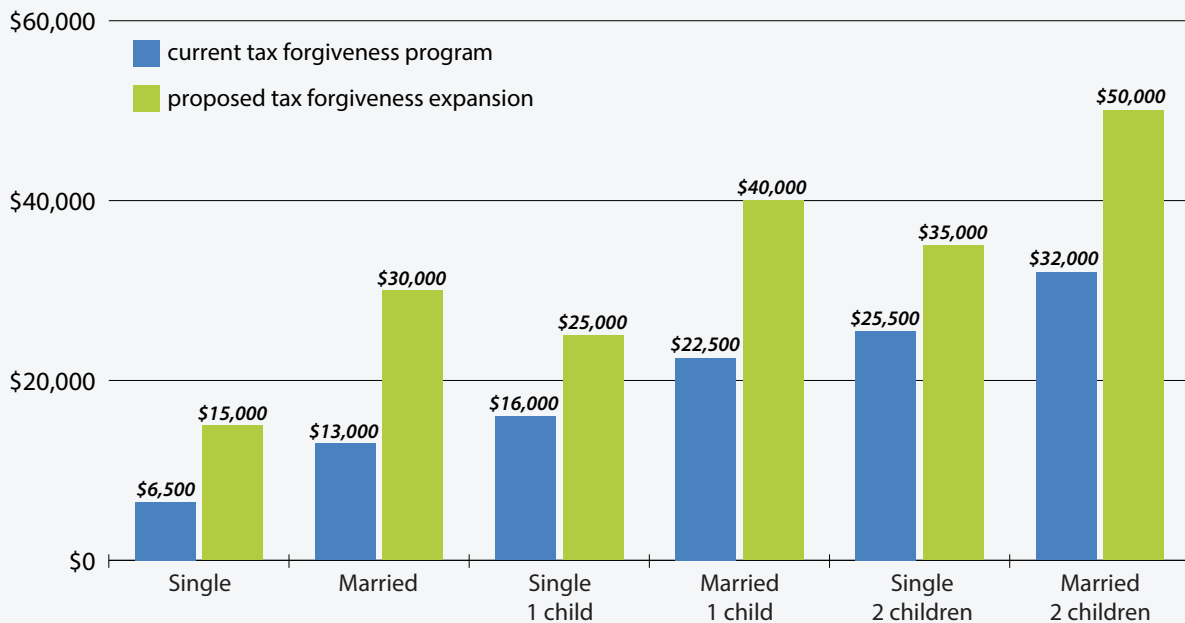
5 Commonwealth of Pennsylvania Office of the Governor. “Governor Tom Wolf Executive Budget 2020-2021.” February 2, 2021, P. D86. Accessed at: <https://www.budget.pa.gov/PublicationsAndReports/CommonwealthBudget/Documents/2021-2022%20Executive%20Budget%20Book.Web%20Version.UPDATED.pdf>.

burden individuals and families who earn modest incomes. As Figure 5 below shows, the threshold for 100% tax forgiveness—that is the point at which a family owes no personal income tax—would shift to \$15,000/year or less for individuals (up from \$6,500 per year), \$30,000 for married couples with no children (up from \$13,000), with an additional \$10,000 for each dependent (up from \$9,500). Thus, a married couple that earns \$40,000 or less, with one child, would pay no income tax.

Figure 5

### Under Governor Wolf’s Proposal to Expand Pennsylvania’s Tax Forgiveness Program, the Income Threshold for 100% Forgiveness Would Significantly Increase

Income threshold for 100% tax forgiveness under current program and proposed expansion



Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf’s 2021-22 Executive Budget (February 2, 2021) and data on PA Tax Forgiveness from: <https://www.revenue.pa.gov/FormsandPublications/PAPersonalIncomeTaxGuide/Pages/TaxForgiveness.aspx>

The program would also provide tax forgiveness, albeit to a lesser degree, to those earning above these thresholds. Tax forgiveness would phase out as that family makes more money—for each \$500 earned above these limits, the percentage of tax forgiven would decrease by one percentage point. Some degree of tax forgiveness would be provided up to the following limits:

- \$84,000/year for a family of four
- \$49,000/year for a single person
- \$69,000/year for a single person with two dependents.<sup>6</sup>

Those with family incomes above these amounts would pay the increased personal income at the new rate of 4.49% instead of the current rate of 3.07%.

This change would bring in an estimated \$2.9 billion in new revenues to the General Fund in 2021-22. In addition to these revenues generated by an increased PIT rate, the administration estimates that \$39 million in sales and use tax would also be raised due to working families having more disposable income to spend for their basic needs.

<sup>6</sup> House Appropriations Committee. “2021/22 Executive Budget Briefing.” Accessed at: [https://www.houseappropriations.com/Topic/2021-2022/583#TOC\\_3](https://www.houseappropriations.com/Topic/2021-2022/583#TOC_3).

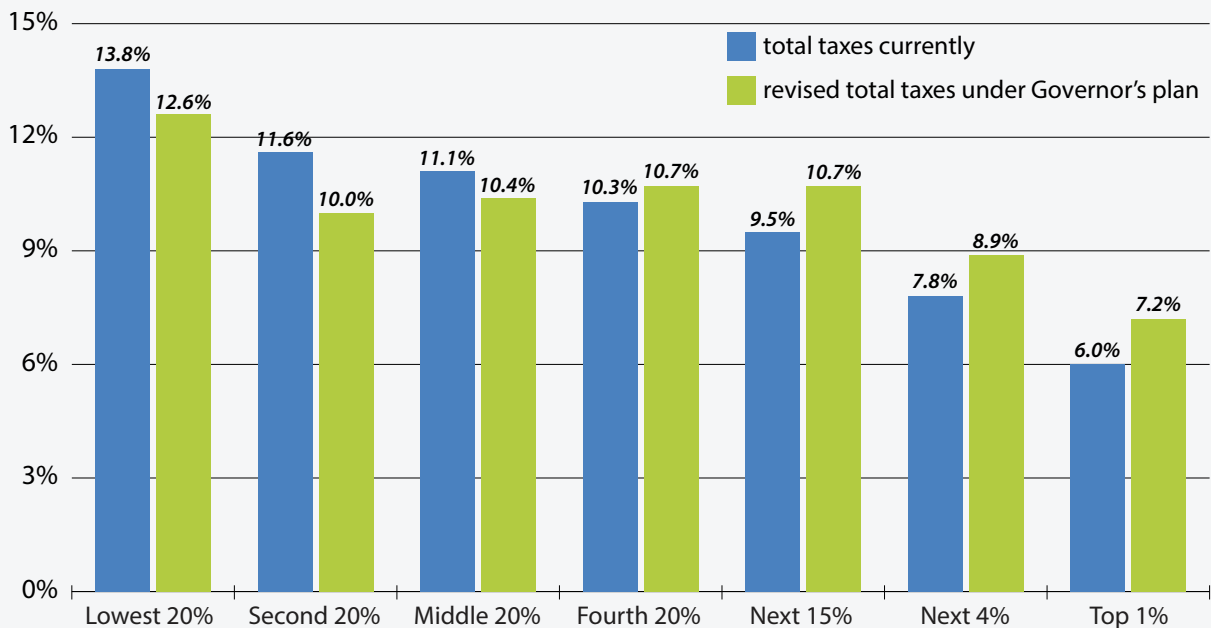
### The Impact of the Proposed Changes on Tax Fairness

In Figure 6 below, we show the impact of Governor Wolf’s personal income tax proposal on the percentage of income paid in taxes by each income group. The current effective tax rate is shown in blue and the rate with the governor’s proposal is shown in green. As you can see, the bottom 60% of income earners will pay, on average, less state and local taxes as a share of their income than they do currently. Those in the 60th to 80th percentile would see their share of taxes increase, but only slightly. Those in the top 20% would see their effective tax rate increase by about 1.1%-1.2%. By decreasing the tax burden on the lowest income earners and increasing it for the top earners, our “upside-down” tax begins to flatten out a little more. This is a welcome and long overdue change, though it would still leave Pennsylvania’s tax system less fair than that of many of our neighboring states.<sup>7</sup>

Figure 6

### Governor Wolf’s Tax Change Proposal Would Lessen the Tax Burden on the Poorest 60% of Income Earners and Increase it for the Top 40%

Share of income spent on state and local taxes, by income group in Pennsylvania



Source: Pennsylvania Budget and Policy Center analysis of Institute on Taxation and Economic Policy data.

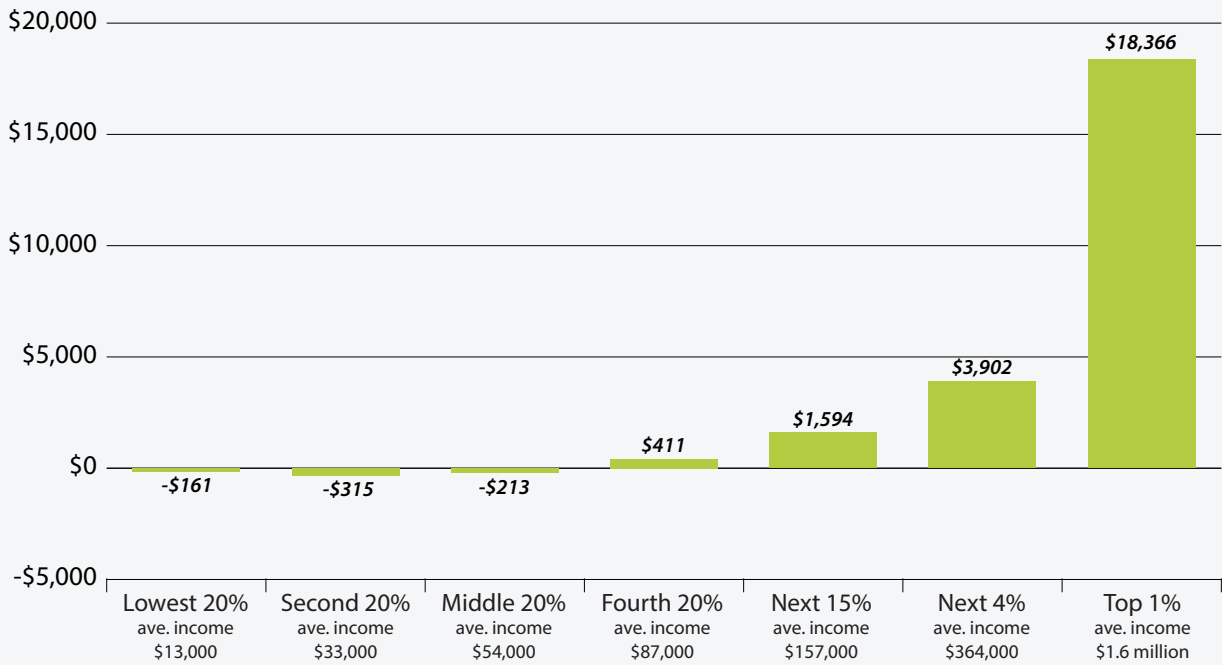
Figure 7 below shows the average tax change by income category under Governor Wolf’s new personal income tax / tax forgiveness plan. As you can see, income earners in the bottom 60% would see savings of a few hundred dollars in taxes. The top 1% would see their taxes go up the most with an increase of more than \$18,000 per year in taxes. These are individuals who can afford such an increase, as their average income is over \$1.6 million/year.

<sup>7</sup> See the comparisons to the tax systems of neighboring states in Marc Stier and Diana Polson, “A Fair Share Tax to Support Public Investment in PA,” KRC-PBPC, April 15, 2019, appendix 1.

Figure 7

### Under Governor Wolf’s Plan, the Top 1% of Income Earners Would See the Largest Dollar Amount Changes to Their Taxes

Average tax change under Governor Wolf’s plan for 2019 income levels



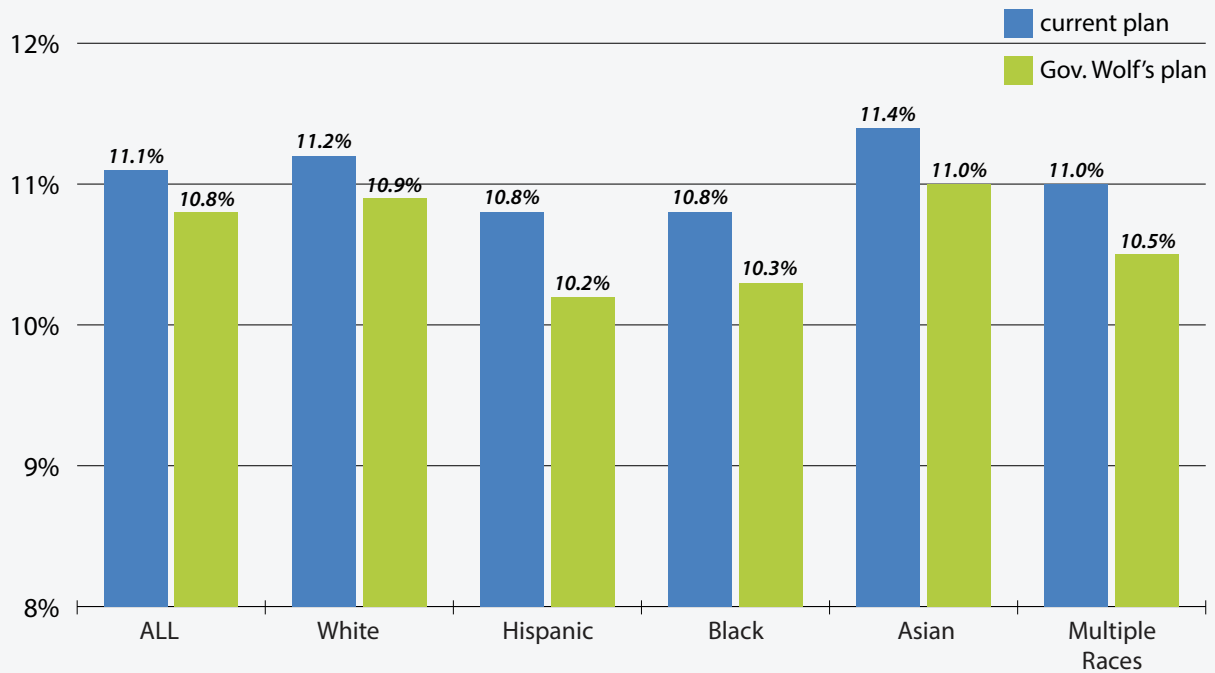
Source: Pennsylvania Budget and Policy Center analysis of Institute on Taxation and Economic Policy data.

Figures 8 and 9 break down this change by race/ethnicity. Figure 8 shows the difference in state and local taxes as a share of income that the bottom 80% of income earners would see with this tax change, by race/ethnicity. The bottom 80% of income earners of all races would, on average, see a decrease in state and local taxes. People who are Hispanic, Black, or of multiple races would see the largest decreases under Governor Wolf’s plan.

Figure 8

**The Bottom 80% of Income Earners of All Races Would See a Decrease in State and Local Taxes as a Share of Family Income Under Governor Wolf’s Plan**

Hispanic, Black, and multiple races would see the largest decrease



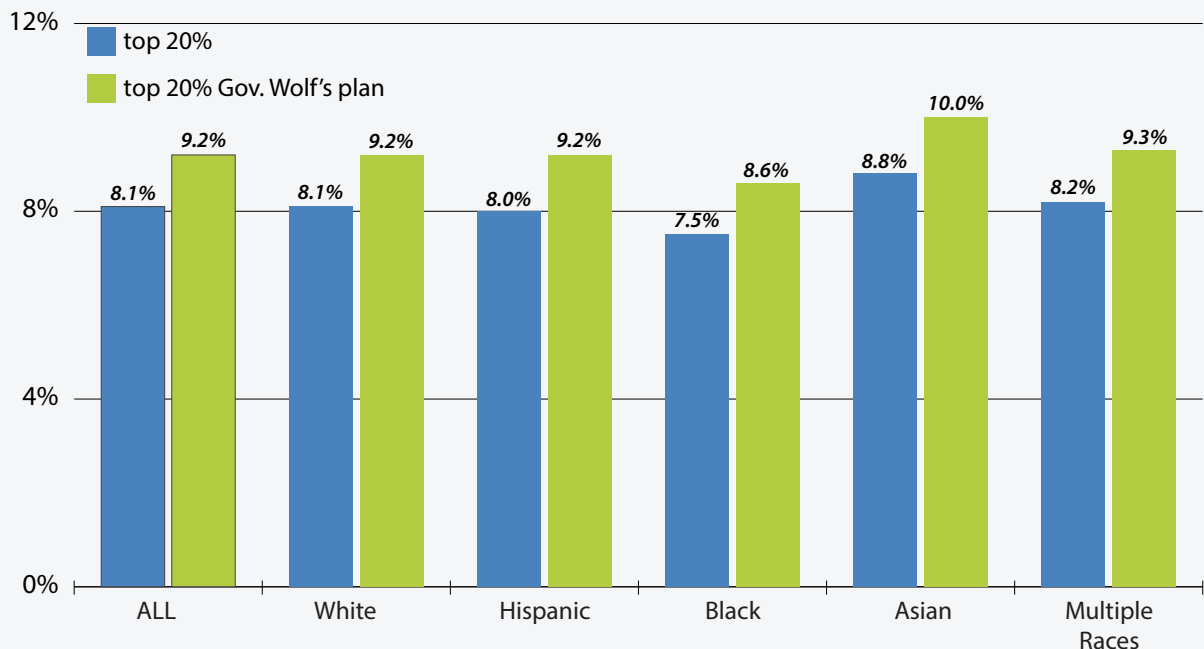
Source: Pennsylvania Budget and Policy Center analysis of Institute on Taxation and Economic Policy data.

As Figure 9 shows, the top 20% of income earners across race/ethnicity would see a modest increase in their effective tax rate, between 1.1% and 1.2%. Even with Governor Wolf’s tax change, the top 20% across all races would still pay less, on average, in state and local taxes as a share of their income than the bottom 80% of income earners.

Figure 9

**The Top 20% of Income Earners Would See Their State and Local Taxes as a Share of Their Income Increase by 1.1%-1.2% in Every Race/Ethnic Group**

The top 20% would still have a lower effective tax rate than the bottom 80% across the board



Source: Pennsylvania Budget and Policy Center analysis of Institute on Taxation and Economic Policy data.

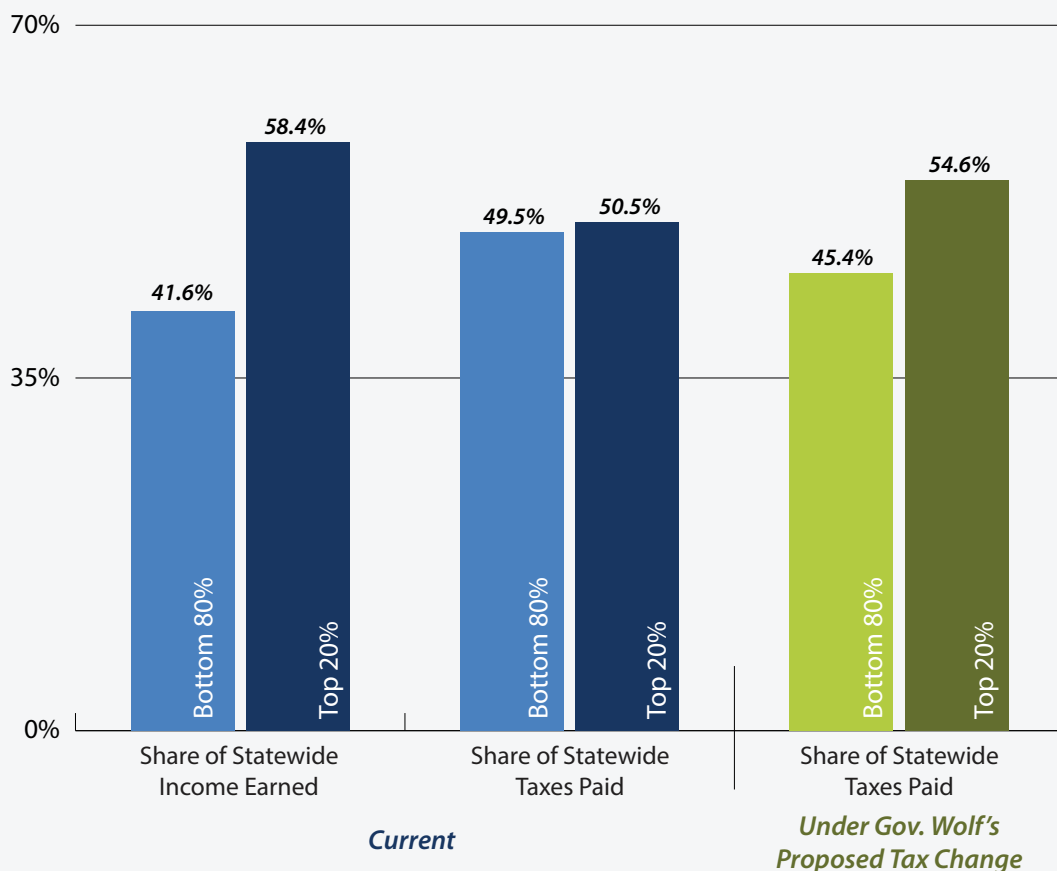


Figure 10 shows the share of statewide income earned and taxes paid by the bottom 80% of families compared to the top 20% of families, divided by income. The first two sets of bars show the current distribution, and the final set of bars shows how the taxes paid as a share of statewide taxes would change under Governor Wolf’s new plan. As the first set of bars show, those in the top 20%—just one-fifth of non-elderly tax units—receive 58% of income in Pennsylvania, well over half of the total. The bottom 80% of households receive 42% of the state’s income—well under half—even though they represent four-fifths of the state’s non-elderly households. The middle set of bars shows that even though the top 20% would receive well over half the income in the state, they would pay only half of the state’s taxes.

Governor Wolf’s plan would lessen these disparities on the tax side. As the last set of bars shows, the top 20% would pay nearly 55% of statewide taxes, inching them closer to paying their fair share. The bottom 80% would still be paying a greater share of taxes than they receive in income, but the tax burden would be lessened.

Figure 10

**Under Governor Wolf’s Proposed Tax Change, The Top 20% of Income Earners Would Pay a Larger Share of Statewide Taxes and the Bottom 80% Would Pay a Lower Share**



Source: Pennsylvania Budget and Policy Center analysis of Institute on Taxation and Economic Policy data.

Governor Wolf’s plan has been attacked as violating the Pennsylvania Constitution’s uniformity clause, which requires that any class of income be taxed at a single rate. However, since 1968 the Constitution also contains

a poverty exemption that allows the state to reduce taxes for those with lower incomes.<sup>8</sup> It is this provision of the Constitution that allowed for the creation of the tax forgiveness program. The Pennsylvania Supreme Court will decide whether that exemption allows for this proposed expansion of the tax forgiveness program and that decision will, no doubt rest on how “poverty is defined. There is no reason, however, to assume the words of this provision should be interpreted to hold that the term “poverty” in this clause is to be defined by the federal poverty rate. The federal poverty rate had been established by 1968 when this provision of the constitution was adopted and those who wrote it could have specified that it meant to use that rate to set the boundaries for tax relief to those who are impoverished. They did not do so. Meanwhile many state and federal programs that are targeted to the relief of poverty—such as subsidized child care programs, subsidies for insurance on the marketplaces, and the child tax credit—benefits to those with low incomes far above the poverty rate. Indeed, in recent years, in recognition of the inadequacy of the official poverty rate, the federal government has begun to create alternative standards that define poverty at levels of income far higher than the official poverty rate.

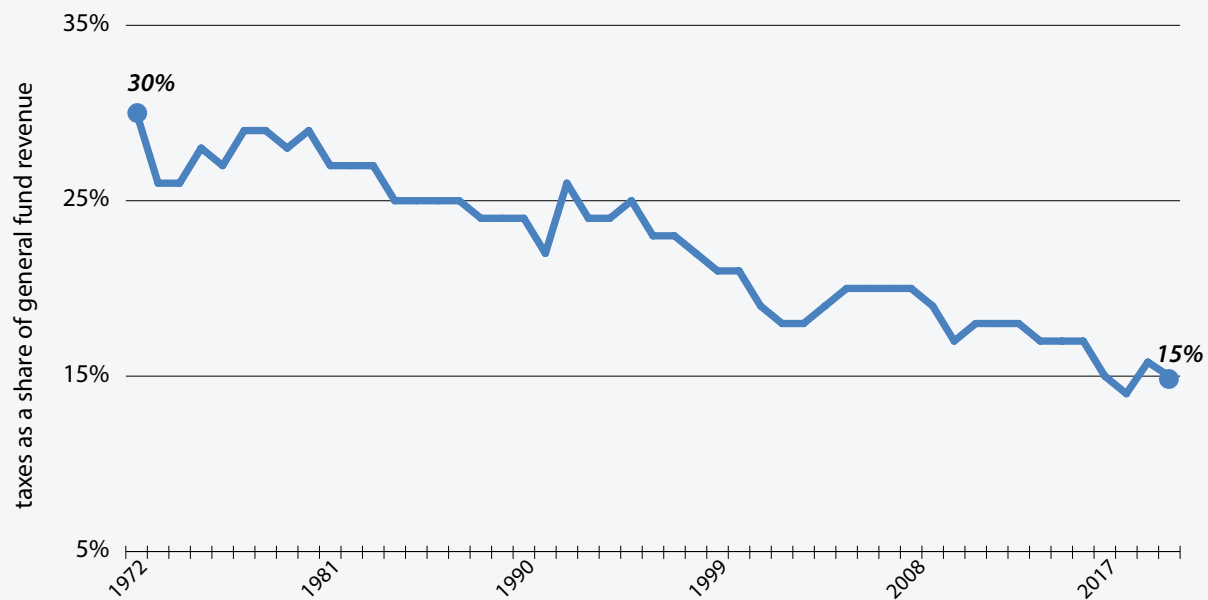
### Corporate Net Profit Tax

Accentuating Pennsylvania’s revenue problem is the declining share of General Fund revenues from corporate taxes. As Figure 11 below shows, in 1972, corporate taxes accounted for 30% of Pennsylvania’s General Fund revenue. Today, corporate taxes have been cut to half of that and only account for 15% of General Fund revenues. We estimate that this now costs Pennsylvania \$4.2 billion annually in revenue.<sup>9</sup>

Figure 11

### Corporate Taxes Are Providing a Smaller Share of General Fund Revenue Over Time

As a share of General Fund revenue, corporate taxes account for half (15%) today of what it did in 1972 (30%).



Source: Pennsylvania Budget and Policy Center based on Pennsylvania Department of Revenue, Bureau of Research, The Statistical Supplement to the Tax Compendium, various years.

8 The clause says that the General Assembly may “establish as a class or classes of subjects of taxation the property or privileges of persons who, because of age, disability, infirmity or poverty are determined to be in need of tax exemption or of special tax provisions, and for any such class or classes and standards and qualifications, and except as herein provided may impose taxes, grant exemptions, or make special tax provisions in accordance therewith.” Article 8, section 2, (b) (ii).

9 Stephen Herzenberg, Diana Polson, Marc Stier. “Corporate Tax Cuts Since 2002 Now Cost PA \$4.2 Billion Yearly: Pennsylvania Should Pass Worldwide Combined Reporting.” January 27, 2020. Accessed at: [https://krc-pbpc.org/wp-content/uploads/Corporate\\_Tax\\_Paper\\_Final.pdf](https://krc-pbpc.org/wp-content/uploads/Corporate_Tax_Paper_Final.pdf).

One corporate tax, the Capital Stock and Franchise Tax (CSFT), has been completely eliminated, which removed a reliable source of revenue for the state. The Corporate Net Income Tax is less stable than the CSFT and several loopholes exist that allow multi-state or multi-national companies to get around paying this Pennsylvania tax. In fact, corporate tax loopholes allow 73% of corporations that do business in Pennsylvania to pay no corporate net income tax at all. This means that local companies are often the ones paying Pennsylvania's relatively high corporate net income tax (9.99%).

As he has in previous budgets, Governor Wolf is proposing to reduce Pennsylvania's CNIT rate, from 9.99% to 8.99% starting January 1, 2022, with further incremental reductions ending at 5.99% by 2026. At the same time, the governor proposes to close the Delaware loophole, which currently allows separate company reporting which requires companies to pay taxes only on the profit they say they make in Pennsylvania. Many large multi-state and multi-national corporations avoid paying corporate taxes by adjusting their books to show—on paper—that they make little or no profit in Pennsylvania. To close this loophole, the governor proposes that Pennsylvania join the 28 other states that have implemented what is called “combined reporting,” which requires companies to pay taxes on a share of their entire U.S. profit that is equal to the share of sales made in the state. This is a common-sense reform that would ensure multi-state and multi-national companies pay their fair share.

In 2021-22, these changes—a lower CNIT rate and combined reporting—are expected to bring in about \$208.5 million. Revenue would continue to grow for several years, but then decline once the proposed change in corporate tax rate is fully implemented. Our recommendation is that the corporate tax rate be reduced, but not as low as the governor proposes so that the state can secure additional revenue from combined reporting.

### ***Raising the State Minimum Wage***

Once again, the governor is proposing to raise Pennsylvania's minimum wage of \$7.25 per hour. The minimum wage would increase immediately on July 1, 2021, to \$12 per hour and increase in \$.50 increments annually until 2027 when the wage would reach \$15 per hour. This change would also eliminate the state's tipped minimum wage of \$2.83 per hour, enabling tipped workers to earn what all other workers in the state earn. The governor's proposal is a more gradual path to \$15 per hour than the current federal proposal, which would create a \$15 per hour minimum wage by 2025.

Governor Wolf's minimum wage proposal is estimated to raise \$116.4 million in personal income tax and sales and use tax in 2021-22. Savings on medical assistance are estimated to be \$10.8 million.<sup>10</sup>

The Economic Policy Institute estimates that this change would affect more than 1.6 million workers, which is over a quarter of the people working in the Commonwealth. It would make Pennsylvania jobs more competitive with bordering states, all of whom already have minimum wages higher than \$7.25 per hour. If enacted, this legislation would increase the average wage of affected workers by \$2.56 an hour.

The impact of full implementation of the governor's proposal in 2027 is shown in the figures below. Many workers would directly benefit from a \$15 per hour minimum wage because their wages are, and would still be, below that level in 2027. Others workers, whose wages would be slightly above \$15 per hour in 2027, would be “indirectly” impacted: employers would increase these workers' wages to achieve a bigger gap with the new minimum at \$15 per hour and to ensure that they do not lose valued employees.

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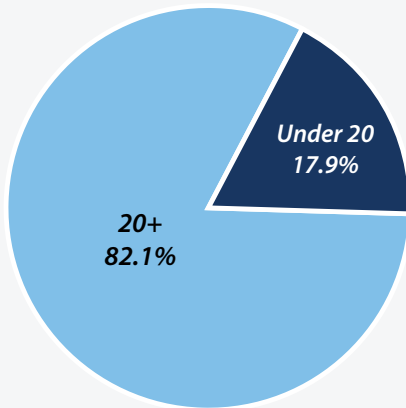
<sup>10</sup> Commonwealth of Pennsylvania Office of the Governor. “Governor Tom Wolf Executive Budget 2020-2021.” February 2, 2021. P. E27-20. Accessed at: <https://www.budget.pa.gov/PublicationsAndReports/CommonwealthBudget/Documents/2021-2022%20Executive%20Budget%20Book.Web%20Version.UPDATED.pdf>. There will also be some new costs, including increasing costs for county child welfare wages — \$2.1 million (E27-41).

As Figure 12 shows, more than 82% of those who would see a wage increase are adults, not teenagers. More than 61% of those who would benefit from such an increase are women.

Figure 12

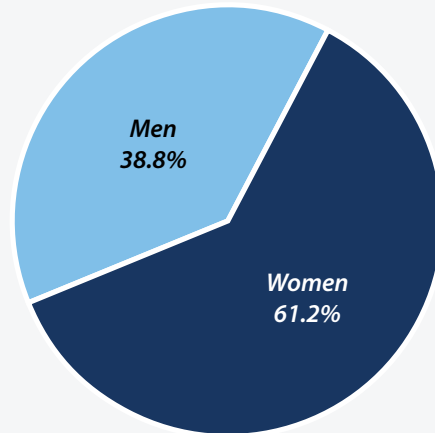
**Most Workers Who Would Benefit From a \$15 Minimum Wage Increase Are Not Teens**

Share of those who would benefit from an increase to \$15 in 2027 by age category



Source: Keystone Research Center based on data from the Economic Policy Institute.

**Women Make Up Over 60% of Workers Who Would Benefit From a Minimum Wage Increase to \$15/Hour by 2027**



Source: Keystone Research Center based on data from the Economic Policy Institute.

Sixty-seven percent of Pennsylvanians who would benefit from this wage increase are white, while 34% are people of color.

Figure 13

**White Workers Make Up Most of Those Who Would Benefit From a 2027 Raise to \$15/Hour; Larger Shares of Workers of Color Would Benefit**

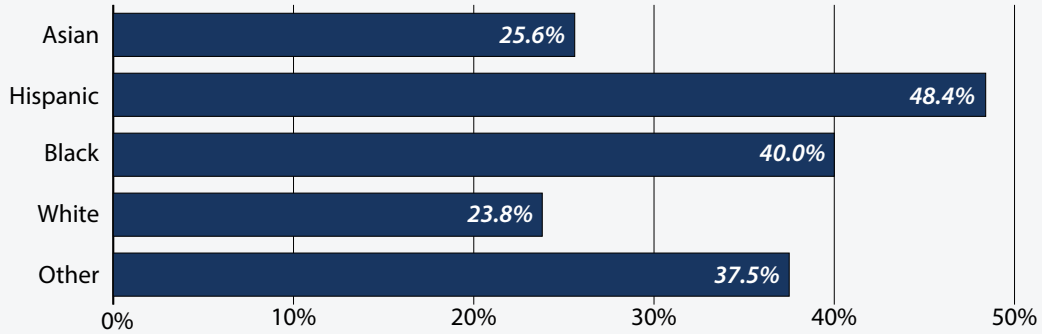


Source: Keystone Research Center based on data from the Economic Policy Institute.

Figure 14 below shows the share of workers in each racial/ethnic group that would benefit from a \$15 minimum wage in 2027. Nearly half (48%) of Hispanic workers would see a wage increase as would 40% of Black workers; 26% of Asian workers and 23% of white workers.

Figure 14

### Share of Workers in Each Racial/Ethnic Group That Would Benefit From a \$15 Wage in 2027



Source: Keystone Research Center based on data from the Economic Policy Institute.

Nearly 47% of workers who would benefit from such an increase are full-time workers (Figure 15).

Figure 15

### Full-time Workers Would Benefit the Most From a Minimum Wage Increase to \$15 by 2027

Share of affected workers by hours worked



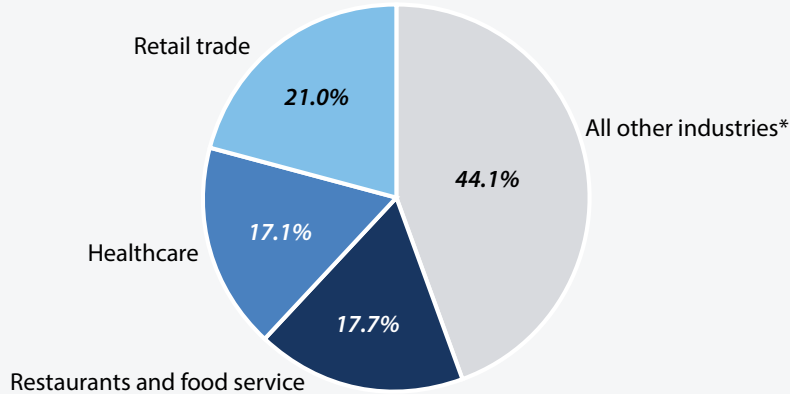
Source: Keystone Research Center based on data from the Economic Policy Institute.

The pandemic has laid bare the incredibly important and life sustaining work being done by essential workers in Pennsylvania. As Figure 16 below shows, 56% of workers who would see a raise by 2027 fall into three categories of essential workers: retail trade, restaurant and food service, and health care. Increasing the minimum wage is the least Pennsylvania can do to help workers who have taken care of our basic needs during this pandemic.

Figure 16

## More Than Half of Workers Who Would Benefit Are in Service Industries and Healthcare

Share of affected workers who are in each industry



\* All other industries includes: Manufacturing (6.8%); Education (6.0%); Other services (6.5%); Administrative, support, and waste management (5.0%); Transportation, warehousing, utilities (3.7%); Arts, entertainment, recreational services (3.5%); Construction (2.2%); Finance, insurance, real estate (2.0%); Wholesale trade (2.1%); Accommodation (1.9%); Professional, scientific, management, technical services (1.3%); Agriculture, forestry, fishing, mining (1.4%); Public administration (1.0%); and Information (0.7%).

Source: Keystone Research Center based on data from the Economic Policy Institute.

### State Police

In 2020-21, about 65% of state funding for state police came from the Motor License Fund. One-third of the Motor License Fund supports the state police, which leaves much less money for the maintenance of roads and bridges. The governor's 2021-22 Executive Budget proposes to reduce state police reliance on the Motor License Fund. A statutory cap on the amount of money that the state police receive from the MLF is set at \$705.5 million in 2020-21 with reductions by \$32 million each year until it reaches \$500 million in 2027-28. As state police reliance on the MLF declines, general funds are needed to fill the resulting gap. Governor Wolf proposes an increase of \$86.3 million in general funds. Some of this money would replace the \$226 million the state police received in CARES Act funding in 2020-21.

Governor Wolf proposes to impose a fee on all municipalities for their use of state police services. This would generate \$168 million. This fee would be assessed based on station coverage costs, which takes into consideration incidents and coverage area and is weighted based on population, income, and whether that area uses full- or part-time services.<sup>11</sup>

Total funding for the state police would be \$1.38 billion, an increase of \$6.4 million from the 2020-21 budget. The proposed budget also includes two additional cadet classes to train new officers in the face of expected turnover and retirements.

### Other Revenue Changes Occurring outside the General Fund Budget

#### Legalizing Adult-Use Cannabis

While Governor Wolf proposed legalizing adult-use marijuana in his budget address, his proposed 2021-22 Executive Budget does not rely on any revenue from legalizing marijuana, largely because even if his proposal is adopted, it would take some time for marijuana sales and the resulting state revenues to begin.

<sup>11</sup> House Appropriations Committee. "2021/22 Executive Budget Briefing." Accessed at: [https://www.houseappropriations.com/Topic/2021-2022/583#TOC\\_2](https://www.houseappropriations.com/Topic/2021-2022/583#TOC_2)

The governor also suggested that revenue generated from legalizing marijuana should go towards supporting historically disadvantaged small businesses and restorative justice programs to help those hurt by marijuana criminalization. Legalizing adult-use cannabis could, however, provide substantial revenues in future years. Auditor General DePasquale’s 2018 report found that legalizing adult-use cannabis could generate \$581 million annually for Pennsylvania.<sup>12</sup>

### Severance Tax

The governor again has called for a severance tax on natural gas. But revenues from that tax are not included in the 2021-22 Executive Budget. Rather, revenues from a severance tax would fund his Back to Work PA plan to help workers and businesses recover from the pandemic, which is discussed below.<sup>13</sup>

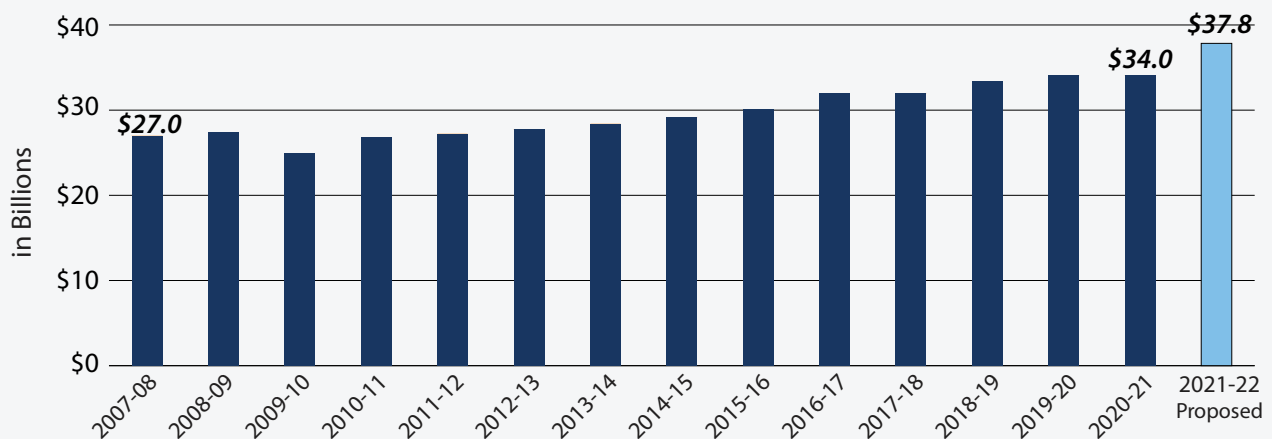
Pennsylvania remains the only gas-producing state in the United States without a severance tax, leaving critical resources for the state untapped. Governor Wolf’s proposal would keep in place Pennsylvania’s existing impact fee and add on a severance tax for a combined tax rate on the natural gas industry of 2.8%. This tax rate is low compared to other states with a severance tax. The governor estimates that a severance tax on natural gas extraction would bring an estimated \$300 million per year, or \$3 billion over the next 10 years. Rather than wait for the state to bring in this revenue, the governor proposes taking out a 20-year, \$3 billion bond, which Pennsylvania would pay back with the revenue from the severance tax.

## General Fund Expenditures

Governor Wolf has proposed a General Fund budget of \$37.8 billion, an increase of 11.1% from 2020-21 (Figure 17). This is a significant and much-needed increase considering our current crisis and the fact that last year’s budget was flat funded. For comparison, Governor Wolf’s proposed budget last year, before the COVID-19 pandemic hit our state, was 4.2% above the previous year’s budget.

Figure 17

### The 2021-22 Proposed Budget Increases General Fund Spending by 11.1% from the Prior Year



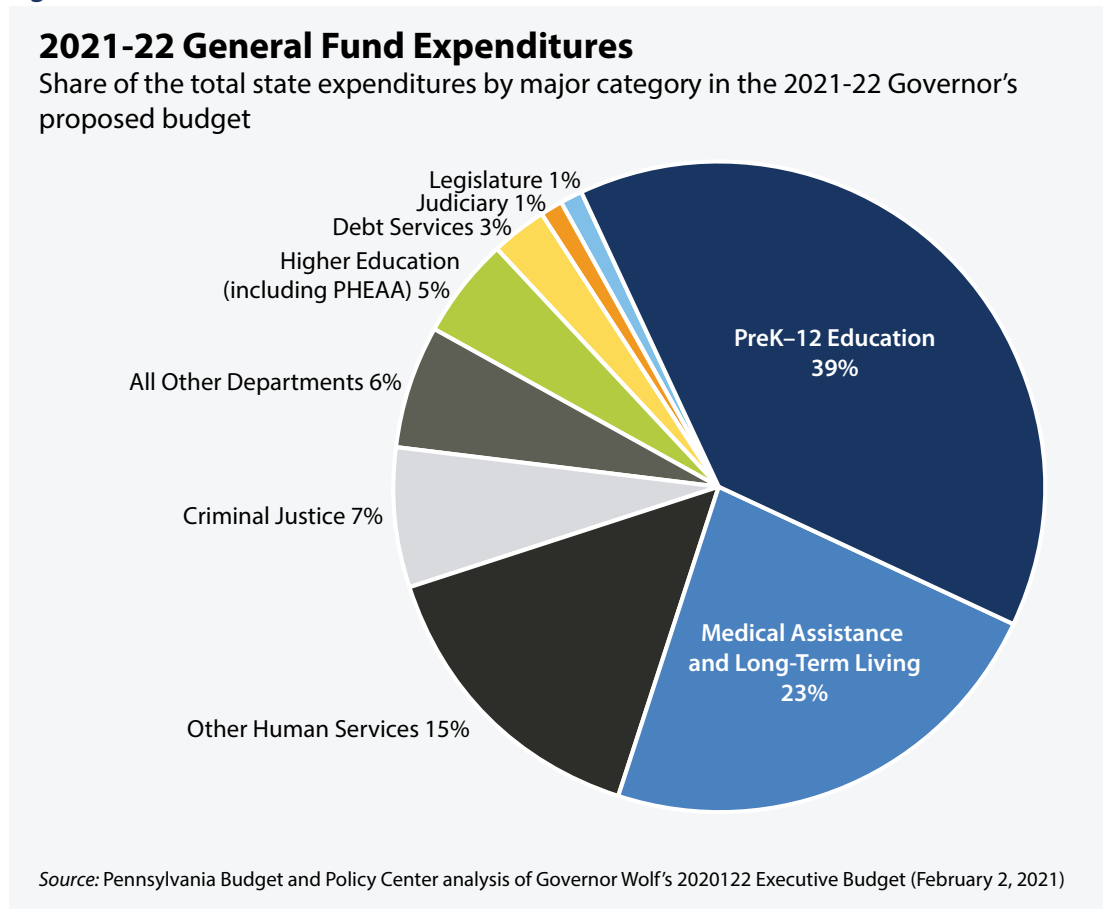
Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf’s 2021-22 Executive Budget (February 2, 2021) and previous budgets.

12 Auditor General DePasquale. “Auditor General DePasquale Says State Could Reap \$581 Million Annually by Regulating, Taxing Marijuana.” July 19, 2018. Accessed at: <https://www.paauditor.gov/press-releases/auditor-general-depasquale-says-state-could-reap-581-million-annually-by-regulating-taxing-marijuana>.

13 Governor Tom Wolf. “2021 Legislative Plan.” Accessed at: <https://www.governor.pa.gov/2021-plan/>; Commonwealth of Pennsylvania Office of the Governor. “Governor Tom Wolf Executive Budget 2020-2021.” February 2, 2021, P. A1-10. Accessed at: <https://www.budget.pa.gov/PublicationsAndReports/CommonwealthBudget/Documents/2021-2022%20Executive%20Budget%20Book.Web%20Version.UPDATED.pdf>.

As the Figure 18 below shows, education and human services account for more than three-fourths of General Fund spending in Pennsylvania. Governor Wolf’s proposal includes a substantial increase in pre-K-12 education funding—last year, education accounted for 36% of General Fund spending in the governor’s Executive Budget, while it accounts for 39% of his plan this year. Human services spending, including medical assistance, long-term living, and other human services account for 38% of General Fund spending under this plan. Other substantial spending categories include criminal justice (7%) and higher education (5%).

**Figure 18**



## Education

Pennsylvania’s public education system includes 500 school districts and more than 2,900 schools and early childhood centers, as well as the 14 Pennsylvania State System of Higher Education (PASSHE) campuses and four state-related universities. The governor made education funding a key priority of his first term and the same is true during his second term. This year, he proposes a very substantial increase for K-12 funding.

### *PreK-12 Education*

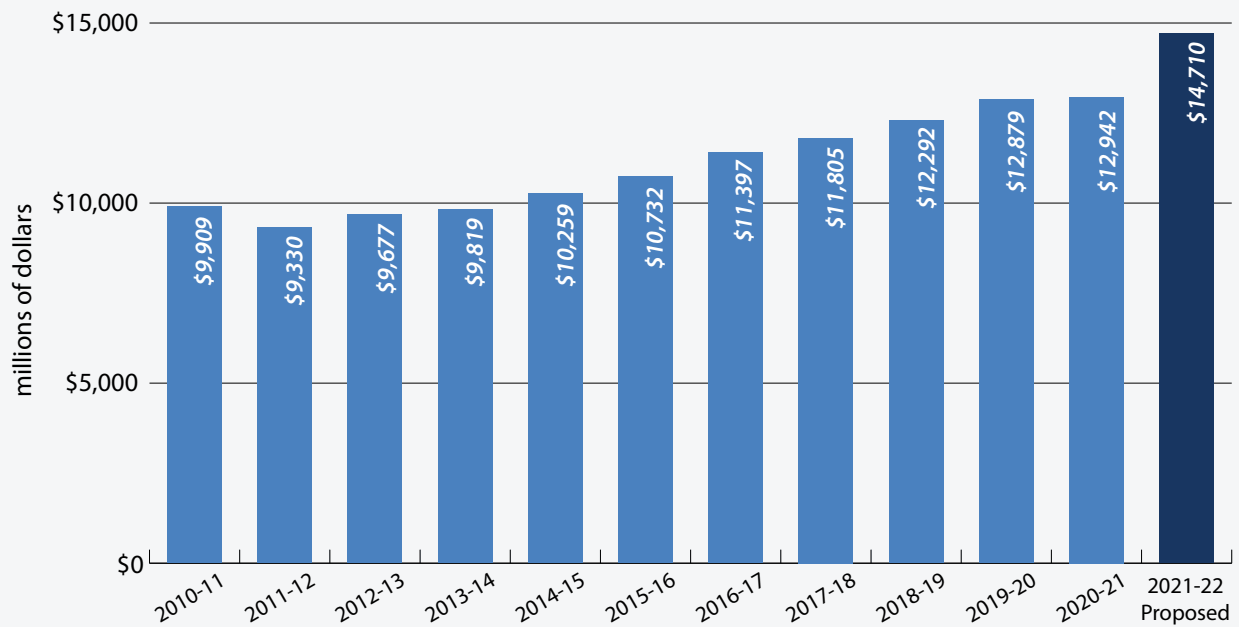
Governor Wolf is proposing a \$14.7 billion budget for preK-12 education, a proposed increase of 13.7% from last year’s budget (Figure 19). This is a significant increase—for comparison’s sake, Governor Wolf’s proposed budget for education last year was only a 2.1% increase from 2019-20. Due to the COVID-19 pandemic, preK-12 was flat funded between 2019-20 and 2020-21.



Figure 19

### The 2021-22 Proposed Budget Would Increase Spending on PreK-12 by 13.7% from Last Year

Total PreK-12 spending 2010-11 to 2021-22



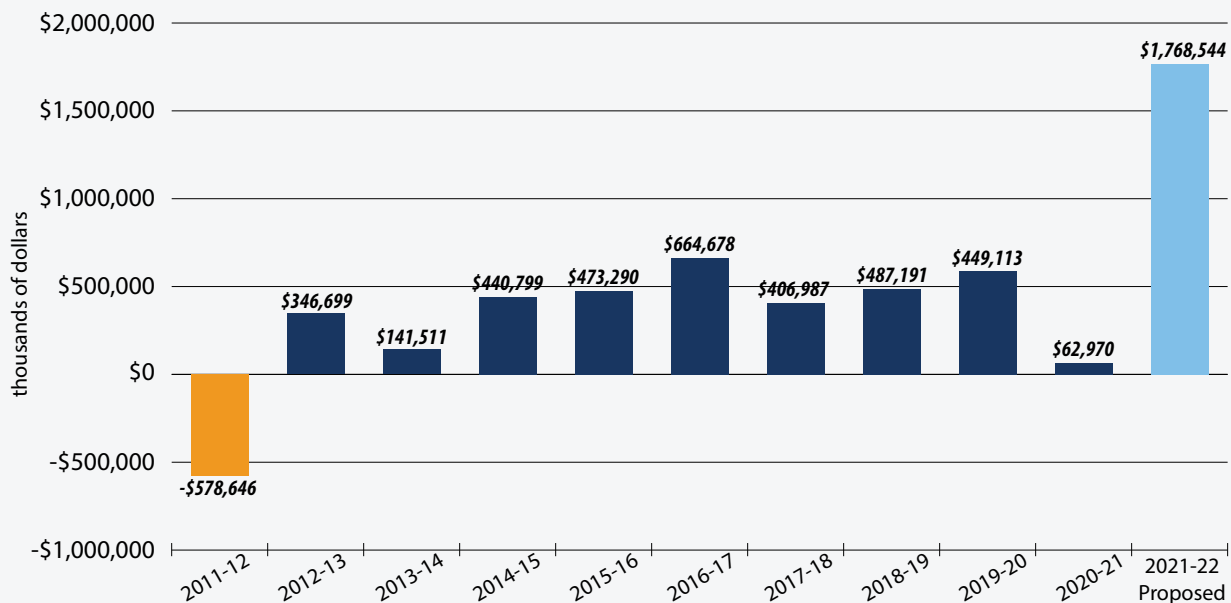
Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2020-21 Executive Budget (February 4, 2020) and previous budgets.

Figure 20 below shows just how significant this year's proposed funding increase is, compared to other years. Governor Wolf's education budget this year would be an increase of \$1.77 billion—this is 2.6 times higher than his largest increase in 2016-17.

Figure 20

### Governor Wolf has Proposed an Increase in PreK-12 Funding That is Far Greater Than Any Increase in the Last Ten Years

Yearly change in prek-12 funding in pennsylvania, 2011-12 to 2021-22 (proposed)



Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2021-22 Executive Budget (February 2, 2021) and previous budgets.

We now turn from the whole of the preK-12 education budget, which includes items such as pensions and transportation, to what we call “classroom funding,” which is state funding that goes directly into K-12 classrooms. Governor Wolf proposes a substantial and much-needed increase this year of 18.9%, or \$1.3 billion (Figure 21).

Figure 21

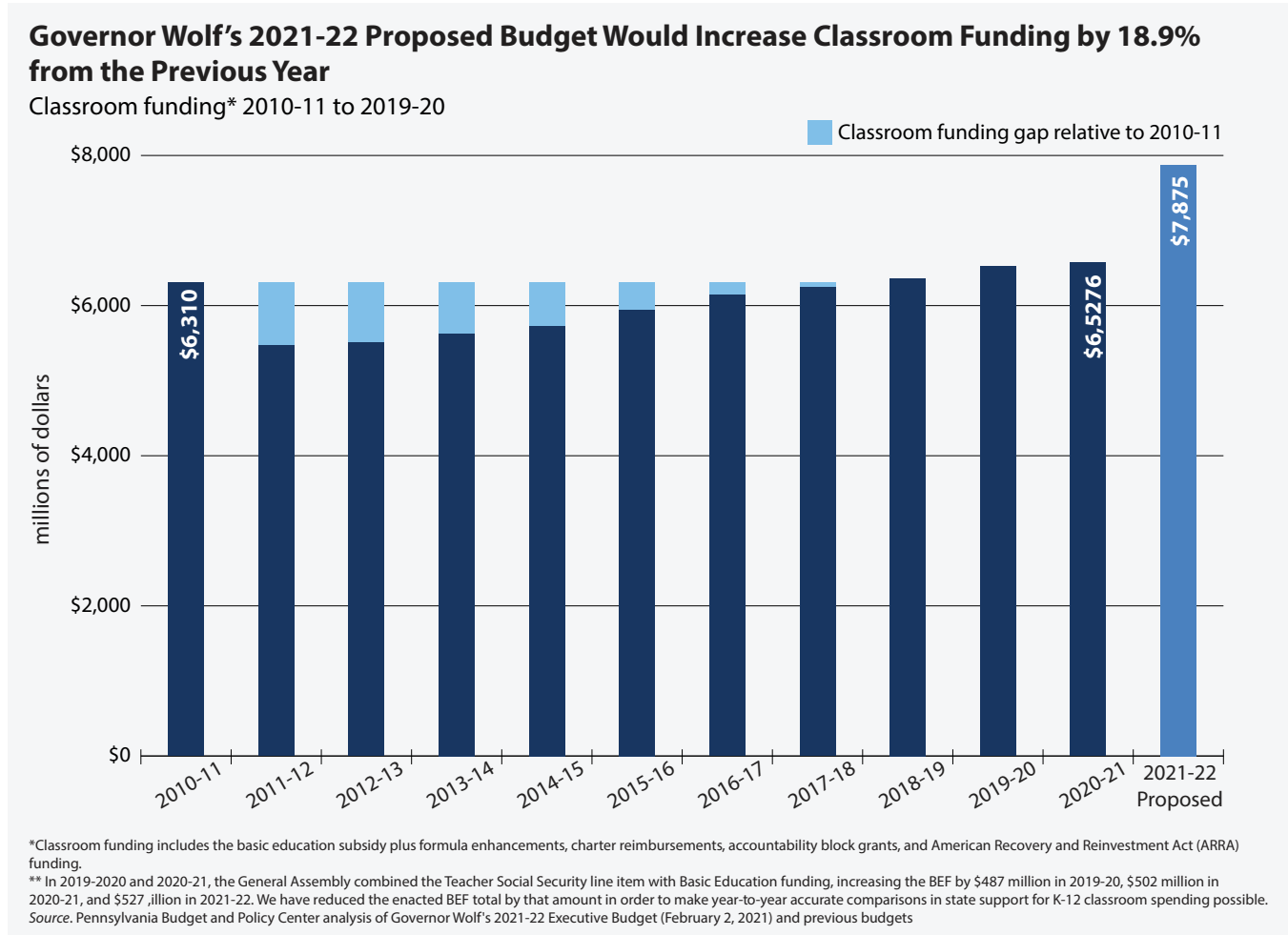
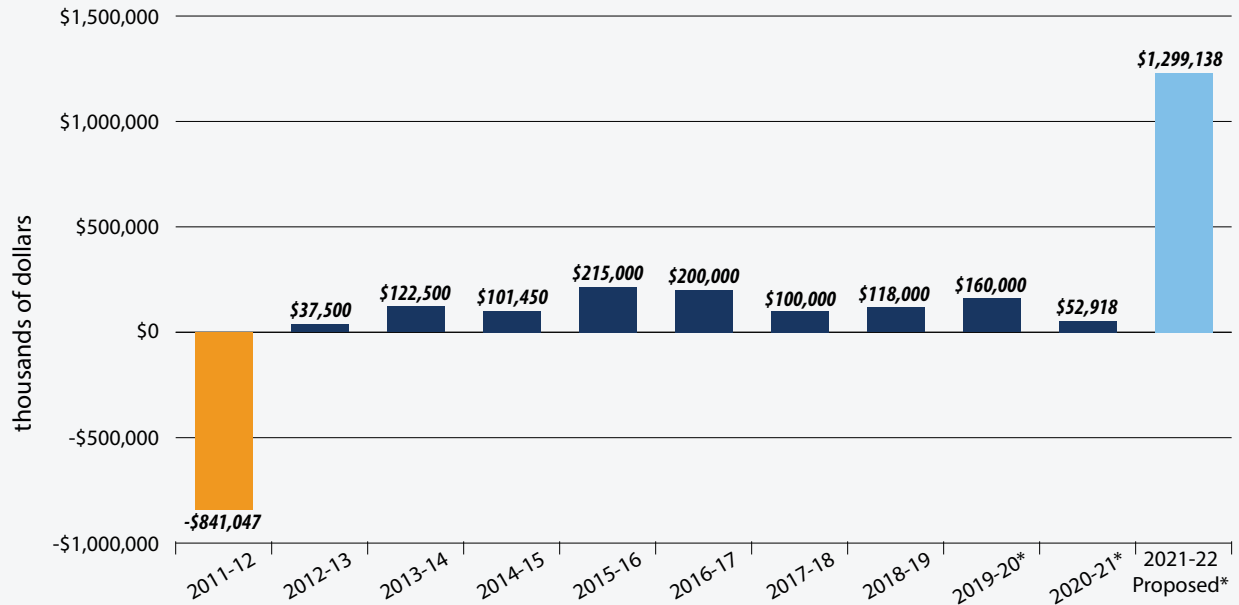


Figure 22 below shows the increase in classroom funding each year since the massive Corbett cuts in 2011-12. Governor Wolf’s proposed increase to classroom funding of \$1.3 billion is larger than the cumulative increase since he has been in office—over the last six years, the governor and the General Assembly has increased classroom funding by \$845 million, slightly more than the devastating education cuts imposed by Governor Corbett in 2011-12.

Figure 22

### Yearly Change in Classroom Spending in Pennsylvania, 2011-12 to 2021-22 Proposed



\* Since 2019-20, the General Assembly combined the Teacher Social Security line item with Basic Education funding, increasing the BEF by \$487 million in 2019-20, \$502 million in 2020-21 and \$527 million in 2021-22. 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 2021-22 Executive Budget (February 2, 2021) and previous budgets.

### Basic Education Funding and Funding Inequities

Funding for K-12 education in Pennsylvania comes primarily from state and local governments. Because Pennsylvania provides a relatively low share of state funding for K-12—38% compared to the national average of 47%—Pennsylvania ranks 44th in the nation for the state share of total K-12 education funding.<sup>14</sup> The outcome is that local governments need to raise the rest of the money necessary to fund their schools via property taxes despite wildly different tax bases—i.e., levels of income and wealth. This leads to great inequities from school system to school system, with school districts with the richest tax base faring much better than those with the poorest. In fact, Pennsylvania has the greatest disparity in funding between our wealthy and poor school districts than any other state, with students in our poorest districts receiving 33% less funding than students in our richest districts.<sup>15</sup>

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 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.<sup>16</sup>

14 Under Summary Tables, Table 5, 2018 data, <https://www.census.gov/data/tables/2018/econ/school-finances/secondary-education-finance.html>.

15 Data from the National Center for Education Statistics found at [https://nces.ed.gov/edfin/Fy11\\_12\\_tables.asp](https://nces.ed.gov/edfin/Fy11_12_tables.asp). Also see [https://www.washingtonpost.com/news/local/wp/2015/03/12/in-23-states-richer-school-districts-get-more-local-funding-than-poorer-districts/?utm\\_term=.54a7f95dfead](https://www.washingtonpost.com/news/local/wp/2015/03/12/in-23-states-richer-school-districts-get-more-local-funding-than-poorer-districts/?utm_term=.54a7f95dfead).

16 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](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-SummaryLevel.aspx#.VZvrX2XD-Uk>. School district wealth is measured by STEB market value per student (ADM).

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

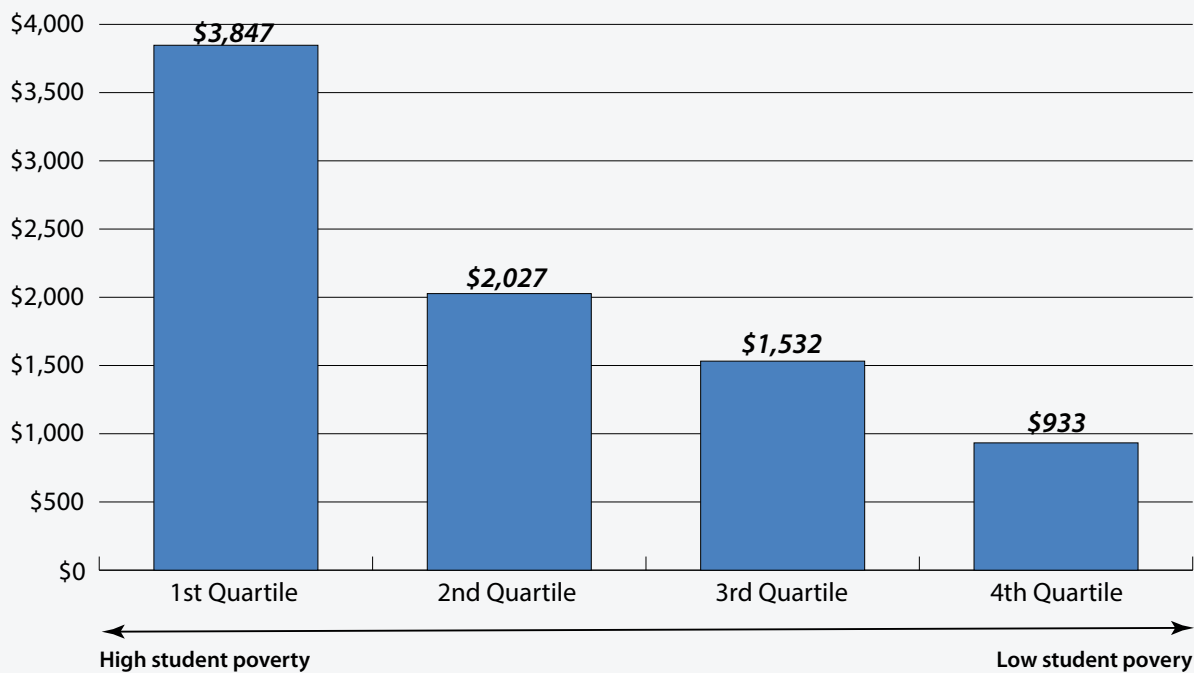
The Public Interest Law Center has calculated an answer to this question based on an average of current school spending per student in districts that perform well, weighted to take into account such factors as the share of students living in poverty and families that speak a foreign language.<sup>17</sup> 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 23 below divides up Pennsylvania's 500 school districts into groups of 125 based on the share of people living in poverty, "1st quartile" being school districts with higher poverty and "4th quartile" being districts with lower poverty. The gap remaining to reach adequate funding is much greater for high-poverty districts 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 needs more money as well, but only \$904 per student. This adequacy analysis is based on school funding for 2019-20, and we expect this adequacy gap has grown since then.<sup>18</sup>

Figure 23

#### The Gap Remaining Between Per Student Funding in 2018-19 and Guaranteeing That All Pennsylvania Schools Have What They Need to Properly Educate Their Students

How short of adequacy is per student funding based on calculations by the Public Interest Law Center



Note: The state's 500 school districts are broken down into four groups of 125 school districts based on the percent of children age 5 to age 17 living below the poverty line. The districts with the highest percentage of students in poverty are in the 1st quartile and the districts with lowest percentage of students in poverty are in the 4th quartile. The per student adequacy gap listed for each quartile above is a weighted average within each quartile of the Public Interest Law Center's estimate of state adequacy.

Source: Keystone Research Center analysis of data from the Pennsylvania Department of Education.

17 For more information on the cost of adequate education funding in Pennsylvania, see the Public Interest Law Center's website at <https://www.pubintl.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.pubintl.org/casesand-projects/befc-adequacy-calculation/>.

18 Updated analysis on this is forthcoming.

### The Basic Education Funding Formula and Governor Wolf's Bold Education Proposal

To address existing inequities in funding in Pennsylvania's schools, the legislature in 2015-16 enacted a new method of distributing state aid to school districts, which is known as the fair funding formula. This formula requires all new basic education funding since 2014-15 to go through a formula that takes into account each district's distinct needs. This includes the number of students, the number of children living in poverty, the number of English-language learners, the overall wealth and income of district residents and the "tax effort" made by each district. However, under what is called the "hold-harmless" provision, only increases in funding beginning in 2015-16 go through the formula, while the rest of basic education funding is distributed as it was in 2014-15.

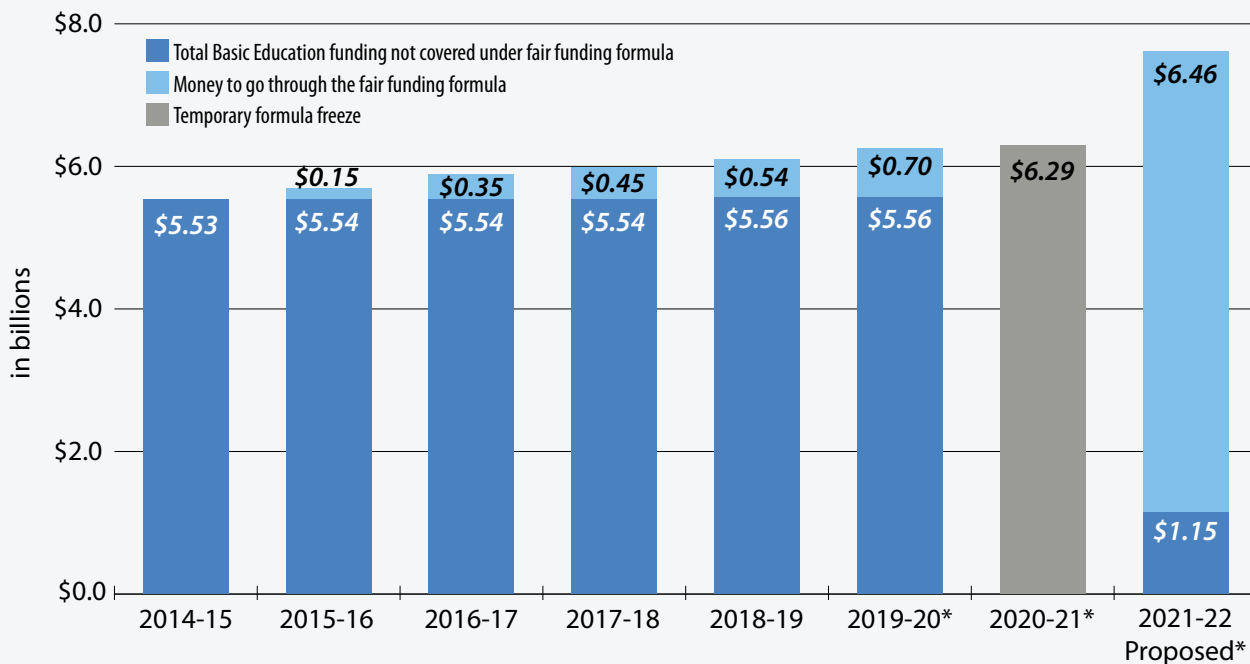
Figure 24 below shows the portion of basic education funding that has gone through the fair funding formula and the portion that does not. In 2019-20, only 11% of total BEF funding was allocated using the formula. Basic education funding was flat funded in 2020-21 so there was no new funding for BEF.

This year, Governor Wolf has proposed a major change in state funding. He is calling for all basic education funding (BEF) provided last year, plus an additional \$200 million, to be distributed 100% through the fair funding formula. Since redistributing last year's BEF funding through the fair funding formula reduces funding to some school districts, the governor also proposes to add an additional \$1.15 billion to basic education funding to ensure no district gets less next year than this year. The net result is that 85% of Pennsylvania's Basic Education Funding would be distributed through the fair funding formula. This proposal would be a massive step forward, making Pennsylvania's school funding much more equitable.

Figure 24

### In the Governor's Proposed 2021-22 Budget, 85% of Basic Education Funding Would Go Through the Fair Funding Formula, Up from 11% in 2019-20

The \$1.5 billion not going through the fair funding formula in 2021-22 is intended to ensure there are no negative impact



Note: The base amount (pre-formula money) 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 Briefing." Also see Education Budget (pa.gov).

\*In 2019-20, 2020-21, and 2021-22 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>

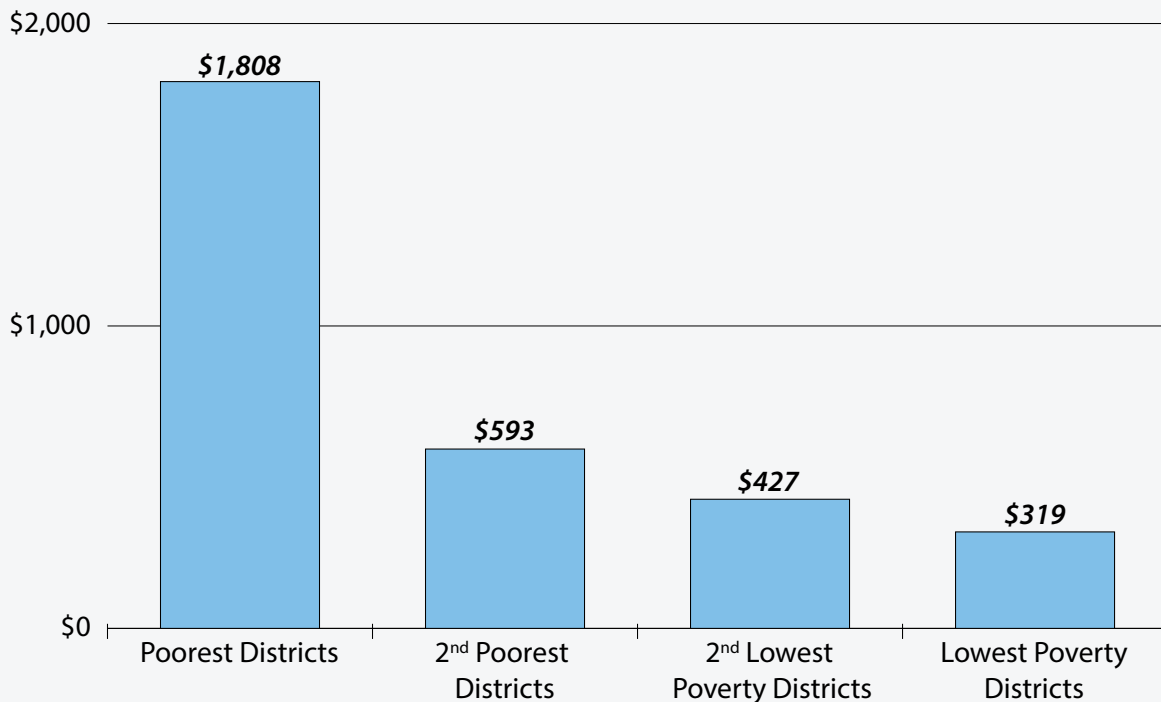
Governor Wolf’s proposed state funding reform for education is meant to begin to correct the economic and racial inequities we have identified. The following three charts examine the impact of the governor’s K-12 education funding on the equity of school funding based on three characteristics of school districts: their poverty rate, Black student share, and Hispanic student share. In our analysis with each variable, we divide school districts into four groups or “quartiles,” each educating one quarter of the K-12 public school students in the state. Our main finding is that the governor’s proposal would dramatically increase the equity of school funding based on poverty and the share of students of color in districts.

Starting with poverty rate, Figure 25 below shows that the poorest districts educating one quarter of Pennsylvania K-12 students receive well over half of the funds (58%). This first quartile of districts with the highest poverty rates receives more than \$1,800 per student, whereas the other three quartiles all receive less than \$600 per student—a sizable increase, to be sure, but less than one-third per student of the amount going to the poorest districts.

Figure 25

### **Governor Wolf's Proposal Provides Most Funding to the Districts That Need It Most: Distribution Based on Poverty Rate**

Increase in Funding per Student in Four Groups of Districts, Each Educating One Quarter of Public K-12 Students



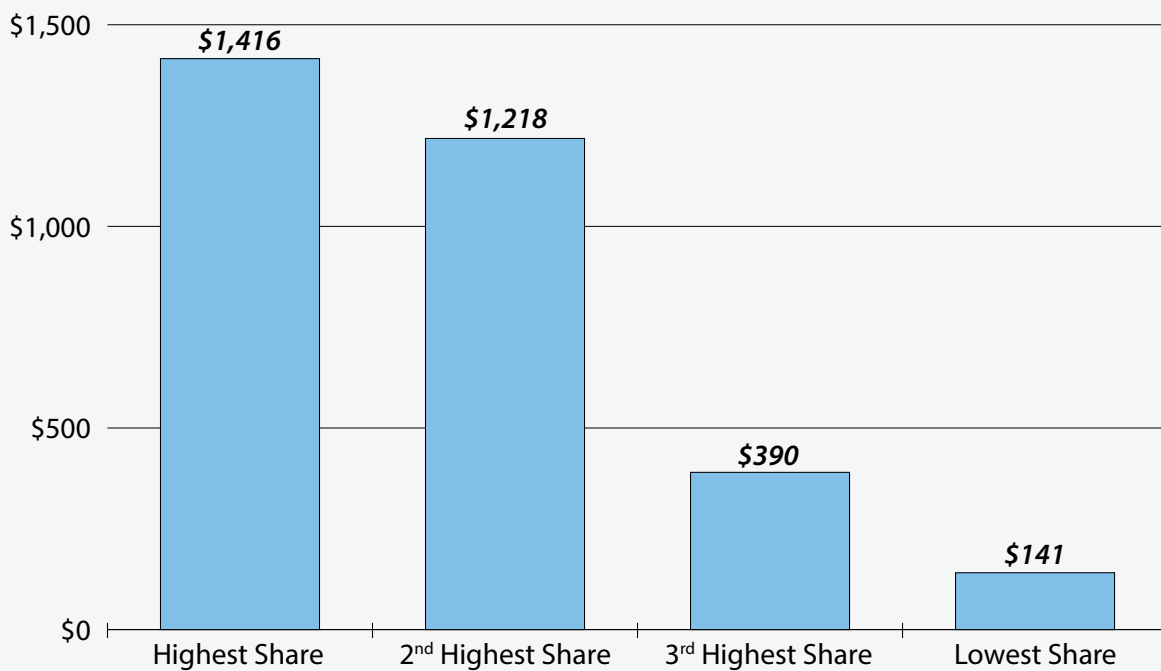
Source: Pennsylvania Budget and Policy Center analysis of Pennsylvania Department of Education data.

The next chart (Figure 26) shows that the quartile of districts with the highest share of Black students, many of them poor districts, would receive 45% of the increase in state funds under the governor’s proposal, while the quartile with the second-highest share of Black students would receive 38% of funds. Districts in these two quartiles would receive \$1,218 to \$1,416 more per student, more than three times as much as districts in the other two quartiles with smaller shares of Black students. Districts in the quartile with the most Black students would receive 10 times as much funding as districts in the quartile with the least Black students.

Figure 26

### Governor Wolf's Proposal Provides Most Funding to the Districts That Need It Most: Distribution Based on Black Share of Students

Increase in Funding per Student in Four Groups of Districts, Each Educating One Quarter of Public K-12 Students



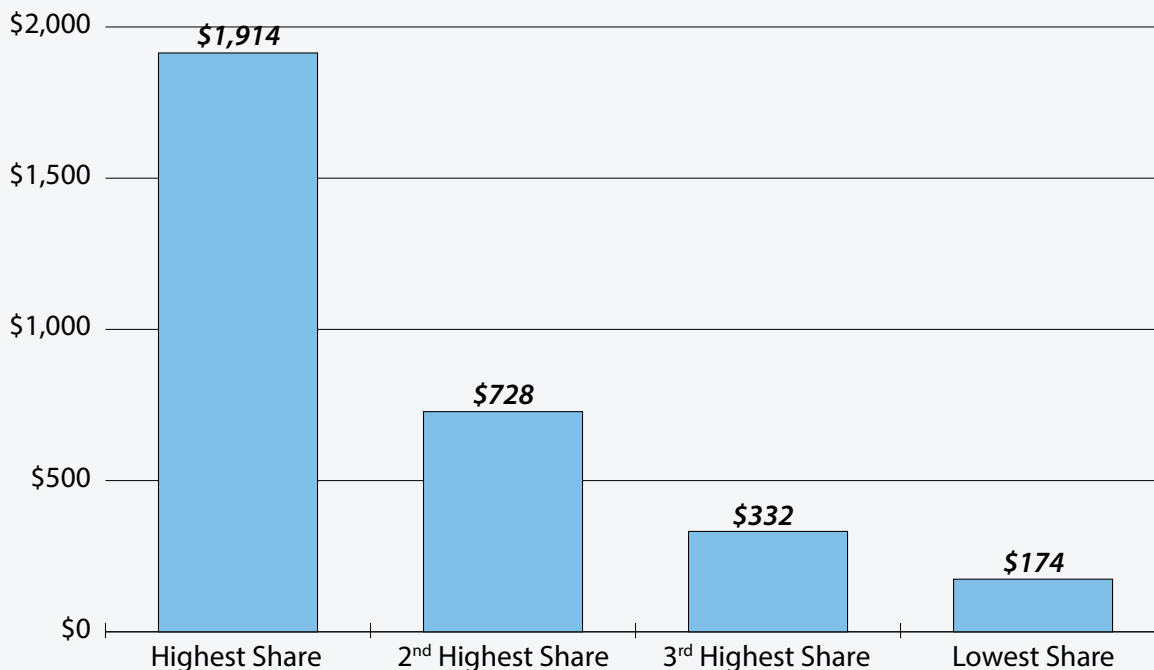
Source: Pennsylvania Budget and Policy Center analysis of Pennsylvania Department of Education data.

Districts with high shares of Hispanic students, who also concentrate in the poorest districts, also receive the most funds: 61% of funds go to the first quartile with the highest-share of Hispanic students, \$1,914 per student (Figure 27). This compares with \$174 per student in districts with the lowest share of Hispanic students.

Figure 27

### Governor Wolf's Proposal Provides Most Funding to the Districts That Need It Most: Distribution Based on Hispanic Share of Students

Increase in Funding per Student in Four Groups of Districts, Each Educating One Quarter of Public K-12 Students



Source: Pennsylvania Budget and Policy Center analysis of Pennsylvania Department of Education data.

While the governor's proposal would increase the equity of school funding based on poverty and the race/ethnicity of students, in forthcoming analysis we will show that it does not get all the way to adequate funding for students in all districts to meet state standards. Pennsylvania will have more work to do, even if we adopt the governor's proposal. But the governor's proposal would help move Pennsylvania from the bottom of the national rankings when it comes to the equity of school funding.

### Charter School Reform

Governor Wolf is again proposing much-needed, commonsense charter school reforms. These reforms would save Pennsylvania's school districts \$229 million.

The governor's first proposed change is **cyber charter tuition reform**. Currently, brick-and-mortar charter schools and cyber charter schools are paid the same rate, despite the costs for cyber charters being much less due to their online learning model. Both cybers and other charters receive an average rate of \$13,000 per non-special education student, ranging from \$9,170 to \$22,300. Because this funding comes from local school districts, it substantially reduces the funding school districts have available to educate students who attend traditional public schools. What Pennsylvania Intermediate Units typically charge for online education—just \$5,400—indicates just how far out-of-line per-student funding of cyber charter schools is with actual costs.



As expected, the number of students attending cyber charters grew dramatically during the pandemic, increasing by 60%, or 22,600 students statewide.<sup>19</sup> As a result, during our current school year, 2020-21, cyber charters are costing school districts an estimated \$350 million more than last year.<sup>20</sup> Governor Wolf proposes to decrease the rate for non-special education students in cyber charter schools to \$9,500 per student. This reform would save Pennsylvania school districts \$130 million next year.

Second, Governor Wolf has proposed to **apply the special education funding formula to charter schools.** Currently, school districts receive funding for special education students based on the four-tiered special education funding formula enacted in 2014 which takes into account the actual costs of providing services for students with disabilities. Yet, brick-and-mortar and cyber charter schools are exempt from this formula and continue to receive special education funding based on a “one-size-fits-all” formula that pays the same tuition per student, regardless of the costs of the services the student needs. Making matters worse, the special education funding formula for charter schools assumes that 16% of each district’s students receive special education services, but the statewide average is actually more than 19%. Because of this inaccurate calculation, typical school districts are paying charter schools nearly 25% more per special education student, on average, than they spend on students who remain in their own district schools.<sup>21</sup> The fact that charter schools receive the same amount of tuition from a school district for each special education student regardless of the costs of the services each of those students require—combined with the absence of any requirement that this money be spent on special education services—creates a perverse financial incentive for charter schools to enroll special education students who require fewer, and less expensive, services and exclude those who require more services. The governor’s proposal would apply the special education funding formula, which reimburses based on the four tiers of need, to brick-and-mortar and cyber charter schools. This reform would provide equal treatment for school districts and charter schools and save taxpayers \$99 million annually.<sup>22</sup>

### *Special Education*

School districts are mandated by state and federal law to cover the costs of special education for students who need it. The need for special education services has grown but state funding has not kept up, putting enormous strain on local school districts to cover the costs. To cover them, many school districts have to raise property taxes or cut other non-mandatory programs in order to meet the need for special education in their districts.<sup>23</sup>

As Figure 28 below shows, special education was essentially flat-funded between 2008-09 and 2013-14. Governor Wolf has made progress since taking office in 2015, increasing special education by 13%. This year, he proposes a substantial increase for special education of 17% (\$200 million) for a total expenditure of \$1.39 billion. This is a far larger proposal than last year, when the governor proposed a special education increase of 2.1% (\$25 million).

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19 House Appropriations Committee. “2021/22 Executive Budget Briefing.” Accessed at: [https://www.houseappropriations.com/Topic/2021-2022/583#TOC\\_2](https://www.houseappropriations.com/Topic/2021-2022/583#TOC_2).

20 PASBO. “PASBO Predicts Charter School Tuition Will Increase by \$475 Million in 2020-21.” October 30, 2020. Accessed at: [https://www.pasbo.org/blog\\_home.asp?Display=123](https://www.pasbo.org/blog_home.asp?Display=123).

21 Education Voters PA. “Fixing the Flaws in PA’s Special Education Funding System for Charter Schools.” June 2020. Accessed at: <http://educationvoterspa.org/wp-content/uploads/2020/06/Complete-and-Final-Ed-Voters-charter-special-ed-report.pdf>.

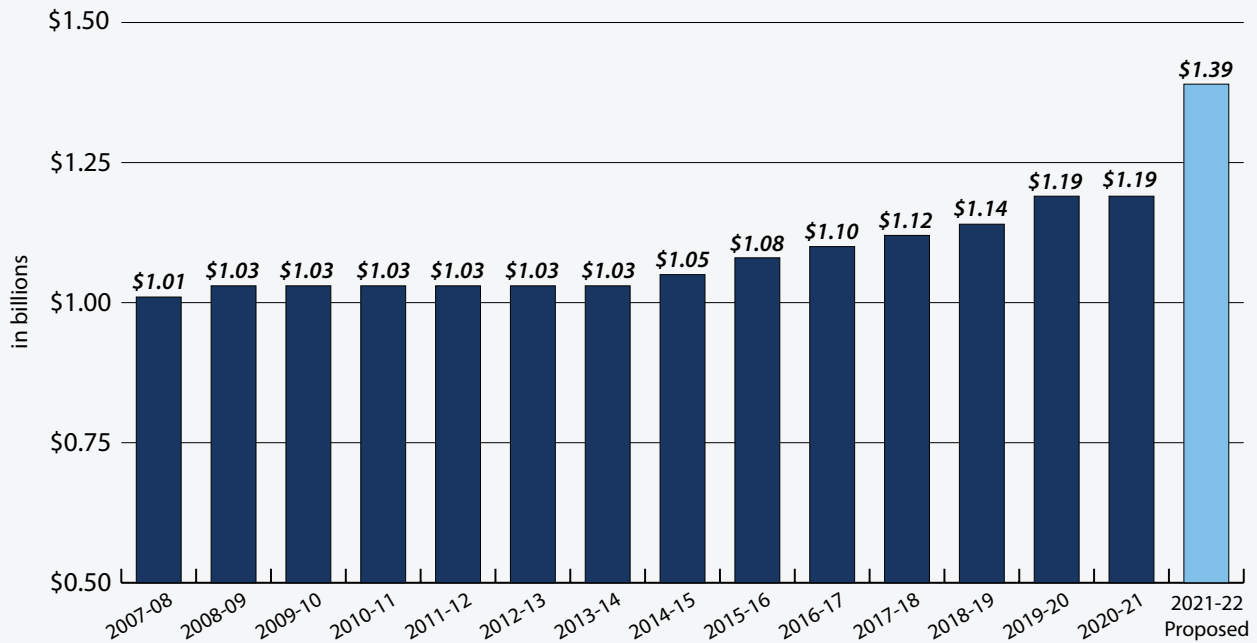
22 Governor Tom Wolf. “2021 Legislative Plan.” Accessed at: <https://www.governor.pa.gov/2021-plan/>; and House Appropriations Committee. “2021/22 Executive Budget Briefing.” Accessed at: [https://www.houseappropriations.com/Topic/2021-2022/583#TOC\\_2](https://www.houseappropriations.com/Topic/2021-2022/583#TOC_2).

23 PASBO-PASA. “PASBO-PASA School District Budget Report.” January 2020. Accessed at: <https://www.pasbo.org/files/Final%202020.pdf>.

Figure 28

### Governor Wolf’s Proposed 2021-22 Budget Would Increase Special Education Funding by 17% From Last Year, an Increase Larger Than All His Years in Office Combined

If the proposed budget goes through, increases for Special Education would total \$340 million



Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf’s 2021-22 Executive Budget (February 2, 2021) and previous budgets.

### Early Childhood Education

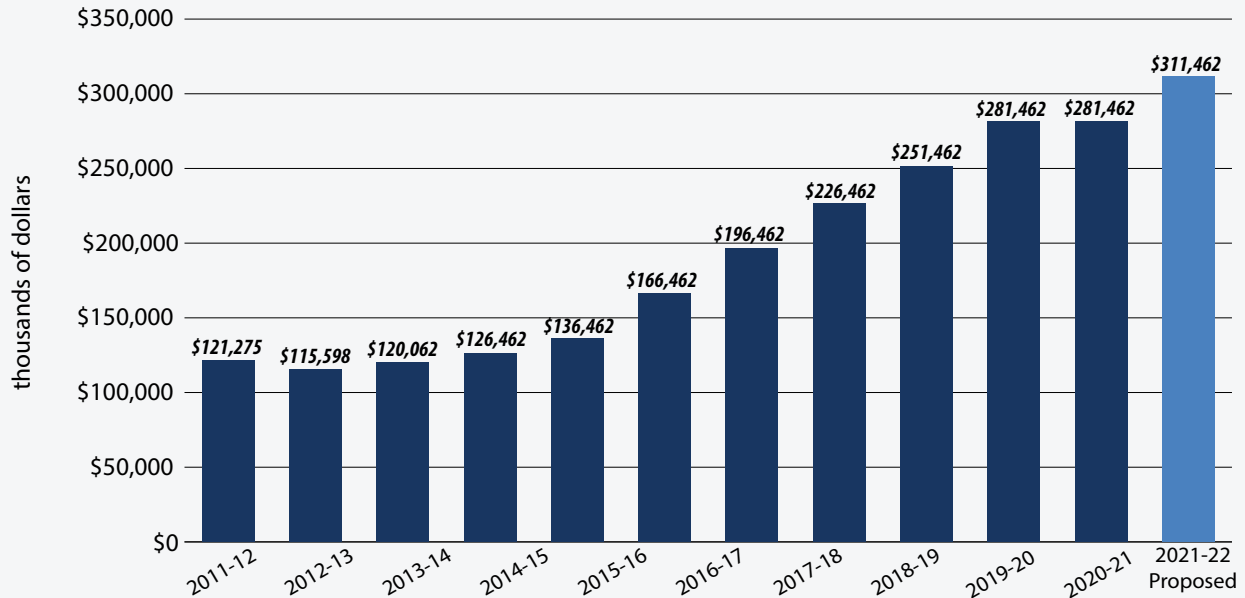
We all know by now the tremendous impact early childhood education has on a child’s future school performance and success. Since taking office, Governor Wolf has more than doubled funding for early childhood education. This year, the governor proposes an increase of \$30 million—\$25 million for Pre-K Works and \$5 million for the Head Start Supplemental Assistance Program (HSSAP). Combined, this additional investment would result in 3,271 additional children accessing high-quality early childhood education in the state (Figure 29).<sup>24</sup>

24 Governor Tom Wolf. “Executive Budget in Brief, 2021-2022.” Accessed at: <https://www.budget.pa.gov/PublicationsAndReports/CommonwealthBudget/Documents/2021-2022%20Budget%20In%20Brief.Web%20Version.pdf>.

Figure 29

### Governor Wolf's 2021-22 Proposed Budget Would Increase Spending on Pre-K by \$30 Million, an 11% Increase from the Previous Year

Pre-K spending over time from 2010-11: Since taking office, Governor Wolf has more than doubled funding for Pre-K.



Note: Data is for Pre-K spending only (Pre-K Counts and Head Starts Supplemental Assisatance).

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

### Raising the Minimum Teacher Salary in Pennsylvania

The minimum salary for Pennsylvania's teachers, school nurses, and counselors, \$18,500, was set in the 1980s. It has made it more difficult over the past 10 years for Pennsylvania school districts to attract and retain teachers and other education professionals in both rural and urban districts. It has been especially hard to fill positions in special education and STEM or English as a second language. Governor Wolf proposes to increase the minimum salary for teachers across the Commonwealth to \$45,000/year.<sup>25</sup>

### Higher Education

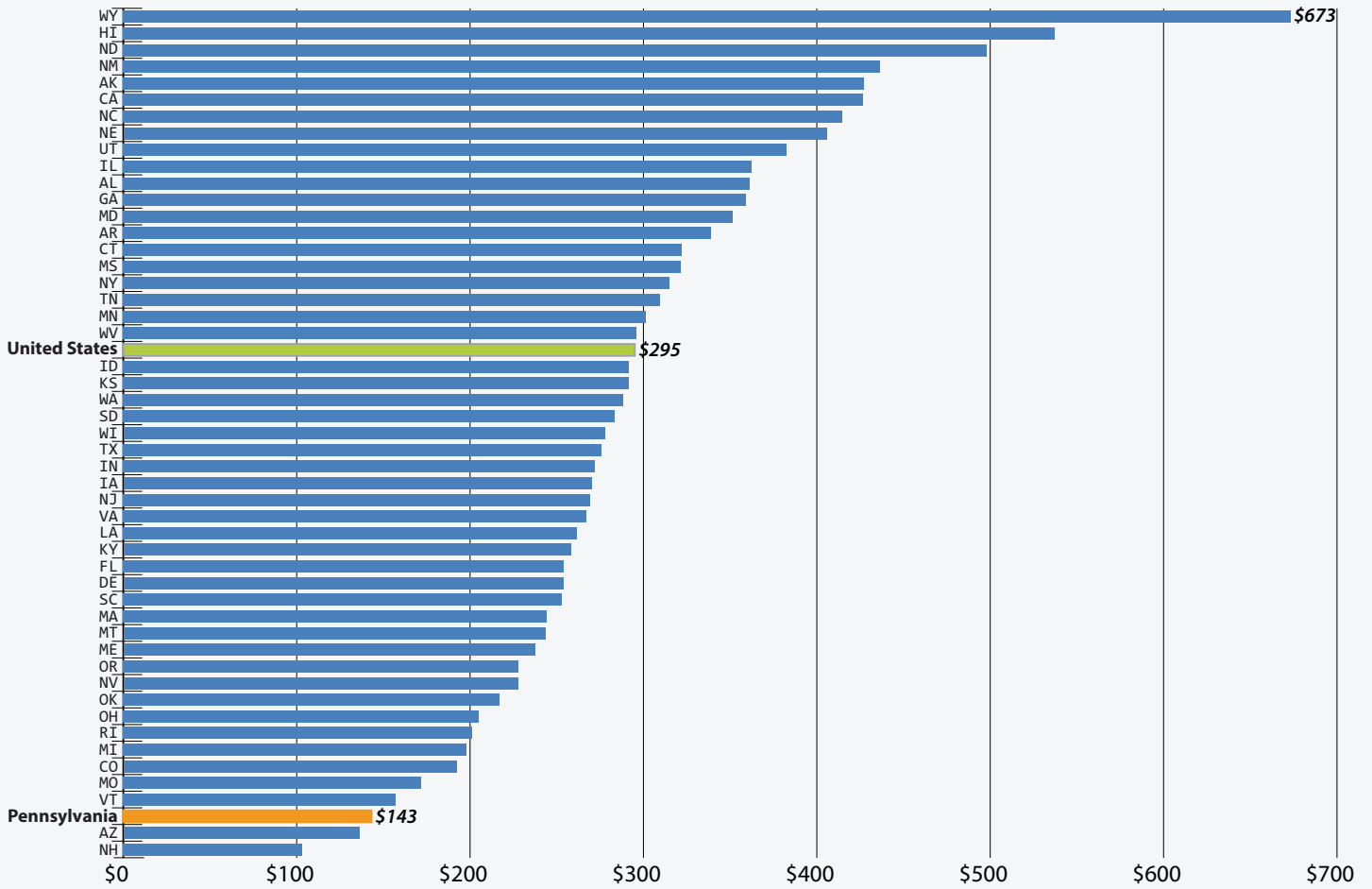
As Figure 30 shows, state per capita funding for higher education in Pennsylvania ranks 48th in the nation, and is less than half (\$143) the national average (\$295).

25 Governor Tom Wolf. "Executive Budget in Brief, 2021-2022." Accessed at: <https://www.budget.pa.gov/PublicationsAndReports/CommonwealthBudget/Documents/2021-2022%20Budget%20In%20Brief.Web%20Version.pdf>.

Figure 30

### 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



Source: Pennsylvania Budget and Policy Center based on University of Illinois Grapevine data base Table 4, online at <https://education.illinoisstate.edu/g>

This low state investment leads to higher tuition for students. The average tuition and fees at public four-year colleges ranks 48th in the nation in 2020-21.<sup>26</sup> High tuition leads to greater student debt for Pennsylvania’s students. In 2018-19, 65% of college graduates in the state held student loan debt and the average debt per person was \$39,027, ranking Pennsylvania second-highest in the nation.<sup>27</sup>

A recent [report](#) by the Center on Budget and Policy Priorities (CBPP) looks at higher education funding and tuition costs from before the Great Recession in 2008 to 2019. Pennsylvania reduced per student spending on higher education 33.4% below pre-recession spending levels, a decrease of \$2,538 per student after adjusting for inflation. Meanwhile, tuition has risen in this same period by 20.3%, or \$2,521 per student. Community college tuition has risen even more sharply—by 41.3% (\$1,603 per student)—leaving Pennsylvania with the seventh highest community college tuition in the nation.

Figure 31 below shows that, while the net price of higher education—including tuition, room and board, and fees minus financial aid—is high for all Pennsylvanians relative to their income, it is especially high for Black and Hispanic students. The average net price at public four-year universities as a share of median household

26 College Board. “Trends in College Pricing and Student Aid 2020.” Accessed at: <https://research.collegeboard.org/pdf/trends-college-pricing-student-aid-2020.pdf>.

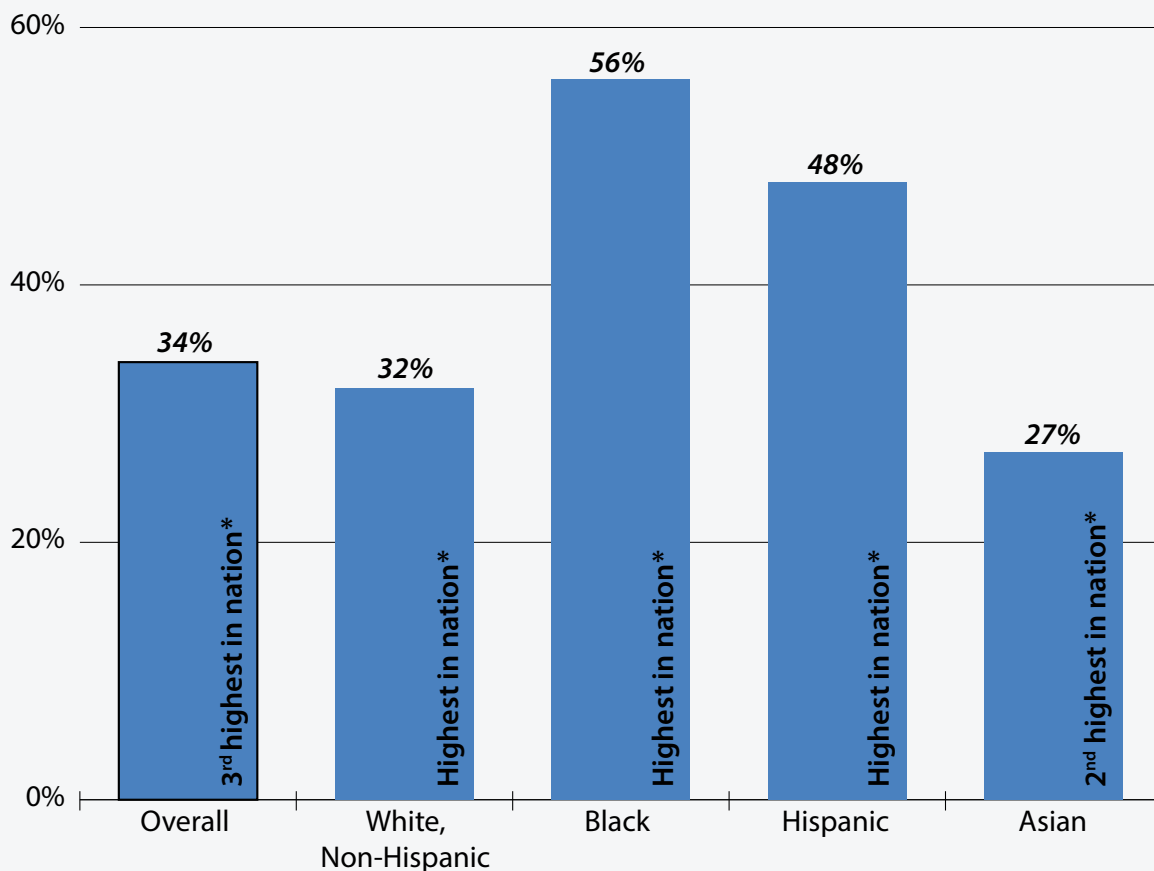
27 TICAS. “Student Debt for College: Graduates in Pennsylvania.” Accessed at: <https://ticas.org/wp-content/uploads/2020/10/Pennsylvania.pdf>.

income is 56% for Black students and 48% for Hispanic students. This places higher education out of reach for many students. Pennsylvania ranks worst in the nation out of all 50 states in terms of the tuition burden for white/non-Hispanic students, Black students, and Hispanic students.<sup>28</sup> The incredible financial burden high tuition places on Pennsylvania's students, especially students of color, is a major reason why Pennsylvania ranks so high in terms of highest average student debt.<sup>29</sup> Students often have to make the difficult choice between going to college and incurring incredible amounts of debt or not attending at all.

Figure 31

### **Pennsylvania Has the Worst Tuition Burden in the Nation for Whites, Blacks, and Hispanics; Black and Hispanic Students Face the Largest Burden**

Average net price at public, four-year university as share of median household income, Pennsylvania, 2018



\* In terms of price of four-year university as a share of median household income, Pennsylvania ranks worst in the nation for white/ non-Hispanics, Blacks, and Hispanics. 2nd worst for Asians and PA ranks 3rd highest in the nation overall.  
 Source. Pennsylvania Budget and Policy Center analysis of data from the Center on Budget and Policy Priorities report: <https://www.cbpp.org/sites/files/2-17-21sfp.pdf>

Higher education is (nearly) flat funded this year at \$1.76 billion (Figure 32). There is an increase of \$1.4 million to support a new community college in Erie. This will be the first new community college

28 Victoria Jackson and Matt Saenz. "States Can Choose Better Path for Higher Education Funding in COVID-19 Recession." February 17, 2021. Accessed at: [States%20Can%20Choose%20Better%20Path%20for%20Higher%20Education%20Funding%20in%20COVID-19%20Recession%20|%20Center%20on%20Budget%20and%20Policy%20Priorities%20\(cbpp.org\)](https://www.cbpp.org/sites/files/2-17-21sfp.pdf).

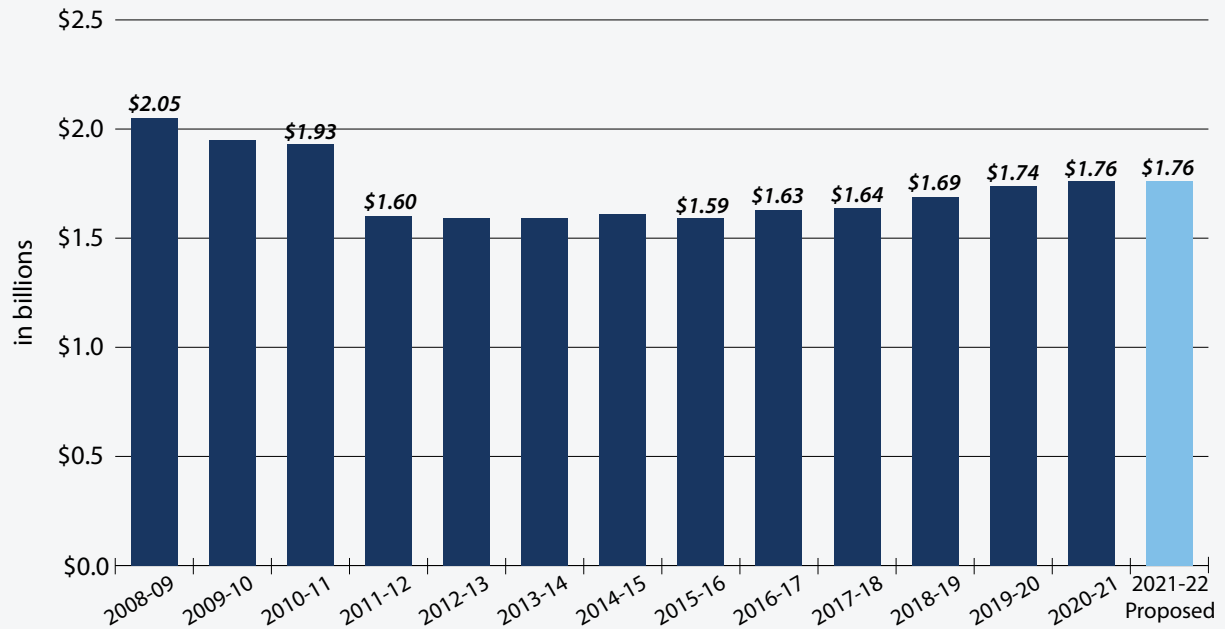
29 Adam McCann. "States with the Most and Least Student Debt." Wallethub. July 10, 2019. Accessed at: <https://wallethub.com/edu/e/best-and-worst-states-for-student-debt/7520>.

in Pennsylvania in 25 years. Start-up and capital costs will be funded through a \$3.2 million increase in a separate college capital appropriation.

Figure 32

**In Governor Wolf's 2021-22 Proposed Budget, Funding for Higher Education Would Be Relatively Flat Funded. Restoration of the Corbett Budget Cuts Have Yet to be Achieved**

Higher Education funding in Pennsylvania from 2008-09 to 2021-22



Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2021-22 Executive Budget (February 2, 2021) and previous budgets

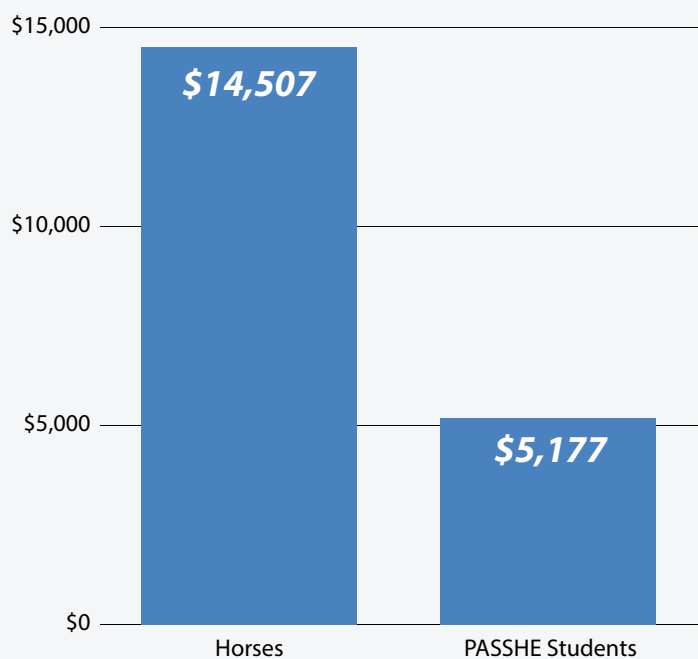
**Nellie Bly Tuition Program**

To help students afford college, Governor Wolf again proposes to create what he calls the Nellie Bly Scholarship Program. This program would help full-time undergraduate students enrolled in one of Pennsylvania's 14 State System universities afford tuition. Students from households with a family income of less than \$104,800 per year would qualify, and the scholarship would cover the costs of fees and tuition that aren't covered by federal or other state grants. Students would be required to stay in Pennsylvania for as many years as they received their scholarship or the money would be converted to low-interest loans.

To fund this endeavor, Governor Wolf has proposed to use \$200 million per year in annual slot machine revenue that currently is used to pay the prizes for race horses through the state's

Figure 33

**Through the Race Horse Development Fund, Pennsylvania Spends Three Times as Much on Horses as it Does on Students Attending PASSHE Schools**



Note: Pennsylvania State System of Higher Education (PASSHE) consists of 14 PA state universities, with a total enrollment of 90,415, received \$468.1 million in 2018, \$5,177 per student. Source: Pennsylvania Gaming Control Board Pari-mutuel Benchmark Reports, 2018.

Race Horse Development Trust Fund. As the graph below shows, the state currently subsidizes each race horse purse more than it does each student attending State System schools (Figure 33).

## Workforce Development

Governor Wolf is proposing a “Back to Work PA” plan funded by a new severance tax on natural gas. The goal of the plan is to bolster economic recovery efforts and support workers and businesses negatively impacted by the COVID-19 pandemic. While we expect a strong economic recovery once the COVID-19 virus has been controlled, there is no question that the adjustment to the pandemic has disrupted some existing businesses and industries, and that some jobs lost during the crisis will not return. The pandemic has, however, also created opportunities for other new businesses and industries, and Back to Work PA aims to help Pennsylvania entrepreneurs take advantage of those opportunities.

The plan builds upon recommendations made by Pennsylvania’s Workforce Command Center, which has identified barriers that exist for Pennsylvanians trying to get good jobs and employers trying to find qualified workers.<sup>30</sup> The barriers addressed in this plan include child care and workforce training. As mentioned above, funding for this plan would come from a bond repaid with revenues from a severance or extraction tax estimated to generate about \$300 million per year, or \$3 billion over 10 years.

There are three main pillars of the plan. The first is investment in the Pennsylvania workers most impacted by the pandemic. New funding would be added to Pennsylvania’s existing workforce development infrastructure, including Career Links and other workforce training programs that exist throughout the state. New funding would focus on upskilling and reskilling workers; enhancing digital literacy skills; expanding registered apprenticeship into fields like child care, health care, and information technology; increasing child care subsidies and supporting child care centers; supporting re-entering citizens to access and succeed in jobs; and other workforce supports.

The second pillar is strategic investment in businesses. Nationally, 75% of businesses report experiencing some kind of supply chain disruption as a result of the pandemic.<sup>31</sup> The Back to Work PA plan would develop a strong supply chain reshoring initiative and strengthen existing efforts to support entrepreneurs and provide financial planning opportunities for municipalities to aid in business development.

The third pillar is the expansion of reliable broadband for all. Funding would go towards building out the infrastructure needed to make high-speed internet available to everyone. The pandemic has exposed the problems related to inadequate broadband coverage and service in the state. It has also shown that reliable broadband has become an absolute necessity for all Pennsylvanians.<sup>32</sup>

## Human Services

Governor Wolf has proposed a budget of \$14.38 billion in general funds for the Department of Human Services. This is \$759 million more than DHS’s \$13.6 billion available in 2020-21, including supplements. So far this year, DHS has requested \$941 million in state supplemental funds, mostly for Medical Assistance.

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<sup>30</sup> Workforce Command Center. “Annual Report: Keystone Economic Development and Workforce Command Center.” January 2020. Accessed at: <https://www.governor.pa.gov/wp-content/uploads/2020/01/20200127-Workforce-Command-Center-Annual-Report.pdf>.

<sup>31</sup> WTAE video of Governor Wolf discussing workforce development plan for PA. Accessed at: <https://www.facebook.com/wtae4/videos/499980077834729>.

<sup>32</sup> Office of Governor Tom Wolf. “Governor Wolf Unveils Workforce and Economic Development Plan to Get Pennsylvania Back to Work.” February 22, 2021. Accessed at: <https://www.governor.pa.gov/newsroom/governor-wolf-unveils-workforce-and-economic-development-plan-to-get-pennsylvania-back-to-work/>.

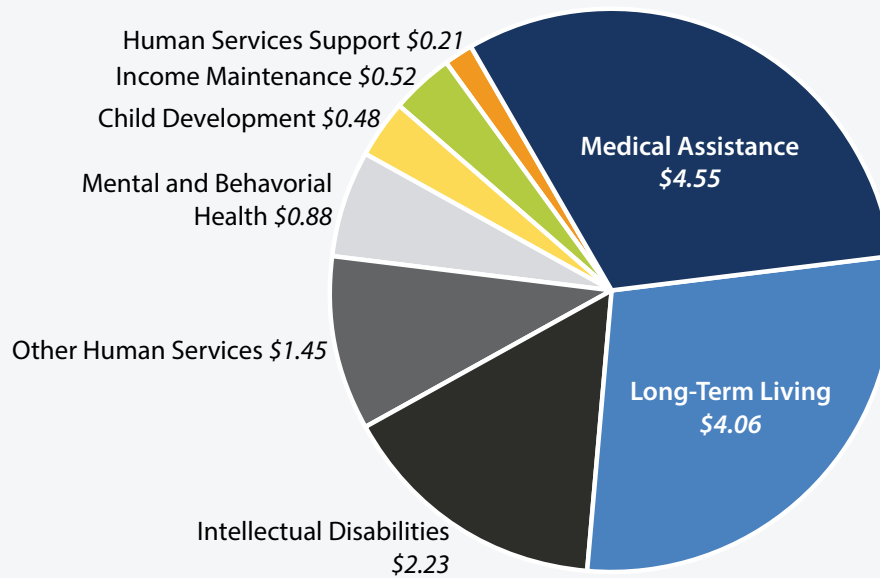
Much of these supplemental funds were needed due to increasing enrollment in MA as a result of the pandemic.

As Figure 34 below shows, the two largest areas of spending for DHS are Medical Assistance (32%) and Long-Term Living (28%).

Figure 34

### Human Services Funding for Governor Wolf's 2021-22 Proposed Budget (in Billions)

Total DHS Budget: \$14.38 billion



Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2021-22 Executive Budget (February 2, 2021) and previous budgets.

Table 3 below details human services spending for this year and last year, as well as the year prior to Wolf's first year as governor (2014-15). Governor Wolf is proposing a DHS budget increase of 5.6% from last year, which would be a 28% increase in the department since taking office. The funding area that would see the largest increases in this year's proposal is Long-Term Living.



**Table 3. Human Services State Funding for 2014-15, 2020-21, and 2021-22 budgets, in thousands**

	FY 2014-15	FY 2020-21	2021-22 Governor's Proposed	Change from 2014-15 to 2021-22	Percent change between 2014-15 and 2021-22 proposed	Change from 2020-21 to 2021-22	Percent change between 2020-21 and 2021-22 proposed
<b>Medical Assistance and Long-Term Living</b>							
Medical Assistance	\$5,148,554	\$4,869,252	\$4,548,883	\$ (599,671)	-12%	\$ (320,369)	-6.6%
Long-Term Living	\$1,454,131	\$3,414,931	\$4,059,328	\$2,605,197	179%	\$664,397	18.9%
<b>Other Human Services</b>							
Human Services Support*	\$151,354	\$192,890	\$206,515	\$55,161	36%	\$13,625	7.1%
Income Maintenance	\$565,371	\$459,961	\$521,427	\$ (43,944)	-8%	\$61,466	13.4%
Mental and Behavioral Health	\$774,701	\$881,846	\$883,697	\$108,996	14%	\$1,851	0.2%
Intellectual Disabilities	\$1,529,359	\$2,052,842	\$2,230,112	\$700,753	46%	\$177,270	8.6%
Other Human Services**	\$1,204,942	\$1,284,401	\$1,454,477	\$249,535	21%	\$170,076	13.2%
Child Development***	\$451,510	\$468,356	\$479,481	\$27,971	6%	\$11,125	2.4%
<b>Human Services Total</b>	<b>\$11,279,922</b>	<b>\$13,624,479</b>	<b>\$14,383,920</b>	<b>\$3,103,998</b>	<b>28%</b>	<b>\$759,441</b>	<b>5.6%</b>
*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 2021-22 Executive Budget (February 2, 2021) and previous budgets.							

### Medical Assistance and Other Health Care Programs

Due to the economic impact of the pandemic, as well as natural growth of monthly enrollment in Medical Assistance has will been increasing. Governor Wolf's budget assumes that the average monthly enrollment in Medical Assistance will continue to grow by 563,000 cases between 2020-21 and 2021-22).<sup>33</sup>

The governor assumes that the Families First Coronavirus Response Act's enhancement of the Federal Medical Assistance Percentage (FMAP)—which raised the federal share of traditional Medical Assistance funding by 6.2 percentage points—will be extended past its end date of April 2021.<sup>34</sup> If it is, this will reduce general funds necessary for Medical Assistance in 2021-22 by \$2.4 billion.

General funds for Medical Assistance will decline from \$4.8 billion in 2020-21 to \$4.5 billion in 2021-22, despite higher projected caseloads. Costs for Medical Assistance will decrease by 6.6% partly due to nonrecurring prior-year carryover costs in Medical Assistance-Capitation,<sup>35</sup> and partly because of the higher FMAP rate discussed above, which is expected to continue through June 2022. This has allowed DHS to shift some Medicaid payments that were expected to be received in 2020-2021 to take advantage of the enhanced FMAP rate back into 2021-2022. In addition, a slight increase in the regular FMAP rate from 52.21% to 52.56% will lead to a reduction of \$111.4 million in general funds needed for Medical Assistance.

33 House Appropriations Committee. "2021/22 Executive Budget Briefing." Accessed at: [https://www.houseappropriations.com/Topic/2021-2022/583#TOC\\_2](https://www.houseappropriations.com/Topic/2021-2022/583#TOC_2); Commonwealth of Pennsylvania Office of the Governor. "Governor Tom Wolf Executive Budget 2020-2021." February 2, 2021, P. E-27-22.

34 Under the provisions of existing law, the enhanced FMAP rate will continue until the federal public health emergency expires. It is scheduled to expire in April 2021, but most observers expect it will be extended through at least June 2022, the end of Pennsylvania's 2021-22 fiscal year.

35 Commonwealth of Pennsylvania Office of the Governor. "Governor Tom Wolf Executive Budget 2020-2021." February 2, 2021, P. E-27-20. Accessed at: <https://www.budget.pa.gov/PublicationsAndReports/CommonwealthBudget/Documents/2021-2022%20Executive%20Budget%20Book.Web%20Version.UPDATED.pdf>.

Changes in federal reimbursement rate (FMAP) for the Children's Health Insurance Program (CHIP) will require an additional \$10.6 million in general funds in 2021-22.

Federal relief for COVID-19 in 2020-21 (mostly CARES Act funding) has helped DHS provide needed services to growing numbers of Pennsylvanians due to the crisis. Child care providers have received \$220 million, with more scheduled for distribution in April 2021, \$300 million has gone to long-term care facilities and \$260 million to organizations providing intellectual disability and autism services. In addition, \$175 million was used to fund the Regional Response Health Collaborative Program which helped assess facility readiness and craft plans in the case of a COVID-19 outbreak.<sup>36</sup>

### *Long-Term Living and Community HealthChoices*

Funding for long-term living would increase from \$3.4 billion to \$4 billion, or 18.9%. Our aging population is growing faster in Pennsylvania than in many other states, which both slows the growth in our tax base and increases the need for long-term care and other services. The IFO reports that the costs associated with meeting these long-term care needs is growing more than two times as fast as current revenue sources.<sup>37</sup> The largest area of growth in the DHS budget this year is long-term living.

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. Community HealthChoices helps older individuals age in place, which is often what older people prefer and is less costly than nursing home care.

### *Child Care and Child Care Works*

Child care centers in Pennsylvania have been hard hit during the pandemic. Parents have pulled their kids out of child care centers over concerns about the spread of the virus or because they have lost their jobs or are working from home. Child care centers had to react quickly to make their space safe for children and staff, all of which comes at a cost. Since last March when the pandemic first hit the state, \$220 million in CARES Act funding that have gone to supporting child care providers. Additional federal money was allocated in December 2020 but has not yet been dispersed.<sup>38</sup>

The Department of Human Services has been doing assessments of its Child Care Works (CCW) program and examining its impact through a racial justice lens. DHS reported, "As we've taken this broader, systemwide look, the inequities that emerge often fall along racial divides within our communities—divides that harken back to Jim Crow-era segregation policies and more recent racist redlining policies that still affect communities, their resources, and economic mobility to this day." DHS found that more than 50% of families enrolled in the program are Black, despite making up only 13% of the state's population. One of two white families are in high-quality child care with a STARS 3 or 4 rating, compared to only one of three Black families.

Every three years, DHS conducts a child care market rate survey. The most recent results show that base reimbursement rates for CCW sit around the 25th percentile of the market rate for child care in the provider's region, much below the federal government's recommendation that the reimbursement rate be in the 75th percentile. Governor Wolf proposes to use \$87.2 of federal funding to raise the reimbursement rate to the

<sup>36</sup> Secretary Teresa Miller. "2021-22 Appropriations Hearing Testimony, Department of Human Services, Secretary Teresa Miller." Accessed at: [https://www.legis.state.pa.us/WU01/LI/TR/Transcripts/2021\\_0035\\_0001\\_TSTMNY.pdf](https://www.legis.state.pa.us/WU01/LI/TR/Transcripts/2021_0035_0001_TSTMNY.pdf).

<sup>37</sup> Ibid.

<sup>38</sup> DHS. "Department of Human Services 2021-2022 Budget Update." Accessed at: <https://www.dhs.pa.gov/docs/Publications/Documents/2021-22%20Budget%20Overview.pdf>.

40th percentile.<sup>39</sup> Higher CCW base rates should lead to more equitable access to quality care and stronger child care programs.<sup>40</sup>

### ***Supporting Individuals with Intellectual Disabilities***

The governor has proposed spending \$13.9 million to move an additional 732 individuals with an intellectual disability or autism off the waiting list and into the Community Living Waiver program and 100 individuals into the Consolidated Waiver program. The Community Living Waiver and the Consolidated Waiver help individuals to live more independently, in their homes and communities.

### ***Comprehensive Training for Direct Care Workers***

Pennsylvania's elderly population is growing and more seniors desire to "age in place"—that is, in their own homes rather than in institutional settings. So, there is a greater demand for direct care workers in the state. However, direct care workers often face low pay and a lack of advancement opportunities, making it a high-turnover occupation. Governor Wolf has proposed a \$1.1 million investment to establish a training program for direct care workers. This training would help with retention, strengthen the quality of long-term care services, and lead to a credentialing system that would provide a career pathway for direct care workers.<sup>41</sup>

### ***Legal Services for Low-Income Individuals***

Governor Wolf proposes \$1 million in additional funding for legal services for vulnerable populations and low-income Pennsylvanians. Many low-income families are unable to afford private legal representation. This funding would go towards helping individuals seeking counsel for emergency protective services in domestic violence cases, regardless of income and consultation, advice, negotiation and representation for individuals earning less than 125% of the federal poverty level.<sup>42</sup>

### ***Housing Funds and Support to Ensure Family Stability and Reunification***

The 2021-22 Executive Budget proposes \$1 million for housing security to reduce the number of children in foster care due to unstable housing. In previous Keystone Research Center research on gas drilling in Greene County, we found that one of the largest human service costs related to the drilling boom was foster care costs due to children removed from their homes due to unstable housing and increasing rents in the county.<sup>43</sup> Separating children from their families due to poverty or housing instability is wrong and is devastating for both parents and children.

The Children's Bureau of the U.S. Department of Health and Human Services found that housing instability is a precipitating factor in at least 10% of foster care cases. According to data from Kids Count, Pennsylvania appears to be worse than the national average. As Figure 35 below shows, between October 2010 and September 2015, housing instability was a reason for roughly 15% of foster care placements in Pennsylvania. Between October 2015 and September 2018, the latest year for which we have data, that number increased to about 17% of foster care placements. This issue needs to be addressed at the state level.

The \$1 million in new funding would go towards supporting a partnership between county child welfare offices, community-based organizations, and housing partners aimed at reducing the number of kids removed from their parents' care due to unstable, inadequate or no housing.<sup>44</sup>

39 Effective March 1, 2021.

40 Ibid.

41 Ibid.

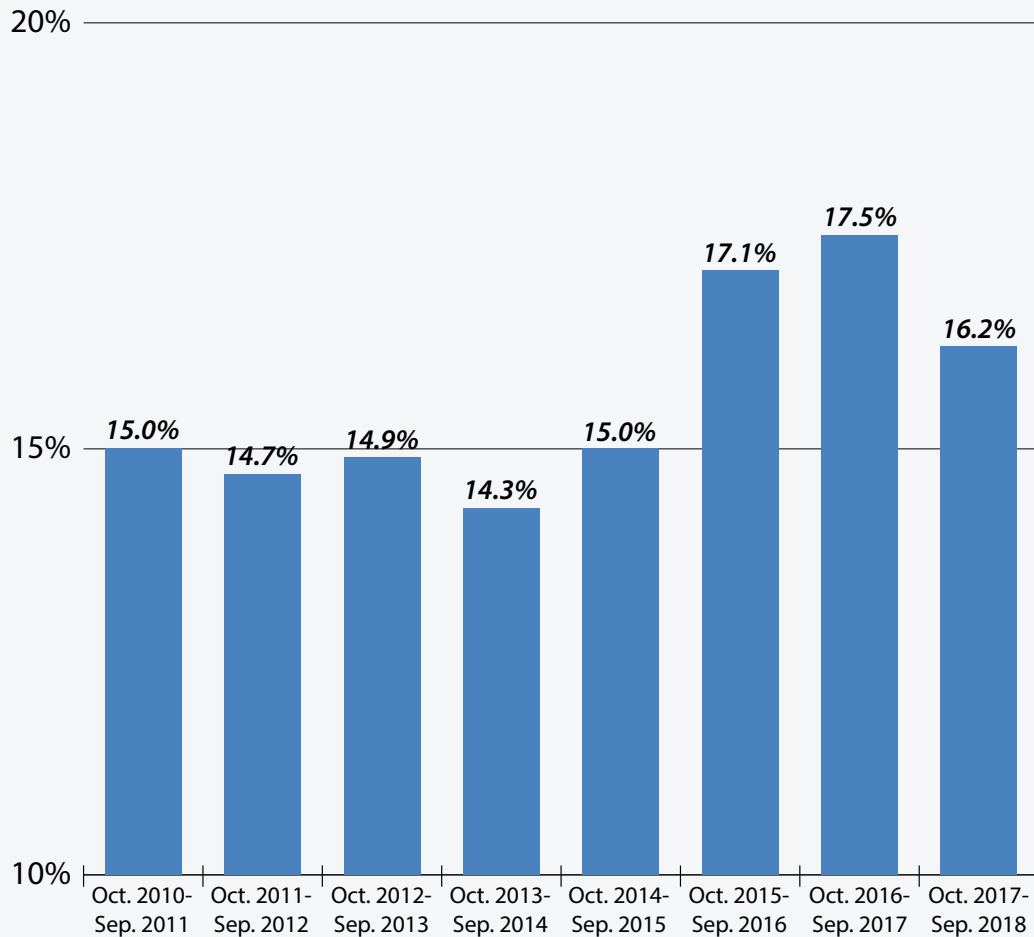
42 Ibid.

43 Stephen Herzenberg, Diana Polson, Mark Price. "Measuring the Costs and Benefits of Natural Gas Development in Greene County, Pennsylvania: A Case Study." Keystone Research Center, April 2014. Accessed at: <https://pennbpc.org/sites/pennbpc.org/files/greeneCASESTUDY.pdf>.

44 DHS. "Department of Human Services 2021-2022 Budget Update." Accessed at: <https://www.dhs.pa.gov/docs/Publications/Documents/2021-22%20Budget%20Overview.pdf>.

Figure 35

## Percent of Children in Foster Care Due to Inadequate Housing of Parent and Family, Pennsylvania 2010-2018



Source: Pennsylvania Budget and Policy Center analysis of Kids Count data.

## Department of Health

The COVID-19 public health crisis has exposed inadequacies in Pennsylvania's public health infrastructure. Nationally, spending for state public health departments has fallen by 18% since 2010. Pennsylvania's \$39 per capita spending on public health is seventh from the bottom among all states.<sup>45</sup>

Pennsylvania only has 10 local health departments (six county-level and four municipal health departments), which together serve 42% of Pennsylvania's population.<sup>46</sup> For comparison's sake, West Virginia—with a population one-seventh of Pennsylvania's—has a health department in every one of its 55 counties. Governor Wolf proposes an \$8.3 million increase for local health departments throughout the state. Some of these funds

45 Lauren Weber and Michelle R. Smith. "Hollowed-Out Public Health System Faces More Cuts Amid Virus." Kaiser Health News, July 1, 2020. Accessed at: <https://khn.org/news/us-public-health-system-underfunded-under-threat-faces-more-cuts-amid-covid-pandemic/>.

46 Governor Tom Wolf. "Executive Budget in Brief, 2021-2022." P. 17. Accessed at: <https://www.budget.pa.gov/PublicationsAndReports/CommonwealthBudget/Documents/2021-2022%20Budget%20In%20Brief.Web%20Version.pdf>.

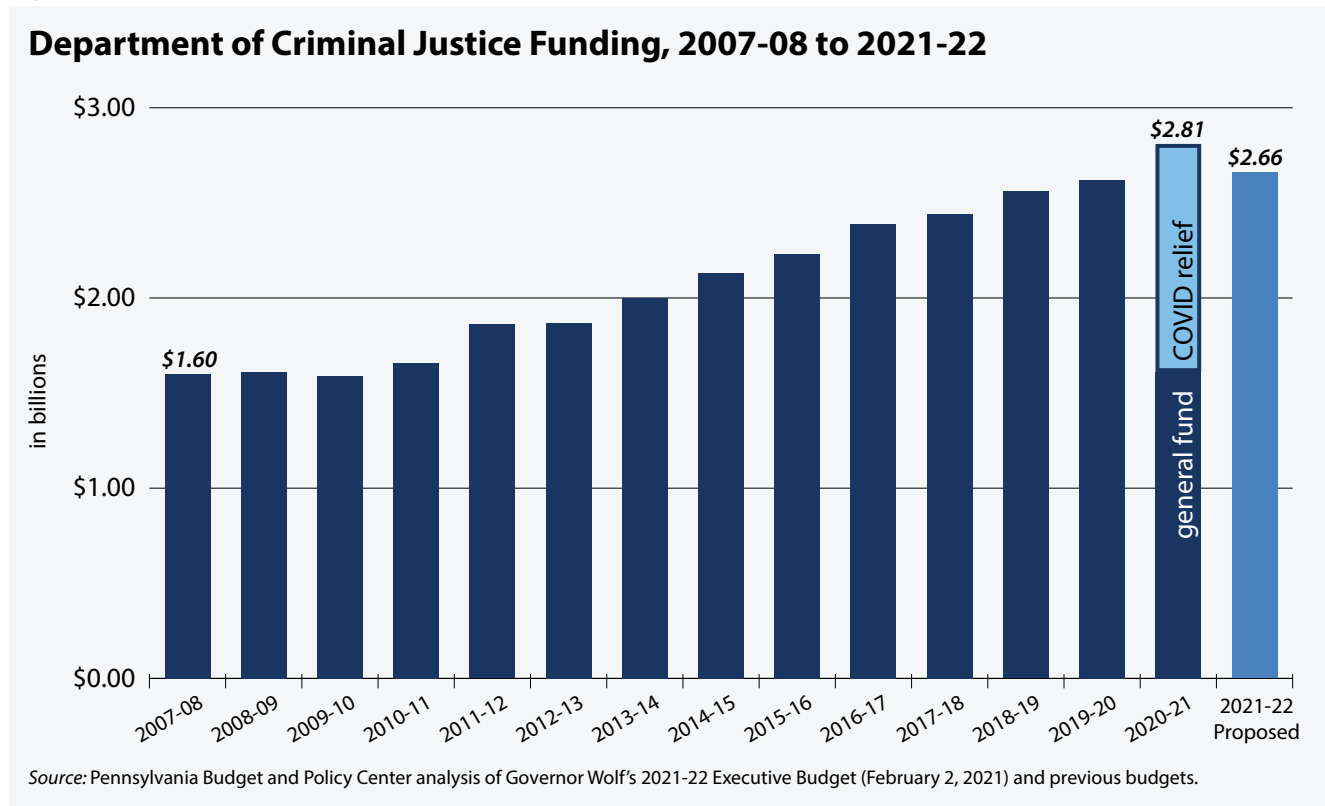
will support the establishment of an eleventh local health department in the state, in Delaware County, to be opened in January 2022.

The governor also proposes using general funds to replace \$4 million's worth of Coronavirus Relief Funds in 2020-21 on general government operations and \$10 million for state health care centers. Under Governor Wolf's plan, general fund support for the Department of Health would increase by 7%, from \$183 million to \$195 million.

## Criminal Justice

The Department of Criminal Justice relied on \$1.2 billion in federal CARES Act funds in 2020-21 to cover costs for state correctional institutions (\$1.1 billion) and inmate medical care (\$99 million). For 2021-22, Governor Wolf proposes a \$2.66 billion budget for the Department of Criminal Justice. This is an increase in state general funds of \$1.05 billion from 2020-21 but a decrease of \$150 million including the total COVID relief funds and general funds spent on the Department of Criminal Justice in the current year (Figure 36).

Figure 36



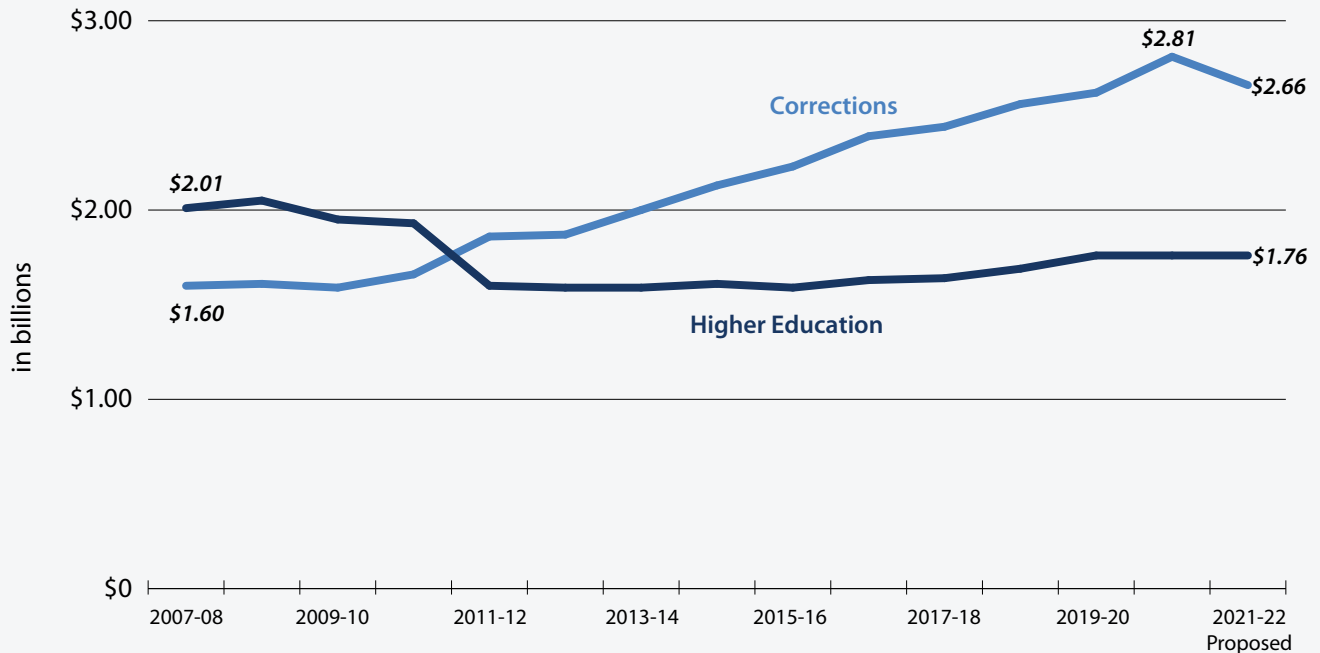
Considering both general funds and CARES Act funds, spending for inmate medical care would decrease by \$4 million and spending for state correctional institutions would decrease by \$145 million. An additional \$28 million is proposed for state field supervision. The governor also proposes to move the Office of the Victim Advocate (a total of \$2.8 million) out of General Government Operations and back to its own appropriations line within the Department of Criminal Justice.<sup>47</sup>

<sup>47</sup> Analysis of Governor Wolf's Executive Budget, 2021-22; and House Appropriations Committee. "2021/22 Executive Budget Briefing." Accessed at: [https://www.houseappropriations.com/Topic/2021-2022/583#TOC\\_41](https://www.houseappropriations.com/Topic/2021-2022/583#TOC_41).

The Department of Criminal Justice remains the third-highest funded department, behind education and human services. As figure 37 below shows, in 2011-12 the Department of Criminal Justice, then the Department of Corrections, surpassed funding for higher education. Spending has been on the rise since then. The governor’s budget for 2021-22 proposes the first reduction in funding for the department in at least 10 years.

Figure 37

### State Funding for Criminal Justice Surpassed Funding for Higher Education in 2011-12 and Has Been Steadily Growing



Note: In 2017-18, the Department of Probation and Parole merged with the Department of Corrections and Rehabilitation to form the Department of Criminal Justice; so in 2017-18, 2018-19, and 2019-20 these numbers include Probation/Parole.  
 Source: Pennsylvania Budget and Policy Center analysis of the 2021-22 Executive Budget (February 2, 2021) and previous budgets.

Governor Wolf is also proposing several criminal justice reforms.

The governor is proposing **law enforcement reforms** related to community policing improvement and ensuring police departments across the state are accredited. Community policing aims to build relationships between police officers and community members. The governor is committed to youth-focused programs in underserved communities that improve relationships between communities and police. Another area of focus is the accreditation of police departments through the Pennsylvania Law Enforcement Accreditation Program. This accreditation process will ensure law enforcement agencies are professional and living up to standards that will strengthen public trust. So far, 145 law enforcement agencies have received accreditation. As of 2008, there were 965 local police departments in the state of Pennsylvania, which was the largest number of police departments of all 50 states.<sup>48</sup> With so many different offices, a standardized accreditation process makes sense to ensure police officers across the Commonwealth operate consistently and with a standard set of best practices.

48 Brian A. Reaves. "Census of State and Local Law Enforcement Agencies, 2008." U.S. Department of Justice. Accessed at: <https://www.bjs.gov/content/pub/pdf/cslea08.pdf>.

Governor Wolf is also proposing **probation reforms**. Pennsylvania's community supervision system is larger than the national average. In fact, one out of every 36 adults in the state are under some sort of community supervision, compared to one out of 53 adults nationally.<sup>49</sup> One-third of prisoners in Pennsylvania are incarcerated because they violated their probation or parole. Research shows that putting low-level offenders on parole increases their chances of landing back in jail when they are ultimately released. Governor Wolf is urging the state to explore reform opportunities, including decreasing the amount of time individuals who pose low risk to the community spend on supervision, providing opportunities for individuals to reduce time on supervision, and limiting revocations of parole for technical violations.<sup>50</sup>

Governor Wolf is also calling for **bail and pretrial reforms**. Recent reports about bail in Pennsylvania show that monetary cash bail levels vary widely from county to county and disproportionately impact defendants of color. Greater consistency in bail decisions needs to be implemented statewide.

Another reform proposal includes **comprehensive clean slate legislation**. An existing clean slate law in Pennsylvania, passed in 2018, automatically seals minor, non-violent cases after a certain amount of time has passed, reducing the stigma surrounding conviction. So far, 36 million cases have been sealed in the state. Governor Wolf hopes to improve upon this law by considering sealing some felony convictions and decreasing the waiting periods for sealing lesser offenses.

The governor is also proposing **medical release reform**. People age out of crime—older inmates tend to pose less threat to the public when released. Many older inmates have spent decades behind bars and have served their time. COVID-19 has exposed the problems of prison over-population. The inmate population has been reduced by 6,000 since the pandemic began, but the elderly population remains at high risk within these facilities. Releasing this population through medical parole would allow these individuals to reside in a safer environment and would result in less crowded prisons. This change would save taxpayers millions of dollars as the cost to care for inmates in skilled care units costs four times what it takes to house inmates in the general population.

The governor also calls for reforms improving access to **indigent defense** and establishing a mechanism for **compensating individuals who have been wrongly convicted**. Pennsylvania's wrongfully convicted individuals spend, on average, 14 years in prison, compared to nine years nationally. African Americans are about seven times more likely than whites to be wrongfully convicted. Governor Wolf proposes to provide individuals who have been wrongly convicted in Pennsylvania \$50,000 for every year they spent incarcerated for a crime they didn't commit. Thirty-five other states provide at least \$50,000 per year for a wrongful conviction.<sup>51</sup>

## Department of Environmental Protection (DEP) and the Department of Conservation and Natural Resources (DCNR)

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

49 Governor Tom Wolf. "Executive Budget in Brief, 2021-2022." Accessed at: <https://www.budget.pa.gov/PublicationsAndReports/CommonwealthBudget/Documents/2021-2022%20Budget%20In%20Brief.Web%20Version.pdf>.

50 Ibid.

51 Ibid,

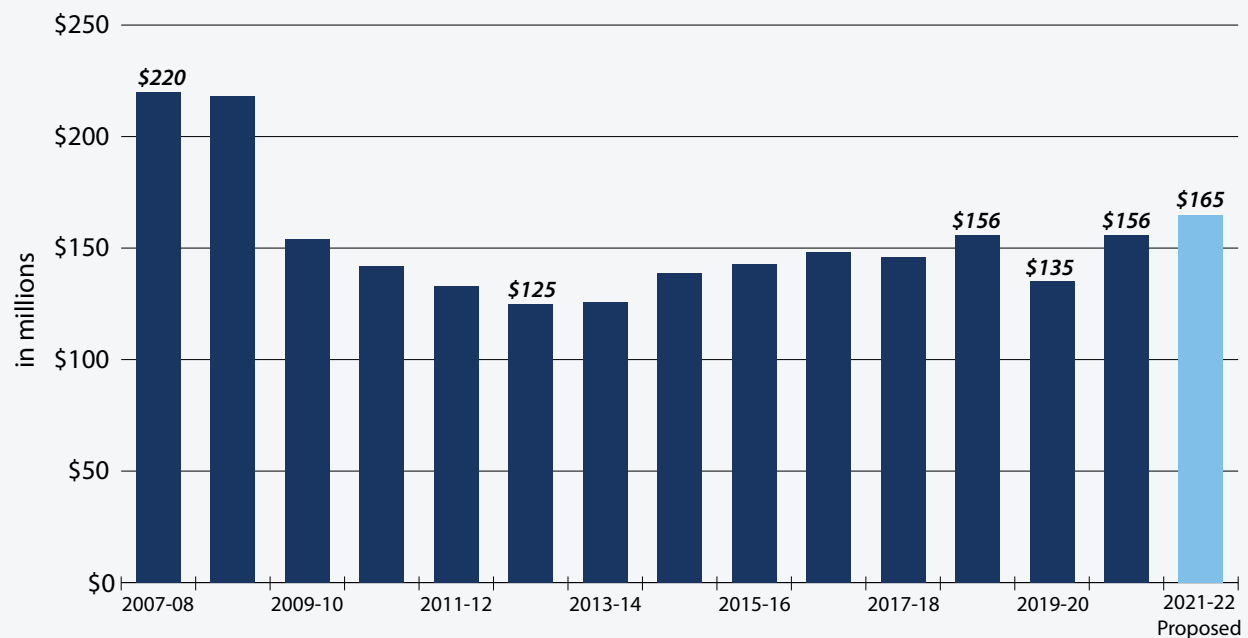
people.”<sup>52</sup>

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.”<sup>53</sup> Governor Wolf proposes a 5.4% increase in the Department of Environmental Protection, from \$156 million to \$165 million in general funds (figure 38). (Including the Environmental Hearing Board line item, general fund spending for DEP would increase from \$159 million to \$167 million).

Figure 38

### Governor Wolf Proposes a 5% Increase for the Department of Environmental Protection for 2021-22

General Fund spending on the DEP is down 25% from its 2007-08 levels



Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf’s 2021-22 Executive Budget (February 2, 2021) and previous budgets.

Looking at DEP’s general funds is important, but it represents only about 20% of the total funds for DEP. While general funds for DEP is increasing, overall funding is decreasing this year by \$2.38 million (figure 39).

Considering the pressing environmental problems facing our state, especially considering looming and accelerating climate change, funding to address these issues is inadequate.

Pennsylvania will join the Regional Greenhouse Gas Initiative (RGGI) in 2022. The RGGI is a cooperative multi-state, market-based program in the U.S. that aims to reduce greenhouse gas emissions. Many states near Pennsylvania already participate, including Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, Vermont, and Virginia.<sup>54</sup> Governor Wolf proposes that some of the funds generated by this initiative be deposited in an energy communities trust fund. These funds

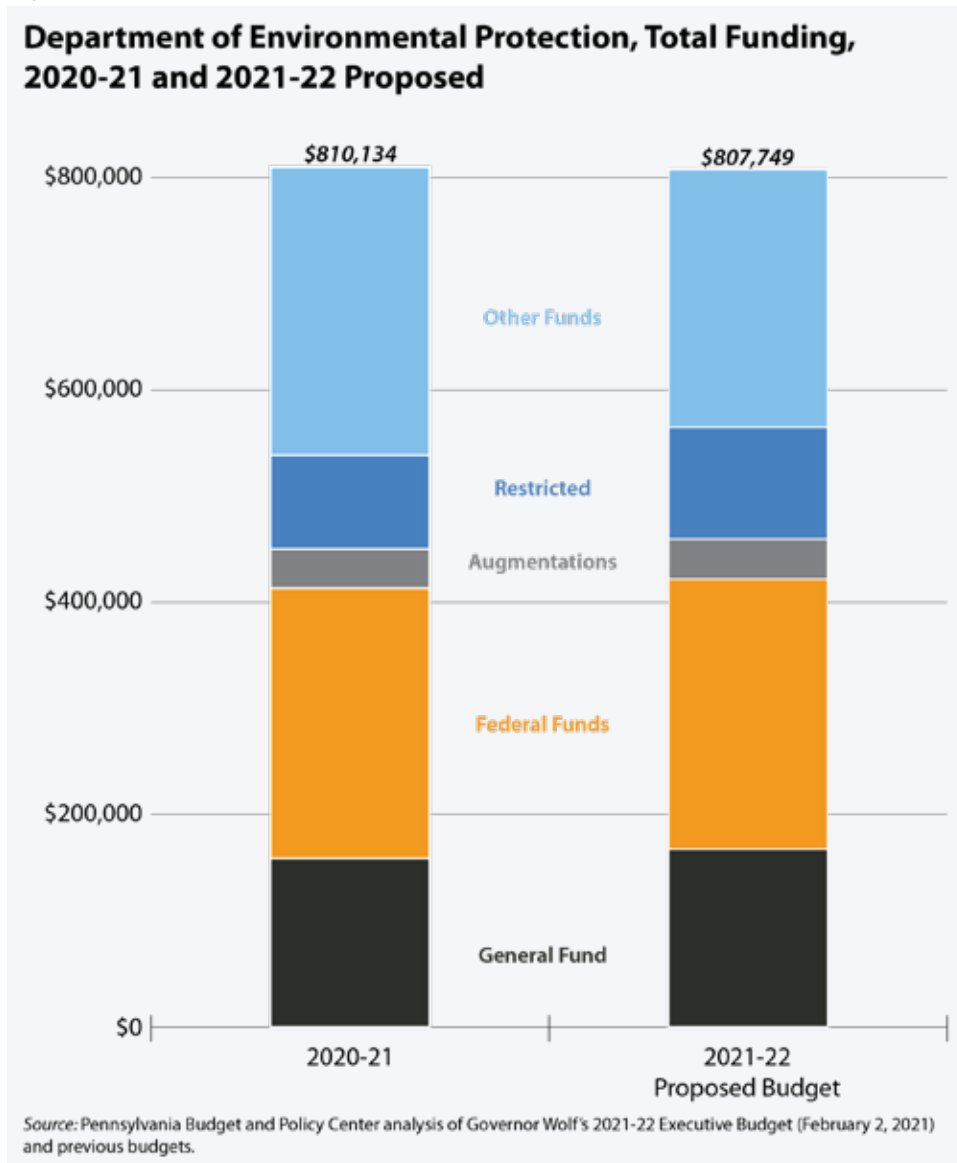
52 The Widener School of Law’s Environmental and Natural Resources Law Clinic. “A Citizen’s Guide to Article 1, 27 of the Pennsylvania Constitution.” Accessed at [http://blogs.law.widener.edu/envirolawcenter/files/2010/03/PA\\_Citizens\\_Guide\\_to\\_Art\\_1\\_Sect\\_27.pdf](http://blogs.law.widener.edu/envirolawcenter/files/2010/03/PA_Citizens_Guide_to_Art_1_Sect_27.pdf).

53 Commonwealth of Pennsylvania Office of the Governor. “Governor Tom Wolf Executive Budget 2020-2021.” February 2, 2021, P. E18-1. Accessed at: <https://www.budget.pa.gov/PublicationsAndReports/CommonwealthBudget/Documents/2021-2022%20Executive%20Budget%20Book.Web%20Version.UPDATED.pdf>.

54 Website of the Regional Greenhouse Gas Initiative. Accessed at: <https://www.rggi.org/>.



Figure 39



will go towards supporting workers and communities negatively impacted by job loss or challenges related to power plant closures.<sup>55</sup> The governor also proposes investments in greenhouse gas abatement, clean and renewable energy programs, and energy efficiency standards—all efforts to decrease air pollution in the state.<sup>56</sup>

The COVID-19 pandemic brought to light the importance of our state's natural resources and parks as residents across the Commonwealth headed out to the great outdoors in the face of few other entertainment options. The Department of Conservation and Natural Resources (DCNR) was established in 1995, and its mission is to “maintain, improve and preserve state parks; to manage state forest lands to assure their long-term health, sustainability and economic use; to provide information on ecological and geological resources; and to administer grant and technical assistance programs that will benefit river conservation, trails and

greenways, local recreation, regional heritage conservation and environmental education programs across the commonwealth.”<sup>57</sup>

The governor proposes an overall DCNR budget of \$427 million, a 1% reduction from the previous year's budget (Figure 40). General Fund spending accounts for about one-third of the total DCNR budget as the pie chart below shows. Governor Wolf has proposed a \$6 million (or 4%) increase in general funds for DCNR to make up for other reductions, including a 17% reduction in Motor License funds.

55 House Appropriations Committee. “2021/22 Executive Budget Briefing.” Accessed at: [https://www.houseappropriations.com/Topic/2021-2022/583#TOC\\_50](https://www.houseappropriations.com/Topic/2021-2022/583#TOC_50).

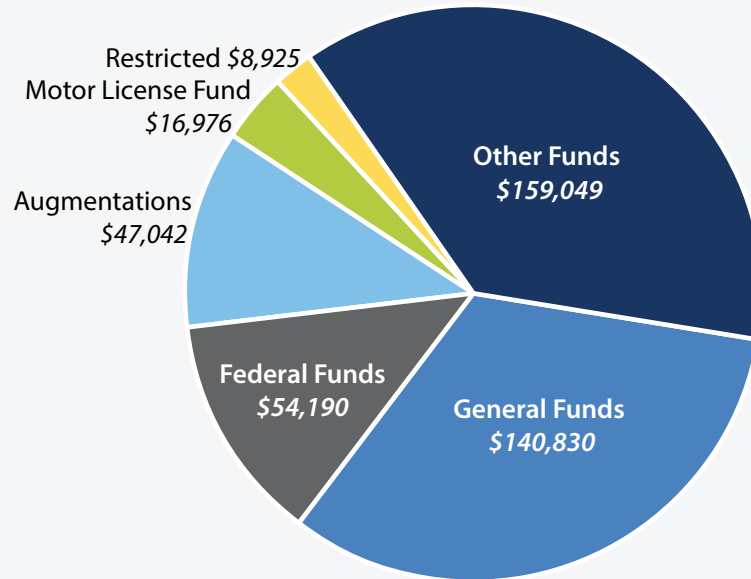
56 Governor Tom Wolf. “Executive Budget in Brief, 2021-2022.” Accessed at: <https://www.budget.pa.gov/PublicationsAndReports/CommonwealthBudget/Documents/2021-2022%20Budget%20In%20Brief.Web%20Version.pdf>.

57 Commonwealth of Pennsylvania Office of the Governor. “Governor Tom Wolf Executive Budget 2020-2021.” February 2, 2021, P. E12-1. Accessed at: <https://www.budget.pa.gov/PublicationsAndReports/CommonwealthBudget/Documents/2021-2022%20Executive%20Budget%20Book.Web%20Version.UPDATED.pdf>.

Figure 40

### Pennsylvania's Department of Conservation and Natural Resources (DCNR) Funding Breakdown by Source, 2021-22 Governor's Proposed Budget

Total DCNR budget: \$427 million



Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2021-22 Executive Budget (February 2, 2021).

### Transportation

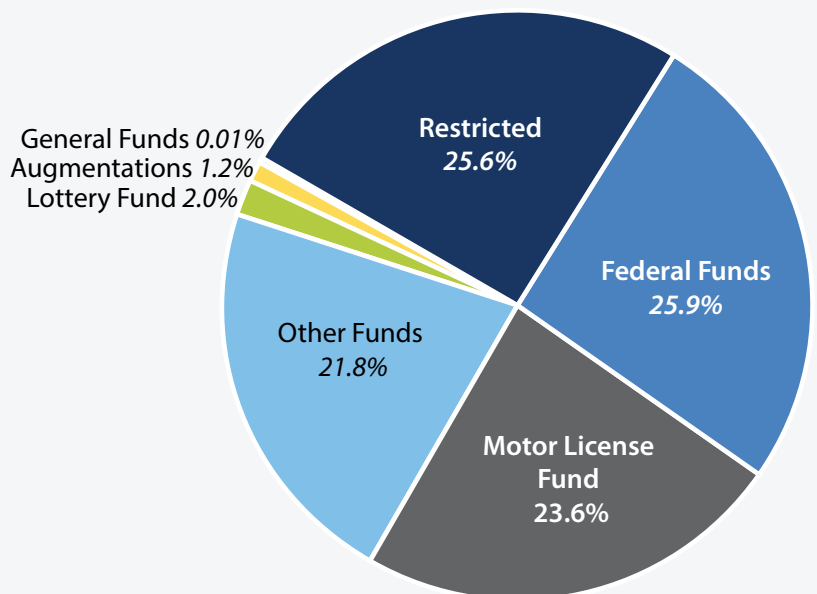
Only 0.01% of funding for the Department of Transportation comes from the General Fund. As Figure 41 below shows, three-quarters of the department's funding comes from federal funds (26%), restricted funds (26%), and motor license funds (24%).

Under the proposed budget, total funding for PennDOT would be cut by 8.4%, or \$788 million (Table 4). State funds are being reduced by 3.7%, or \$248.5 million. Federal funds will be reduced by nearly 20% this year. It appears, however, that President Biden intends to propose a major infrastructure program later in 2021 which will help Pennsylvania meet its long-term needs for more investment in this area.

Figure 41

### PennDOT Funding Source for Governor Wolf's Proposed Budget, 2021-22

Total PennDOT funding: \$8.6 billion



Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2021-22 Executive Budget (February 2, 2021).

**Table 4. PennDOT Funding, All Sources, 2019-20 Through 2021-22 Proposed, in Thousands**

	<i>FY 2019-20</i>	<i>FY 2020-21</i>	<i>FY 2021-22 Governor Proposed</i>	<i>\$ Change Between 2020- 21 and 2021-22</i>	<i>% Change Between 2020- 21 and 2021-22</i>
General Fund	\$3,445	\$3,128	\$1,070	-\$2,058	-65.8%
Motor License Fund	\$1,845,956	\$1,884,181	\$2,031,734	\$147,553	7.8%
Lottery Fund	\$170,907	\$170,907	\$170,907	\$0	0.0%
Federal Funds	\$1,929,000	\$2,773,263	\$2,233,326	-\$539,937	-19.5%
Augmentations	\$82,840	\$111,225	\$100,301	-\$10,924	-9.8%
Restricted	\$2,176,456	\$1,996,366	\$2,207,060	\$210,694	10.6%
Other Funds	\$1,980,337	\$2,471,278	\$1,877,506	-\$593,772	-24.0%
Total Funds	\$8,188,941	\$9,410,348	\$8,621,904	-\$788,444	-8.4%
Total State Funds	\$6,259,941	\$6,637,085	\$6,388,578	-\$248,507	-3.7%

*Source:* Pennsylvania Budget and Policy Center analysis of Governor Wolf’s Executive Budget 2021-22 (February 2, 2021).

This reduction in state funding for PennDOT, largely due to shrinking gas tax revenues and uncertain federal funding, is troubling. PennDOT is responsible for maintaining and updating more than 25,000 bridges and 40,000 miles of highway. Funding for highway and bridges totals about \$6.9 billion a year, which is inadequate to meet the \$8.1 billion PennDOT estimates is needed annually for the upkeep and maintenance of the state’s roads and bridges. Pennsylvania ranks second in the nation for the number of bridges in poor condition, with more than 2,500 bridges considered in poor condition in 2019.<sup>58</sup>

Table 5 below shows a breakdown of PennDOT funding by programmatic area. Multimodal transportation provides support for the state’s non-highway infrastructure, including public transportation, aviation, bicycle, rail, and ports. The largest funding source for public transportation is the Public Transportation Trust Fund, which is funded by the Pennsylvania Turnpike Commission (PTC) contributions, state lottery funds, sales tax, and taxes on vehicle leases and rentals, among other sources. There appears to be a significant reduction of this fund, compared with last year—from \$2.02 billion to \$1.41 billion. However, much of that decrease is due to a roll-over of funds from 2019-20 to 2020-21, making the budget for 2020-21 look inflated.<sup>59</sup> Both Act 44 (passed in 2007) and Act 89 (passed in 2010) have allowed PennDOT to raise additional revenue from gas taxes and the PA Turnpike. But these sources of revenues are no longer sufficient to meet Pennsylvania’s needs.

**Table 5. PennDOT Funding by Program, 2019-20 Through 2021-22 Proposed, in Thousands**

	<i>FY 2019-20</i>	<i>FY 2020-21</i>	<i>FY 2021-22 Governor Proposed</i>	<i>\$ Change</i>	<i>% Change</i>
Transportation Support Services	\$62,078	\$202,207	\$73,183	-\$129,024	-63.8%
Highways and Bridges	\$4,602,109	\$5,207,720	\$5,056,543	-\$151,177	-2.9%
Local Highways and Bridges	\$846,276	\$873,935	\$937,326	\$63,391	7.3%
Multimodal Transportation	\$2,429,133	\$2,832,485	\$2,243,578	-\$588,907	-20.8%
Driver Vehicle Services	\$249,345	\$294,001	\$311,274	\$17,273	5.9%
Total Funds	\$8,188,941	\$9,410,348	\$8,621,904	-\$788,444	-8.4%

*Source:* Pennsylvania Budget and Policy Center analysis of Governor Wolf’s Executive Budget 2021-22 (February 2, 2021).

58 PennDOT website. Accessed at: <https://www.penndot.gov/about-us/funding/Pages/default.aspx>.

59 House Appropriations Committee. “2021/22 Executive Budget Briefing.” Accessed at: [https://www.houseappropriations.com/Topic/2021-2022/583#TOC\\_50](https://www.houseappropriations.com/Topic/2021-2022/583#TOC_50).

In addition to concerns about inadequate funding of roads and bridges, the long-term status of public transportation funding is in question. Act 89 allocated all Act 44 payments to public transit but lowered the annual obligation of the Pennsylvania Turnpike Commission (PTC) for public transportation subsidies from \$450 million to \$50 million starting in 2023. Yet to maintain even the inadequate level of current state funding for public transit in 2022-23 would still require a continuation of at least \$450 million in total operating support. The public transportation transit issue has no impact on the 2021-22 budget, but the governor and General Assembly will have to address this problem the following year.

PennDOT's financial state is less than ideal, in part, because of the ongoing diversion of funds from the state's Motor License Fund to the state police, which began in FY 2012-13. Nearly one-third of the MLF expenditures fund the state police. As noted earlier, if the localities were to pick up more responsibility for funding State Police, this could free up additional funding for public transit or other transportation needs.

## Pensions

Governor Wolf again proposes to fully fund the actuarially required contribution to the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS). One of the few unalloyed successes of the General Assembly is that it has followed the governor's lead and made the actuarially required contributions to state pensions for five straight years, even during the current year, despite the difficulties for the state budget created by the pandemic.

Because Governor Wolf and the General Assembly made large General Fund contributions to both pensions systems in his first term, the growth in General Fund contributions has slowed. Under the governor's budget proposal, the state contribution to PSERS would be \$2.734 billion, an increase of only 1.2%. The state contribution to SERS funding would be about \$2.45 billion, an increase of \$7.8 million, or .8%.

More than 75% of pension fund payments go toward reducing the unfunded liabilities that accumulated over many years, due primarily to inadequate contributions on the part of the state. The state is now on a path toward slowly eliminating unfunded pension liabilities.

## Rainy Day Fund

At the end of 2019-20, the Commonwealth had a balance of \$343 million in the state's rainy day fund, its highest balance since the Great Recession. Act 114 of 2020 resulted in \$100 million being transferred from the General Fund to the Rainy Day Fund to help balance the budget for 2020-21.<sup>60</sup> Compared to other states, Pennsylvania ranks near the bottom in terms of amount of funds in the state's rainy day fund. The median reserves among all states is 7.9% of spending in 2020. Pennsylvania has only 0.6% of spending in 2021-22.<sup>61</sup>

Pennsylvania will make no contributions to the Rainy Day Fund for 2020-21 unless American Recovery Plan funds are contributed to it.

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60 House Appropriations Committee. "2021/22 Executive Budget Briefing." Accessed at: [https://www.houseappropriations.com/Topic/2021-2022/583#TOC\\_49](https://www.houseappropriations.com/Topic/2021-2022/583#TOC_49).

61 Pew Trusts. "Fiscal 50: State Trends and Analysis." February 17, 2021. Accessed at: <https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2014/fiscal-50#ind5>.

## Conclusion

Governor Wolf's 2021-22 budget is even bolder than the one he presented in his first year in office. It is a budget that is designed for this moment when recovery from the COVID-19 pandemic is our first priority. But it is also a budget that reflects the governor's understanding of the economic and racial inequities that have characterized public policy in the Commonwealth for too long.

Predictably, the governor's budget was greeted with immediate condemnation on the part of the majority party in the General Assembly. This is no surprise, given the division that characterizes politics in our country and state at this time. Enacting parts of the governor's bold agenda will be difficult, even though poll after poll shows that Pennsylvanians support every element of it. We are confident, however, that some members of the majority in the legislature are open to moving down the path put forward by Governor Wolf.

Only time will tell how long it takes for the governor's central policy initiatives to be adopted. But if many of them are not adopted in the current legislative session, we firmly believe that by embracing the demands of this moment, and of justice, the governor has set the bar for any individual or party that seeks to lead the state in the future. And we further believe that, before too long, the ideas put forward by the governor will finally be embodied in the state budget.