

# Analysis of Governor Shapiro's First Executive Budget (2023-24)

April 27, 2023



KEYSTONE RESEARCH CENTER  
AND  
PA BUDGET AND POLICY CENTER

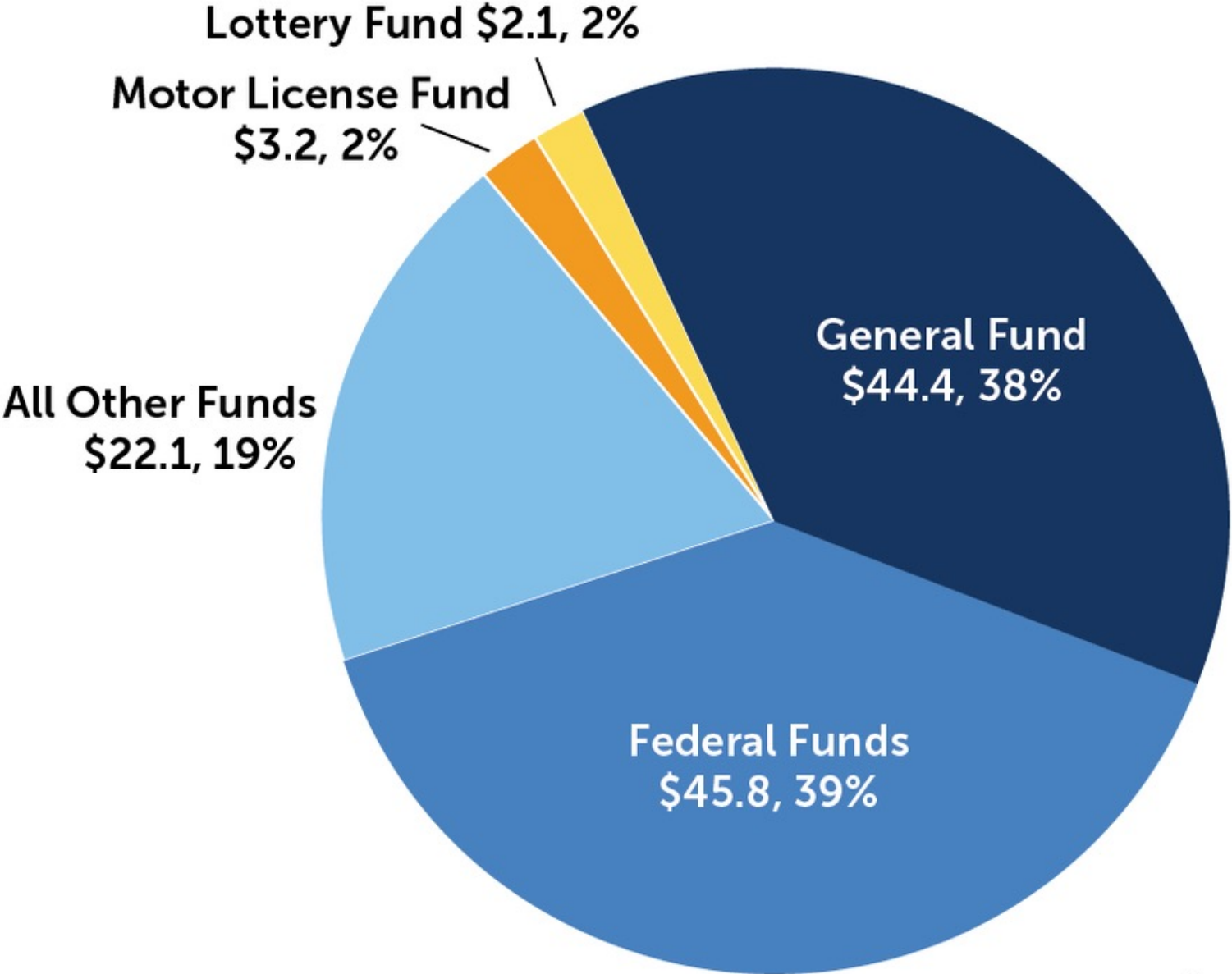
# Overview of Governor Shapiro's first budget

The Governor's budget highlights many of the right priorities – like education, mental health, support for property owners and renters, the need for a higher minimum wage, apprenticeship, etc.

But he leaves it to the legislature to invest more of the ample resources the state now has, especially in education



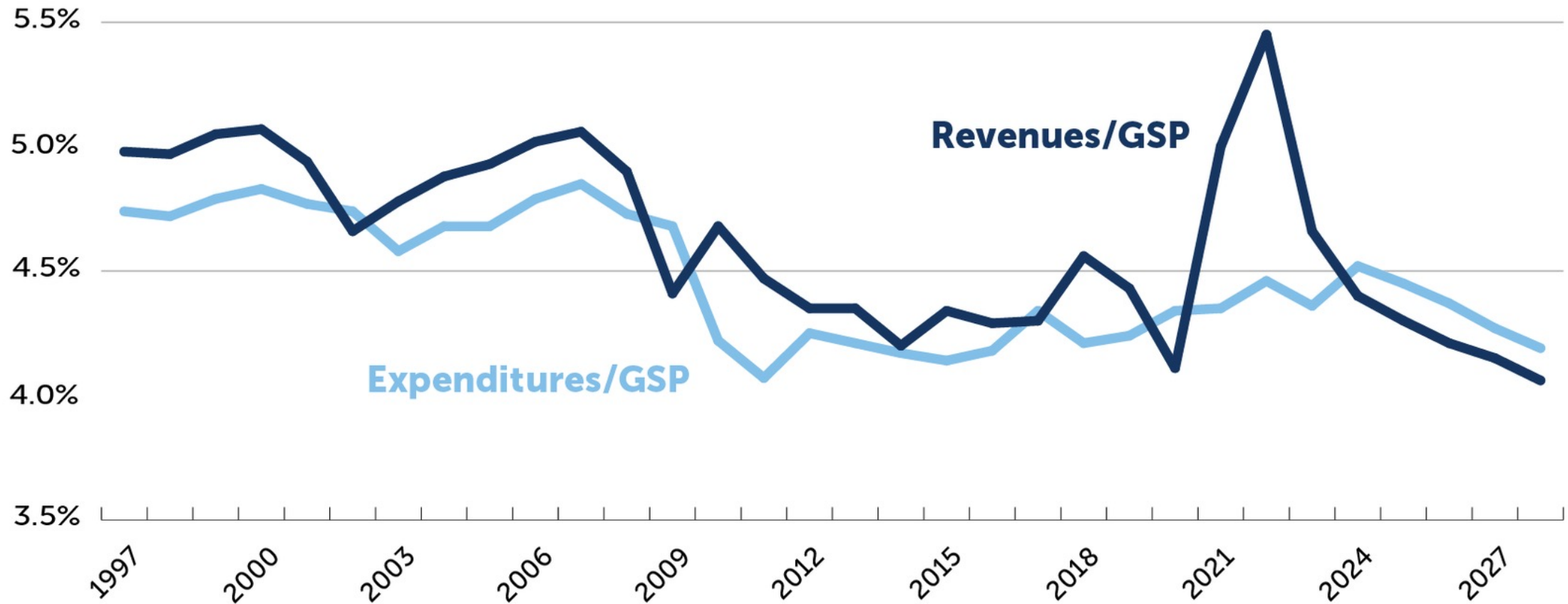
# Components of Pennsylvania's Proposed 2023-24 Combined Operating Budget in Billions



Source: Pennsylvania Budget and Policy Center from Governor Shapiro's 2023-24 Executive Budget (March 2023)

# Overall, General Fund Expenditures and Revenues **Have Become a Smaller Share of the Economy** since the late 1990s and early 2000s.

The years ending 2021 and 2022 were outliers with Pennsylvania bringing in significant revenues compared to previous years; forecasts predict revenues and expenditures as a share of GSP will again decrease.



# State Surplus Projected at \$8.7 Billion by June 30 + \$5.1B Rainy Day Fund

Projected Accumulated State Surplus by the End of June 2023 in Billions	
	Estimate
1) Budget surplus projected in June 2022	\$5.27
2) Additional revenues from July through March 2023 on top of original 2022-23 estimate	\$1.15
3) Remaining American Rescue Plan funds	\$0.00
4) Reduction in expenditures due to FMAP* expected extension between January and March 2023 and phase down in April	\$0.94
5) Other savings related to the Department of Human Services	\$0.72
6) Additional savings	\$0.58
<b>TOTAL</b>	<b>\$8.66</b>
7) Rainy Day Fund	\$5.12
<b>TOTAL, including Rainy Day Fund</b>	<b>\$13.19</b>

\*FMAP is Federal Medicaid Assistance Percentage—due to the pandemic the federal government has been providing an additional 6.2% to states on many eligible Medicaid costs. The extended FMAP was in the original budget for half of 2022/23 (and is reflected in the estimate in line item #1). FMAP has been extended for the first quarter of 2023 (through March 2023) and will begin to phase down in April 2023, adding additional funds (shown in line item #4 above).

Source: 1 and 2) From data provided by the PA Senate Democratic Appropriations Committee. NOTE: Revenues for the rest of FY 2022/23 are expected to be at estimate. 3) House Democratic Appropriations Committee report: [https://www.houseappropriations.com/Topic/BudgetYears/746#TOC\\_21](https://www.houseappropriations.com/Topic/BudgetYears/746#TOC_21). Final ARP funds (\$2.16 billion) are planning to be used in 2022/23. 4 and 5) From data provided by the PA Senate Democratic Appropriations Committee and [https://www.houseappropriations.com/Topic/BudgetYears/746#TOC\\_21](https://www.houseappropriations.com/Topic/BudgetYears/746#TOC_21) 6) This includes adjustments to refunds and prior-year lapses. 7) Update provided by PA Senate Democratic Appropriations Committee.

## ...But 5 Subsequent Years of Deficits Could Fritter The Surplus Away

Projected ending balance for Pennsylvania's General Fund, FY 2023-24 to 2027-28 (in millions)	
Fiscal year	Projected ending balance
2023-24	-\$1,532
2024-25	-\$2,291
2025-26	-\$3,015
2026-27	-\$2,995
2027-28	-\$3,121
<b>Total</b>	<b>-\$12,954</b>
Source: See page 41 of the Independent Fiscal Office Economic and Budget Outlook for fiscal years 2022-23 to 2027-28, <a href="http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Five Year Outlook 2022.pdf">http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Five Year Outlook 2022.pdf</a> .	

# Current surpluses and future deficits

- PA will end 2022–23 with an unprecedented surplus
- Looking forward, however, there are deficits predicted because of lost federal funds and corporate tax cuts in 2022.
- This leaves PA with a familiar problem – a structural deficit
- To invest in education and other public goods and life-enhancing services, we need reliable and recurring revenue from people and corporations with the greatest ability to pay

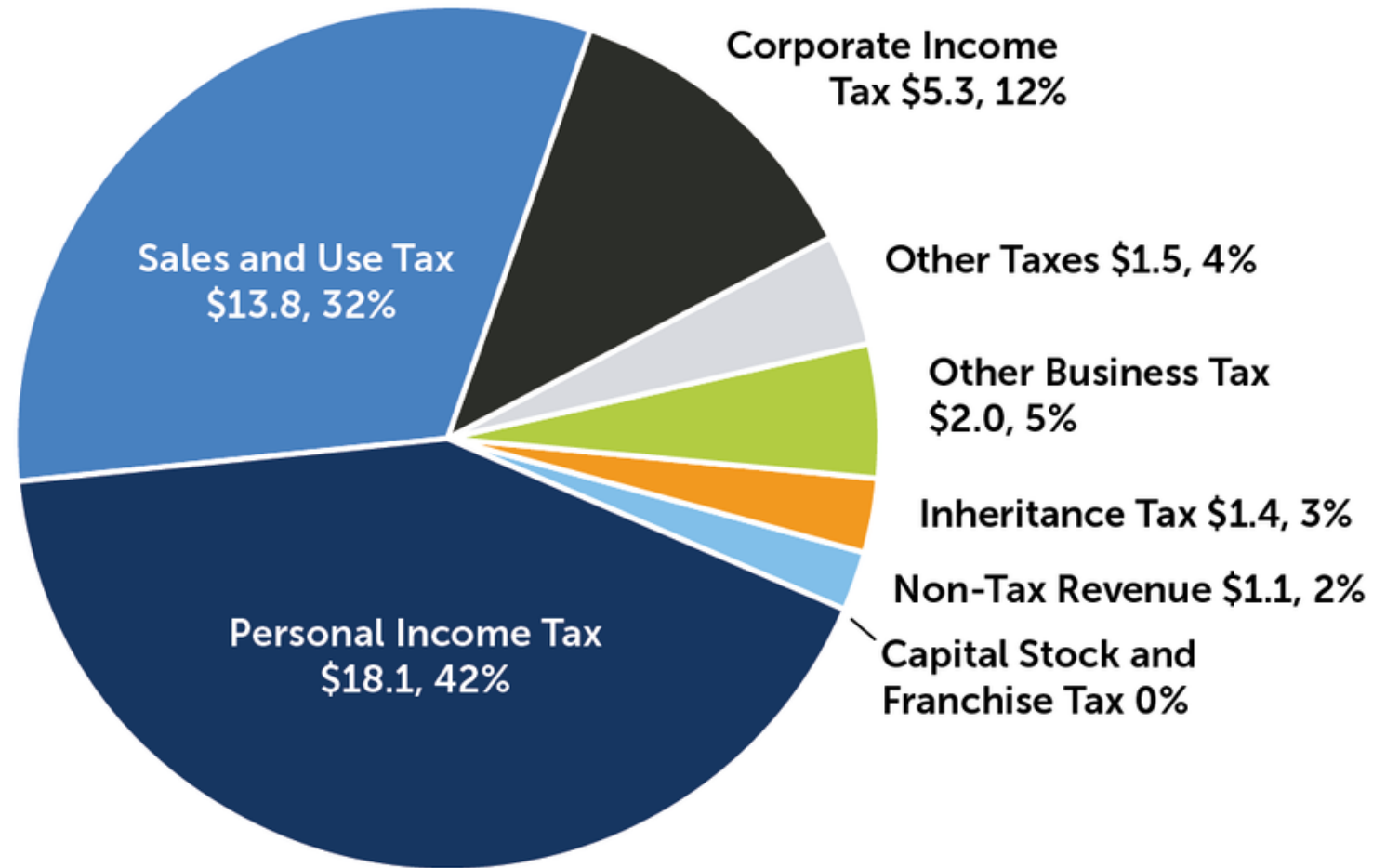


# Revenues

Pennsylvania does not raise enough revenue from those who can afford it: large corporations and the wealthy.

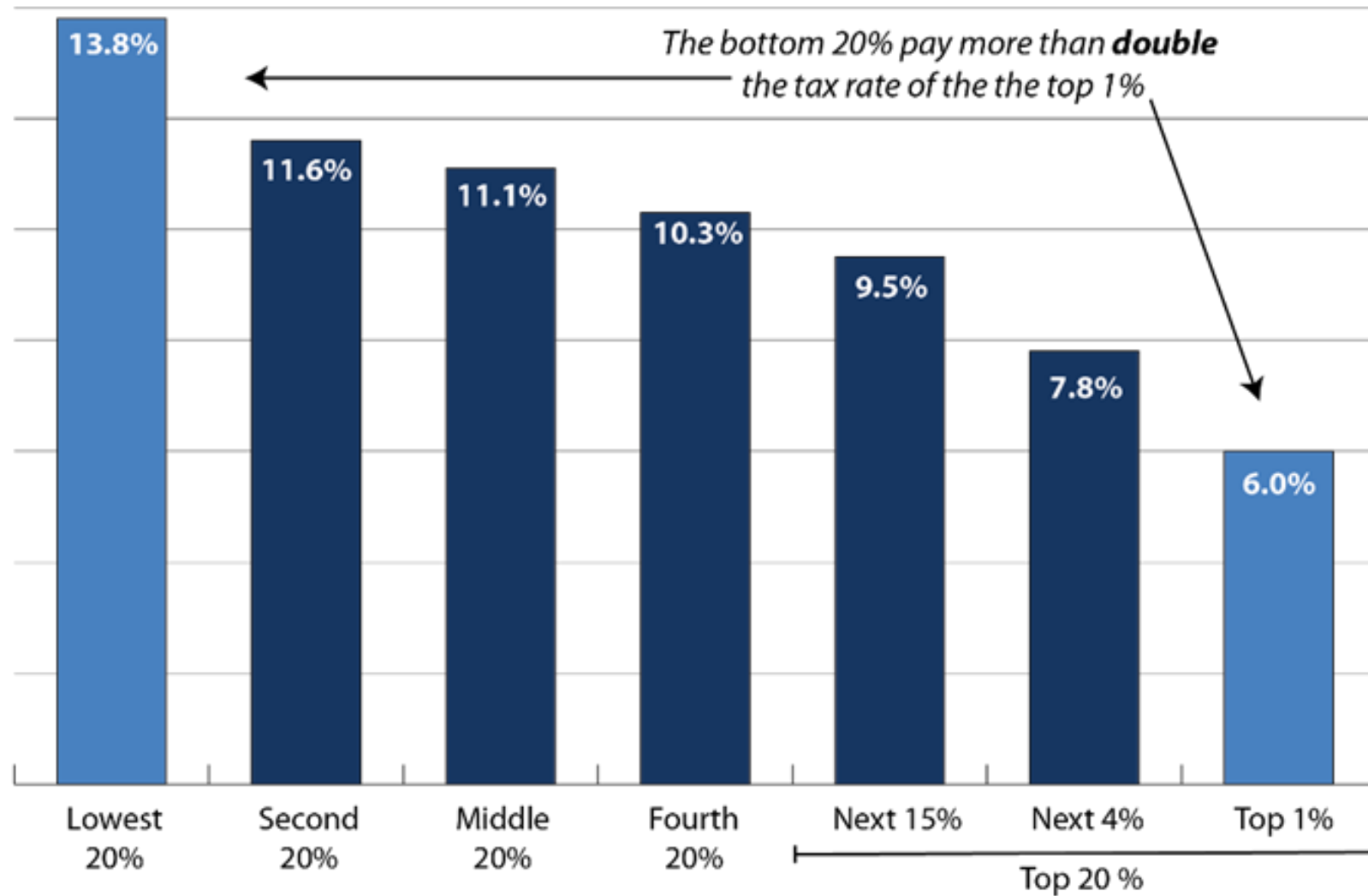


# Projected General Fund Revenue, 2023-24: \$43.2 Billion



Source: Pennsylvania Budget and Policy Center from Governor Shapiro's 2023-24 Executive Budget (March 2023)

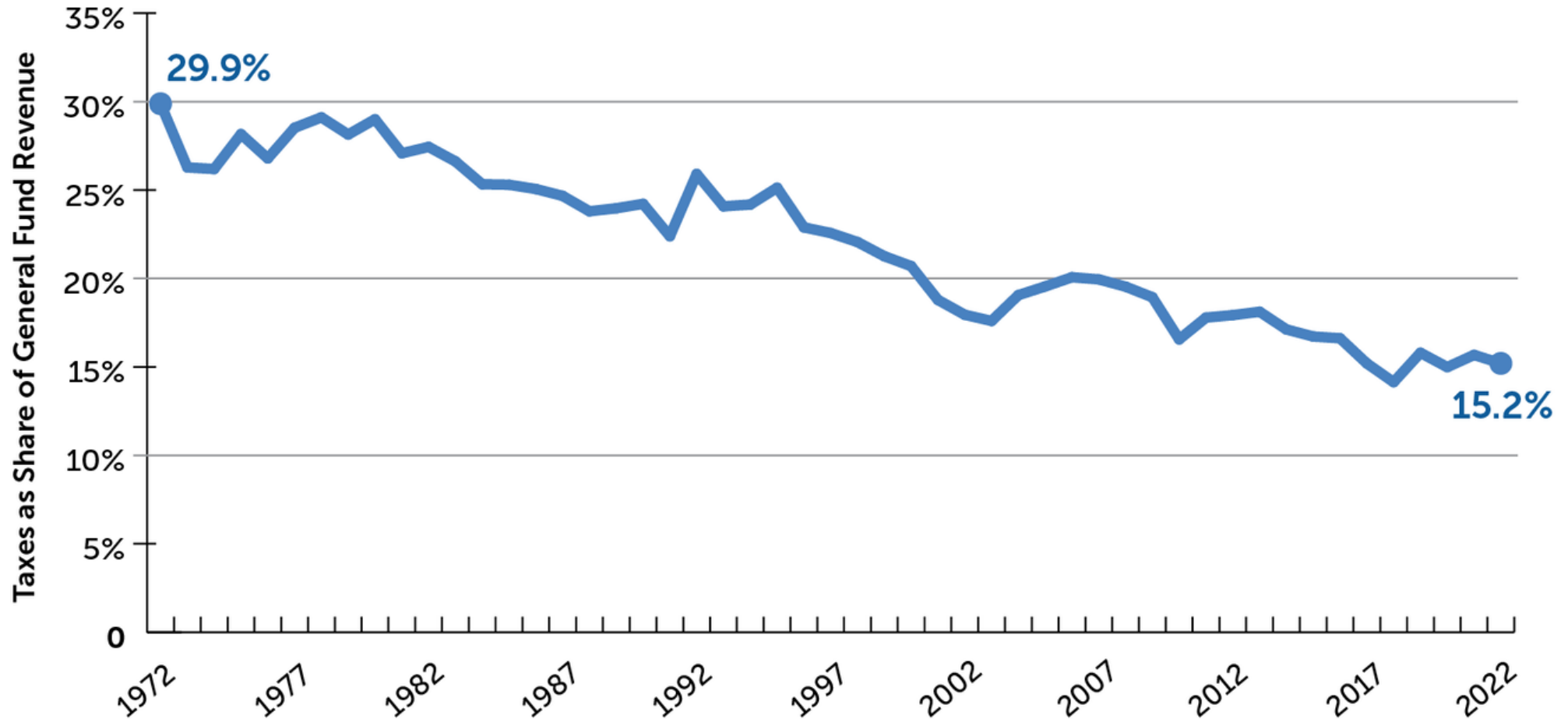
## In Pennsylvania, Higher Income Taxpayers Pay a Lower Share of Their Income in State and Local Taxes



Total State and Local Taxes as a % of Income in Pennsylvania

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

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



# Major Proposed Revenue and Tax Changes



# Proposed revenue and tax changes

- **Tax credit for teachers, nurses, and police officers**
  - \$2,500 tax credit—the Individual Recruitment and Retention Tax Credit—would be available to these workers for 3 years when they acquire a certification
  - Would reduce revenue by \$23.7 million next year



# Proposed revenue and tax changes (cont.)

- Expanding the Property Tax and Rent Rebate programs:

- Current eligibility for the program:

Homeowners with a household income of \$35,000 or less qualify for \$250–\$650 in rebates; homeowners with a lower income (\$30,000) may receive \$975 in rebates; renters only qualify for \$500–\$650 in rebates if they earn less than \$15,000 per year.

- The problem:

The number of rebates paid each year has dropped by more than 25% over the last decade because the legislature has not updated income limits. The result: fewer people are eligible over time.

- The Governor proposes to both increase the income eligibility threshold for renters and homeowners to \$45,000 or less a year (and tie to inflation) and increase the rebates to a range of \$380–\$1,000.



# Proposed revenue and tax changes (cont.)

- **Adult-use marijuana legalization and taxation:**
  - A proposed 20% tax on wholesale cannabis products once their sale is legalized
  - No new revenue this year; \$189 million by 2027-28.

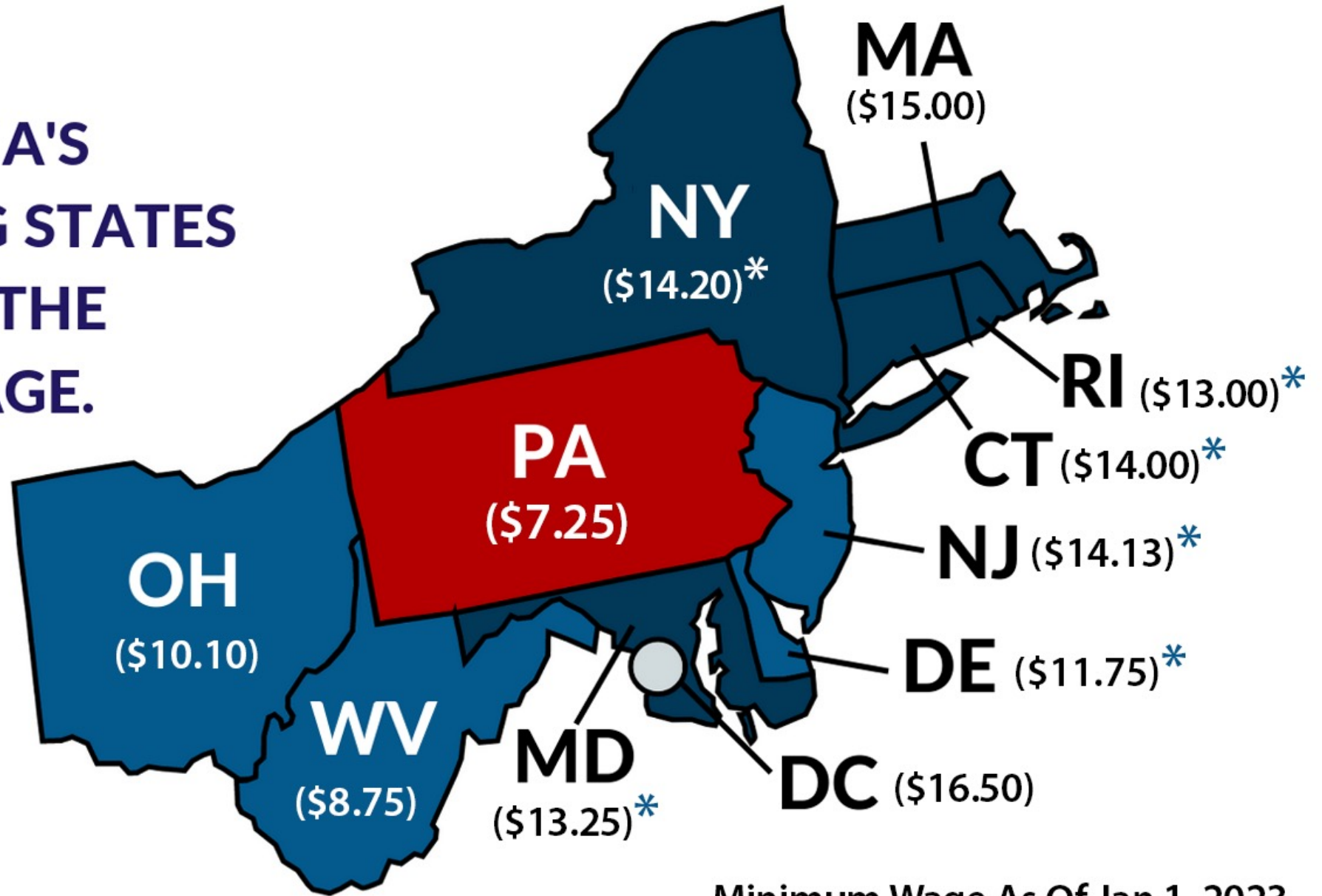


# Raising the Minimum Wage





ALL OF  
PENNSYLVANIA'S  
NEIGHBORING STATES  
HAVE RAISED THE  
MINIMUM WAGE.



Minimum Wage As Of Jan 1, 2023

\* ON THE PATH TO \$15/HR BY 2025

# Increase in Minimum Wage

- \$15 per hour by January 2024
- No other details released yet



# IF PA RAISED THE MINIMUM WAGE TO \$15/hr:

Over a million PA workers would see an increase in their wages

an average increase of **\$4,350** per worker, per year.

This increase in wage income will be spent directly back into the economy – supporting our local businesses, and strengthening the current economic expansion.

\*estimates for a \$15 minimum wage by January 1st, 2024, by the Keystone Research Center

# IF PA RAISED THE MINIMUM WAGE TO \$15/hr:

**1,569,096**  
**PA workers**  
**would benefit**



Of those workers:

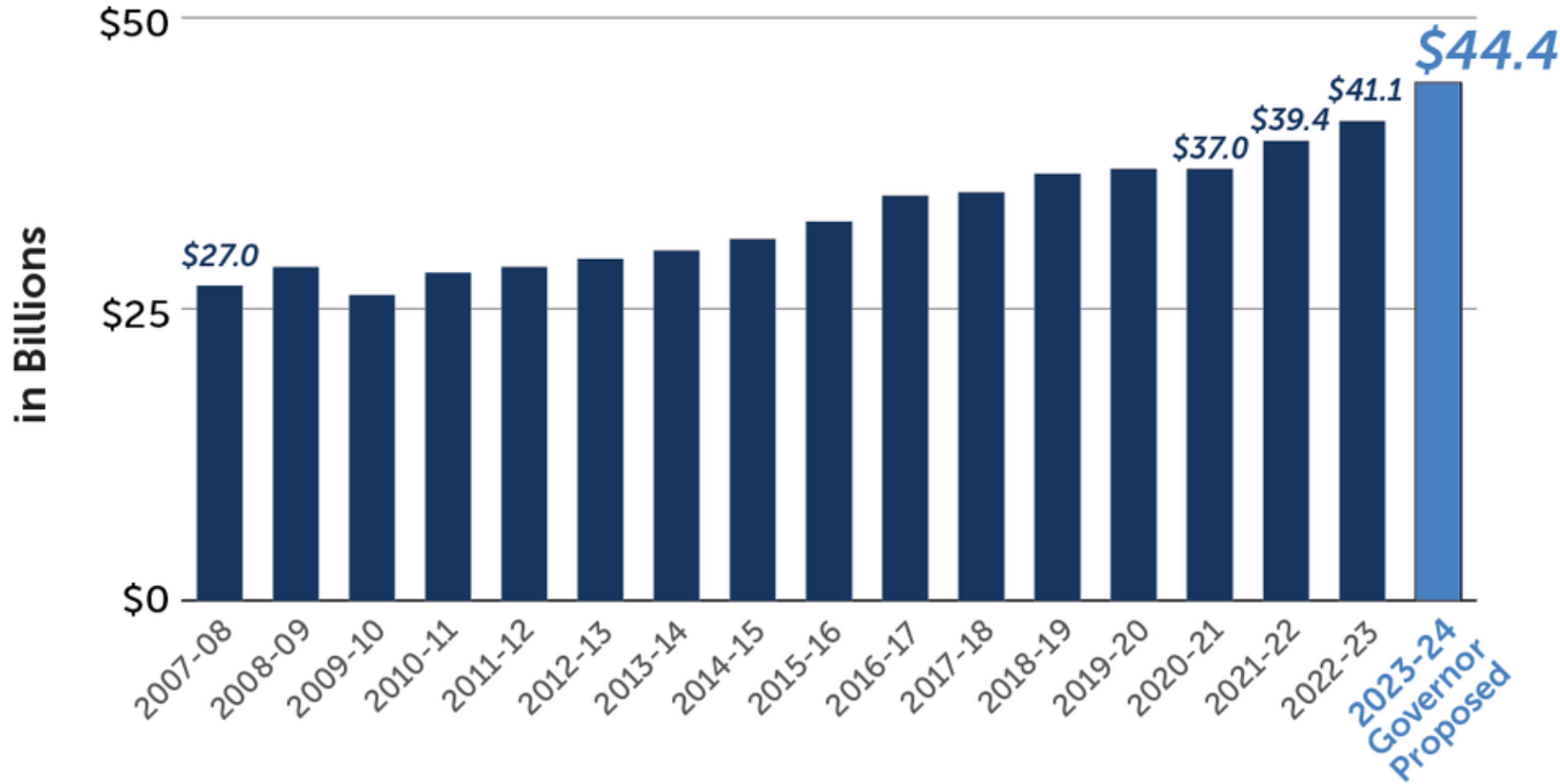
- ▶ over 61% are women.
- ▶ only 14% are teens
- ▶ 31% are people of color.
- ▶ 29% are parents.
- ▶ over 50% work full-time.

\*estimates for a \$15 minimum wage by January 1st, 2024, by the Keystone Research Center

# General Fund Spending







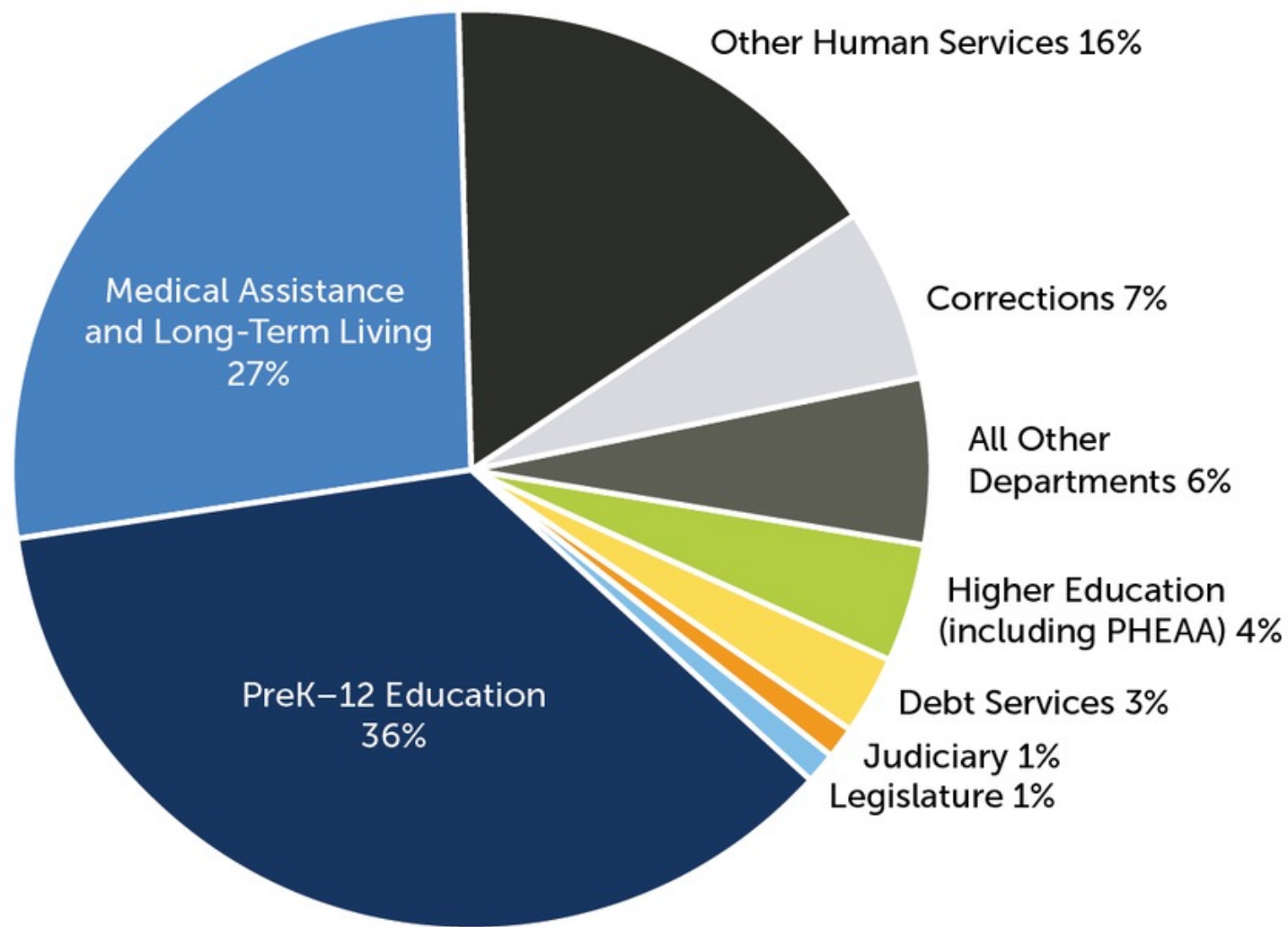
**The Proposed  
2023-24 Budget  
Would Increase  
2022-23 General  
Fund Spending  
by 8%**

Source: Pennsylvania Budget and Policy Center analysis of Governor Shapiro's Executive Budget (March 2023) and previous budgets.

# 2023-24 Proposed General Fund Expenditures

Share of the total state expenditures  
by major category in the Governor's  
proposed 2023-24 budget

**Total Budget:  
\$44.4 Billion**



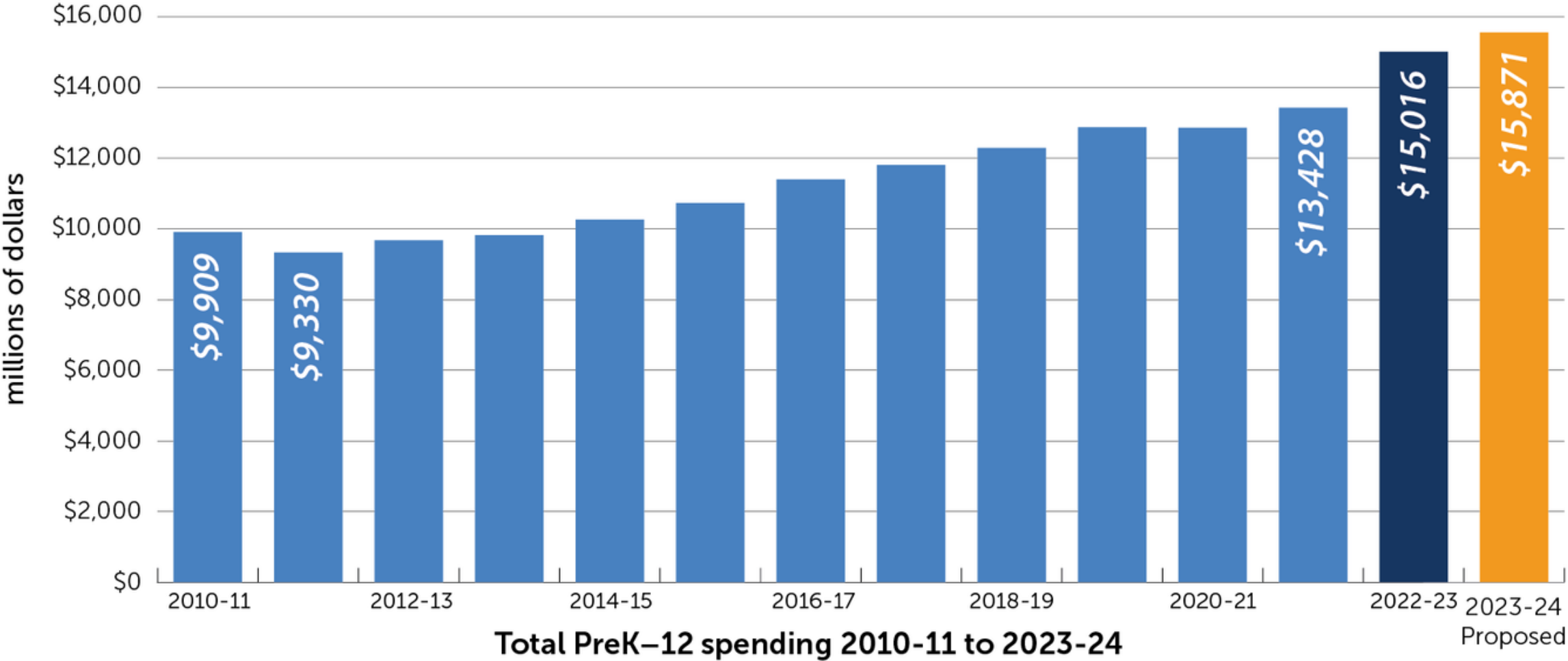
Source: Pennsylvania Budget and Policy Center from Governor Shapiro's 2023-24 Executive Budget (March 2023)

# PreK-12 Education





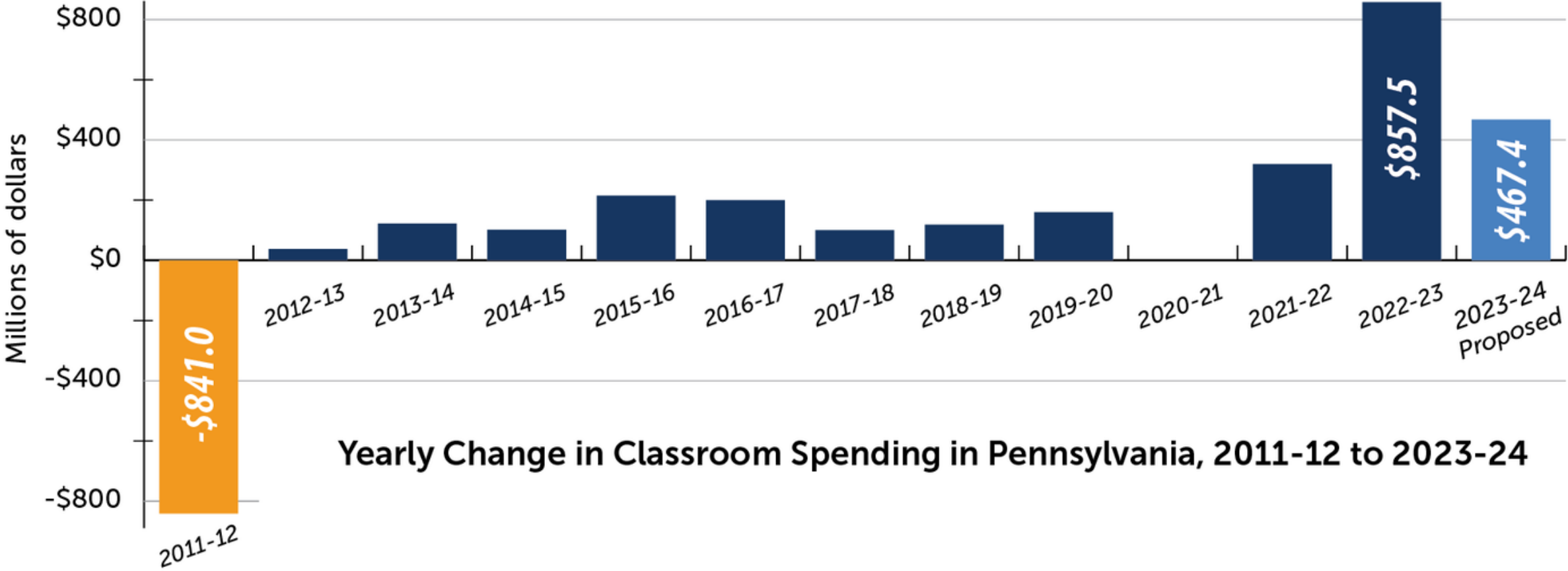
# Governor Shapiro's Proposed Budget Would Increase 2023-24 Spending on PreK–Grade 12 Education by **5.7%**



Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2022-23 Executive Budget (February 2022), the 2022-23 enacted budget (July 2022) and previous budgets

# Governor Shapiro Is Proposing \$467 Million in New Classroom Funding

*This increase is more than much of the previous decade but just over half of what was invested last year.*



**Yearly Change in Classroom Spending in Pennsylvania, 2011-12 to 2023-24**

\*Classroom funding includes the Basic Education Funding subsidy plus formula enhancements, charter reimbursements, Ready to Learn block grants, Level Up funding, and American Recovery and Reinvestment Act (ARRA) funding.

\*\*In 2019-20 through 2023-24 (proposed) 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 from Governor Shapiro's 2023-24 Executive Budget (March 2023)

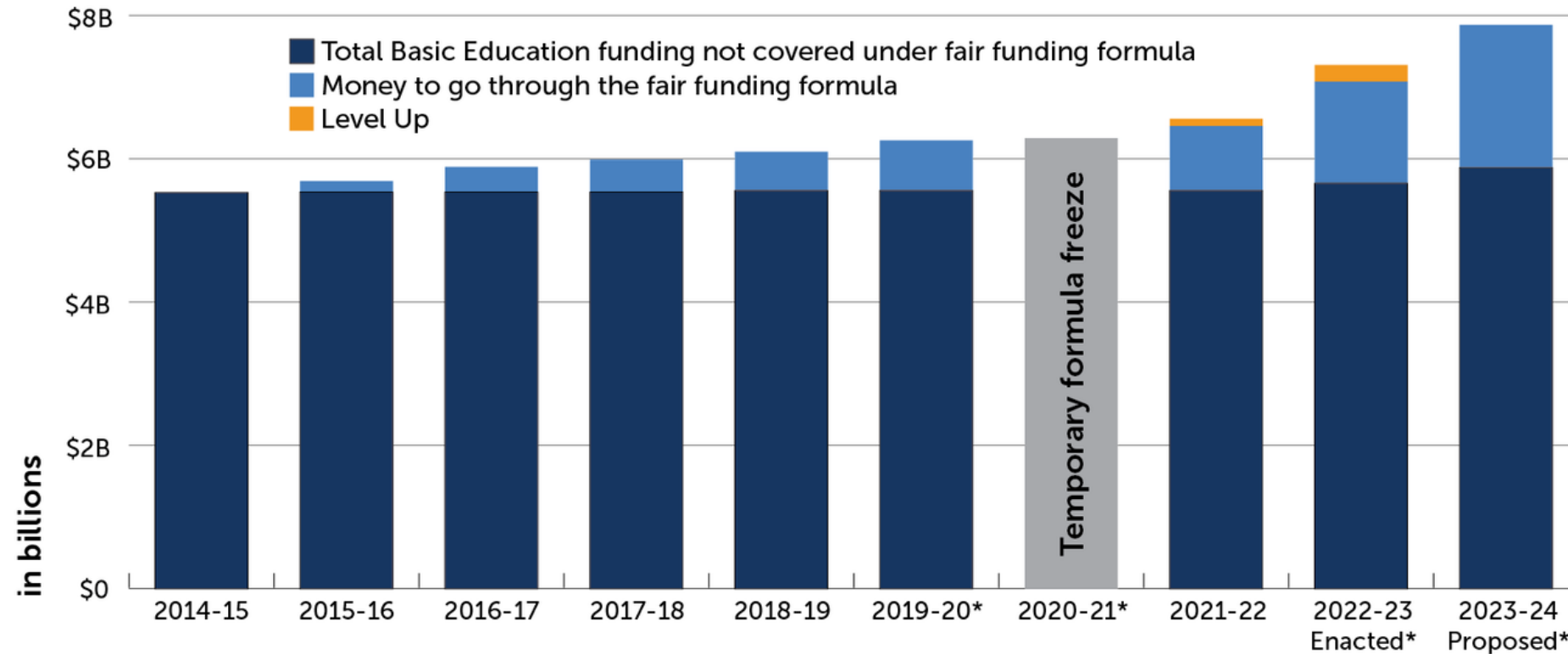
# Education lawsuit ruling changes education landscape in PA

- Commonwealth Court Judge Cohn Jubelirer ruled early this year (2023) that the state has failed to provide a constitutional – “thorough and efficient” – system of public education.
- The court order found that the school funding system violates the Education Clause of the PA Constitution because it fails to ensure that “**every** student receives a **meaningful opportunity** to succeed academically, socially, and civically, which requires that **all** students have access to a comprehensive, effective, and contemporary system of public education.”
- The Judge found students in school districts with low incomes and low property values are therefore deprived of the same opportunities as others – i.e., of equal protection under the law.
- The court calls on the “Legislature, Executive Branch and educators, to make the constitutional promise a reality in the Commonwealth.”



# Governor Shapiro Proposes a 7.8% Increase in Basic Education Funding; With This Proposal, 25% Would Go Through The Fair Funding Formula This Year

## Share of BEF that flows through the Fair Funding Formula



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 <https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Education%20Budget/Pages/default.aspx>

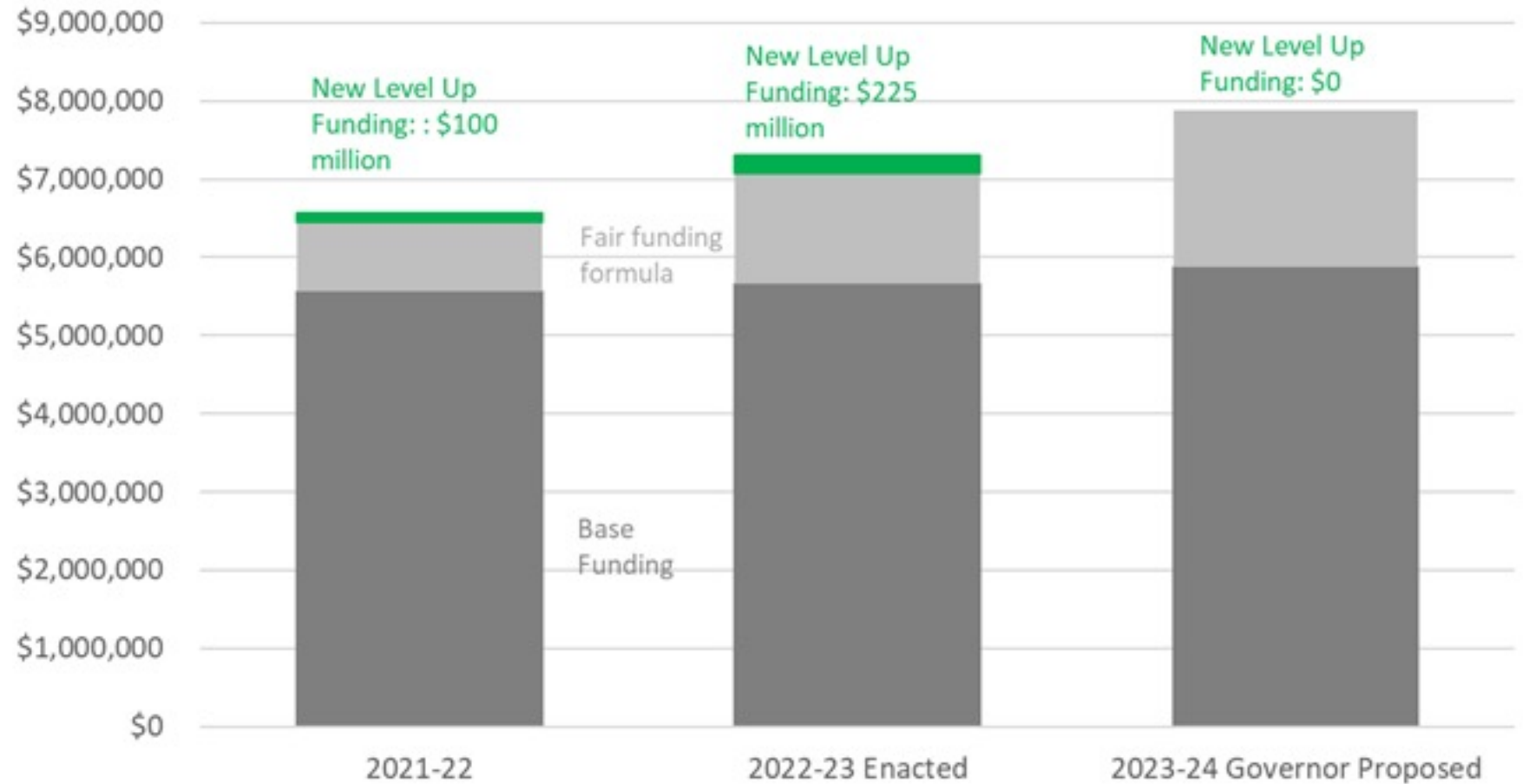
\*From the year 2019-20 on, the General Assembly combined the Teacher Social Security line item with Basic Education funding, increasing the BEF. We have reduced the enacted BEF total by that amount in order to make year-to-year accurate comparisons in state support for K-12 classroom spending possible.

Source: Pennsylvania Budget and Policy Center analysis of Governor Shapiro's 2023-24 Executive Budget (March 2023) and the 2022-23 enacted budget (July 2022); data downloaded on basic education funding from: <https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Education%20Budget/Pages/default.aspx>; and [https://houseappropriations.com/Topic/2022-2023/696#TOC\\_13](https://houseappropriations.com/Topic/2022-2023/696#TOC_13)

# Governor Shapiro proposes no new Level Up funding this year

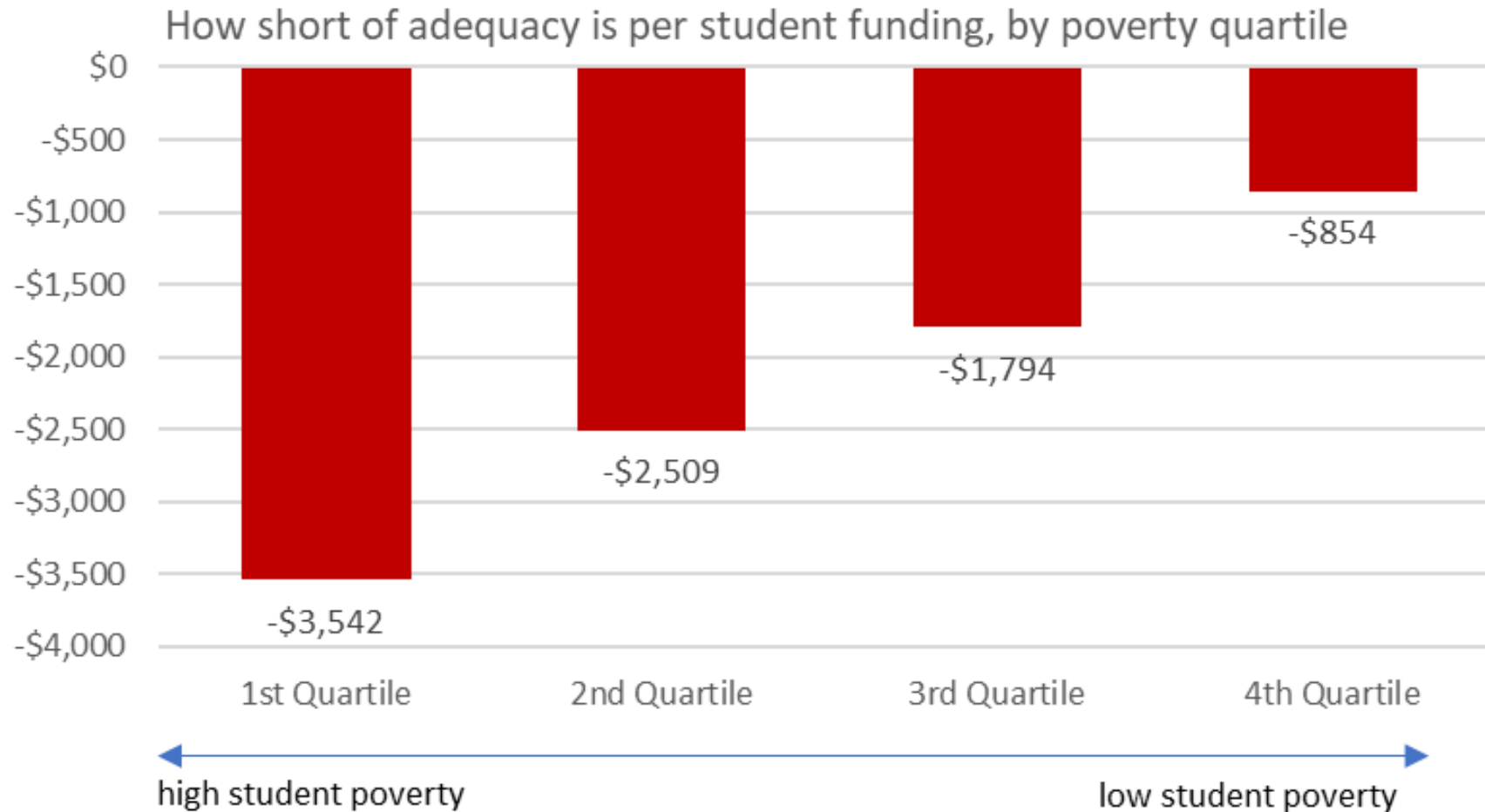
## Governor Shapiro's 2023-24 budget proposal has no new Level Up funding this year

Funding for Level Up, which began in 2021-22



\* The year after new Level Up funding is established, the amount gets folded into a school district's base funding.  
Source: Pennsylvania Budget and Policy Center analysis of Governor Shapiro's 2023-24 Executive Budget (March 2023) and previous budgets

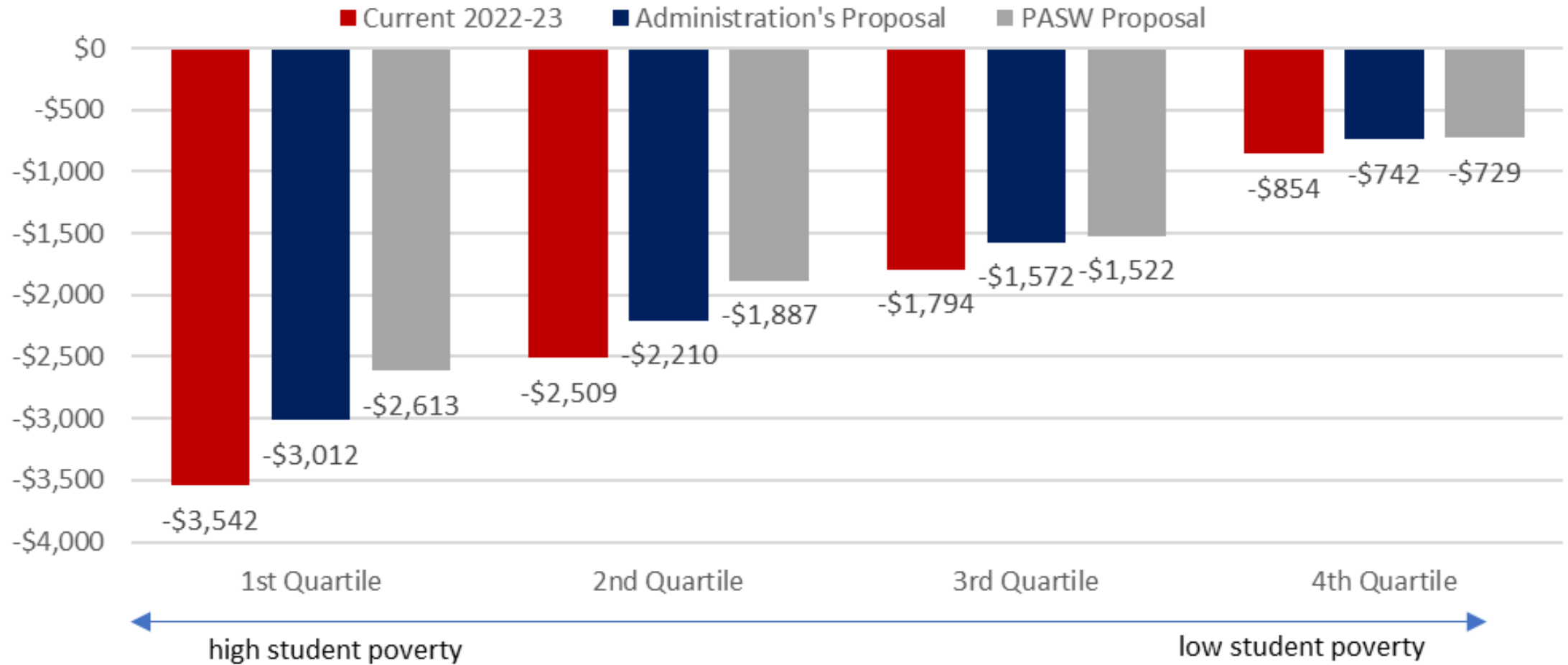
# The per student state funding gap remaining for Pennsylvania school districts to adequately fund students



Source: Pennsylvania Budget and Policy Center analysis of updated costing-out study provided by the Public Interest Law Center and data provided by the State Board of Education.

# Governor Shapiro's plan reduces the adequacy gap; Additional funding, like called for by education advocates, would move us more significantly towards adequacy

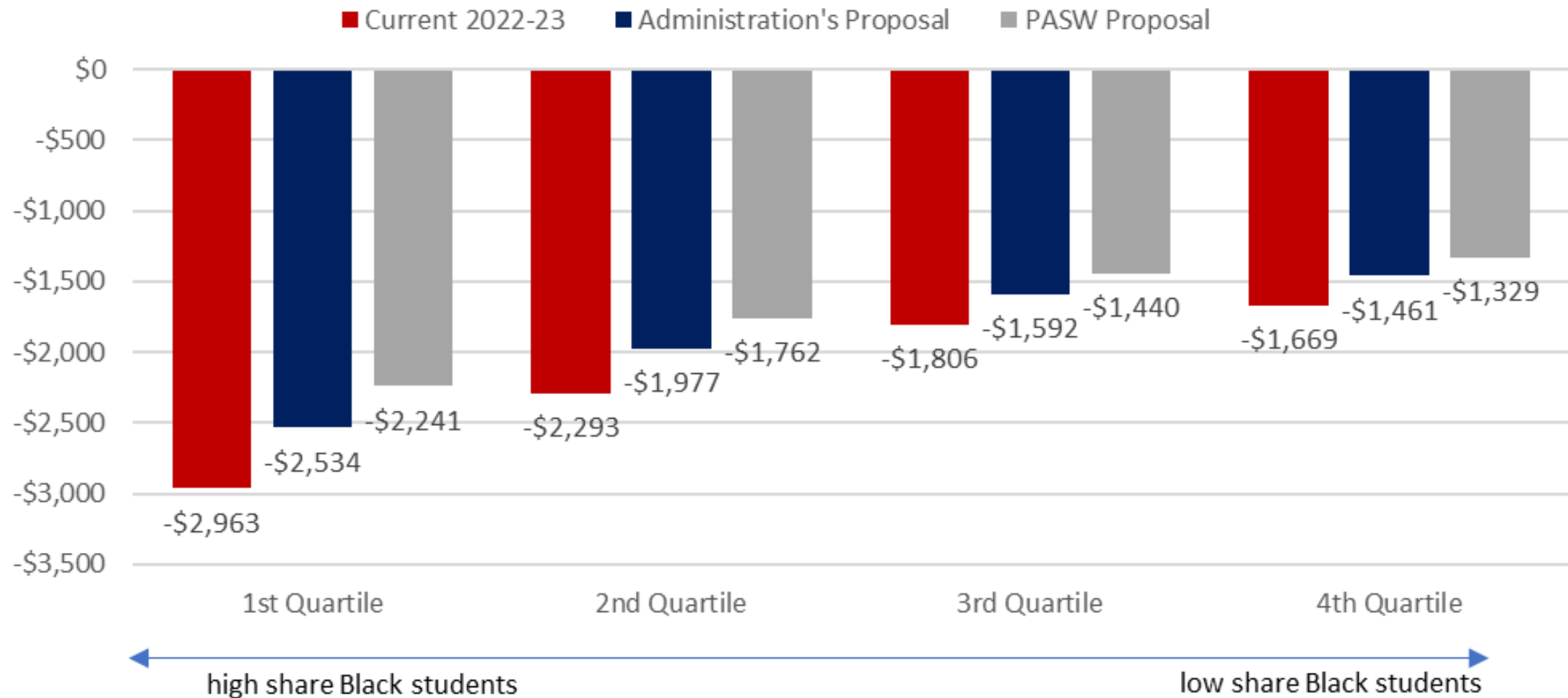
How short of adequacy is per student funding, by share of students in poverty



Source: Pennsylvania Budget and Policy Center analysis of updated costing-out study provided by the Public Interest Law Center and data provided by the State Board of Education.



# How short of adequacy is per student funding, by share of Black students

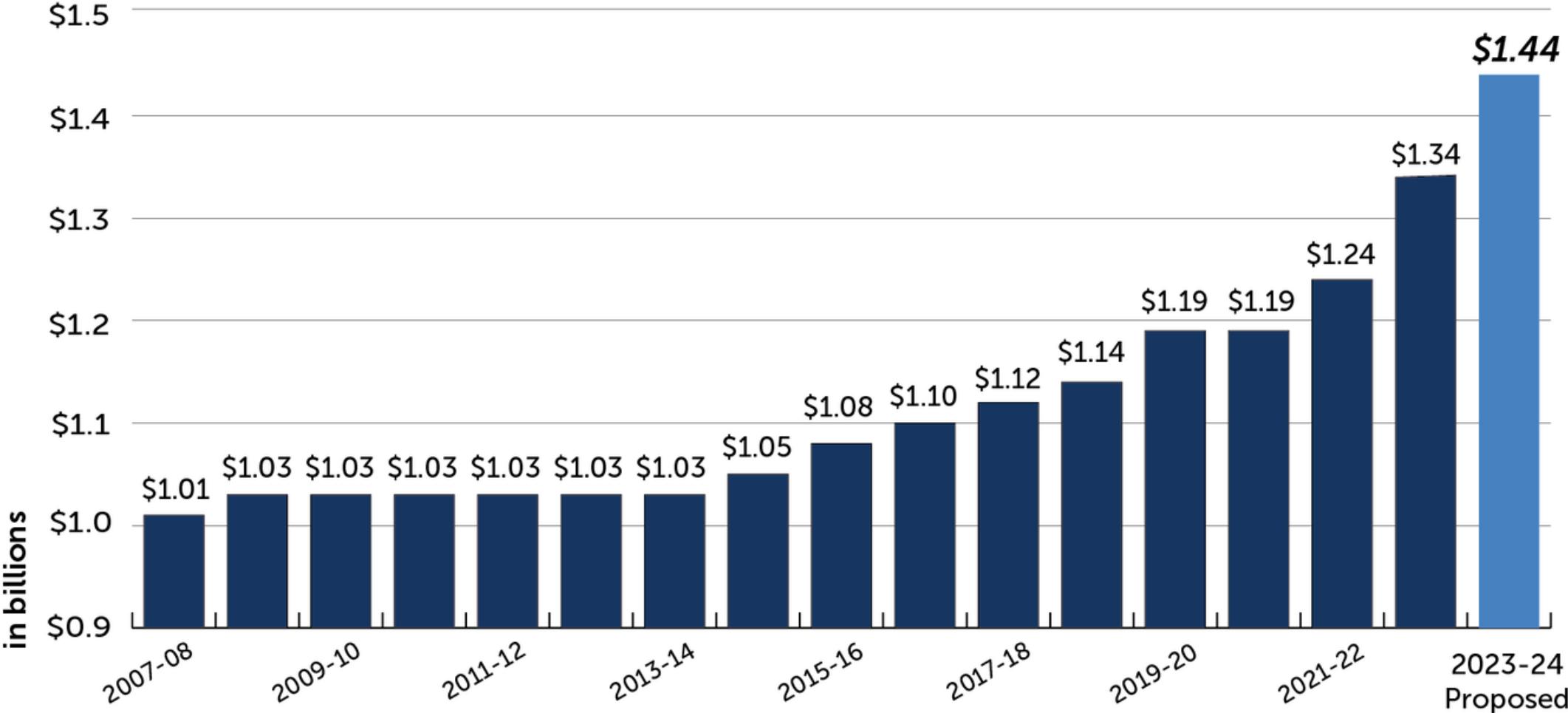


Source: Pennsylvania Budget and Policy Center analysis of updated costing-out study provided by the Public Interest Law Center and data provided by the State Board of Education.



# Governor Shapiro Proposes an **Increase of 7.8%** in Special Education Funding This Year

## Special Education Funding 2007-08 to 2023-24



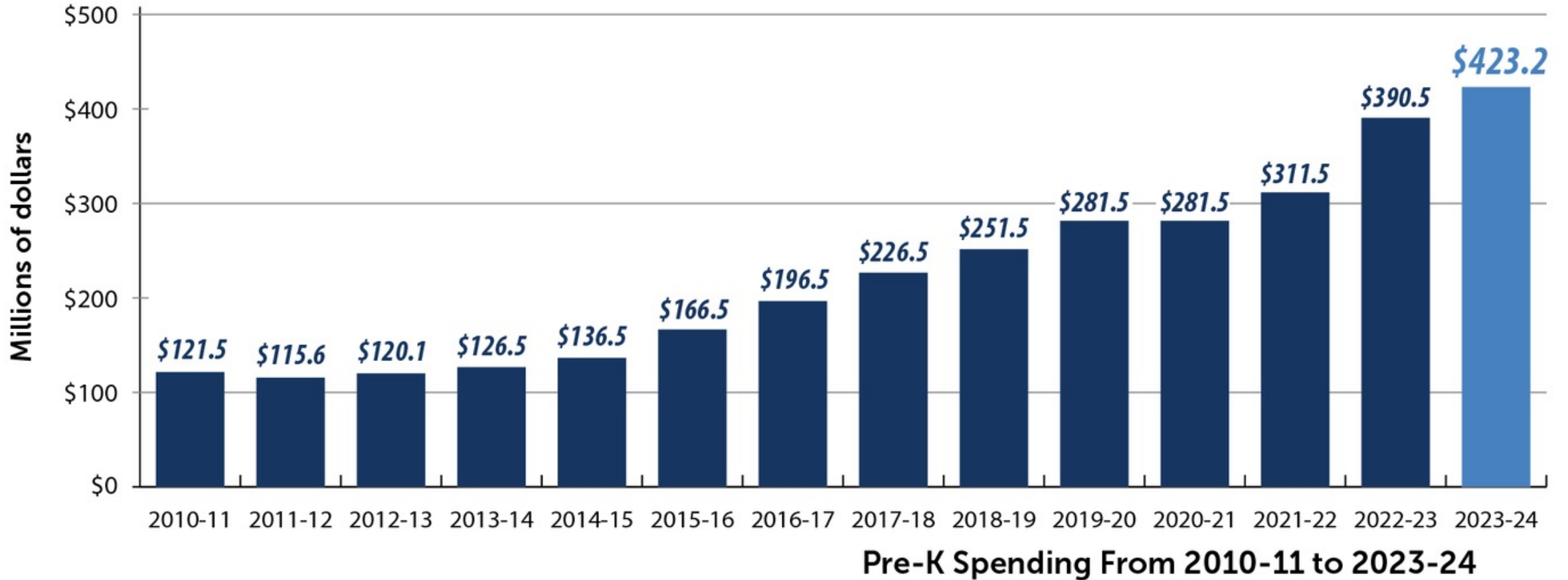
Source: Pennsylvania Budget and Policy Center from Governor Shapiro's 2023-24 Executive Budget (March 2023) and previous budgets

# Other K-12 Education Proposals

- **Career and Technical Education:** More than \$12 million for CTE in schools; \$8.5 million to strengthen CTE connection to industry
- **Tax credits for new teachers**
- **Mental health funding for students and staff:** \$100 million to fund the School-Based Mental Health Supports Block Grant
  - Boost mental health support services
  - Build a trained pipeline of school-based mental health workers
  - Give each school district a \$100,000 minimum grant and more based on ADM (\$70,000 for charter school entities)
- **Universal free school breakfast:** \$38.5 million to continue free breakfast program, available to all students
- **Remediating Environmental Hazards in Schools:** \$100 million for school environmental repairs (available for 5 years)



# Governor Shapiro Proposes to Increase Pre-K Funding by **\$33 Million**, an Increase of 8.4% From the Previous Year



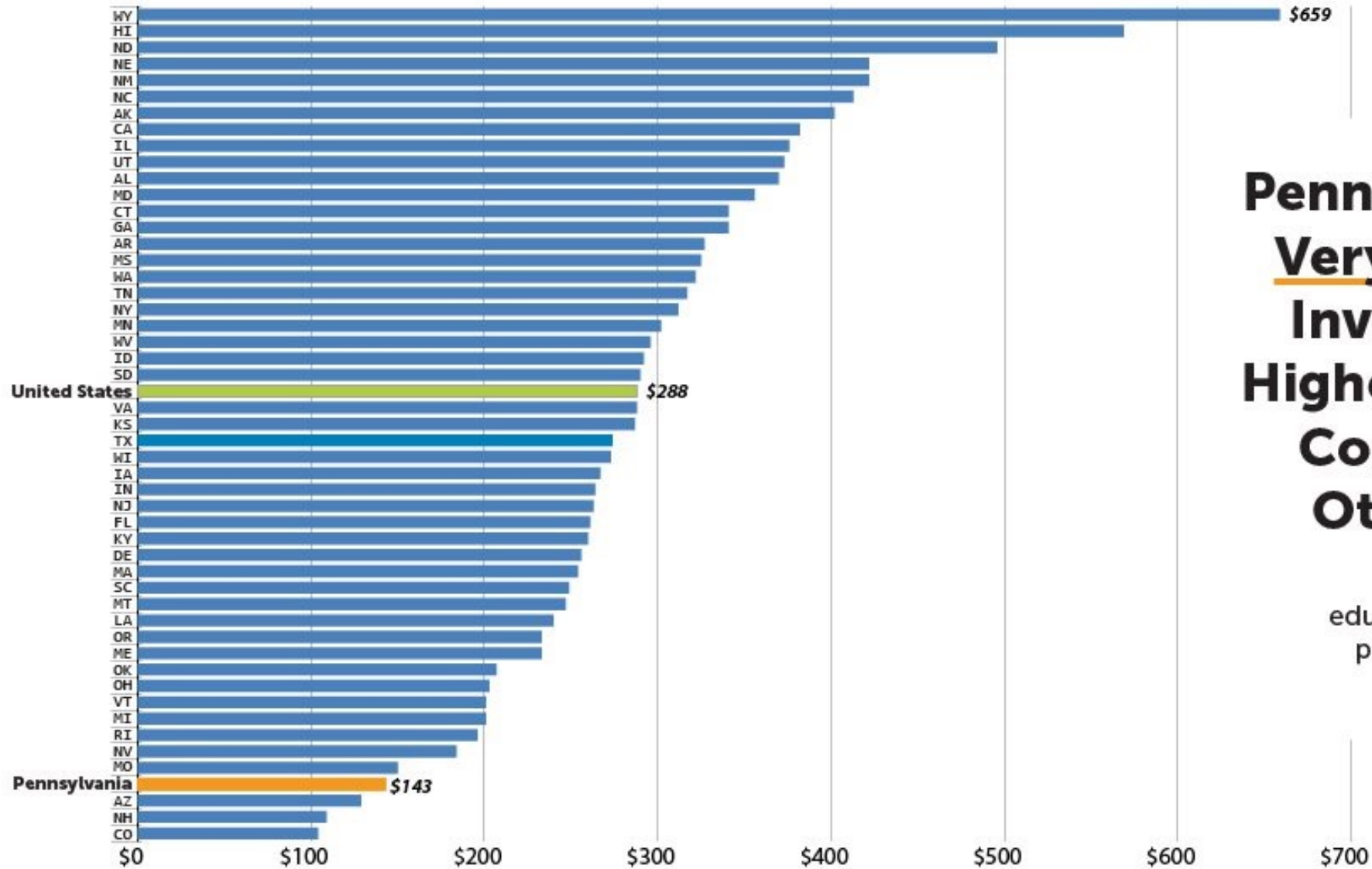
Data is for Pre-K spending only (Pre-K Counts and Head Start Supplemental Assistance).

Source: Pennsylvania Budget and Policy Center analysis of Governor Shapiro's 2023-24 Executive Budget (March 2023) and previous budgets.

# Higher Education



# Higher Education

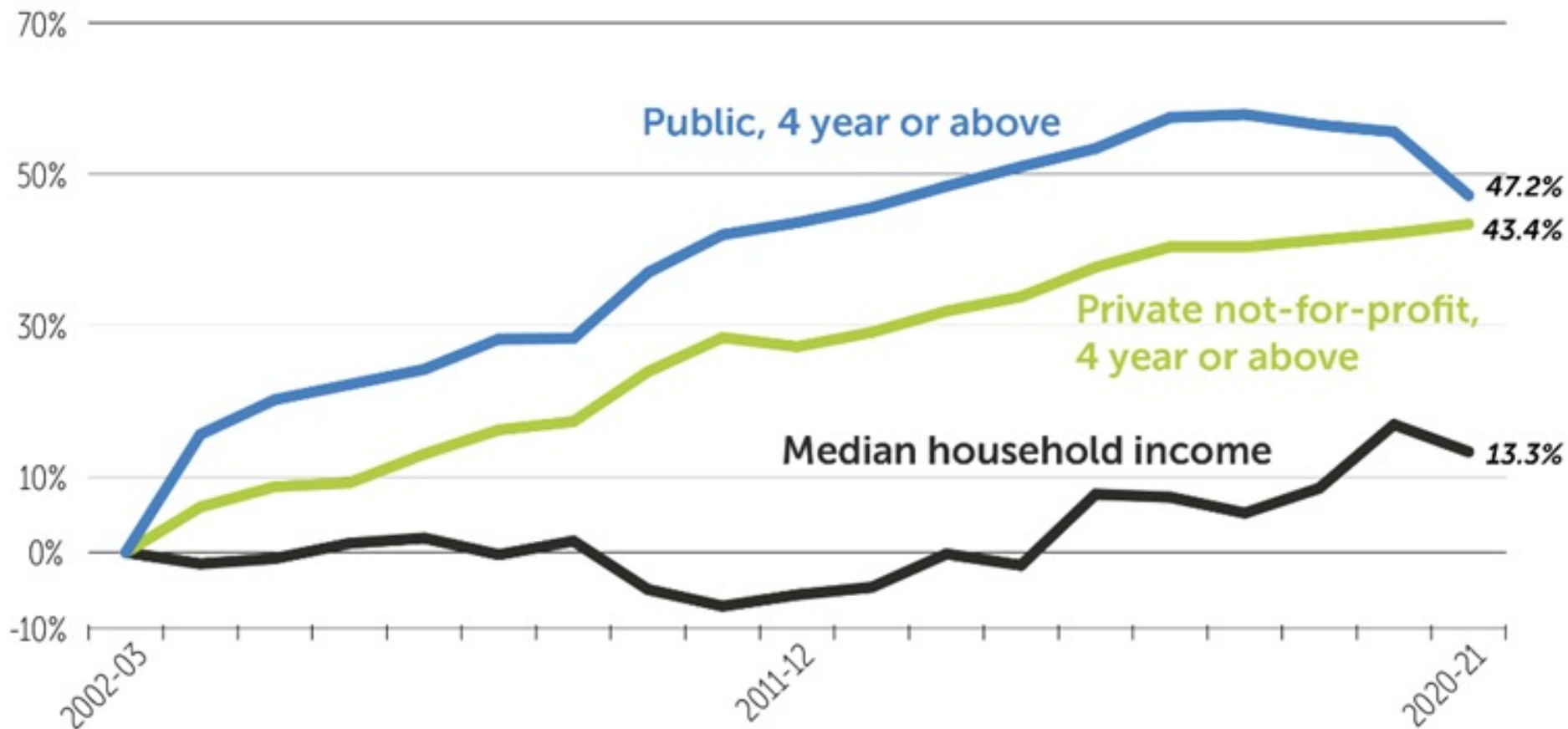


**Pennsylvania Has  
Very Low State  
Investment in  
Higher Education  
Compared to  
Other States**

State higher  
education investment  
per capita, FY2021

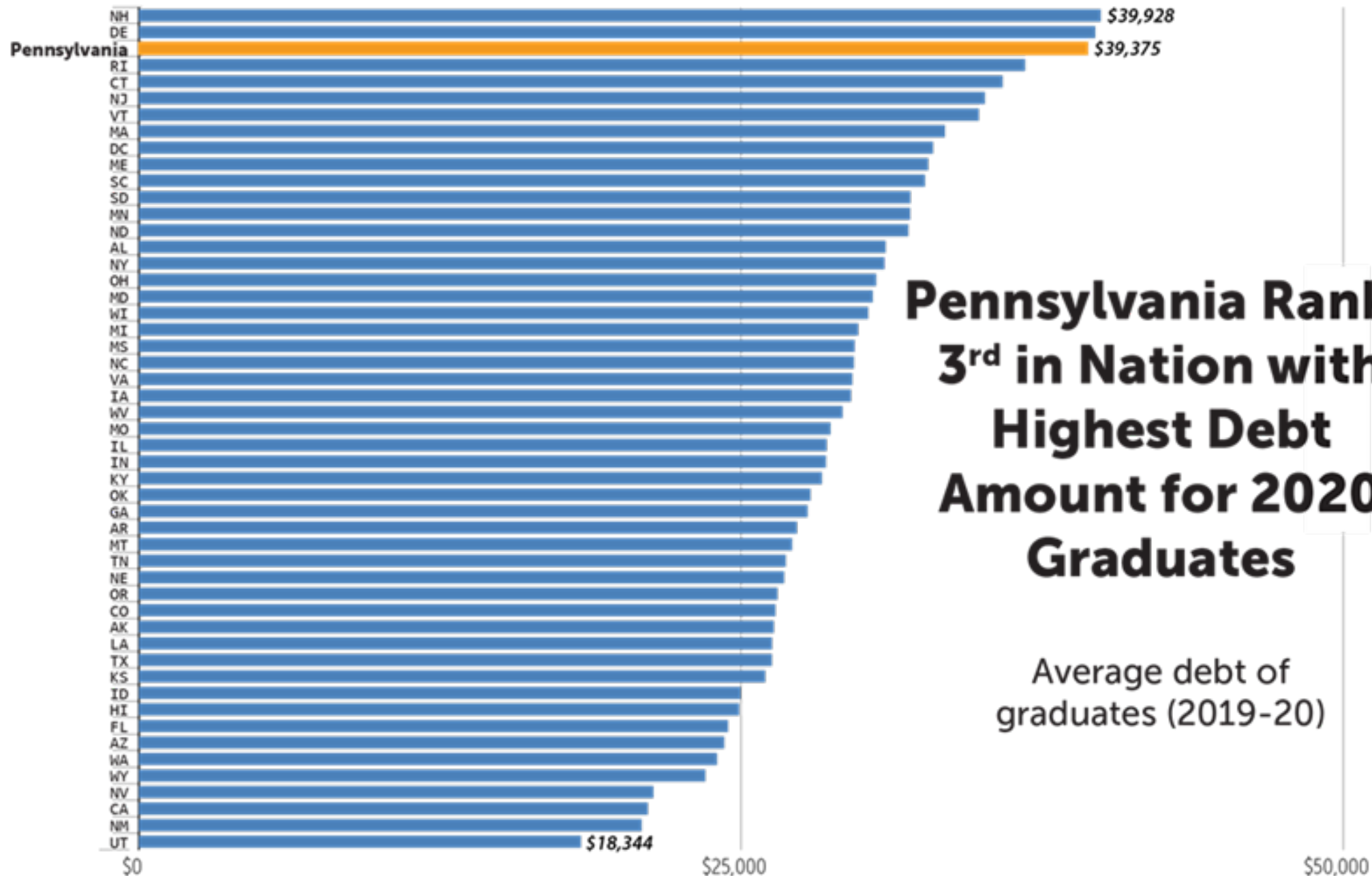
# The Price of College Has Outpaced the Change in Median Income in Pennsylvania

Relative change in price of college\* by institution type compared to median household income (inflation adjusted 2021 dollars), 2002-2020



\*This is the price of college for in-state students living on campus, which includes in-state tuition and fees, books and supplies, on campus room and board, and other on-campus expenses.

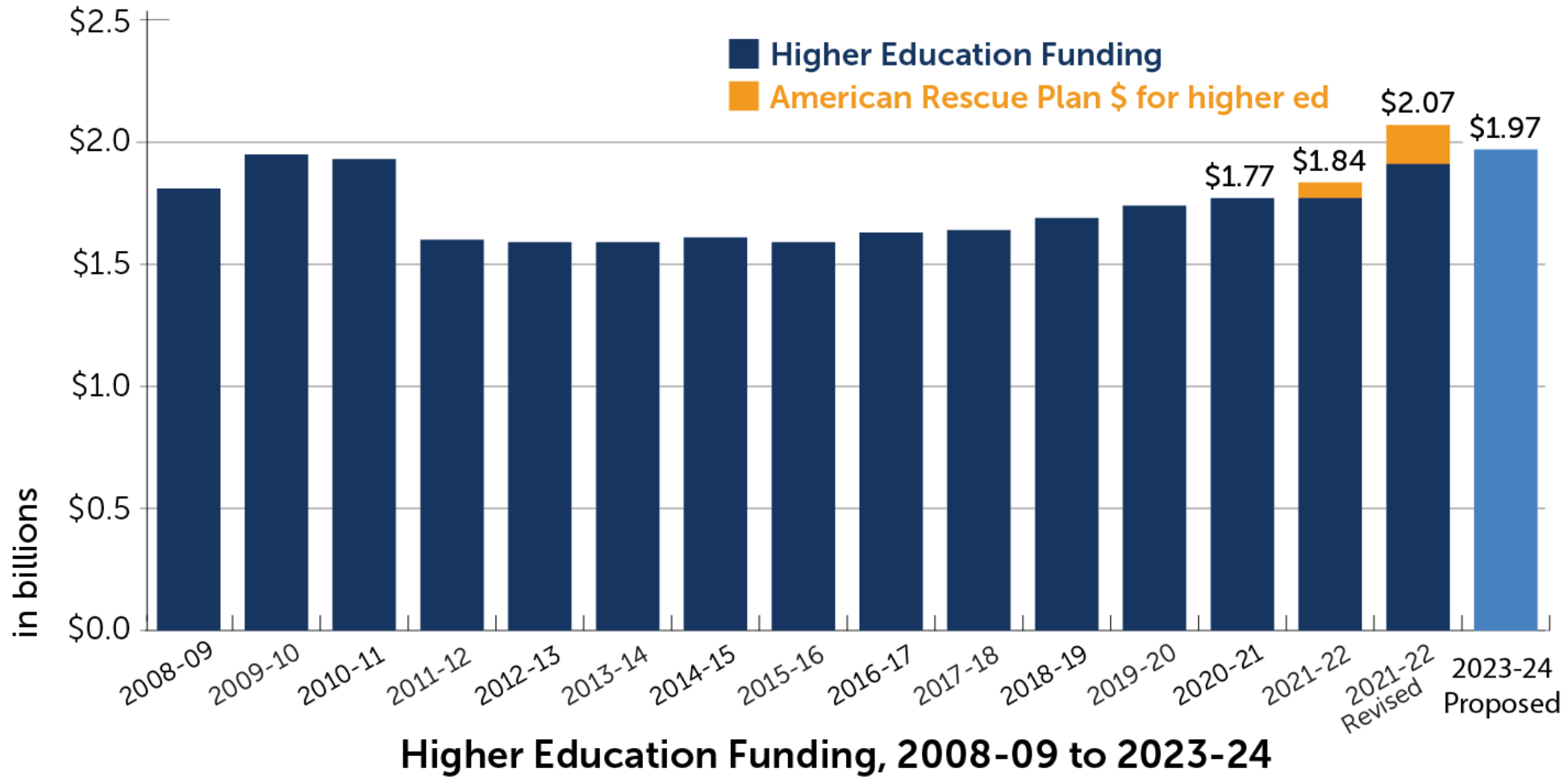
Source: Keystone Research Center analysis of NCES, IPEDS data, <https://nces.ed.gov/ipeds/datacenter/Data.aspx>, and FRED economic data and inflation adjusted to 2021\$, <https://fred.stlouisfed.org/series/MEHOINUSPAA646N>



Source: Keystone Research Center analysis of data from TICAS state data, <https://ticas.org/interactive-map/>



# Not Considering American Rescue Plan Dollars, Higher Education Funding Would See an Increase of **3.1% This Year**



Higher Education Funding, 2008-09 to 2023-24

Not included in this higher education spending is the higher education costs embedded in the Department of Education, the State System of Higher Education, state-related schools, Thaddeus Stevens and the PHEAA.

Source: Pennsylvania Budget and Policy Center from Governor Shapiro's 2023-24 Executive Budget (March 2023) and previous budgets. For ARP breakdown, see [https://houseappropriations.com/Topic/2022-2023/696#TOC\\_7](https://houseappropriations.com/Topic/2022-2023/696#TOC_7).



# Higher Education

- **Pennsylvania State System of Higher Education (PASSHE):** Not counting ARP dollars, there is an \$11 million (2%) increase from last year.
- **Community colleges:** A \$5.1 million increase (2%)
- **State-related universities: A 7.1% increase, which works out to be**
  - Penn State University: \$17.2 million
  - University of Pittsburgh: \$10.8 million
  - Temple University: \$11.2 million
  - Lincoln University: \$1.1 million
- **\$1.6 million for Parent Pathways:** to remove barriers for parents pursuing higher education

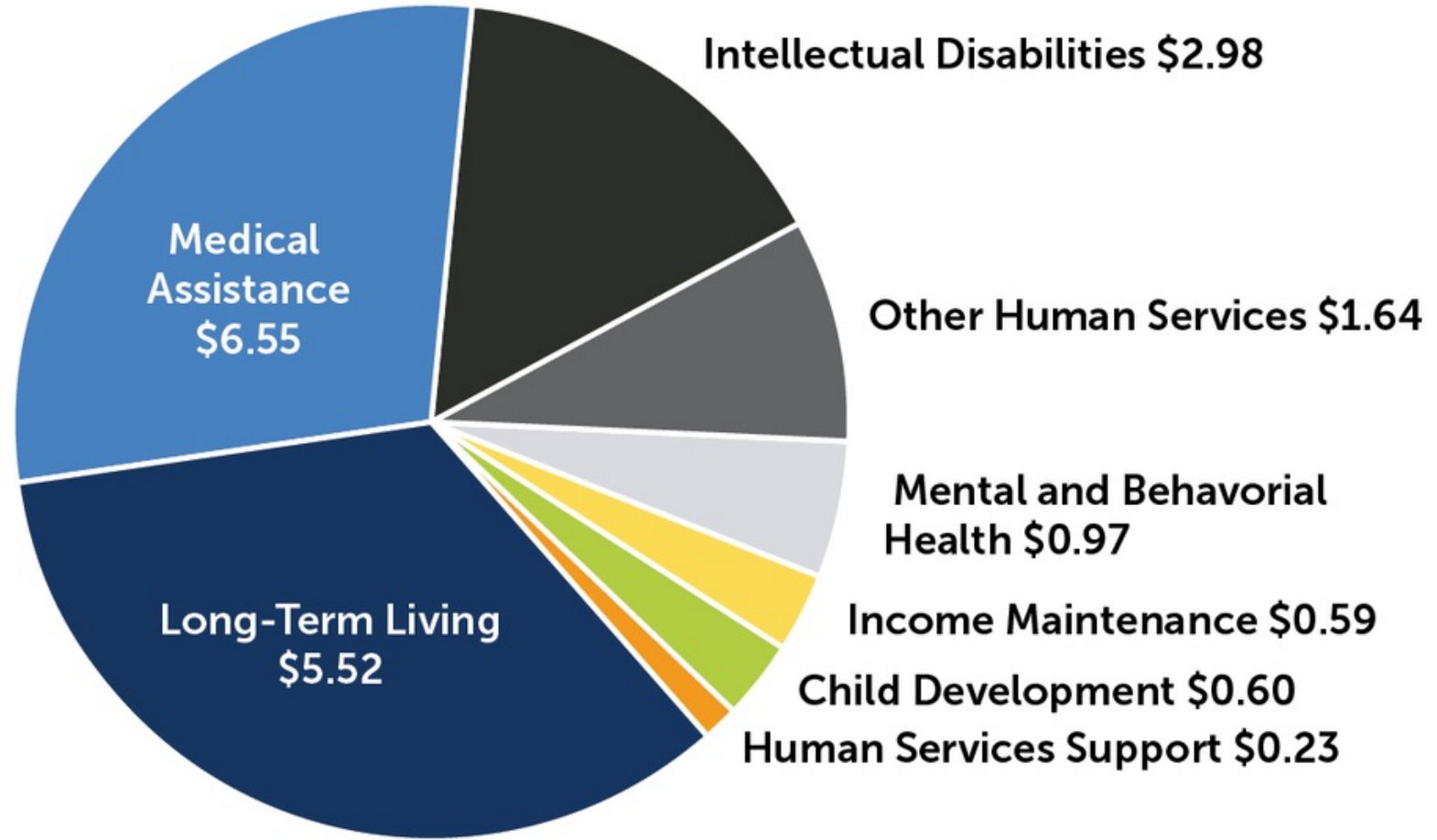


# Human Services



# Human Services Funding in Governor Shapiro's 2023-24 Proposed Budget in Billions

**Total DHS Budget  
from General Fund:  
\$19.07 Billion**



Source: Pennsylvania Budget and Policy Center from Governor Shapiro's 2023-24 Executive Budget (March 2023)

# Human Services

- **Medical Assistance and Long-Term Care:** Spending on medical assistance is expected to jump 23% from 2022–23, and spending on long-term care is expected to jump 19%. Increasing costs of MA is due, in part, to enhanced FMAP phasing out.
- **Child care:** Governor proposes a \$66.7 million increase to replace federal funding and maintain the Child Care Works base funding.
- **Services to individuals with intellectual disabilities and autism:** Proposal to increase funding by 17%. \$17.5 million to reduce waitlists for community living and consolidated waver programs.
- **SNAP:** Increase minimum SNAP benefit from \$23 a month to \$35 a month, with a \$16 million investment. There are 105,000 people who receive the minimum allotment—many seniors and people with disabilities.



# Human Services

- **Mental Health**

- \$100 million in a school-based mental health support grant
- \$20 million increase in base funding for county mental health this year and a funding plan that would continue to increase funding for county mental health through 2027–28, totaling a \$60 million increase
- \$5 million for a one-time buildout cost for our 988 system, the federal phone code for suicide prevention and mental health crises
- \$200,000 for mental health support services for farmers, who face one of the highest rates of suicide of any profession
- \$4 million investment to help community-based programs that help people in the criminal justice system with serious mental illness avoid institutionalization



# Human Services

## Missing from the governor's budget: increases in TANF grant amounts

- These grant amounts remain unchanged since 1990.
- It's time for Pennsylvania to raise the grant amounts; this would directly help our state's lowest-income families in times of crisis.



# Health

A 3.4% increase for the Department of Health

- \$6.6 million investment for environmental health and \$1.2 million in operating budgets to help fully fund county and municipal health departments
- \$2.3 million for Black maternal health programming and research

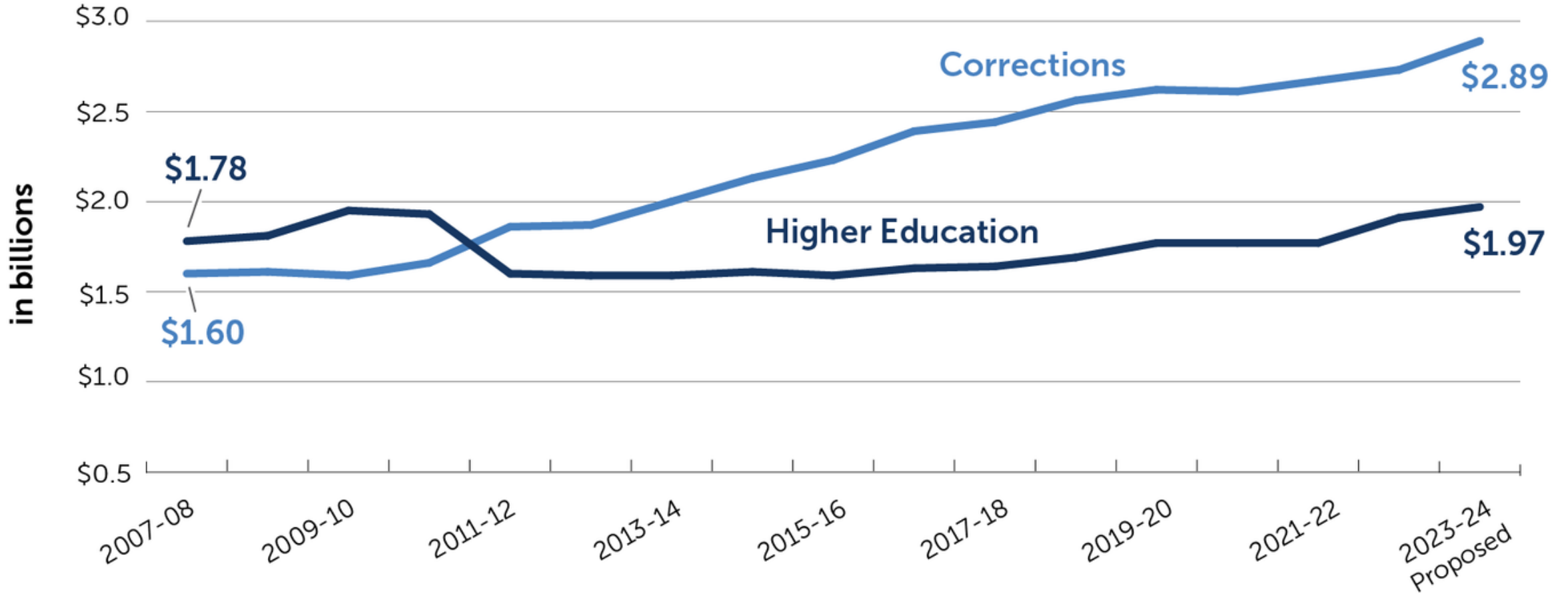


# Corrections and Criminal Justice





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



The Higher Education line does not include ARP \$.

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 from Governor Shapiro's 2023-24 Executive Budget (March 2023)

# Corrections and Criminal Justice Proposals

- **Body cameras worn by parole officers:** \$1.5 million for safety and oversight improvements for parole officers
- **Connecting parolees to social workers:** \$359,000
- **Indigent defense:** \$10 million
- **Adult probation services:** An additional \$4 million to hire additional staff, lessen caseloads, and strengthen training



# Economic and Workforce Development



# Economic and Workforce Development

## Workers:

- **Apprenticeship:** Increasing investment for apprenticeship (through L&I and DCED)
- **Labor law compliance:** A \$1.3 million increase for labor law compliance investigators, which would grow the number of investigators by one-third

## Businesses:

- **Pennsylvania First:** \$12 million in additional funding to help businesses with costs associated with workforce training, equipment, etc.
- **Historically disadvantaged businesses:** \$20 million to replace pandemic relief used to help historically disadvantaged businesses during the pandemic
- **Manufacturing:** \$1 million in additional funding for Manufacturing Innovation Program (MIP) to support manufacturers partnering with universities to adopt new technologies
- **Economic Development:** \$2.9 million for a new office Governor Shapiro established to expand economic development projects in Pennsylvania (PA Office of Transformation and Opportunity)



# Climate and Environment

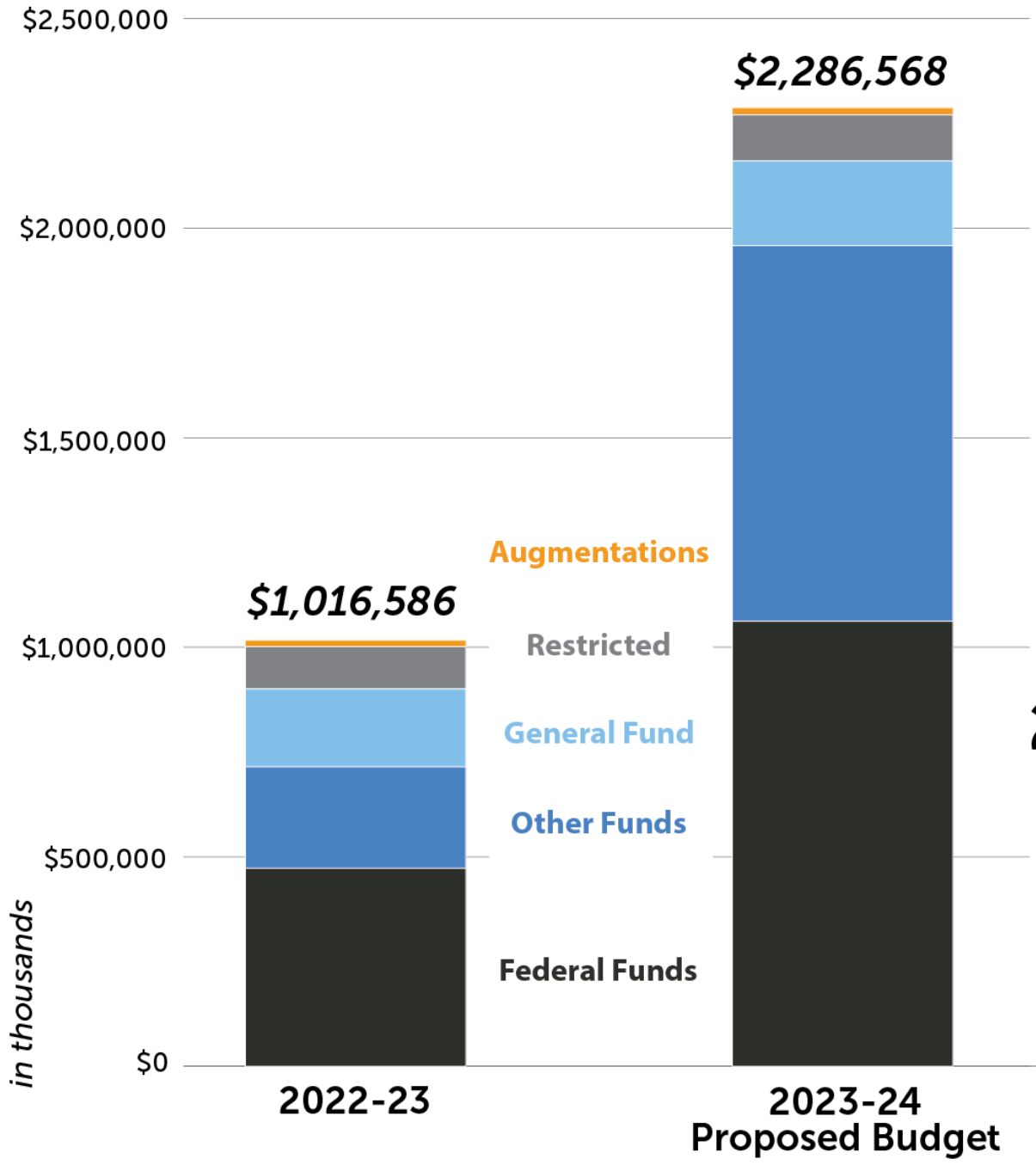


# Department of Environmental Protection

## The Constitution of Pennsylvania states:

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





**Department of Environmental Protection, Total Funding, 2022-23 and 2023-24 Proposed**  
*(in thousands)*

Source: Pennsylvania Budget and Policy Center analysis of Governor Shapiro's Executive Budget (March 2023) and previous budgets.



**Thank you!**

