Pennsylvania at another crossroads

Pennsylvania Budget and Policy Center • 412 N. 3rd St, Harrisburg, PA 17101 • www.pennbpc.org • 717-255-7156

October 6, 2015

Summary

Over the past few years, many other states, similar to Pennsylvania in 2011 and again today, have faced critical choices about whether to raise state revenues, hold firm to "no new taxes" or even cut taxes further. We examine the experience of four other states as well as Pennsylvania. Two of the other states – California and Minnesota – raised taxes to improve their fiscal health and to reinvest in education. The other two states – Kansas and Wisconsin – followed the same path as Pennsylvania under Gov. Corbett, cutting taxes in varying degrees and cutting education spending.

The results of this policy experiment are in:

- The two states that raised revenues have enjoyed percent job growth since 2010-11 that is one-and-a-half to three times larger than the three states – including Pennsylvania – that cut taxes.
- The states that increased taxes have seen revenue growth – both as a result of the tax changes and as a result of stronger recoveries – of 8 percent and 15 percent. Kansas has seen its revenues fall 5 percent and Pennsylvania and Wisconsin have seen revenue growth of 5 percent and 7 percent, a meagre enough recovery from the Great Recession to make fiscal stability and reinvestment in vital programs difficult.
- State school funding per pupil has increased 15-21 percent in Minnesota and California while plunging 9-14 percent in the three tax-cut states. That means the ratio of funding per pupil in Minnesota and California compared to any of the other three states has shifted 26-41 percent in just four years.

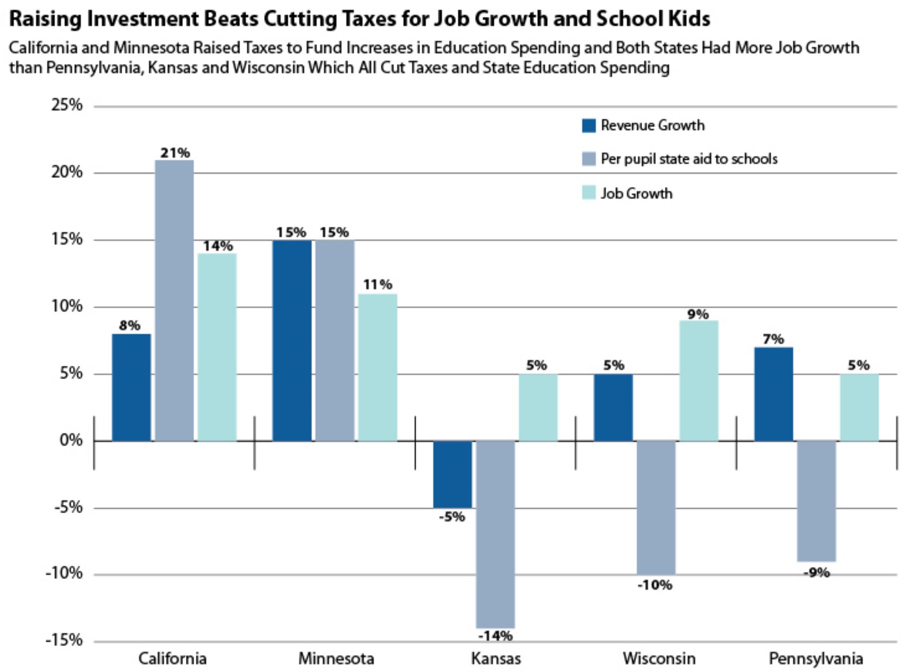
It seems likely that this 26-41 percent shift in relative funding per student means that students in fifth grade today in California and Minnesota have a substantially better chance in life today than students in fifth grade now in Pennsylvania, Wisconsin, and Kansas.

To Invest or Cut: Pennsylvania and Four Comparison States

Tuesday afternoon Gov. Wolf is expected to release details of a plan to raise revenue which he stressed in a press conference Monday will begin to address the state's structural budget deficit and reverse deep cuts to education spending that occurred in 2010-11.

While we've spent a lot of time recently analyzing the impact of Pennsylvania revenue and budget choices since 2011, with Pennsylvania lawmakers facing a critical new "test vote" on their willingness to raise revenues, we decided it would be helpful to examine the experience of some other states that recently made similarly difficult choices. We chose two states that made the choice to raise revenues – California and Minnesota – and two states that did not – Kansas and Wisconsin.

In 2012-13 California raised personal income and sales tax rates to generate $5.3 billion in new tax revenue (this is equivalent to raising $1.7 billion in new revenue in Pennsylvania).[1] That same year Kansas cut its personal income tax rate, reducing state revenues by $231 million (this is equivalent to a 1 billion dollar cut in Pennsylvania).[2]



Note. The growth in tax revenue and per pupil state aid to schools is measured from 2010-11 to 2014-15 and job growth is measured from January 2011 to August 2015.
Source. Pennsylvania Budget and Policy Center

In the following fiscal year, Minnesota generated about $1.4 billion in new revenue through a package of sales, personal income, corporate income and cigarette tax increases (this is equivalent to raising $2.1 billion in new revenue in Pennsylvania). Also that year Wisconsin reduced its personal income tax rate lowering tax revenues in 2013-14 by $319 million (this is equivalent to a $650 million dollar cut in Pennsylvania). Judging from the rhetoric of advocates for no new taxes, you would predict that Kansas and Wisconsin boomed, bringing in new jobs and new tax revenue after lowering taxes. You would also expect California and Minnesota to see their recoveries stall as they raised taxes and drove away business.

Figure 1 presents the growth in tax revenue in each state[3] from 2010-11 to 2014-15, the growth in per pupil state aid to school districts[4] over the same time period and finally job growth[5] from January 2011 to this August.

California and Minnesota saw more revenue growth, partly because of their tax changes but also because of faster economic growth. These two states also saw more job growth over this period than either Kansas or Wisconsin. And of critical importance to the debate this week in Harrisburg, these states didn't raise taxes for the sake of raising taxes: they raised them to get their fiscal houses in order while also boosting education spending.

Pennsylvania under the leadership of Gov. Tom Corbett chose to follow the Kansas and Wisconsin path cutting almost a billion in various taxes in his four years while also reducing dramatically education spending. The result was layoffs of 33,000 teachers and school staff, 5 downgrades of Pennsylvania's credit rating, and slower than normal job growth.[6]

It's also worth pausing for a second to process how large are the changes in per pupil state education funding between the two "raise revenue" states and the three (counting Pennsylvania) "cut taxes/no new taxes" states. If all five states had started out with equal state per pupil spending in 2010-11 (just to make the numbers simpler to follow), by 2014-15 (i.e., four years later), California and Minnesota would now have state per pupil spending levels 26 percent to 41 percent higher than each of the three other states.

Box 1. Evaluating Shifts in Relative Funding Per Pupil – A Numerical Example

To make it easier to follow how the changes in state spending per pupil in our five states translate into changes in relative state funding per capita among these states, here's a numerical example.

Imagine that each state starts out with a state funding level of $5,000 per student in 2010-11 (we know that's not true and the starting points for state funding levels vary in the five states – but this assumption makes shifts in relative funding easier to understand).[7] Given that assumption, the increase in funding of 21 percent in California would lead to funding of $6,050 per pupil in 2014-15. By contrast the 14 percent reduction in state funding per pupil in Kansas, assuming again a $5,000 per pupil starting point, would translate into $4,300 per student in 2014-15. The ratio of funding per pupil in CA versus KS thus shifts from the original 1:1 ($5,000 to $5,000) to $6,050 to $4,300 – i.e., 1.41:1. In other words, relative state funding per pupil has increased by 41 percent in CA compared to KS in just four years.

Surveys of school districts by the PA Association of School Business Officials and PA Superintendents' Association (e.g, in May 2012 – see pages 2-3 – and in June 2015) document the impact that Pennsylvania's smaller changes in funding levels have had on class size, whether districts offer full-day kindergarten, tutoring, art, music and other educational programs that improve performance. Given that, do you think the 26-41 percent shift in relative state funding per student means that students in fifth grade today in California and Minnesota have a better chance in life today – whatever school district they come from – than students in fifth grade now in Pennsylvania, Wisconsin, and Kansas? We think that's a safe assumption.

Will Pennsylvania Learn from Its Recent Experience and That of Other States?

So to sum up. The two states that raised taxes after 2010-11 were able to invest substantially more in education and enjoyed robust job growth. The two other states that – similar to Pennsylvania – cut taxes, saw their education funding levels plunge and meagre job growth.

Fast forward to October 7, 2020. As we look back five years to this coming Wednesday, what will be the story that we have to tell about the choice lawmakers in Harrisburg made on that fateful October 7, 2015? Will this coming Wednesday be remembered as the day that lawmakers began governing based on the lessons of Pennsylvania's own – and other states' – experience, the day that lawmakers' of both parties made common cause to raise revenues essential to giving all kids a chance – and to fix the state's finances? Or will this Wednesday be remembered as a day when Pennsylvania lawmakers' again rejected common sense, dooming our children to more years of disinvestment from our schools? If we continue the trends of the past four years, by 2020 the ratio of state funding per pupil in California compared to Pennsylvania will have nearly doubled.

END NOTES

[1] Unless otherwise stated the budget figures summarized here were derived from the National Association of State Budget Officers Fiscal Survey of the States. http://www.nasbo.org/

[2] The National Association of State Budget Officers reported tax cuts in Kansas would reduce revenues in 2012-13 by $231 million, since the cuts took effect in Jan 2013 midway through the fiscal year this understates the scale of the cuts enacted in in 2012-13. Michael Leachman and Chris Mai. 2014. "Lessons for Other States from Kansas' Massive Tax Cuts" Center on Budget and Policy Priorities (http://goo.gl/FMimm5) report that the non-partisan Legislative Research Department in Kansas estimates the revenue impact of the 2012-13 tax cuts in 2013-14 was $803 million or the equivalent of well over 3 billion in tax cuts in Pennsylvania.

[3] Figures are adjusted for inflation and based on National Association of State Budget Officers Fiscal Survey of the States 2012 to 2015. http://www.nasbo.org/

[4] Figures are adjusted for inflation and based on Michael Leachman and Chris Mai. 2014. "Most States Still Funding school Less Than Before the Recession". http://goo.gl/G4jNZ7

[5] Based on seasonally adjusted Current Employment Statistics http://www.bls.gov/sae/

[6] Pennsylvania's revenue growth, while less than half that in Minnesota and California, was much greater than (the revenue decline in) Kansas and a bit larger than revenue growth in Wisconsin. That's likely because Pennsylvania's revenue policies were less extreme than those in Kansas. It's also because we start our period in 2010-11 and Pennsylvania through some point in late 2011 continued to benefit from a robust economic recovery under the policies of the Rendell administration.

[7]In 2014-15 per pupil state aid to schools was $6,244 in California, $10,474 in Minnesota, $5,028 in Kansas, $5,918 in Wisconsin, $3,154 in Pennsylvania.