

# Government on a Diet: Spending Tips 2008

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# Government on a Diet: *Spending Tips 2008*

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## Introduction

State government consumption and spending of taxpayer money has grown rapidly over the years. Since 1970, Pennsylvania's operating budget increased from \$4.2 billion to \$59 billion in FY 2007-2008, an inflation-adjusted increase of over 168%.<sup>1</sup> As a share of personal income, the state's operating budget rose from 8.8% in FY 1970-1971 to an estimated 12.2% in FY 2007-2008—an increase of more than 39%.<sup>2</sup>

Despite these dramatic increases in government consumption and expenditure of taxpayer money, Pennsylvania's fiscal and economic health remains in poor condition. From 1970 to 2007, Pennsylvania ranked 49<sup>th</sup> in job growth, 45<sup>th</sup> in state personal income growth, and 48<sup>th</sup> in population growth.<sup>3</sup> Yet, the Governor and the General Assembly relentlessly pursue the political and economically dysfunctional strategy of trying to tax, borrow, and spend our state to prosperity.

## Pennsylvania Diet Plan: 3 Steps to Fiscal & Economic Health

Economic evidence and historical experience demonstrate that a state's fiscal and economic health is harmed by state government's over-taxing and over-spending habits.<sup>4</sup> If Pennsylvania hopes to improve its fiscal and economic well-being, it must put state government on a spending diet.

To this end, the Commonwealth Foundation developed the *Pennsylvania Diet Plan: 3 Steps to Fiscal & Economic Health*; a program designed to help stop the overspending in Harrisburg and put the commonwealth back on a path toward fiscal and economic health. It is a plan that will help state government shed millions and billions of dollars in unnecessary and wasteful spending of taxpayer money.

By adopting a balanced approach to spending in Harrisburg, state government can be restored to its proper roles and functions in citizens' lives—and, in the process, improve the financial well-being and economic prosperity for all Pennsylvanians.

### **Step One: Limit the Annual Growth in State Government Spending**

When politicians choose to grow the government, they effectively choose NOT to grow the economy. By limiting the annual growth in state government spending to a reasonable index of inflation plus population growth, elected officials allow job creators and families to keep more of their money to invest, save, and spend.

### **Step Two: Empower Voters with the Right to Accept or Reject ANY and ALL Tax Increases**

Citizens who must pay higher taxes for increased government spending should have the opportunity to accept or reject those proposals. By empowering citizens with the right to vote on each and every tax increase, elected officials will receive explicit confirmation from voters about how much government they want.

### **Step Three: Reduce Pennsylvania's Tax Burden on Families & Job Creators**

Businesses don't pay taxes any more than our homes or property pay taxes—only people pay taxes. So when Pennsylvania has some of the highest business taxes in the nation, it is the citizens of the commonwealth who ultimately pay the price.

Every Pennsylvania worker and small business felt the impact of a nearly 10% increase in the Personal Income Tax in 2004. And Pennsylvania continues to have some of the highest corporate taxes in the nation. Reducing the tax burden on families and job creators will improve the fiscal and economic health of Pennsylvania.

But limiting and reducing taxes on families and job creators will also require a reduction in wasteful and unnecessary government spending.

### Putting Government on a Spending Diet

As part of the *Pennsylvania Diet Plan*, the Commonwealth Foundation has developed some “spending tips” for our elected officials. Better fiscal health and greater prosperity will return to Pennsylvania only when lawmakers cut wasteful spending, reduce the size and scope of government, and allow citizens to keep more of the fruits of their labor.

*Government on a Diet: Spending Tips 2008* identifies specific spending reductions to curb state government’s spending appetite and trim down its “wasteline” of expenses. It is designed to promote a discussion of the proper role of government in a free society.

Few people would argue that there should be no limits on what government spends. Yet many in our legislature act without considering the appropriateness of a new or expanded government program. They often fail to ask and answer important questions:

- Does this bill weaken communities by assuming responsibilities that are best left to families, charities, or private enterprise?
- Does it strengthen parents’ ability to rear, educate, and provide for their children?
- Does it encourage personal responsibility and independence? Or, does it institutionalize government entitlement over self-reliance?
- Does this bill reduce the tax burden on individuals, families, and job creators?
- Does it benefit all citizens and businesses? Or, does it just take wealth from one and redistribute it to another?
- Does this bill limit government’s scope and influence in our private lives?
- Does it expand opportunity for individuals and groups? And, can they engage in voluntary exchanges and associations without excessive government regulation and interference?

*Spending Tips 2008* considered currently existing programs and identified those that would have failed to pass the Q&A test above by applying the following principles:

- Government spending should be limited to core functions of government (i.e. providing for the safety of citizens, protecting individual rights, and providing public goods—those which clearly benefit all citizens, such as law enforcement and general infrastructure).
- Government spending should not target or benefit a select few businesses or individuals at the expense of the many.
- Government spending should encourage voluntary activities, personal responsibility, and private entrepreneurship, and not “crowd out” such private, non-political efforts.
- Government spending and taxes should be as low as possible so as to least distort or undermine the decisions of individuals, families, and businesses, which are the real engines of social and economic prosperity.
- All government spending should be accountable to taxpayers and open for critical review by anyone.

## Spending Tips: Recommended Reductions for State Government

Thomas Jefferson said in his First Inaugural Address in 1801 that “...a wise and frugal government, which shall restrain men from injuring one another, which shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government.”

*Spending Tips 2008* is part of the Commonwealth Foundation’s efforts to restore a wise, frugal, and good government in Pennsylvania. *Spending Tips 2008* identified \$6.7 billion in spending cuts—\$1.2 billion from the state General Fund Budget, \$1.2 billion from other operating funds, and \$4.2 billion from the capital budget and off-budget programs. If eliminated and returned to the taxpayers, the average family of four in Pennsylvania would realize a \$2,100 reduction in their share of the cost of state government. These spending reductions are organized into four spending categories:

- **Corporate Welfare.** These programs award tax dollars to individual companies at the expense of all taxpayers, empowering government officials to pick and choose winners and losers in the marketplace.
- **Private Goods.** These programs and services are activities that only benefit a handful of individuals or groups rather than the general public, compete with the private sector, and would be better left to the free market.
- **Paternalism.** These programs represent a paternalistic belief that state government must care for the public like children, depriving citizens of personal responsibility.
- **Perverse Incentives.** These programs are for the benefit of government officials, not the general public, and they encourage additional government waste and extravagance.

The programs identified in *Spending Tips 2008* are beyond the core functions of government, and although some people may benefit from them, these programs are neither “wise” nor are they “frugal,” and they ultimately violate the “sum of good government” by failing to serve the broader public good.

### Spending Reductions in FY 2007-08 Enacted State Budget

(Thousands of Dollars)

Category	General Fund	Other Funds	Off Budget	Total Operating and Off-Budget Spending
Corporate Welfare	\$564,998	\$94,199	\$1,892,500	\$2,551,697
Private Goods	\$519,572	\$456,150	\$2,303,797	\$3,279,519
Paternalism	\$90,808	\$155,763	\$0	\$246,571
Perverse Incentives	\$65,418	\$520,358	\$0	\$585,776
<b>Total</b>	<b>\$1,240,796</b>	<b>\$1,226,470</b>	<b>\$4,196,297</b>	<b>\$6,663,563</b>

#### Corporate Welfare: *Unhealthy Spending* = \$2,551,697

Corporate welfare requires one taxpayer to pay higher taxes in order to give another taxpayer a tax break or financial benefit. Government-directed “economic development” programs award tax dollars to individual companies or for specific projects that benefit a few at the expense of the many. Usually these taxpayer-funded benefits are handed out to a particular private interest that is politically well-connected.

Studies have shown that despite pronouncements from elected officials about “jobs created” through corporate welfare programs, Pennsylvania’s “economic development” grants have not resulted in substantive statewide, or even local, economic benefits.<sup>5</sup> This trend is not limited to Pennsylvania, as states spending more on “economic development” programs have not realized economic gains.<sup>6</sup> More importantly, Pennsylvania’s emphasis on enormous taxpayer investments in government-directed “economic development” have failed to produce the promised benefits to the Commonwealth’s economy and quality of life.<sup>7</sup>

Corporate welfare takes on a variety of roles from “walking around moneys” (WAMs), which are available to lawmakers and the governor, to competitive grant programs, to a variety of funds that the governor and the Department of Community and Economic Development (DCED) can draw from to put together a package deal for some of the largest—and richest—companies in Pennsylvania and beyond. Some of the recent examples of corporate welfare include:

- **PNC Bank.** PNC Bank—which posted a \$2.6 billion profit in 2006—was essentially able to underwrite its \$20 million in executive bonuses through a \$33.75 million handout from the state.<sup>8</sup> This pinstripe welfare is to support a \$170 million, 23-story facility, which will house office and retail space, a luxury hotel, condominiums, and a parking garage—over \$50 million of which will be paid by taxpayers.<sup>9</sup> The project was allotted \$33.75 million in state funds—\$30 million will go directly to the Three PNC Plaza skyscraper and \$3.75 million will be used to redevelop a similar, but smaller building. Allegheny County and the Pittsburgh Public Schools also contributed \$18 million to PNC’s bottom line through tax increment financing.<sup>10</sup>
- **Cabela’s & Bass Pro Shops.** As the world’s foremost outfitter, Cabela’s also knows how to hunt down taxpayer money. In 2005, Governor Ed Rendell announced the investment of \$5.5 million to support the expansion of Cabela’s in Hamburg, Pennsylvania.<sup>11</sup> Due to anticipated annual state sales taxes, officials also approved more than \$32 million in tax breaks and other incentives for Cabela’s. Unfortunately, this increasing trend is not new: in 2002 the state gave Cabela’s \$12 million in assistance.<sup>12</sup> Cabela’s is not alone; Bass Pro Shops has also snagged its fair share of state bait. According to the Tax Increment Financing Plan, Bass Pro Shops received a formal commitment from the Commonwealth of Pennsylvania for \$15.5 million.
- **Comcast.** In his spare time, Governor Ed Rendell likes to moonlight as a sports commentator on Comcast. But he also likes to provide a little help for his cable company friends. The state gave \$30 million for development to Liberty Property Trust to fund Comcast’s new headquarters in Philadelphia.<sup>13</sup> Taxpayers also gave Comcast a \$4 million opportunity grant, \$6.75 million in job creation tax credits, and \$2 million in job training assistance, for a total package of \$42.75 million.<sup>14</sup>
- **Lady in the Water.** If Pennsylvanians didn’t go to the theater to watch *Lady in the Water*, they really should have. Not because it was a great movie—it was panned by critics, has a “Rotten” rating at rottentomatoes.com, and floundered at the box office—but because Pennsylvania taxpayers helped pay for it.<sup>15</sup> Although the movie’s earnings were significantly less than previous M. Night Shyamalan’s films, a \$6.2 million grant from the Film Grant program helped Rebellion Pictures’ bottom line.<sup>16</sup> In the FY 2007-08 budget, funding for the Film Grant Program was halved, in exchange for a new tax credit of up to \$75 million in tax credits to Hollywood filmmakers.<sup>17</sup>

### Opportunity Grant Program

The Opportunity Grant Program is one of the largest corporate welfare programs in DCED. Budgeted at \$45 million for FY 2007-08, the Opportunity Grant Program is facing increased scrutiny follow a report of the Auditor General. This reported audited \$215 million in taxpayer funded grants between 2000 and 2005 which, on announcement, were intended to “create” or “retain” over 300,000 jobs. In fact, these grants resulted in only 170,000 jobs created or retained—less than 60% of the promised total.<sup>18</sup> Part of the problem with the Opportunity Grant program is the lack of any taxpayer protections. For instance, the state awarded \$900,000 to AcceLight in 2002 and \$250,000 to Laclede Steel in 2001—both companies went out of business, but kept the taxpayer funded grants.<sup>19</sup>

Additionally, the audit found that DCED is lax in collecting fines for not meeting grant requirements, finding that 187 companies had fines worth \$49 million waived, and of the \$26 million in fines assessed, only \$3.4 million (13%) was collected.<sup>20</sup> Furthermore, DCED does not verify “jobs created,” relying solely on self-reported information from the companies. No one knows for sure how many jobs are actually “created” by the Opportunity Grant Program—not to mention how many would be “created” in the absence of these grants, or how many jobs are “destroyed” with the taxes collected to pay corporate welfare recipients.

### Revitalization Grants

In FY 2007-08, Pennsylvania will issue \$352 million in general obligation bonds to fund revitalization grants, which differ very little from other corporate welfare programs, save that they are funded through borrowing.<sup>21</sup> Among the \$520 million in Redevelopment Assistance Capital Projects (RACP) receiving

taxpayer money between January 2006 and March 2007 were \$4.5 million for Lancaster, York, and Lehigh Valley sports stadiums; \$33.4 in handouts for a plethora of projects in Philadelphia; \$4 million to butter up the Reading Movie Theatre; numerous museums, playgrounds, performing arts centers, zoos, botanical gardens; and a robotic arm for an Erie shipyard.<sup>22</sup> It is not that these aren't worthy projects, but they should be funded by consumers of those venues, not state taxpayers.

**Commonwealth Financing Authority**

The Commonwealth Financing Authority (CFA), while legally an independent agency, functions very much like any other DCED corporate welfare program. The CFA finances various projects by issuing \$187.5 million in bonds annually. Since CFA is an independent agency, these bonds technically are not "obligations of the Commonwealth." Yet, like RACP, taxpayers are on the hook for paying off this debt, through a "service agreement" between CFA and DCED to pay "an amount sufficient to pay the Debt Service Requirements."<sup>23</sup> This payment equals over \$47 million in the FY 2007-08 budget, and will increase as the CFA issues more debt.

One example of a CFA project is a \$500,000 loan to K4G for the purchase of a golf course and equipment.<sup>24</sup> Other projects include funding for a local dairy farmer, a Lackawanna ski resort, and a York county restaurant. In a bizarre financing program, the CFA has also committed \$52.6 million as part of the "Venture Investment Fund"<sup>25</sup> whereby venture capital companies are utilizing taxpayer-backed loans instead of private capital to invest. In other words, the business climate in Pennsylvania is so bad that Harrisburg decided to force Pennsylvania taxpayers to take on risks that no private business apparently will.

Senators Orie, Vance, and Browne called for the complete abolition of the CFA's ability to incur more debt and issue grants and loans. Senator Browne aptly said, "It's time to focus on the entire Commonwealth's business climate and not individual businesses."<sup>26</sup>

**Walking-Around-Money (WAMs)**

One of the most notorious abuses of taxpayers' money is the exercise of "walking-around-moneys" (WAMs), which are pots of money set aside to award various constituents, charities, and businesses at the discretion legislative leaders and the governor. The Community Revitalization Program, which received \$40 million in the FY 2007-08 budget, gets the most attention, although several line items in the budget totaling over \$250 million represent discretionary funds used by both the governor and lawmakers and should be considered WAMs. Under the guise of revitalization, however, much of taxpayers' money is wasted on trivial and sometimes unscrupulous enterprises.

As House Minority Whip, former Rep. Mike Veon directed taxpayer money through the Community Revitalization Program to his own pet projects, including the Beaver Initiative for Growth (BIG). The non-profit "economic development" organization received over \$10 million in state grants. It was founded and directed by Rep. Veon and Sen. Gerald LaValle, who is currently the minority chairman of the Senate Appropriations Committee. These two powerful legislators were the lone board members for the organization, and were able to secure funding for BIG, even after DCED order BIG funding ceased for failing to submit to an audit.<sup>27</sup> Not surprisingly, the Beaver Initiative for Growth is now a big target of an Attorney General investigation.<sup>28</sup>

**Identified WAMs in the FY 2007-08 General Fund Budget**

(Thousands of Dollars)

WAMs and Related	Governor/ House Budget	Senate Budget	Conference Committee Budget
Local Gov Resources and Development	\$0	\$0	\$10,000
Community Revitalization	\$0	\$0	\$40,220
Urban Development	\$0	\$0	\$20,110
Community and Business Assistance	\$0	\$0	\$2,744
Economic Growth & Dev. Assistance	\$0	\$0	\$7,000
Community & Municipal Facilities Assistance	\$0	\$0	\$5,800
Market Development	\$0	\$5,000	\$500
Manufacturing and Business Assistance	\$0	\$0	\$1,000
Regional Development Initiative	\$0	\$0	\$13,500
Cultural Activities	\$0	\$0	\$4,000
<b>Governor's WAMs</b>			
Opportunity Grant Program	\$49,000	\$0	\$45,000
Customized Job Training	\$30,000	\$15,000	\$22,500
Community Conservation and Employment	\$29,000	\$0	\$44,000
Community Action Team	\$2,000	\$0	\$1,000
<b>New WAMs</b>			
Economic Advancement	\$0	\$0	\$18,000
Community and Regional Development	\$0	\$0	\$16,400
Municipal Climate Change Action Plan Grants	\$0	\$0	\$300
<b>Total WAMs and Related</b>	<b>\$110,000</b>	<b>\$20,000</b>	<b>\$252,074</b>

While he was the Senate Appropriations Minority Chairman, Sen. Vince Fumo secured Community Revitalization Program funding for Citizens Alliance for Better Neighborhoods, which, as chairman of the non-profit group, he allegedly used for personal expenses. As detailed in his 139-count indictment,<sup>29</sup> Sen. Fumo redirected over \$60,000 from Citizens Alliance to block a project that would have eliminated the ocean view from one of his four homes.<sup>30</sup> He also allegedly used the charity's money to finance a lawsuit, political polls, various shopping sprees, and to purchase tools, mosquito magnets, a meat grinder, and nineteen Oreck vacuum cleaners for each floor of his houses.<sup>31</sup>

In 2007, both the Pennsylvania House and Senate passed budgets that eliminated the Community Revitalization Program and several other WAM programs because of their clear political nature. But during the conference committee negotiation—ostensibly to hammer out “differences” between the two bills—these programs were reinserted into the budget (see chart on previous page).

### ***Energy Independence Fund***

Gov. Ed Rendell proposed and is continuing to push an \$850 million Energy Independence Fund to subsidize “alternative energy” corporations.<sup>32</sup> In what has been termed “a hedge fund for politicians,” Gov. Rendell wants to borrow the money and hand it out to politically selected companies.

Gov. Rendell has already been quick to subsidize corporations' alternative energy efforts with taxpayer money. In 2006, Rendell awarded BioEnergy \$17.4 million for the \$250 million building project of Pennsylvania's first ethanol production facility in Clearfield County.<sup>33</sup> The Governor's endorsement of BioEnergy dashed the hopes of Sunnyside Ethanol, which also intended to construct the first ethanol plant in Clearfield for \$140 million.

The Energy Independence Fund illustrates the flaws of corporate welfare—the ability of state government to pick winners and losers, the dependence on politicians and bureaucrats to “invest” money better than the market, and allowing lawmakers to send taxpayer funds to political allies.

## **Spending Tips 2008: A Sensible Diet for Pennsylvania State Government**

### *Unhealthy Spending in FY 2007-08 Budget*

### **CORPORATE WELFARE**

<b>Department</b>	<b>Program</b>	<b>Amount</b>	<b>Fund</b>
Community and Economic Development	International Trade	\$5,944,000	General Fund
Community and Economic Development	Regional Marketing Partnerships	\$5,000,000	General Fund
Community and Economic Development	Business Retention and Expansion	\$3,226,000	General Fund
Community and Economic Development	Land Use Planning Assistance	\$4,247,000	General Fund
Community and Economic Development	Transfer to Munic. Fin. Rec. Revolv. Fund	\$1,500,000	General Fund
Community and Economic Development	Transfer to Ben Franklin Tech. Dev. Authority Fund	\$51,700,000	General Fund
Community and Economic Development	Transfer to Indstl. Sites Environ. Assess. Fund	\$500,000	General Fund
Community and Economic Development	Transfer to Commonwealth Fin. Authority	\$47,038,000	General Fund
Community and Economic Development	Opportunity Grant Program	\$45,000,000	General Fund
Community and Economic Development	Keystone Innovation Zones	\$2,000,000	General Fund
Community and Economic Development	Customized Job Training	\$22,500,000	General Fund
Community and Economic Development	Workforce Leadership Grants	\$3,050,000	General Fund
Community and Economic Development	Infrastructure Development	\$22,500,000	General Fund
Community and Economic Development	Housing and Redevelopment Assistance	\$34,000,000	General Fund
Community and Economic Development	Accessible Housing	\$3,000,000	General Fund
Community and Economic Development	Family Savings Accounts	\$1,000,000	General Fund
Community and Economic Development	New Communities	\$18,000,000	General Fund
Community and Economic Development	Community Action Team (CAT)	\$1,000,000	General Fund
Community and Economic Development	PA Industrial Development Assistance	\$4,326,000	General Fund
Community and Economic Development	Local Development Districts	\$6,140,000	General Fund
Community and Economic Development	Small Business Development Centers	\$7,376,000	General Fund
Community and Economic Development	Tourist Promotion Assistance	\$10,588,000	General Fund
Community and Economic Development	Tourism Accredited Zoos	\$2,250,000	General Fund

**Spending Tips 2008: A Sensible Diet for Pennsylvania State Government**  
*Unhealthy Spending in FY 2007-08 Budget*  
**CORPORATE WELFARE**

<b>Department</b>	<b>Program</b>	<b>FY 2007-08</b>	<b>Fund</b>
Community and Economic Development	Community Revitalization (WAMs)	\$40,220,000	General Fund
Community and Economic Development	Urban Development	\$20,110,000	General Fund
Community and Economic Development	Community and Business Assistance	\$2,744,000	General Fund
Community and Economic Development	Economic Growth and Community Assistance	\$7,000,000	General Fund
Community and Economic Development	Market Development	\$500,000	General Fund
Community and Economic Development	Rural Leadership Training	\$210,000	General Fund
Community and Economic Development	Comm. Conservation and Employment	\$44,000,000	General Fund
Community and Economic Development	Super Computer Center	\$1,525,000	General Fund
Community and Economic Development	Infrastructure Technical Assistance	\$4,000,000	General Fund
Community and Economic Development	Minority Business Development	\$3,000,000	General Fund
Community and Economic Development	FayPenn	\$600,000	General Fund
Community and Economic Development	Industrial Resource Center	\$15,200,000	General Fund
Community and Economic Development	Manufacturing and Business Assistance	\$1,000,000	General Fund
Community and Economic Development	PennTap	\$75,000	General Fund
Community and Economic Development	Powdered Metals	\$200,000	General Fund
Community and Economic Development	Agile Manufacturing	\$750,000	General Fund
Community and Economic Development	Regional Development Initiatives	\$13,500,000	General Fund
Community and Economic Development	Infrastructure&Facilities Improvement Grants	\$20,000,000	General Fund
Community and Economic Development	Municipal Code Training	\$0	General Fund
Community and Economic Development	Community Development Bank Grants	\$0	General Fund
Community and Economic Development	Digital and Robotic Technology	\$2,500,000	General Fund
Community and Economic Development	Film Grant	\$5,000,000	General Fund
Community and Economic Development	Economic Advancement	\$18,000,000	General Fund
Community and Economic Development	Community and Regional Development	\$16,400,000	General Fund
Community and Economic Development	Biotechnology Commercialization	\$6,698,000	Other Fund
Community and Economic Development	Health Venture Investment Account	\$6,698,000	Other Fund
Community and Economic Development	Life Sciences Greenhouse	\$3,000,000	Other Fund
Community and Economic Development	Machinery and Equipment Loans	\$30,000,000	Other Fund
Community and Economic Development	Minority Business Development Loans	\$4,000,000	Other Fund
Community and Economic Development	Small Business First Total Loans and Grants	\$37,300,000	Other Fund
Environmental Protection	Municipal Climate Change Action Plan Grants	\$300,000	General Fund
Environmental Protection	Small Business Pollution Prevention Program	\$2,000,000	Other Fund
Environmental Protection	Small Business Pollution Prevention Program	\$1,003,000	Other Fund
Labor and Industry	Entrepreneurial Assistance	\$955,000	General Fund
Labor and Industry	Supported Employment	\$1,039,000	General Fund
Labor and Industry	Training Activities	\$17,025,000	General Fund
Labor and Industry	Self Employment Assistance	\$500,000	General Fund
Labor and Industry	Employment Services	\$10,655,000	General Fund
Labor and Industry	Industry Partnerships	\$5,000,000	General Fund
Labor and Industry	Beacon Lodge Camp	\$105,000	General Fund
Labor and Industry	Job Training Programs	\$3,500,000	Other Fund
Transportation	Rail Freight Assistance	\$11,000,000	General Fund
Capital Budget	Redev. Assist. Gen. Obligation Bond Issues	\$250,000,000	Off Budget
Capital Budget	Growing Greener General Obligation Bond Issues	\$105,000,000	Off Budget
Jonas Salk Legacy Fund	Bond Issues**	\$500,000,000	Off Budget
Commonwealth Financing Authority	Bond Issues	\$187,500,000	Off Budget
Energy Independence Fund	Bond Issues**	\$850,000,000	Off Budget
<b>TOTAL</b>		<b>\$2,551,697,000</b>	

**Private Goods: *Unhealthy Spending* = \$3,279,519**

Although governments properly provide various so-called “public goods”—such as law enforcement, courts, and roads—the Commonwealth of Pennsylvania engages in providing many “private goods.” These are goods that are the proper domain of private enterprise, not enterprising politicians.

In many cases, these government-run enterprises compete directly with private enterprises, often serving merely as sources of patronage jobs, favors, and perks for the politically connected. Some government-run enterprises, such as the Liquor Control Board and the Pennsylvania Higher Education Assistance Agency, are services from which the state should divest itself. These services extend the role of government far beyond its core functions, and hinder the private-sector economy that can provide these services effectively and at lower costs.

***Pennsylvania Higher Education Assistance Agency***

The Pennsylvania Higher Education Assistance Agency (PHEAA) is a state-run organization riddled with wasteful spending habits. While it offers loans to students (competing with private loan providers), it also lavishes special treatment on its board members, who are predominantly state legislators. Between 2002 and 2005, the ostensibly non-profit agency ferried members and their wives to resorts where they indulged in posh perks. The tabs included:

- \$116 for a pedicure and manicure for the wife of state Rep. Jess Stairs.
- \$175 for a falconry lesson for a former board member and former Rep. John Lawless.
- \$18,433 for several golf outings for board members.
- \$1,128 for limousine rides for former Rep. Elinor Taylor and Michael Hershock, both former board members.
- \$2,401 for spa treatments for board members and their spouses.<sup>34</sup>

In addition, PHEAA spent over \$400,000 in legal fees in a lawsuit to hide these expenses from media inquiries. Despite losing that legal battle, PHEAA continues to spend nearly \$1 million annually on lobbying, attempting to protect their fiefdoms from threats of privatization or reform.<sup>35</sup>

PHEAA made news again in 2007 when they announced \$1.1 million in bonuses to top executives, including \$181,000 to PHEAA CEO Dick Willey—a bonus in excess of Governor Rendell’s annual salary.<sup>36</sup> Willey resigned later in the year following a news story about \$2 million in PHEAA “giveaways,” including golf balls, LL Bean jackets, and shirts bearing the PHEAA logo, I-Pods and DVD players.<sup>37</sup> This followed an Auditor General’s report detailing \$7.5 million in PHEAA bonuses over three years and highlighting a \$108,000 outing to Hersheypark.<sup>38</sup> In part due his large bonus, Willey will receive a \$360,000 annual pension.

***Pennsylvania Turnpike Commission***

Another way to slim down Pennsylvania’s spending is to look at privatizing the Turnpike Commission, which has long been a cesspool of political patronage and nepotism. In 2005, approximately 2,300 people were employed by the Turnpike Commission, including nearly 500 middle managers (almost one per mile of the Turnpike), many of whom were hired as political favors. Joseph Brimmeier, the chief executive officer of the Turnpike Commission, hired relatives of politicians, as well as some of his own family members.<sup>39</sup> He hired his son, a cousin, two sisters, the son of his godmother, the son of a county party chairman, and the son of a Congressman. Also on the Turnpike’s payroll as a consultant—earning \$220,000 over two years—was Mike Palermo, who apparently completed no work for the Turnpike Commission, but did find time to manage Senator Fumo’s 100-acre Harrisburg farm.<sup>40</sup>

While privatization of the Turnpike could generate in upwards of \$1.6 billion per year for Pennsylvania, and result in higher quality roads and lower toll prices, the Commission created their own plan to issue new debt, raise existing toll rates, and add tolls on Interstate 80.<sup>41</sup> To flex their political muscle in 2007, the Commission spent \$316,200 on lobbying in Harrisburg and another \$396,000 on lobbying in Washington, D.C.<sup>42</sup>

**Liquor Control Board**

The Liquor Control Board (LCB) and state liquor stores represent another “private good” which should be turned over to the marketplace. Pennsylvania is one of few states in which state government owns and operates liquor stores, rather than licensing private vendors.

Privatization would likely increase rather than reduce state revenue, but also provide consumers with better and more products. The state would accrue corporate and property taxes from privately owned liquor stores, rather than tax-free government stores. Pennsylvania would also benefit from competitively contracting out LCB operations—one estimate projects a \$1.7 billion one-time influx of funds.<sup>43</sup>

Some critics fear that privatization would increase underage drinking, driving under the influence, and alcoholism. However, there are no statistical differences in these undesirable tendencies between “control” states and “free” states.<sup>44</sup> Under privatization, the state would still maintain control, but would divest itself of the marketing and sales of wine and spirits.

The LCB has also been tainted by cronyism. In December 2006, Gov. Rendell created a new \$150,000-a-year executive position for former state Sen. Joe Conti.<sup>45</sup> Jonathan Newman resigned as the chairman of the LCB, saying that Conti will perform day-to-day duties that Newman accomplished on nearly half of Conti’s salary.<sup>46</sup> Even Newman could tell this was just another example of political patronage and unnecessary government spending.

Most states have privatized or used public-private partnerships in the delivery of these services or goods, and there is little rationale to justify these government monopolies in Pennsylvania. Contracting out PHEAA, the wine and spirits stores, and the Turnpike operations could provide a windfall for the state and alleviate the need for higher taxes and fees. Privatization efforts would also reduce graft and abuse in these quasi-private entities, which offer too great a temptation to misuse public monies.

**Spending Tips 2008: A Sensible Diet for Pennsylvania State Government***Unhealthy Spending in FY 2007-08 Budget***PRIVATE GOODS**

<b>Department</b>	<b>Program</b>	<b>Amount</b>	<b>Fund</b>
Executive Offices	Council on the Arts	\$1,295,000	General Fund
Executive Offices	Grants to the Arts	\$15,225,000	General Fund
Agriculture	Agricultural Research	\$2,400,000	General Fund
Agriculture	Nutrient Management	\$367,000	General Fund
Agriculture	Trans to State Farm Products Show Fd.	\$3,000,000	General Fund
Agriculture	Payments to Pennsylvania Fairs	\$4,400,000	General Fund
Agriculture	Livestock Show	\$225,000	General Fund
Agriculture	Open Dairy Show	\$225,000	General Fund
Agriculture	Junior Dairy Show	\$50,000	General Fund
Agriculture	4-H Club Shows	\$55,000	General Fund
Agriculture	Transfer to Nutrient Management Fund	\$3,280,000	General Fund
Community and Economic Development	Cultural Exhibitions and Expositions	\$6,345,000	General Fund
Community and Economic Development	Cultural Activities	\$4,000,000	General Fund
Conservation and Natural Resources	Heritage and Other Parks	\$9,610,000	General Fund
Conservation and Natural Resources	Forestry Research	\$5,000,000	Other Fund
Education	Pennsylvania Accountability Grants	\$275,000,000	General Fund
Education	Pre-K Counts	\$75,000,000	General Fund
Education	Head Start Supplemental Assistance	\$40,000,000	General Fund
Education	Job Training Programs	\$5,300,000	General Fund
Education	PSU Agricultural Research	\$25,595,000	General Fund
Health	Bio-Technology Research	\$5,325,000	General Fund
Health	Emergency Care Research	\$1,000,000	General Fund
Health	Health Research and Services	\$13,500,000	General Fund

**Spending Tips 2008: A Sensible Diet for Pennsylvania State Government**  
*Unhealthy Spending in FY 2007-08 Budget*  
**PRIVATE GOODS**

Department	Program	Amount	Fund
Historical and Museum Commission	Museum Assistance Grants	\$4,135,000	General Fund
Historical and Museum Commission	Historical Education and Museum Grants	\$1,226,000	General Fund
Historical and Museum Commission	Regional History Centers	\$500,000	General Fund
Historical and Museum Commission	University of PA Museum	\$254,000	General Fund
Historical and Museum Commission	Carnegie Museum of Natural History	\$254,000	General Fund
Historical and Museum Commission	Carnegie Science Center	\$254,000	General Fund
Historical and Museum Commission	Franklin Institute Science Museum	\$769,000	General Fund
Historical and Museum Commission	Academy of Natural Sciences	\$471,000	General Fund
Historical and Museum Commission	African American Museum in Philadelphia	\$359,000	General Fund
Historical and Museum Commission	Everhart Museum	\$46,000	General Fund
Historical and Museum Commission	Mercer Museum	\$196,000	General Fund
Historical and Museum Commission	Whitaker Center for Science and Arts	\$141,000	General Fund
Insurance	Enhanced CHIP	\$6,272,000	General Fund
Liquor Control Board	Liquor Control	\$451,150,000	Other Fund
Public Television Network	General Government Operations	\$3,778,000	General Fund
Public Television Network	Broadcast Standards and Datacasting Upgrade	\$974,000	General Fund
Public Television Network	Public Television Station Grants	\$8,746,000	General Fund
PHEAA	Operating Revenue*	\$416,380,000	Off Budget
State Liquor Stores	Non-Operating Budget Receipts	\$1,887,417,000	Off Budget
<b>TOTAL</b>		<b>\$3,279,519,000</b>	

**Paternalism: Unhealthy Spending = \$246,571**

A number of state programs extend from a paternalistic mindset that believes the government must care for a child-like citizenry. Included in this category are marketing programs to promote tourism, advertising campaigns to encourage Pennsylvanians to buy fruits and vegetables grown in-state, and public service ads to remind citizens that turning down their heat can save energy costs. Examples include:

- **Tourism Promotion and Advertising.** Not only does Gov. Rendell fawn over businesses, he also likes to lure tourists vicariously through Pennsylvanians' tax dollars. In FY 2007-08, the budget designated approximately \$40 million for tourism-related projects.<sup>47</sup> These are expenditures that ought to be borne by the tourism industry, not state taxpayers.
- **Lottery Advertising.** The FY 2007-08 budget includes a raise for the Revenue Department's Lottery Advertising program, which will spend \$32 million to promote the state lottery. Although most marketing of state services is wasteful spending, lottery advertising is particularly disconcerting. Other unnecessary advertising expenditures cited in this study are well-intentioned efforts to encourage desired behaviors, but lottery advertising is aimed at deceiving the public and manipulating them into believing they have strong odds of winning the lottery. Pennsylvanians would be much better off investing in their retirement than buying lottery tickets, as a Tax Foundation study found that for every dollar spent each month on lottery tickets, participants lose an estimated \$41,444 in retirement savings over a 40-year period.<sup>48</sup>
- **Food Advertising.** The Department of Agriculture provides a host of programs that provide funding for research, promotion, and entertainment related to agriculture. Although there are certainly legitimate programs provided by this department, many of the programs are unnecessary and wasteful. The Department of Agriculture will receive about \$7.5 million for agricultural shows and fairs in FY 2007-08. Events of this kind should be self-sufficient and revenue-generating and should be coordinated and funded by the agricultural industry itself, not state government.

- **Agricultural Research.** In FY 2007-08, the state will spend over \$2 million on agricultural research. Research on agricultural methods and techniques should be guided and funded by the agriculture industry, not by taxpayers via Harrisburg politicians delivering novelty-sized checks for photo opportunities. Additionally, the state allocated about \$7 million in FY 2007-08 to be used on food and agricultural product marketing through programs such as the Agricultural Promotion, Education and Exports Program, Hardwoods Research and Promotion, Food Marketing and Research, and Product Promotion and marketing.
- **Professional Regulations.** A portion of taxpayer money goes toward monitoring professional standards and regulations. Among Pennsylvania's licensed professionals are wrestlers, auctioneers, and cosmetologists. These regulations often place unnecessary burdens on those wishing to practice business in Pennsylvania. For example, in order to braid hair, licensees must have 150-300 hours of training, while security officers are required to have only 40 hours of training to carry a lethal weapon. Cosmetologists must receive more training (1,250 hours) than a police officer and an Emergency Medical Technician (EMT) combined. Currently, the Board of Auctioneer Examiners is pursuing legal action against eBay resellers who have no state auctioneer's license.<sup>49</sup>

## Spending Tips 2008: A Sensible Diet for Pennsylvania State Government

### *Unhealthy Spending in FY 2007-08 Budget*

#### PATERNALISM

Department	Program	Amount	Fund
Executive Offices	Rural Development Council	\$220,000	General Fund
Executive Offices	Latino Affairs Commission	\$243,000	General Fund
Executive Offices	African-American Affairs Commission	\$347,000	General Fund
Executive Offices	Asian-American Affairs Commission	\$230,000	General Fund
Executive Offices	Commission for Women	\$324,000	General Fund
Treasury	Tuition Account Program Advertising	\$2,500,000	General Fund
Agriculture	Agricultural Excellence	\$324,000	General Fund
Agriculture	Agriculture Promotion Education and Exports	\$1,536,000	General Fund
Agriculture	Hardwoods Research and Promotion	\$780,000	General Fund
Agriculture	Animal Health Commission	\$6,675,000	General Fund
Agriculture	Animal Indemnities	\$20,000	General Fund
Agriculture	Food Marketing and Research	\$3,000,000	General Fund
Agriculture	Product Promotion and Marketing	\$850,000	General Fund
Agriculture	Future Farmers	\$104,000	General Fund
Agriculture	Agriculture and Rural Youth	\$110,000	General Fund
Agriculture	Farm-School Nutrition Initiative	\$500,000	General Fund
Community and Economic Development	Interactive Marketing	\$2,040,000	General Fund
Community and Economic Development	Marketing to Attract Tourists	\$15,521,000	General Fund
Community and Economic Development	Marketing to Attract Business	\$3,491,000	General Fund
Community and Economic Development	Marketing to Attract Film Bus.	\$610,000	General Fund
Community and Economic Development	Tourist Product Development	\$2,000,000	General Fund
Community and Economic Development	Worldtrade PA	\$12,000,000	General Fund
Community and Economic Development	Distressed Community Assistance	\$3,800,000	Other Fund
Conservation and Natural Resources	Snowmobile & ATV Regulation	\$4,838,000	Other Fund
Education	SSHE Recruitment of Disadvantaged Students	\$452,000	General Fund
Education	SSHE Affirmative Action	\$1,167,000	General Fund
Education	PSU Recruitment of Disadvantaged Students	\$454,000	General Fund
Education	Pitt Recruitment of Disadvantaged Students	\$442,000	General Fund
Education	Pitt Rural Education Outreach	\$2,457,000	General Fund
Education	Temple Recruitment of Disadvantage Students	\$442,000	General Fund

**Spending Tips 2008: A Sensible Diet for Pennsylvania State Government**  
*Unhealthy Spending in FY 2007-08 Budget*  
**PATERNALISM**

Department	Program	Amount	Fund
Environmental Protection	Environmental Education Fund	\$879,000	Other Fund
Fish and Boat Commission	Fish Fund	\$25,509,000	Other Fund
Game Commission	Game Fund	\$62,258,000	Other Fund
Milk Marketing Board	General Operations/Marketing Fund	\$2,814,000	Other Fund
Revenue	Lottery Advertising	\$32,000,000	Other Fund
State	Prof. and Occupational Affairs	\$31,523,000	General Fund
State	State Athletic Commission	\$446,000	General Fund
State Police	Liquor Control Enforcement	\$23,665,000	Other Fund
<b>TOTAL</b>		<b>\$246,571,000</b>	

**Perverse Incentives: *Unhealthy Spending* = \$585,776**

A number of wasteful and extravagant state government spending programs merely serve to encourage additional wasteful and extravagant spending. Funding for troubled municipal pensions would fall under this category. Aimed at protecting municipal employees from losing their defined-benefit pensions because of poor fiscal management by local officials, this state government spending only encourages local governments to under-fund their plans. Poor local decisions should not become the burden of state taxpayers. Subsidizing bad fiscal decisions only begets more bad fiscal decisions.

Extravagant spending is frequently buried in the budgets of the legislature and the judiciary, including:

- **Bonuses.** Legislative staff received \$3.6 million in bonuses in 2005 and 2006, with more than two-thirds of the bonuses handed out in 2006—an election year. State Attorney General Tom Corbett is currently investigating the paper trail of staff bonuses—a few staff members received over \$20,000 in bonuses, while spending much of the year on leave to work on political campaigns.<sup>50</sup> State Sen. John Eichelberger has proposed legislation that would ban all bonuses that occur outside of the established payroll for all branches of the state government, including PHEAA, the legislature, and the Governor's Office.<sup>51</sup>
- **Public Service Announcements.** Unbeknownst to most Pennsylvanians, some legislators have reaped the benefits of taxpayer-paid campaign ads cloaked as public service announcements. The ads usually showcase state programs, but they also feature the name, face, or voice of a state legislator, such as ads produced by Rep. John Payne for \$141,000 or Rep. Julie Harhart for \$190,805.<sup>52</sup> Since 2005, lawmakers used over \$6 million for public service announcements.<sup>53</sup> Many ads featured legislators who were running for re-election. At least 18 lawmakers who faced a challenger in 2006 appeared in public service ads.<sup>54</sup> The House has now banned ad broadcasting 60 days prior to an election, but taxpayers shouldn't have to pay for name recognition campaigns at any time during the year.
- **Calendars.** The General Assembly spent a conservatively estimated \$371,500 to print and mail nearly 300,000 calendars for legislators in 2007.<sup>55</sup> These annual expenditure have no legislative value, but merely serve to provide incumbent legislators with another taxpayer-funded opportunity to increase their name recognition with voters.
- **MCARE Fund.** The Medical Care Availability and Reduction of Error (MCARE) Fund was established in 2002 as a temporary, stop-gap solution to the rising cost of medical malpractice claims. The program, which charges hospitals, health care providers, and doctors with fees to cover much of the costs of the program, pays for damages awarded above and beyond basic insurance coverage in medical liability lawsuits. Whenever a lawsuit results in an award above what insurance will cover, the state picks up the tab. With \$300 million appropriated in FY 2007-08, the MCARE fund only encourages medical malpractice claims, rather than curbing that trend. In addition, although MCARE was set to end on December 31, 2007, lawmakers are looking to extend the program to ostensibly provide themselves with more time to find real solutions to the medical malpractice crisis.

**Spending Tips 2008: A Sensible Diet for Pennsylvania State Government**  
*Unhealthy Spending in FY 2007-08 Budget*  
**PERVERSE INCENTIVES**

<b>Department</b>	<b>Program</b>	<b>Amount</b>	<b>Fund</b>
Auditor General	Municipal Pension Aid	\$220,000,000	Other Fund
Community and Economic Development	Local Government Resources and Development	\$10,000,000	General Fund
Community and Economic Development	Community and Municipal Facilities Fund	\$5,800,000	General Fund
Community and Economic Development	Early Intervention for Distressed Munic.	\$750,000	General Fund
Insurance	Medical Care Availability & Reduction	\$300,358,000	Other Fund
Legislature	Senate Incidental Expenses	\$3,226,000	General Fund
Legislature	Expenses - Senators	\$1,329,000	General Fund
Legislature	Senate Flag Purchase	\$24,000	General Fund
Legislature	House Contingent Expenses	\$761,000	General Fund
Legislature	House Incidental Expenses	\$8,845,000	General Fund
Legislature	Expenses - Representatives	\$5,133,000	General Fund
Legislature	Special Leadership Account	\$20,097,000	General Fund
Legislature	House Flag Purchase	\$24,000	General Fund
Legislature	In dependent Regulatory Review Commission	\$2,050,000	General Fund
Legislature	Capitol Preservation Committee	\$900,000	General Fund
Legislature	Capitol Restoration	\$4,150,000	General Fund
Legislature	Flag Conservation	\$60,000	General Fund
Legislature	Colonial History	\$197,000	General Fund
Legislature	Rare Books Conservation	\$400,000	General Fund
Legislature	Center For Rural Pennsylvania	\$1,100,000	General Fund
Judicial	Supreme Court Justices Expenses	\$184,000	General Fund
Judicial	Superior Court Judges Expenses	\$242,000	General Fund
Judicial	Commonwealth Court Judges Expenses	\$146,000	General Fund
<b>TOTAL</b>		<b>\$585,776,000</b>	

## Conclusion

The path to better fiscal and economic health in Pennsylvania will be paved by controlling the growth of state spending, giving voters control over tax increase, and cutting wasteful spending to reduce the tax burden on workers and job creators. Harrisburg officials need to reexamine their priorities, focus on improving the business climate and overall competitiveness of the state, and cut senseless waste out of state government spending. In short, they need to put Pennsylvania government on a diet.

*Spending Tips 2008* identifies \$6.7 billion in unhealthy state spending in FY 2007-08. These cuts from the budget would reduce the size and burden of government on Pennsylvania residents, move state government closer to its proper and competent role in our daily lives, and decrease the burdensome cost of Pennsylvania's government by \$2,100 annually for each family of four.

With a host of hearings, meetings, and votes on the FY 2008-09 budget over the next several months, the Pennsylvania General Assembly has the opportunity to address these most egregious examples of unhealthy spending in the state budget. Rather than embrace every proposal coming from the Governor and his various departments, legislators need to consider the average taxpayer, focus only on the core functions of government, and reprioritize spending on those programs which truly provide for the "common good" of Pennsylvania residents.

Pennsylvania's state government has exceeded Jefferson's "sum of good government" and its attempts to tax, borrow, and spend the state to prosperity have failed. *Spending Tips 2008* identifies unhealthy spending habits in the current state budget and encourages elected officials to begin the process of putting Pennsylvania back on a path to better fiscal and economic health.

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The Commonwealth Foundation is an independent, non-profit research and educational institute that develops and advances public policies based on the nation's founding principles of limited constitutional government, economic freedom, and personal responsibility for one's actions. More information is available at [www.CommonwealthFoundation.org](http://www.CommonwealthFoundation.org)

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