



NEWS RELEASE

from the COMMONWEALTH FOUNDATION

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This is the Budget We Waited For?

Plan taxes too much, spends too much, and fails to put Pennsylvania on a path to prosperity

HARRISBURG, PA — With state budget impasse finally over, Commonwealth Foundation President Matthew J. Brouillette released the following statement:

“This budget is highly irresponsible given the recession and the state’s mountain of unfunded liabilities. It taxes too much, spends too much, and puts Pennsylvania on an unsustainable path to the future. Even if our economy recovers to an unprecedented level in the next two years, there is no way it could produce enough tax revenue to bridge the budgetary canyon that will emerge when the federal stimulus money drops in 2010 and then vanishes in 2011, and the pension obligations for school employees and state workers come due in 2012.

According to Commonwealth Foundation projections, Pennsylvania could see upward of a \$1.6 billion budget deficit next year. Even in a best case scenario, whereby the economy dramatically rebounds and spending in Harrisburg is restrained, a \$1.56 billion budget deficit will likely emerge in 2011.

The only good news is that some of Gov. Rendell’s worst ideas were defeated:

- **No Personal Income Tax Increase** – Gov. Rendell’s proposal to raise the state’s Personal Income Tax by 16%, for a total of \$1.5 billion in additional revenue, went up in smoke. The Commonwealth Foundation estimated this would have resulted in the loss of 24,000 private sector jobs.
- **Several Other Tax Hikes Averted** – A number of other tax increases were proposed, but eventually omitted from the budget deal. These proposals included: a new severance tax on natural gas extraction, a 30% tax on large cigars and smokeless tobacco, expanding the state Sales Tax (under the guise of a “user fee”), and a tax on proceeds from “small games of chance.”
- **Business Taxes** – There were modest improvements in business taxation. Lawmakers increased the sales factor in the calculation of Corporate Net Income Tax liability and increased the amount of net operating loss that corporations can carry forward.
- **Elimination of most “Walking Around Money” (WAMs)** – While there is some dispute over what items are WAMs (discretionary spending allotments for legislators) and how much are included in the state budget, these slush funds doled out by legislative leaders are an abomination and were mostly excluded from the state budget.

The bad news, however, includes:

- **Capital Stock and Franchise Tax Increase** – A retroactive increase of the Capital Stock and Franchise Tax to January 1 and the suspension of its planned phase out will extract billions of

dollars out of the private sector economy. Even Gov. Rendell has noted that this tax is one of the most harmful to Pennsylvania's business climate.

- **Cigarette Tax Increase** – The 25-cent per pack cigarette tax hike disproportionately affects low-income citizens, is a declining source of revenue, and leads to cigarette smuggling across state lines.
- **Unsustainable Spending** – The budget relies on \$2.6 billion in federal 'stimulus' and \$2.1 billion in one-time revenues—exhausting the state's reserve funds that will be needed in the coming years.
- **Corporate Welfare** – Despite the elimination of most WAMs, there remain hundreds of millions of dollars for corporate welfare programs in the Department of Community and Economic Development.
- **Capital Budget** – In addition to the operating budget, Pennsylvania has a capital budget, involving issuing bonds for major projects. This year's capital budget allows \$1.7 billion in borrowing, a \$500 million increase over last year, and includes a \$125 million increase in the RACP program—essentially debt for WAMs.
- **ACORN Funding** – ACORN and other organizations with criminal behavior are still eligible for state funding. After voting to ban funding for organizations in these circumstances, the House removed that language from the fiscal code.
- **Tax Breaks for Special Interests** – Lawmakers chose (thanks to much lobbying by Gov. Rendell) to keep the Film Tax Credit for Hollywood studios, and carved out a new Sales Tax exemption for helicopter manufacturers.
- **Cuts for Kids** – While public education subsidies were increased by \$1.8 billion, the \$75 million Educational Improvement Tax Credit—which businesses are awarded for providing scholarships for low- to moderate-income students to attend their chosen school—was slashed by one-third.

This budget also fails to address important fiscal matters, including:

- **Pension Reform** – Pennsylvania faces a crisis in state pension fund payments. Mandatory payments are estimated to increase by \$4 billion in 2012-13 for state government alone, up from approximately \$550 million this year.
- **Medicaid Reform** – State Medicaid costs continue to grow well above the rate of inflation, and consume a higher percentage of state spending every year. At the same time, Medicaid fraud remains rampant. Lawmakers did nothing to address either issue.
- **Transparency** – There remains little transparency in the Pennsylvania budget process. While at least three bi-partisan proposals have been introduced to create an online database of state spending—as have been enacted in 23 other states—none were acted upon. Voters, watchdogs, and even rank-and-file lawmakers have little information on how tax dollars are actually spent.

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The Commonwealth Foundation (www.CommonwealthFoundation.org) is an independent, non-profit public policy research and educational institute based in Harrisburg, PA.