A TAXPAYER'S BUDGET 2010

Responsible Spending for PA

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A Policy Report from

Commonwealth Foundation
for PUBLIC POLICY ALTERNATIVES

Commonwealth Foundation
for PUBLIC POLICY ALTERNATIVES

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A Taxpayer's Budget 2010: Responsible Spending for Pennsylvania

COMMONWEALTH FOUNDATION

Executive Summary

A Taxpayer's Budget 2010: Responsible Spending for Pennsylvania identifies opportunities to cut over $4 billion in wasteful state spending in Gov. Rendell's proposed FY 2010-11 budget. The report also offers a series of recommendations for resolving the current revenue shortfall and reducing the size and burden of government on Pennsylvanians.

State government consumption and spending of taxpayer money have grown dramatically in recent years. Since 1970, Pennsylvania's total operating budget has increased from $4.2 billion to $65.9 billion, an inflation-adjusted increase of over 167%.[1] As a share of state personal income, Pennsylvania's operating budget rose from 8.8% in FY 1970-71 to an estimated 13.2% in FY 2009-10—an increase of more than 51%.[2]

The effect of this tax-borrow-and-spend agenda has not produced the promised economic revitalization, but stagnation. During Ed Rendell's tenure as governor, Pennsylvania ranks 32nd, 41st, and 39th in job, personal income, and population growth, respectively, among the 50 states.[3]

On October 9, 2009, after an unprecedented 101-day delay, the Pennsylvania General Assembly approved, and Governor Ed Rendell signed, a $27.8 billion General Fund Budget for FY 2009-2010. A revenue shortfall has since emerged, and politicians will be scrambling to fill a multi-billion dollar budget gap with rising pension contributions and the disappearance of federal "stimulus" dollars on the horizon. Against Commonwealth Foundation recommendations, the FY 2009-10 budget exhausted the state's "Rainy Day" fund and other one-time revenue sources. *A Taxpayer's Budget 2010* offers budgetary and public policy alternatives to deal with this fiscal crisis.

A Taxpayer's Budget 2010 identifies wasteful and unnecessary programs in the state budget and off-budget agencies and offers recommendations for improving government services and reforming the budget process for greater efficiency. Our recommendations are organized into three sections:

- **Eliminate Wasteful Spending:** *A Taxpayers Budget 2010* identifies $4.13 billion in spending cuts—$1 billion from the state General Fund Budget, $2.21 billion from other operating funds, and $926 million from the capital budget and off-budget programs.
- **Adopt Market-Based Delivery of Government Services:** Spending on public education, benefits for state workers, and Medicaid is growing far beyond taxpayers' ability to pay. By adopting market-based reforms in the delivery of services, state government can not only reduce costs, but improve quality.
- **Adopt Spending and Budgetary Transparency Reforms:** Transparency in government spending and instituting performance-based budgeting would help identify and eliminate wasteful expenditures, as shown in other states.

Before imposing tax increases on working Pennsylvanians and job creators, Harrisburg policymakers need to prioritize spending, justify all $66 billion in state spending, and cut waste from state government.

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[1] Pennsylvania Governor's Office of the Budget, www.budget.state.pa.us.
[2] U.S. Bureau of Economic Analysis, "State Personal Income and Employment," www.bea.gov; Pennsylvania Governor's Office of the Budget, www.budget.state.pa.us.
[3] U.S. Bureau of Labor Statistics, "December Seasonally Adjusted State Employment," www.bls.gov; U.S. Bureau of Economic Analysis, "State Quarterly Income Analysis," www.bea.gov; U.S. Bureau of the Census, "Annual Population Estimates," www.census.gov.

Introduction

On October 9, 2009, after an unprecedented 101-day delay, the Pennsylvania General Assembly approved, and Governor Ed Rendell signed, a $27.8 billion General Fund Budget. A revenue shortfall has since emerged, and politicians will be scrambling to fill a multi-billion dollar budget gap in future years with rising pension contributions and the disappearance of federal "stimulus" dollars on the horizon. Against Commonwealth Foundation recommendations, the FY 2009-10 budget exhausted the state's "Rainy Day" fund and other one-time revenue sources. *A Taxpayer's Budget 2010: Responsible Spending for Pennsylvania* offers budgetary and public policy alternatives to resolve this fiscal crisis

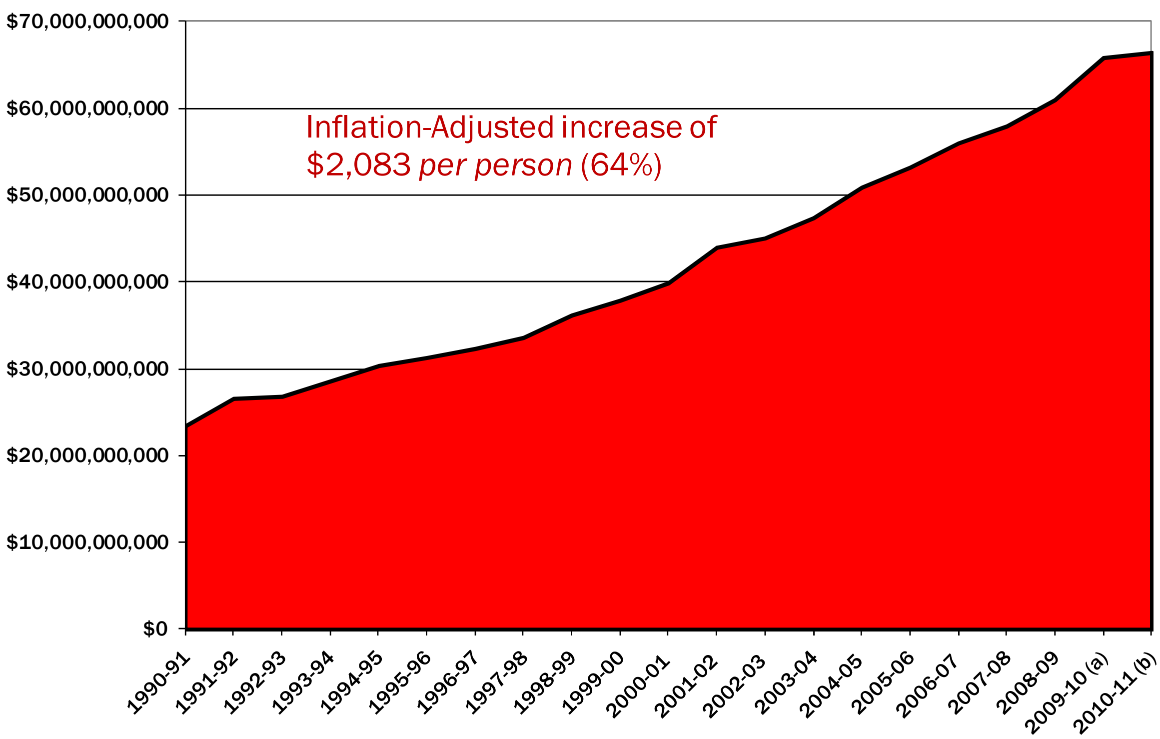
A Taxpayer's Budget 2010 offers a series of recommendations to both resolve the current revenue shortfall and improve Pennsylvania's long-term fiscal and economic health. In February, Governor Rendell announced his $66.4 billion FY 2010-2011 budget proposal, which included $29.03 billion in General Fund spending. This analysis identifies **$1 billion** in wasteful spending that should be cut from his proposal.

Before imposing any tax increases on working Pennsylvanians and job creators, Harrisburg policymakers need to prioritize spending, justify all $66 billion in state spending, and cut waste from state government. *A Taxpayer's Budget 2010* identifies wasteful and unnecessary state government programs in the state budget and off-budget agencies and offers recommendations for improving government services and reforming the budget process for greater efficiency.

Pennsylvania State & Local Government Spending

Pennsylvania state government consumption and spending of taxpayer money have grown dramatically in recent years. Since 1990, Pennsylvania's total operating budget has increased from $21.4 billion to $65.9 billion. This represents an inflation-adjusted increase of $2,083 for every man, woman, and child in the Commonwealth.

Pennsylvania State Operating Budget, 1990-2010



Gov. Rendell's proposed FY 2010-2011 General Fund Budget of $29 billion comprises less than half of the $66.4 billion state operating budget, and represents a 44.8% increase (21% after adjusting for inflation) since he took office in 2003.[4] Pennsylvania state and local government spending has doubled, from just over $4,400 per person in FY 1991-92 to $10,800 per person in FY 2010-11.[5]

These figures do not include state debt. Pennsylvania taxpayers currently shoulder approximately $120 billion in state and local government debt, or a **heavy $9,650 for every man, woman, and child** ($38,000 for the average family of four). Much of the state and local capital expenditures and borrowing is hidden in the accounts of independent agencies such as the Turnpike Commission, state authorities and commissions, and off-budget items.[6]

These dramatic increases in spending have resulted in a heavier burden on Pennsylvania's taxpayers. According to the Tax Foundation, Pennsylvania's state and local tax burden (taxes as a percentage of total income) has grown 5.2% since 1991. Pennsylvania has the 11th highest state and local tax burden in the nation, up from 26th in 1991.[7] The average Pennsylvanian must work 111 days—nearly one-third of the year—to earn enough money to pay his federal, state, and local tax bills.

The effect of this tax-borrow-and-spend agenda has not led to a revitalization of Pennsylvania's economy, but to stagnation. From 1970 to 2009, Pennsylvania's rankings in job growth, personal income growth, and population growth were a dismal 49th, 46th, and 48th, respectively. Recent independent rankings of Pennsylvania's economic and business climates mirror this performance.[8]

The Commonwealth Foundation proposes a fiscal blueprint for Pennsylvania called **A Taxpayer's Budget**. The budget adheres to the following three principles of responsible spending:

- **Reduce taxes on working Pennsylvanians and job creators.**
- **Eliminate corporate welfare, WAMs/pork-barrel projects, and special interests spending.**
- **Balance the budget without accounting gimmicks, shell games, or new debt.**

Core Functions of Government

During his first inaugural address in 1801 Thomas Jefferson clarified what core functions the government should fulfill: "...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."

A Taxpayer's Budget 2010 identifies specific spending reductions and invites a discussion of the proper role of government in a free society. Few would argue that there should be no limit to what government can spend. Yet many in our legislature act without considering the constitutionality or economic impact of creating or expanding a government program. *A Taxpayer's Budget 2010* examines existing programs and identifies those that do not reflect the following principles:

- Spending should be limited to core functions of government: protecting the safety and individual rights of citizens 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 not "crowd out" or discourage volunteerism, personal responsibility, and private entrepreneurship.

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[4] Pennsylvania Governor's Office of the Budget, www.budget.state.pa.us; calculations by Commonwealth Foundation.
[5] Pennsylvania Governor's Office of the Budget, www.budget.state.pa.us; Pennsylvania Department of Education, K-12 Financial Summaries, www.pde.state.pa.us; US Census Bureau, State and Local Government Finances, www.census.gov.
[6] See Commonwealth Foundation, "State & Local Taxpayer Debt", www.CommonwealthFoundation.org.
[7] Tax Foundation, State and Local Tax Burdens, www.taxfoundation.org.
[8] See "State Rankings" on PolicyBlog for a recent summary of Pennsylvania state economic rankings, www.CommonwealthFoundation.org.

- Government spending and taxes should be as low as possible so as to not distort or undermine the decisions of individuals, families, and businesses, which are the engines of prosperity.
- Government spending should be transparent and open for critical review by anyone.

Government has no money of its own to spend; it only has that which it first takes out of the pockets of working Pennsylvanians in the form of taxes or out of our children's future paychecks in the form of debt. Every dollar spent by government cannot be spent, saved, or invested by the people who earned it.[9] *A Taxpayer's Budget 2010* is part of the Commonwealth Foundation's effort to restore a wise, frugal, and good government in Pennsylvania.

Spending reductions and reforms are organized into three categories:

- **Eliminate Wasteful Spending:** Wasteful spending is divided into three categories: **corporate welfare** programs that award tax dollars to select individuals and companies; **yellow pages government**, whereby the state competes with private sector businesses, or monopolizes services that should be delivered by the private sector; and **self-service government,** programs which benefit government officials or encourage misuse of taxpayer dollars. *A Taxpayer's Budget 2010* identifies $4.13 billion in spending cuts—$1 billion from the state General Fund Budget, $2.21 billion from other operating funds, and $926 million from the capital budget and off-budget programs.
- **Adopt Market-Based Delivery of Government Services:** Spending on public education, benefits for state workers, and Medicaid is growing far beyond taxpayers' ability to pay. By adopting market-based reforms in the delivery of these services, state government can reduce costs and provide higher quality.
- **Adopt Spending and Budgetary Transparency Reforms:** Transparency in government spending and instituting performance-based budgeting would help rein in wasteful expenditures.

Spending Reductions in FY 2010-11 Proposed State Budget (Thousands of Dollars)				
Category	**General Fund**	**Other Funds**	**Off Budget**	**Total**
Corporate Welfare	$335,140,000	$45,727,000	$633,000,000	$1,013,867,000
Yellow Pages Government	$466,327,000	$1,659,003,000	$293,314,000	$2,418,644,000
Self-Service Government	$202,546,000	$500,680,000		$703,226,000
Total	$1,004,013,000	$2,205,410,000	$926,314,000	**$4,135,737,000**

Eliminate Corporate Welfare

Corporate welfare forces all taxpayers to surrender money to be redistributed to select entities in the form of a tax break or government aid. Government-directed "economic development" programs award tax dollars to companies or projects for the benefit of a few, at the expense of the many. Usually, taxpayer-funded welfare is handed out to politically connected private interests.

Corporate welfare is driven by the mentality known as ***press-release economics,*** a charade in which lawmakers use other people's money to fund their political gain. State lawmakers dole out funds, then issue a press release or hold a ribbon-cutting ceremony taking credit for creating jobs.

Pennsylvania doles out the 2nd highest amount of "economic development" funding in the nation,

[9] Benefield, Nathan A., "Cost-Saving Ideas for Pennsylvania State Budget," Testimony to the Pennsylvania Senate Government Management and Cost Study Commission, April 12, 2010, www.CommonwealthFoundation.org.

$754 million in FY 2010.[10] Unfortunately, states with the highest economic development spending have experienced weaker economic growth than states with lower economic development spending.[11]

State Economic Development Spending and Economic Growth 2002-2009

	Job Growth	Rank	Personal Income Growth	Rank	Population Growth	Rank
Avg - Ten Highest Spending States	-1.18%	33.20	33.58%	31.40	3.65%	35.20
Avg - Ten Lowest Spending States	2.72%	24.00	38.94%	25.20	5.28%	29.40
United States	0.30%		36.12%		6.64%	
Pennsylvania*	-0.11%	32	31.54%	41	2.43%	39

* 2nd Highest Spender in Economic Development

Source: Council for Community and Economic Research, Bureau of Labor Statistics, Bureau of Economic Analysis, Census Bureau

Some recent examples of corporate welfare include:

- **Film Tax Credit:** M. Night Shyamalan was awarded over **$35 million** over two years in film tax credits for his latest film, *The Last Airbender*. The award is the largest in the history of Pennsylvania's Film Tax Credit (FTC), breaking the record held by his previous project, *The Happening*, which received $12 million in tax credits. His film *Lady in the Water* also received a film production grant.

  Forty-four states offer tax incentivizes or grants to filmmakers for in-state production, according to an analysis by the Tax Foundation.[12] Pennsylvania is among 26 states that offer ***transferable*** (in some states refundable) tax credits to film producers, meaning that recipients can **sell** the remaining credit to another business if it exceeds what they owe in taxes.

  A state-commissioned study of Pennsylvania's program—conducted by Hollywood consultants—effectively concluded that the FTC was responsible for every movie filmed in the state. Yet this ignores evidence that the vast majority of films didn't even apply for the tax credit or that the program had not had much of an impact on film production in the state.[13] Data from the Bureau of Labor Statistics show that Pennsylvania employs fewer than 8,000 workers in the category "Motion picture and sound recording industries," representing about 0.2% of the state workforce, and an increase of only 800 employees since 2004.[14]

  Film tax credits largely provide incentives for economic activity that would have occurred anyway. Furthermore, a narrow tax incentive does little to improve the overall economy. Indeed, the tax breaks given to the film industry could instead have been used to lower taxes on all businesses, rewarding entrepreneurship rather than lobbying by Big Hollywood.

- **Redevelopment Assistance Capital Projects:** In FY 2009-10, Pennsylvania issued **$225 million** in bonds to fund Redevelopment Assistance Capital Projects (RACP) grants. The RACP debt limit has grown since the program's inception in 1993 to a current limit of $3.45 billion[15]; the Pennsylvania House voted to increase the limit to $4.25 billion in 2010. Yet these massive "investments" have failed to produce economic revitalization. State debt payments for RACP alone amount to $147 million this year, on an RACP debt in excess of $3 billion. At this rate, even if lawmakers froze future RACP borrowing, it would take more than 20 years to pay off the principle alone.[16] This year, Gov. Rendell used RACP funds to give $14 million to Harley-Davidson to keep it operating at its York facility, and yet lay off half its payroll. Gov. Ridge also awarded a grant to Harley in 2000 to keep them from relocating. Pennsylvania

[10] Council for Community and Economic Research, "State Economic Development Database," www.c2er.org.
[11] Benefield, Nathan A., "Government Can't Cure Our Economic Woes," Commonwealth Foundation, www.CommonwealthFoundation.org
[12] Luther, Will, "Movie Production Incentives: Blockbuster Support for Lackluster Policy." Tax Foundation, www.TaxFoundation.org.
[13] Yakovlev, Pavel and Antony Davies, Pennsylvania's Flawed Film Tax Credit: What the ERA Study Won't Tell You, Commonwealth Foundation, www.CommonwealthFoundation.org.
[14] Bureau of Labor Statistics, Quarterly Census of Employment and Wages, www.BLS.gov/cew.
[15] Pennsylvania Office of the Budget, History of the Redevelopment Assistance Capitol Program, www.budget.state.pa.us.
[16] Panyard, Jim, "Raising Spending Limit for Lawmakers," *PA Independent,* March 18, 2010, www.PAIndy.com.

taxpayers are only renting these jobs, until Harley demands more corporate welfare.

- **Sports Stadiums:** Sports stadiums have been a favorite of politicians for decades. Much of the RACP borrowing goes for professional sports facilities. Gov. Rendell and the legislature promised $47 million out of the taxpayers' wallets for a soccer stadium in Chester, and Delaware County residents will be forced to pitch in another $30 million. Team investors will thus only cover half the cost ($80 million) of the new stadium. Yet economic research finds that athletic stadiums do not result in economic benefits for the community—only for team owners.[17]
- **Tourism Promotion and Advertising:** Another idea of Gov. Rendell's is to lure tourists with other Pennsylvanians' tax dollars. The proposed FY 2010-11 budget includes $6 million for tourism promotion. In 2009, taxpayers gave the Erie Zoo $130,000 for renovations and the addition of the John M. Cochran Ice Arena and a $50,000 grant to the Pennsylvania Golf Course Owners' Association.[18]
- **Opportunity Grant Program:** The Opportunity Grant Program is one of several state programs for awarding tax dollars to politically selected businesses. A 2007 Auditor General's report examined $215 million in taxpayer-funded grants between 2000 and 2005. These allocations were expected to create 300,000 jobs, but only 170,000 were created or retained—less than 60% of the goal.[19] The audit also revealed a poor track record of assessing and collecting fines: $49 million in fees assessed for failure to meet requirements were waived, and only 13% of the fines assessed were collected.[20] Yet, the Opportunity Grant Program remains one of the largest corporate welfare schemes in the state budget, with a $25 million proposed appropriation.
- **Commonwealth Financing Authority:** The Commonwealth Financing Authority (CFA), while legally an independent agency, functions very much like a Department of Community and Economic Development (DCED) corporate welfare program. CFA issues bonds to fund grants and loans to businesses, and decisions are made by a board appointed by legislators and the Governor. CFA bonds are technically off-budget and not calculated into the cost of debt service, yet, like RACP, taxpayers are on the hook for this debt. CFA bonds are funded through a "service agreement" between CFA and DCED to contribute "an amount sufficient to pay the Debt Service Requirements." This payment will grow to $83 million in FY 2010-11, and will increase as the CFA issues more debt.
- **Green Jobs:** Gov. Rendell is pushing "green jobs" at every turn. He has already awarded nearly **$1 billion** to renewable energy projects, with additional funding authorized, and wants to increase alternative energy mandates for the state. In reality, these mandates and subsidies will escalate electricity prices and result in a net loss of jobs. A Spanish study concluded that heavily subsidizing renewable energy leads to a loss of 2.2 jobs for every one green job created.[21] A focus on green jobs discourages overall economic growth by redistributing private sector wealth to uncompetitive and unsustainable energy providers.[22]

Eliminating corporate welfare would save **$1 billion** in higher taxes and debt this year alone.

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[17] Ober, Benjamen, "Soccer Stadiums Plans: No Goal," Commonwealth Foundation, www.CommonwealthFoundation.org.
[18] Pennsylvania Department of Community and Economic Development, Investment Tracker, www.dced.state.pa.us/investmenttracker
[19] Allegheny Institute, "Economic Development Spending: Misguided and Wasteful," Policy Brief, Vol. 7, No. 60, November 2007, www.alleghenyinstitute.org.
[20] Pennsylvania Department of the Auditor General, "Auditor General Jack Wagner Fault's DCED's Monitoring of Opportunity Grant Program," October 2007, www.auitorgen.state.pa.us.
[21] Gabriel Calzada Álvarez PhD., et. al., "Study of the Effects on Employment of Public Aid to Renewable Energy Sources," Universidad Rey Juan Carlos, available at http://www.juandemariana.org/pdf/090327-employment-public-aid-renewable.pdf.
[22] Benefield, Nathan and Katrina Currie, "Green Jobs and the Broken Window Fallacy," Testimony to the House Republican Policy Committee, Commonwealth Foundation, www.CommonwealthFoundation.org.

A Taxpayer's Budget 2010: Responsible Spending for Pennsylvania

CORPORATE WELFARE in Gov. Rendell's Proposed Budget

Department	Program	FY 2010-11	Fund
Agriculture	Agricultural Excellence	$310,000	General Fund
Agriculture	Hardwoods Research and Promotion	$240,000	General Fund
Agriculture	Animal Health Commission	$4,901,000	General Fund
Agriculture	Animal Indemnities	$5,000	General Fund
Agriculture	Food Marketing and Research	$800,000	General Fund
Community and Economic Development	Business Retention and Expansion	$990,000	General Fund
Community and Economic Development	Land Use Planning Assistance	$371,000	General Fund
Community and Economic Development	Transfer to Munic. Fin. Rec. Revolv. Fund	$990,000	General Fund
Community and Economic Development	Transfer to Ben Franklin Tech. Dev. Authority Fund	$20,000,000	General Fund
Community and Economic Development	Transfer to Commonwealth Fin. Authority	$83,293,000	General Fund
Community and Economic Development	Opportunity Grant Program	$25,000,000	General Fund
Community and Economic Development	Customized Job Training	$11,000,000	General Fund
Community and Economic Development	Infrastructure Development	$19,000,000	General Fund
Community and Economic Development	Housing and Redevelopment Assistance	$20,000,000	General Fund
Community and Economic Development	Accessible Housing	$1,100,000	General Fund
Community and Economic Development	New Communities	$10,000,000	General Fund
Community and Economic Development	Community Action Team (CAT)	$306,000	General Fund
Community and Economic Development	PA Industrial Development Assistance	$1,540,000	General Fund
Community and Economic Development	Local Development Districts	$2,970,000	General Fund
Community and Economic Development	Small Business Development Centers	$3,600,000	General Fund
Community and Economic Development	Tourist Promotion Assistance	$5,750,000	General Fund
Community and Economic Development	Tourism Accredited Zoos	$1,200,000	General Fund
Community and Economic Development	Rural Leadership Training	$188,000	General Fund
Community and Economic Development	Super Computer Center	$200,000	General Fund
Community and Economic Development	Infrastructure Technical Assistance	$1,125,000	General Fund
Community and Economic Development	Minority Business Development	$1,000,000	General Fund
Community and Economic Development	FayPenn	$300,000	General Fund
Community and Economic Development	Industrial Resource Center	$6,885,000	General Fund
Community and Economic Development	Powdered Metals	$150,000	General Fund
Community and Economic Development	Agile Manufacturing	$300,000	General Fund
Community and Economic Development	Infrastructure&Facilities Improvement Grants	$30,000,000	General Fund
Community and Economic Development	Digital and Robotic Technology	$224,000	General Fund
Community and Economic Development	Marketing to Attract Tourists	$5,496,000	General Fund
Community and Economic Development	Marketing to Attract Business	$886,000	General Fund
Community and Economic Development	Worldtrade PA	$6,750,000	General Fund
Community and Economic Development	Life Sciences Greenhouse	$3,000,000	Other State Funds
Community and Economic Development	Minority Business Development Loans	$2,500,000	Other State Funds
Community and Economic Development	Small Business First Fund Total	$39,227,000	Other State Funds
Education	Job Training Programs	$3,975,000	General Fund
Environmental Protection	Small Business Pollution Prevention Program	$1,000,000	Other State Funds
Health	Bio-Technology Research	$2,600,000	General Fund
Health	Emergency Care Research	$200,000	General Fund
Labor and Industry	Transfer to Vocational Rehabilitation Fund	$43,303,000	General Fund
Labor and Industry	Supported Employment	$482,000	General Fund
Labor and Industry	Training Activities	$6,500,000	General Fund
Labor and Industry	Industry Partnerships	$1,710,000	General Fund
Transportation	Rail Freight Assistance	$9,500,000	General Fund
Capital Budget	Redev. Assist. Gen. Obligation Bond Issues	$225,000,000	Non Operating Budget
Capital Budget	Growing Greener General Obligation Bond Issues	$120,500,000	Non Operating Budget
Commonwealth Financing Authority	Bond Issues	$287,500,000	Non Operating Budget
	TOTAL	$1,013,867,000	

Privatize "Yellow Pages Government"

Although government properly provides various public goods—such as law enforcement, courts, and roads—the Commonwealth also distributes many "private goods." These are provisions that are easily found in the Yellow Pages of a phone book and are the proper domain of private enterprise, not enterprising politicians.

These government-provided goods and services compete directly with private enterprises, often serving merely as sources of patronage jobs, favors, and perks for the politically connected. These services extend the role of government far beyond its core, constitutional functions and hinder the private sector, which can provide these services more effectively and at lower costs.

- **State Liquor Stores:** State liquor stores should be privatized, with the state retaining an oversight role. Pennsylvania is one of only a few states in which government owns and operates liquor stores, rather than licensing and regulating private vendors.

  Privatization would increase state revenue and provide consumers with more choices and better service. The state would accrue corporate and property tax revenue from privately owned liquor stores, whereas now they are nontaxable enterprises. The prices of beverages would decrease as well. One study shows that while the Pennsylvania Liquor Control Board claims to provide "the lowest possible prices," private liquor stores which ship exclusively to "free" states provide less expensive products.[23] Pennsylvania would also benefit from competitively contracting out all Liquor Control Board operations; one estimate projects a $1.7 billion one-time influx of funds[24] and the alcohol sales tax would continue to bring in $350 million a year.[25]

  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.[26] Pennsylvania, a full control state, ranks 22nd among the 48 states in the sample for incidence of underage drinking.[27] In fact, the National Alcoholic Beverage Control Association (NABCA) reports that fully-controlled states have the highest average fatality rate. The NABCA also shows that those states with the highest degree of government control have highest DUI arrest rates.[28]

  Today, alcohol enforcement is handled by the Pennsylvania State Police, Bureau of Liquor Control Enforcement. Under privatization, the state would only divest itself of the marketing and sales of wine and spirits. The Liquor Control Board is also tainted by cronyism with the creation of a high-paid position for former lawmaker Joe Conti (who ironically, as a legislator, co-sponsored legislation to privatize state liquor stores).[29] Privatization would reduce graft and abuse in these quasi-private entities which attract political patronage and unnecessary government spending.

- **Pennsylvania Higher Education Assistance Agency:** The Pennsylvania Higher Education Assistance Agency (PHEAA) is a state-run organization riddled with a history of wasteful spending habits. While it offers loans to students (competing with private loan providers), it also has a history of lavishing special treatment on its board members, who are predominantly state legislators. In August 2008, the Auditor General completed an audit of

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23 Nerozzi, Michael, "Bamboozled: Why Government-Run Liquor Stores are Socially and Economically Impractical," Commonwealth Foundation, www.CommonwealthFoundation.org.
24 Segal, Geoffrey F. and Geoffrey S. Underwood, "Divesting the Pennsylvania Liquor Control Board," Testimony to the Pennsylvania Senate Majority Policy Committee, April 18, 2007, available at www.CommonwealthFoundation.org.
25 Pulito, John, and Antony Davies, PhD., "Government-Run Liquor Stores: The Social Impact of Privatization," available at www.CommonwealthFoundation.org.
26 Segal, Geoffrey F. and Geoffrey S. Underwood, "Divesting the Pennsylvania Liquor Control Board," Testimony to the Pennsylvania Senate Majority Policy Committee, April 18, 2007, available at www.CommonwealthFoundation.org.
27 Pulito, John, and Antony Davies, PhD., "Government-Run Liquor Stores: The Social Impact of Privatization," available at www.CommonwealthFoundation.org.
28 ibid.
29 Mauriello, Tracie, "Critics say LCB post is a stiff belt of patronage," Post-Gazette, December 15, 2006, www.post-gazette.com; Conti was a co-sponsor of HB 1346 on 1997 which would have licensed off operation of Pennsylvania's wine and spirits stores, www.legis.state.pa.us.

the state agency, revealing $62.5 million spent on consultants, attorneys and other professional services and $121 million used for management salaries, including $6.4 million for executive bonuses.

Recently some PHEAA board members were replaced due to corruption. Although the new leadership at PHEAA has discontinued many of its inappropriate practices, there is nothing that will prevent them from returning. Not only would privatizing PHEAA eliminate the abuse by politicians, but it would provide students with access to a more competitive student loan market.

- **State Parks:** Privately managed parks can be more efficiently run, maintaining a high-quality service at less cost than state-controlled operations. Private companies have the incentive to create cost-effective programs that meet visitors' needs without breaking the bank. It also prevents the abuse of taxpayers' money through greater oversight and accountability.

  Some of the best historical sites in Pennsylvania are privately owned and operated, including the Shriver House Museum and General Lee's Headquarters Museum in Gettysburg, which are the only museums in Pennsylvania to make the History Channel's "10 Must Visit U.S. Historical Sites." In fact, over half of the attractions highlighted by the History Channel are either public-private partnerships or privately owned and operated.

  Pennsylvania runs 117 state parks and 23 historic sites and museums. The state should be looking for private-sector solutions to lease and sell these sites. If historic and natural sites are valuable, they will be preserved through entrance fees, non-profit organizations, and philanthropy, rather than ever-increasing taxpayer support.

  The private sector has achieved success in establishing and running historical and natural sites. One such company, Recreation Resource Management (RRM) manages over 150 federal, state, and local parks. Its campgrounds are included in the nation's top 100 family places to camp, according to ReserveAmerica. [30]

- **Prison Administration:** Taxpayers will spend over $1.9 billion to run and maintain the state's prisons, a 54% increase from 2002. While competitive bids are collected for construction permits, and often for services like food preparation, the everyday management of the state prison system eats up a large amount of taxpayer resources. The privatization of prison management—successfully implemented to varying degrees in over 30 states—offers a cost-effective solution to pressing fiscal concerns.[31]

  A slew of studies illustrates the cost-saving potential of prison privatization, backed up by the experience of the many successfully privatized facilities around the country.[32] Undertaken correctly, prison privatization offers Pennsylvania policymakers an opportunity to save money, improve service quality, and address prison overcrowding.

Most states have privatized or used public-private partnerships in the delivery of these services and goods, and there is little rationale to justify government monopolies in Pennsylvania. Privatization of PHEAA, wine and spirits stores, and state parks would provide a windfall for the state and alleviate the need for higher taxes and fees. Privatization would also reduce patronage, graft, and abuse in these quasi-private entities, which offer too great a temptation to misuse public monies. Privatization would return **$2.4 billion** in taxes and government revenue to the private sector.

[30] Currie, Katrina, "Private Parks Promote Public Preservation," Commonwealth Foundation, www.CommonwealthFoundation.org
[31] Benefield, Nathan A., "Private Prisons Increase Capacity, Save Money, Improve Service," Testimony to the House Labor Relations Committee, October 24, 2007, available at www.CommonwealthFoundation.org.
[32] ibid.

A Taxpayer's Budget 2010: Responsible Spending for Pennsylvania

YELLOW PAGES GOVERNMENT in Gov. Rendell's Proposed Budget

Department	Program	FY 2010-11	Fund
Executive Offices	Council on the Arts	$982,000	General Fund
Executive Offices	Grants to the Arts	$10,000,000	General Fund
Executive Offices	Public Television Technology	$1,000,000	General Fund
Agriculture	Nutrient Management	$311,000	General Fund
Agriculture	Trans to State Farm Products Show Fd.	$2,760,000	General Fund
Agriculture	Livestock Show	$184,000	General Fund
Agriculture	Open Dairy Show	$184,000	General Fund
Agriculture	Junior Dairy Show	$36,000	General Fund
Agriculture	4-H Club Shows	$45,000	General Fund
Agriculture	Transfer to Nutrient Management Fund	$3,000,000	General Fund
Agriculture	Future Farmers	$54,000	General Fund
Agriculture	Agriculture and Rural Youth	$48,000	General Fund
Agriculture	Farm-School Nutrition Initiative	$50,000	General Fund
Education	Pennsylvania Accountablity Grants	$271,425,000	General Fund
Education	Pre-K Counts	$85,937,000	General Fund
Education	Head Start Supplemental Assistance	$38,696,000	General Fund
Fish and Boat Commission	Fish Fund	$34,095,000	Other State Funds
Game Commission	Game Fund	$62,352,000	Other State Funds
Historical and Museum Commission	Museum Assistance Grants	$1,779,000	General Fund
Historical and Museum Commission	Regional History Centers	$175,000	General Fund
Insurance	Cover All Kids (increase over CHIP)	$45,000,000	General Fund
Labor and Industry	Pennsylvania Conservation Corps	$4,661,000	General Fund
Liquor Control Board	Sale of Liquor	$1,562,556,000	Other State Funds
PHEAA	Operating Revenue	$293,314,000	Non Operating Budget
	TOTAL	**$2,418,644,000**	

Self-Service Government

The core functions of government involve providing services and goods that clearly benefit all citizens. However, a number of state programs and expenses actually work to the detriment of citizens, for the benefit of government officials, or reward the misuse of taxpayer dollars.

- **Professional Regulations:** The state spends over $33 million each year monitoring professional standards and licensing. Among Pennsylvania's licensed professionals are wrestlers, massage therapists, natural hair braiders, and auctioneers. These regulations often place unnecessary burdens on those wishing to open a business in Pennsylvania. An example of the absurdity of such licensing is the requirement that masseuses must have 600 hours of training, while security officers carrying a lethal weapon are required to have only 40 hours of training.[33] In the past, the state has attempted to crack down on "unlicensed" occupations, like eBay sellers and people giving rides to the Amish.

- **Political Patronage:** Former state lawmaker Dan Surra has been deemed "too big to fail" by Governor Rendell and his former House colleagues. After being ousted by voters in November, 2008, Surra was hired as a "consultant" to the House Democrat Caucus. Then, despite a state hiring freeze and threats to lay off thousands of state employees, Governor Rendell created a new position for Surra, paying him $95,002 plus benefits.[34]

  Ballard Spahr, the former law firm of Governor Rendell, contributed nearly $1 million to his campaign coffers from 2001-2008.[35] Of course, none of those campaign contributions included

[33] Act 118 Massage Therapy Law, available at www.legis.state.pa.us.
[34] "Governor creates job for former state legislator," *The Patriot News,* January 13, 2009, www.pennlive.com.
[35] Our Philadelphia, "Edward Gene Rendell," available at http://ourphiladelphia.org/reps/18.

the $250,000 Rendell received from the law firm[36] when he was "between jobs" while running for Governor in 2001 and 2002. He even admitted to not doing any legal work for the firm during that period. In return, Ballard Spahr has received at least **$8.4 million** in taxpayer money during Rendell's tenure as governor.

- **Bonusgate and Corruption:** In July 2008, former lawmakers and senior staff members were charged with awarding taxpayer-funded bonuses to employees for working on political campaigns. In the meantime, members of both parties have spent millions of taxpayer dollars to avoid indictment. Together, the two legislative bodies have racked up over $4 million in legal fees, protecting those who misspent millions of taxpayer dollars by spending more tax dollars.[37]

  Former State Representative Mike Veon's Beaver Initiative for Growth received $10 million in misappropriated taxpayer funds.[38] The now-convicted Veon has implicated other lawmakers for doing the same sort of illegal activity.[39] Two current legislators, former lawmakers, and several legislative staff have been indicted in Bonusgate for using tax dollars for bonuses, campaign work, political polling, and no-work jobs for candidates and mistresses.

  Former Pennsylvania Senator Vince Fumo, convicted in federal court on March 16, 2009 of 137 charges, grossly misused taxpayer dollars for personal use and political gain. Among other things, he directed grants to Citizens' Alliance, a nonprofit organization he controlled, which funneled about $1.4 million back to Fumo. The former Senator was charged with conspiracy to defraud the state Senate and conspiracy to defraud Citizens' Alliance.

  The former chairman of the Pennsylvania Turnpike Commission, Mitchell Rubin, performed a "no-work" job for Fumo, and his wife was a co-defendant found guilty in the Fumo trial. Rubin himself was charged with obstruction of justice in March 2010. State Senator Jane Orie is under indictment for using her taxpayer-funded office to aid her sister's election to the Pennsylvania Supreme Court. Most recently, the FBI and IRS have conducted raids of the homes and offices of State Senators Bob Mellow and Raphael Musto, in ongoing investigations.

- **Advertising:** Taxpayers shell out $37 million annually for lottery advertising, over $5 million to promote tourism, and millions of dollars for numerous other programs to promote the state and its programs to business and residents.

  Although any taxpayer-funded advertising constitutes 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 citizens into believing they have strong odds of winning. Pennsylvanians would be much better off investing in their retirement than buying lottery tickets from Gus the Groundhog. 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.[40]

  Examples of recent government-produced advertising include the Orwellian "We Know Who You Are" commercial promoting the tax amnesty program, websites Groundhogdreams.com and GoundhogDuel.com to promote Groundhog Day, "Helping People is Cool" video (featuring a rapping groundhog to encourage kids to think about careers in health) and "You're Not Gonna Get Sick from Me" (a High School Musical-type video promoting washing one's hands).[41]

- **Beautification:** In 2009 renovation of the state Capitol grounds began, a venture that will cost

[36] *Legal News Journal*, "Philadelphia paid law firms $111 million for advice," www.legalnewsjournal.com/News/entry/Philadelphia-paid-law-firms-111-million-for-advice.
[37] Bumsted, Brad, "Senate Republicans' Legal Bills Top $1 Million," *Pittsburgh Tribune-Review,* January 6, 2008, www.pittsburghlive.com.
[38] Bumstead, Brad, "BIG's Phony Invoice," *Tribune-Review*, September 20, 2009, www.pittsburghlive.com.
[39] Strine, Jim, "Mike Veon points finger at other legislative leaders," *The Patriot-News,* July 16, 2009, www.pennlive.com.
[40] Tax Foundation, "Lottery Taxes Divert Income from Retirement Savings," *Fiscal Facts*, January 20, 2008, www.pittsburghlive.com.
[41] Commonwealth Foundation PolicyBlog, "Another Commercial Produced by PA Government," May 24, 2010, www.CommonwealthFoundation.org.

$9 million while we face a deficit.[42]

- **Hunger Garden:** This year the bipartisan House Hunger Caucus set up a live webcam which allows website visitors to watch a hunger garden growing at the State Capitol. It will ostensibly raise awareness for hungry Pennsylvanians, but taxpayers' money is being used to operate a 24- hour camera staring at vegetables growing. Few will be fed by this garden, and the project will more likely draw attention to lawmakers than to the hungry.[43]

Controlling self-serving government would save taxpayers nearly **$703 million.**

A Taxpayer's Budget 2010: Responsible Spending for Pennsylvania			
SELF-SERVICE GOVERNMENT in Gov. Rendell's Proposed Budget			
Department	**Program**	**FY 2010-11**	**Fund**
Executive Offices	Rural Development Council	$160,000	General Fund
Executive Offices	Latino Affairs Commission	$182,000	General Fund
Executive Offices	African-American Affairs Commission	$246,000	General Fund
Executive Offices	Asian-American Affairs Commission	$166,000	General Fund
Executive Offices	Commission for Women	$253,000	General Fund
Auditor General	Municipal Pension Aid	$223,000,000	Other State Funds
Community and Economic Development	Early Intervention for Distressed Munic.	$733,000	General Fund
Community and Economic Development	Distressed Community Assistance	$3,440,000	Other State Funds
Conservation and Natural Resources	Snowmobile & ATV Regulation	$6,500,000	General Fund
Education	SSHE Recruitment of Disadvantaged Students	$446,000	General Fund
Education	SSHE Affirmative Action	$1,152,000	General Fund
Environmental Protection	Environmental Education Fund	$545,000	Other State Funds
Health	Keystone State Games	$150,000	General Fund
Insurance	Medical Care Availability & Reduction	$208,607,000	Other State Funds
Milk Marketing Board	General Operations/Marketing Fund	$2,836,000	Other State Funds
Revenue	Lottery Advertising	$37,000,000	Other State Funds
State	Prof. and Occupational Affairs	$35,113,000	General Fund
State	State Athletic Commission	$526,000	General Fund
State Police	Liquor Control Enforcement	$25,252,000	Other State Funds
Legislature	Senate Incidental Expenses	$2,963,000	General Fund
Legislature	Expenses - Senators	$1,233,000	General Fund
Legislature	Legislative Printing and Expenses	$7,425,000	General Fund
Legislature	House Contingent Expenses	$671,000	General Fund
Legislature	House Incidental Expenses	$780,000	General Fund
Legislature	Legislative Printing and Expenses	$15,608,000	General Fund
Legislature	Expenses - Representatives	$4,762,000	General Fund
Legislature	Special Leadership Account	$41,106,000	General Fund
Legislature	Legislative Management Committee	$77,080,000	General Fund
Legislature	Independent Regulatory Review Commission	$1,680,000	General Fund
Legislature	Capitol Preservation Committee	$414,000	General Fund
Legislature	Capitol Restoration	$1,906,000	General Fund
Legislature	Center For Rural Pennsylvania	$870,000	General Fund
Judicial	Supreme Court Justices Expenses	$115,000	General Fund
Judicial	Superior Court Judges Expenses	$178,000	General Fund
Judicial	Commonwealth Court Judges Expenses	$128,000	General Fund
	TOTAL	**$703,226,000**	

[42] Murphy, Jan, "Crews Remove Trees for Capitol Park Renovation," www.pennlive.com/midstate.
[43] Pennsylvania House of Representatives, "Capital Hunger Garden," http://www.pahouse.com/gardencam.asp.

Market-Based Delivery of Government Services

Many functions of state government are not being delivered in a cost-efficient manner. By utilizing market-based approaches—particularly in the areas of education, health care for the poor, and benefits for government employees—the state could both save taxpayers money and deliver better services to citizens.

- **Transportation Reform:** With the federal government's rejection of a plan to toll Interstate 80, lawmakers are scrambling for ways to fund transportation infrastructure. In 2006, the Pennsylvania Transportation Funding and Reform Commission wrote: "The Commission concludes that **no additional funding** should be provided for highways, bridges and transit unless a series of parallel actions are taken to reform funding structure and a number of transportation business practices" [emphasis added]. Little to no reform has occurred to date.[44]

  We must end the misallocation of hundreds of millions of federal dollars in highway and bridge money to other purposes. While the transportation community pleads for additional funding, citing structurally deficient bridges and dilapidated roads, hundreds of millions of dollars each year are redirected from road maintenance to bike trails, beautification projects, and new roads named for politicians.[45] Gov. Rendell gave $7 million from a mysterious pot of money[46] in the Department of Transportation to SEPTA workers for bonuses, rewarding them for striking on Election Day.

  Pennsylvania must utilize private-public partnerships (P3s) in transportation, particularly in the case of the Pennsylvania Turnpike. Even before federal rejection of tolling I-80, Gov. Rendell pushed a turnpike lease, admitting that the tolling plan delivered only half the revenue that a Turnpike lease could have. It is crucial that legislators discuss a lease, rather than rush legislation through without serious consideration. Lawmakers can devise parameters for a lease that would protect taxpayers and motorists[47] while bringing in enough capital to meet our transportation needs. Absent a lease of the Turnpike, the Pennsylvania Turnpike Commission should be abolished and folded into PennDOT.[48]

  Using P3s on new construction—e.g., express lanes, high occupancy lanes, highways, and bridges—is much less controversial than the failed turnpike lease proposal and could be implemented now. Len Gilroy of the Reason Foundation outlined the potential for P3s in Pennsylvania, noting how Texas, California, Georgia, Florida and Virginia have used P3s to grow their transportation infrastructure.[49] The state could also make money by privatizing highway rest stops and leasing the property to restaurants and service stations instead of spending taxpayer dollars to manage them.[50]

  Mass transit reform is also necessary. Pennsylvania should require the competitive contracting of all transit services, and transit riders should pay their fair share of the costs rather than having their transportation choices subsidized by the taxpayers. Competitive contracting, whereby private operators contract with the government to operate transit services, has reduced operating costs in cities across the U.S. by 20-51%, with savings of about 35% being the norm.[51] When riders pay for the cost of transit, they will demand better and more efficient services, reducing agency waste.

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[44] Brouillette, Matthew J., and Nathan Benefield, "Transportation Funding Solutions Require Reforms and Reprioritization," Commonwealth Foundation, www.CommonwealthFoundation.org.
[45] Benefield, Nathan A., "What to do About the Transportation Crisis?" Commonwealth Foundation, www.CommonwealthFoundation.org
[46] Bauers, Sandy, "A Quiet Day as the SEPTA Strike Continues," Philadelphia Inquirer, www.philly.com/philly/news.
[47] Commonwealth Foundation, "Paying for Our Paving: Why Leasing the Turnpike Makes Good Economic and Public Policy Sense," www.CommonwealthFoundation.org.
[48] Ibid.
[49] Gilroy, Leonard C., "Modernizing and Expanding Pennsylvania's Transportation Infrastructure through Public-Private Partnerships," Testimony to the Pennsylvania House Republican Policy Committee, December 14, 2009, www.reason.org.
[50] Utt, Ronald Ph.D., "Privatizing Rest Stops Allows States to Serve Motorists and Increase Revenues," December 8, 2009, www.heritage.org.
[51] Brouillette, Matthew J., and Nathan Benefield, "Transportation Funding Solutions Require Reforms and Reprioritization," Commonwealth Foundation, www.CommonwealthFoundation.org.

Fortunately, solutions to our transportation funding challenges will not require higher taxes on Pennsylvanians. Reforms and a prioritization of spending will allow state government to take care of its core functions in transportation, while respecting and being responsible with the taxpayers' hard-earned money. [52]

- **Higher Education:** College tuition, even after financial aid, is higher than ever, and students carry greater debt upon graduation.[53] Yet taxpayers spend more than ever on both universities and financial aid programs. In fact, there is strong evidence that increased state appropriations for higher education is having the opposite effect: more state spending is actually responsible for increased tuition costs.[54] Our higher education system is clearly in need of reform, not annual infusions of more cash.

  Pennsylvania has devoted significant resources to colleges and universities, only to watch tuition skyrocket and accountability for both schools and students plummet. Universities have changed in fundamental ways and are no longer government institutions in practice, yet they still receive generous taxpayer support.

  Holding students, colleges, and universities accountable by replacing direct state subsidies with scholarship grants that students can use at any school (regardless of its tuition) will create a more efficiently run and student focused system of higher education. The ultimate measure of accountability would be a re-organization of the state higher education system, including the possibility of severing the taxpayers' financial support to state, state-related, and state-aided universities.

- **School Choice:** Over the past 25 years, per-pupil spending has increased by 364%, while achievement has stagnated. Today, Pennsylvania school districts spend on average more than $13,000 per student, or $325,000 for a class of 25 students. While Pennsylvania public school enrollment declined by 27,000 students over the past 10 years, the number of public school employees increased by 33,000.[55]

  Yet academic performance has not improved at a corresponding pace. SAT scores among Pennsylvania students remain stagnant. We find no correlation between per-pupil expenditures and PSSA scores by Pennsylvania school districts,[56] a finding mirrored in a recent study from the Math and Science Partnership of Greater Philadelphia.[57]

  And performance on the National Assessment of Educational Progress test shows little improvement in the last decade: more than half of Pennsylvania fourth- and eighth-grade students are not proficient in reading or math.[58]

  School choice offers students the opportunity for a better education while reducing the cost to taxpayers. Charter and cyber schools receive only three-fourths of what district schools do, and private schools often spend half as much per pupil as public schools.[59] If students enrolled in schools of choice—charter schools, private schools, and home schools—returned to district schools, it would cost taxpayers an additional $3 billion to $4 billion per year. Pennsylvania taxpayers could experience dramatic savings if all parents were empowered with choices outside the traditional public school system.

- **Medicaid Reform:** Medicaid is growing at an unsustainable rate and is a menace to both state

[52] Brouillette, Matthew J., and Nathan Benefield, "Transportation Funding Solutions Require Reforms and Reprioritization," Commonwealth Foundation, www.CommonwealthFoundation.org.
[53] Commonwealth Foundation, "High Costs of Higher Education", www.CommonwealthFoundation.org.
[54] Ibid.
[55] Pennsylvania Department of Education, "Summaries of Annual Financial Report Data"; "Professional and Support Personnel", http://www.portal.state.pa.us/portal/server.pt/community/data_and_statistics/7202.
[56] Commonwealth Foundation PolicyBlog, "No Correlation Between PA School District Spending and Performance," Sept. 3, 2009, www.CommonwealthFoundation.org.
[57] Math and Science Partnership of Greater Philadelphia, *The Financial And Non-Financial Factors Associated with 11th Grade Student Academic Proficiency in Math And Reading in Pennsylvania*, June 2009, http://www.mspgp.org.
[58] See Nation's Report Card, State Profiles, http://nces.ed.gov/nationsreportcard/states/
[59] Benefield, Nathan A., "Costing-Out the Price of Education," Testimony to the Pennsylvania Senate Education Committee, December 9, 2009, www.CommonwealthFoundation.org.

and federal budgets. At the current rate of growth, Medicaid will consume 94% of the Pennsylvania budget in the year 2075. Indeed, Medicaid is now the largest single program in the state's total operating budget. Recent performance reviews by the Auditor General found that the program was rife with fraud, waste, and outright theft—identifying upwards of $1 billion of payments to ineligible recipients. There have been estimates that as much of 40% (over $100 billion) of Medicaid spending comprises waste and fraud.[60]

Unfortunately, the enormous fiscal problems facing Medicaid often overshadow its other major flaw: a well-deserved reputation as a low-quality provider of health care. The program delivers episodic treatment, provides poor preventive care, and offers low-quality services to America's most vulnerable citizens.

Pennsylvania should reform the program and create insurance and provider exchanges for the provision of services to beneficiaries. Unlike the current price control system, those eligible for Medicaid would receive risk-adjusted credits to purchase services from competing plans. Creating a voucher system for recipients would give individuals more control over their health care spending and reduce waste and fraud. This would turn Medicaid into a real market in which buyers act in their own interest and providers compete to enroll beneficiaries. The system would also produce gains in efficiency that would make Medicaid sustainable in federal and state budgets and, just as importantly, improve the quality of health care that beneficiaries receive.[61]

While this exchange model may seem worlds away from Pennsylvania's current Medicaid program, it is a realistic reform within our grasp. The state of Florida received approval from the federal government to begin converting its Medicaid plan to an exchange model. In its early stage, these reforms are working well. It is time for Pennsylvania to look to bold reforms for Medicaid along these free-market lines.[62]

- **State Employee Pension and Benefits Reform:** Whereas most private-sector employees are enrolled in a "defined contribution" (DC) pension plan—the retirement benefit of which is the responsibility of the beneficiary—government employees participate in "defined benefit" (DB) plans. These plans guarantee a formulaic retirement benefit that is based on years of employment and average salary. State Employees Retirement System (SERS) taxpayer costs are paid 100% through state taxes and fees, while the taxpayer share of costs for the Public School Employee Retirement System (PSERS) is split between state and local school taxes.

  Beginning in FY 2012-13, taxpayer contributions to state Public PSERS and SERS pensions will increase dramatically, resulting in state and school property taxes rising by as much as <u>$1,360 per household</u>.[63] To avoid such fiscal calamities in the future, policymakers should take these actions:

  1. Establish a unified defined-contribution plan (like a 401k) for all new public employees.
  2. Prohibit pension obligation bonds or other bonds for postemployment benefit (OPEB); these only increase the risk to taxpayers from poor investment returns.
  3. Mandate minimum funding reforms for any newly created liabilities resulting in both pension and OPEB plans.
  4. Consider modifying unearned pension benefits (if legal and feasible) for current employees.
  5. Discuss funding reforms only after prior actions are achieved.[64]

[60] Pennsylvania Department of the Auditor General, Auditor General Jack Wagner Says $3.3 Million in Improper Medicaid Payments Issued by State's Welfare Department, Jan 28, 2009, http://www.auditorgen.state.pa.us.
[61] Bond, Michael, "Medicaid Reform: Mending the Holes in Pennsylvania's Health Care Safety Net," Commonwealth Foundation, www.CommonwealthFoundation.org.
[62] ibid.
[63] Stelle, Elizabeth, "Ten Tips to Balance the Budget," Commonwealth Foundation, www. commonwealthfoundation.org.
[64] More information can be found at Commonwealthfoundation.org/pensions.

Spending and Budgetary Reforms

Finally, Pennsylvania's fiscal stability depends on changing laws that require spending more than is necessary, and adopting reforms to make state government more accountable and transparent.

- **Repeal Prevailing Wage Laws:** Prevailing wage laws are a prime example of burdensome and unnecessary regulations that are increasing the taxpayers' cost of government and hurting the economy. The law requires union-inflated wages to be paid on any government-funded project with a value of $25,000 or more. Prevailing wages are set by the state Department of Labor and Industry for each occupation in every county in Pennsylvania. Prevailing wage laws make government construction contracts more expensive by forcing contractors to pay higher wages than those paid by the private sector for the same job. This inflates costs by upward of 30% and will increase spending by Pennsylvania state and local government on projects approved in 2007 by **an estimated $9 billion**.[65]

  Repealing prevailing wage mandates, exempting school districts, or adjusting the method of calculation has been on the agenda for many years. Exempting schools from prevailing wage mandates on their construction projects is a priority of the Pennsylvania School Boards Association. Senate Bill 695, sponsored by Sen. Mike Brubaker, would suspend the prevailing wage regulations until 2012. Currently, 18 states have no prevailing wage law.

  By submitting to powerful interest groups, specifically labor unions, legislators have shown disregard for the well-being of citizens and taxpayers. The original intent of prevailing wage laws was to protect white workers from lower-paid African-American laborers,[66] but today it simply shields union workers from having to compete with other qualified workers, at the expense of the taxpayer.

- **Spending Limits:** Over the last several decades, the growth in state government spending has exceeded both the rate of inflation and increases in citizens' incomes.[67] Excessive government spending growth has burdened working men and women and weakened Pennsylvania's economic competitiveness because it has effectuated high taxes and fees. Placing a reasonable limit on the annual increase in spending is a fiscally prudent means of bringing government growth in line with citizens' ability to pay for it.

  Critics of reasonable limits on the annual growth of state government spending argue that lawmakers can curtail spending increases without statutory or constitutional restraints. Yet experience demonstrates otherwise. Clearly, without placing fiscal guardrails around the budgeting process, spending increases will continue to exceed taxpayers' ability to pay and eventually run Pennsylvania off a fiscal cliff.

- **Spending Transparency:** The key to spending reform is transparency. Transparency puts pressure on policymakers to spend wisely by revealing the link between appropriations and services. The advantages of an open government are numerous, and databases to display the information can be created for a low cost relative to the savings generated. In fact, some state officials have argued that transparency is just as beneficial for government officials as it is for the public. Creating an online, itemized database of state spending—as 30 other states have done—would allow lawmakers and citizens to identify wasteful spending.[68]

  Better information fosters competition for government contracts and efficient use of state money. Allowing citizens to evaluate performance for expenditures could reduce wasteful spending. Texas State Comptroller Susan Combs has saved her state $4.8 million by increasing government transparency—allowing for the consolidation of contracts and

[65] Commonwealth Foundation PolicyBlog, "The Cost of Pennsylvania's Prevailing Wage Law", April 24, 2009; "Action Alert on Pennsylvania's Prevailing Wage Law", June 4, 2009, www.CommonwealthFoundation.org.
[66] Hutchison, Harry G., "Employee Free Choice or Employee Forged Choice? Race in the Mirror of Exclusionary Hierarchy," August 24, 2009, Michigan Journal of Race & Law, Vol. 15, No. 2, pp. 369-416, Spring 2010; George Mason Law & Economics Research Paper No. 09-39, available at SSRN: http://ssrn.com/abstract=1459189.
[67] Commonwealth Foundation, "State Government Spending," available at www.CommonwealthFoundation.org.
[68] Benefield, Nathan A., "Does Legislative Size Matter?" Testimony to the Pennsylvania Senate State Government Committee, April 30, 2010, available at www.CommonwealthFoundation.org.

services.[69] Transparency could also decrease the amount of paperwork for state employees if all spending data is centralized. The executive director of the Pennsylvania Office of Open Records, Terry Mutchler, estimated right-to-know requests could fall by 30%.[70]

The Pennsylvania Treasurer's Office launched the Pennsylvania Contracts E-library Database—which posts selected government contracts on the Internet. The information is valuable but is a small portion of state expenditures presented in a difficult to use format.

House Bill 1880 proposes a thorough and publicly accessible online spending database, to discourage the misuse of tax dollars. HB 1880 unanimously passed the House in December 2009, and remains in the Senate State Government Committee.[71] A similar proposal (SB 105) passed the state Senate in June 2009, and legislation has been proposed to post all state government salaries online.[72]

Pennsylvania taxpayers deserve to see how all of their money is being spent. A single searchable database, including all facets of government spending, would allow citizens of the Commonwealth to scrutinize the cost of government. With timely action, Pennsylvania can become a leader in providing spending transparency to those footing the bills.

Conclusion

Harrisburg policymakers need to prioritize spending and cut waste from state government to avoid a tax increase on working Pennsylvanians and job creators. Rather than embrace every proposal for new spending, legislators need to be considerate of the taxpayer, focus only on the core functions of government, and prioritize those programs which truly provide for the "common good" of Pennsylvania residents.

A Taxpayer's Budget 2010 identifies over $4 billion in unhealthy state spending in Gov. Rendell's proposed budget and spending reforms that would save billions of dollars more. Eliminating wasteful spending from the budget would reduce the size and burden of government on Pennsylvanians and move state government closer to its proper and competent role in our daily lives.

[69] Texas Comptroller of Public Accounts, "Combs Says State Has Tightened Its Belt Through Transparency Initiatives," December 3, 2008.
[70] Commonwealth Foundation PolicyBlog, "State Spending Transparency Hearing," June 19, 2009, www.CommonwealthFoundation.org.
[71] Stelle, Elizabeth, "Ten Tips to Balance the Budget," Commonwealth Foundation, www.CommonwealthFoundation.org.
[72] Stelle, Elizabeth, "Open the Books on Government Spending," Commonwealth Foundation, www.CommonwealthFoundation.org.

About the Commonwealth Foundation

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

Notes

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