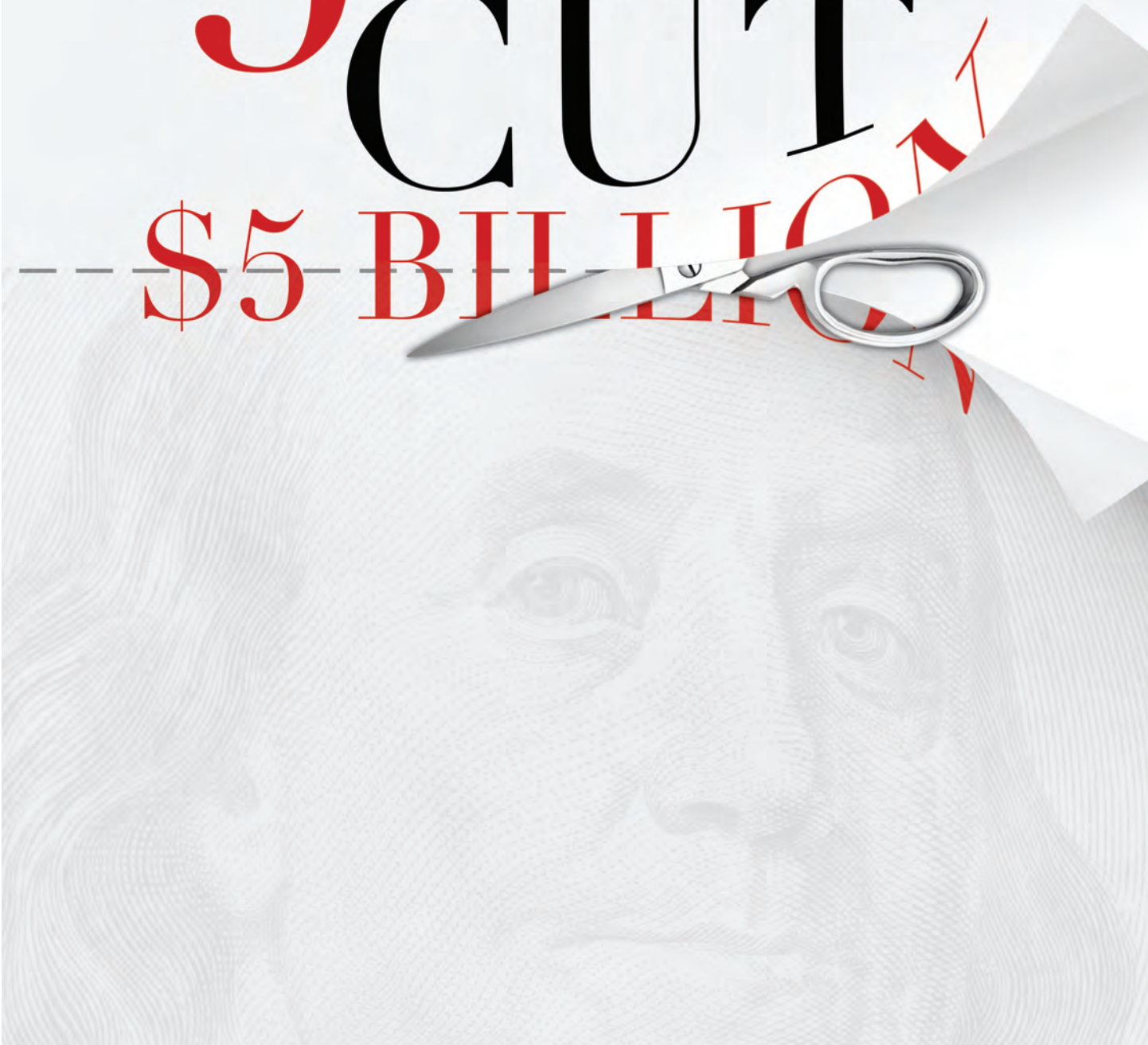


COMMONWEALTH FOUNDATION PRESENTS



# 5 WAYS TO CUT \$5 BILLION







# 5 WAYS TO CUT \$5 BILLION

## PREFACE

Governor-elect Tom Corbett faces a great challenge in balancing the Pennsylvania state budget while keeping his “No New Tax” pledge. With a loss of \$2.5 billion in federal stimulus money, and an exhaustion of one-time revenue sources, many critics have claimed that the task of balancing a budget without raising taxes is impossible. But if Governor-elect Corbett prioritizes all \$66 billion in state spending and refocuses state government on its core functions, reducing an estimated \$3 to \$5 billion deficit is manageable.

Here are five solutions that could save taxpayers \$5 billion annually:

### 1. PRIVATIZE STATE LIQUOR STORES

**ONE-TIME INFLUX \$1.7 BILLION<sup>1</sup>**

Pennsylvania could generate an estimated \$1.7 billion in a onetime influx of funds and hundreds of millions annually by giving up the alcohol business and keeping the Liquor Control Board focus on enforcing alcohol laws and regulations. Privatization would increase state revenue, lower state costs, and provide consumers with more choices and better service.

## 2. ELIMINATE CORPORATE WELFARE

**ESTIMATED YEARLY SAVINGS \$1 BILLION<sup>2</sup>**

Pennsylvania gives out the second highest amount of “economic development” funding of any state in the nation. Some examples of corporate welfare include “green job” subsidies, funding for new sports stadiums, tourism promotion and other programs that redistribute taxpayer’s money to politically favored special interests.

## 3. END YELLOW PAGES GOVERNMENT

**ESTIMATED YEARLY SAVINGS \$600 MILLION<sup>3</sup>**

The state provides many services that should be provided by private enterprise. Often taxpayer-funded companies compete directly with businesses found in a typical yellow pages book, such as golf courses, hotels and parking garages. *The Pennsylvania Higher Education Assistance Agency (PHEA)*, which competes directly with private loan providers, is one major option for privatization. State *parks and museum* operations can be leased to private operators, a solution other states have used to reduce costs while preserving state treasures.

## 4. IMPLEMENT MEDICAID REFORM AND STOP WELFARE FRAUD

**ESTIMATED YEARLY SAVINGS \$1 BILLION<sup>4</sup>**

Auditor General Wagner found *more than 10 percent of Medicaid spending* is used on ineligible recipients. Cutting down on fraud and abuse can save the state upwards of \$1 billion. Overhauling the Medicaid system and replacing it with one which provides credits for recipients to purchase private insurance would produce further savings and better services for enrollees.

## 5. REDEFINE PREVAILING WAGE LAWS

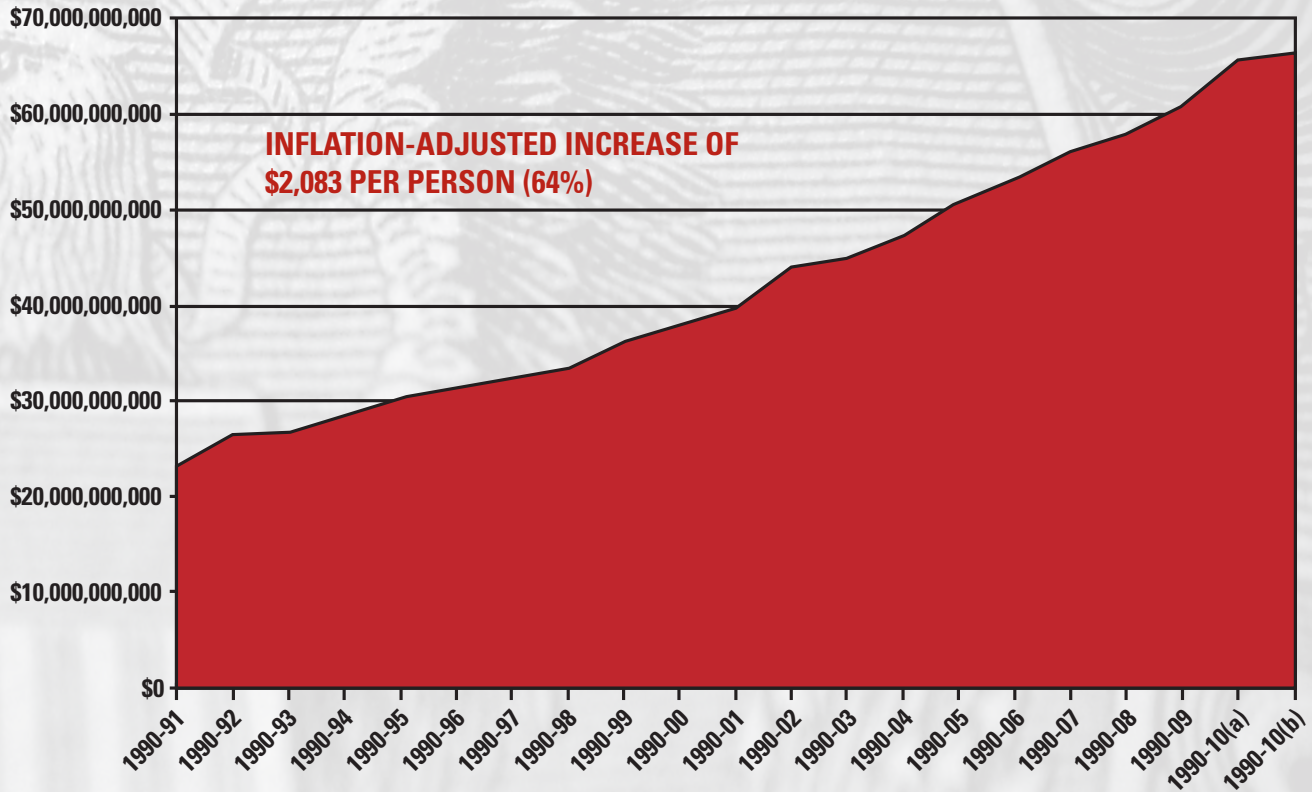
**ESTIMATED YEARLY SAVINGS \$1 BILLION +<sup>5</sup>**

Mandating inflated wages on all government construction projects over \$25,000 has increased labor costs upward of 30 percent over what the private sector pays for the same work. Allowing construction companies to compete for contracts based on market wages would provide services at lower costs to taxpayers.

**TOTAL ESTIMATED SAVINGS IN 2011**

**\$5.3 BILLION**

**PENNSYLVANIA STATE OPERATING BUDGET, 1990-2010**



**MORE WAYS TO SAVE**

There are additional ways Gov. Corbett can reduce spending, while providing better services to residents, and improve the long-term fiscal health of the Commonwealth.

**ENACT SCHOOL CHOICE**

**ESTIMATED YEARLY SAVINGS \$ 500 MILLION +<sup>6</sup>**

Last year, parents saved state taxpayers over \$4 billion by choosing charter, cyber or private schools which cost substantial less than the \$13,000 per pupil spent by Pennsylvania school districts. Fostering greater competition in education by implementing school vouchers or expanding educational tax credits would provide students with more educational opportunities at a lower cost to taxpayers.

## ELIMINATE SELF-SERVICE GOVERNMENT

**ESTIMATED YEARLY SAVINGS** \$703 MILLION<sup>7</sup>

Self-government programs fail to serve residents, but promote the interests of government officials, protect existing businesses, or reward higher spending by local governments. Overbearing professional regulations that benefit the politically connected, government advertising of things like the lottery or Groundhog Day, or using tax dollars to give patronage jobs to political allies, are examples that should be eliminated.

## ENACT PRISON REFORM

**ESTIMATED YEARLY SAVINGS** \$380 MILLION<sup>8</sup>

The cost of Pennsylvania's prisons has risen 54 percent since 2002, and now stands at \$1.9 billion per year. Corrections reforms to improve the justice system like drug courts, sanction reform (determining the sentence length of certain crimes), and implementing electronic monitoring for non-violent offenders would produce substantial savings.

## MOVE TO A DEFINED CONTRIBUTION PENSION PLAN

**ESTIMATED YEARLY SAVINGS** \$10 MILLION +<sup>9</sup>

Switching from a defined benefit to a defined contribution plan (like a 401k) for new employees, like most of the private sector already has, would get politics out of state pension, and would increasingly save costs over the long haul.

## REFORM TRANSPORTATION FUNDING

**ESTIMATED YEARLY SAVINGS** \$138 MILLION<sup>10</sup>

Utilizing Public-Private Partnerships (P3) for new construction projects and competitive contracting for mass transit would produce great savings, new revenues and better services. Leasing the Pennsylvania Turnpike to a private operation or bringing in private operators of highway rest stops would produce even greater revenue opportunities.

## ENACT SPENDING TRANSPARENCY

**ESTIMATED YEARLY SAVINGS** \$15 MILLION<sup>11</sup>

Transparency in government spending and instituting performance-based budgeting would help identify and eliminate wasteful expenditures, as has been proven by the 30 states with online spending databases. With little

or no accountability currently in place, creating a centralized database for citizens to scrutinize protects against corruption and wasteful spending.

## END THE FILM TAX CREDIT

**ESTIMATED YEARLY SAVINGS \$75 MILLION<sup>12</sup>**

The film tax credit does little to improve the overall economy. The tax breaks given to the film industry could have been used to lower taxes on all businesses, rewarding entrepreneurship rather than lobbying by Big Hollywood.

## REFORM LONG-TERM CARE SPENDING

**ESTIMATED YEARLY SAVINGS \$1 BILLION<sup>+13</sup>**

Long-term care currently costs Pennsylvanians \$6.6 billion per year, making up 40 percent of all Medicaid spending (much higher than the national average). Pennsylvania needs to reduce the number of individuals dependent on the program by adjusting enrollment guidelines to target the truly needy while encouraging more Pennsylvanians to purchase private long-term care insurance.

**ADDITIONAL SAVINGS IN 2011**

**\$2.8 BILLION**

**TOTAL ESTIMATED SAVINGS IN 2011**

**\$8.1 BILLION**

More info and all links can be found at  
[CommonwealthFoundation.org/FiveWays](http://CommonwealthFoundation.org/FiveWays)

(Endnotes)

- 1 See "Government-Run Liquor Stores: The Social Impact of Privatization"
- 2 See "A Taxpayer's Budget 2010: Responsible Spending for Pennsylvania"
- 3 Ibid.
- 4 See Testimony: Welfare Fraud and Abuse
- 5 See "The Cost of Pennsylvania's Prevailing Wage Law"
- 6 See "Pennsylvania Education Spending"
- 7 See "A Taxpayer's Budget 2010: Responsible Spending for Pennsylvania"
- 8 See "Pennsylvania Corrections Spending"
- 9 See "Pennsylvania Pensions and Taxes"
- 10 See Testimony: More Reforms Before More Revenue in Transportation
- 11 See "Spending Transparency & Accountability"
- 12 See "Pennsylvania's Flawed Film Tax Credit"
- 13 See "Long Term Care Reform: More Access to Better Care at Lower Costs"



**Commonwealth  
Foundation**

*for PUBLIC POLICY ALTERNATIVES*

225 State Street, Suite 302 | Harrisburg, PA

717.671.1901 (P) | 717.671.1905 (F)

[www.commonwealthfoundation.org](http://www.commonwealthfoundation.org)