



Budget Facts 2012

from the COMMONWEALTH FOUNDATION

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State Spending Limits for Pennsylvania

STATE SPENDING IS GROWING FASTER THAN TAXPAYERS' ABILITY TO PAY

- Total Pennsylvania state government spending has consistently outpaced the growth of personal income.
 - ⇒ From 1970 to 2011, the state operating budget as a percent of Pennsylvanians' personal income grew from 8.8% to 12.0%.
 - ⇒ Per family of four, total state spending grew by more than \$12,000 in inflation-adjusted dollars since 1970.
- State and local taxes take more than 10% of Pennsylvanians' income—\$4,400 per person. Pennsylvania has the 10th highest state and local tax burden, up from 24th in 1990.

GOVERNMENT GROWTH HAS HAMPERED PENNSYLVANIA'S ECONOMY

- Despite the dramatic growth in state government spending, Pennsylvania ranks among the worst states in the nation in key economic performance indicators.
 - ⇒ From 1991-2011, Pennsylvania ranks 41st in job growth, 46th in population growth, and 48th in personal income growth.
- From 2000 to 2010, Pennsylvania's private sector lost 103,700 jobs, while government employment grew by 33,400.
 - ⇒ In 2011, government jobs declined by 17,100, but private sector employment grew by 80,500.
 - ⇒ Over the last 20 years, the percentage growth of state government spending has a negative relationship with total job growth in Pennsylvania.
- According to IRS data, Pennsylvania **lost a net 77,184 taxpayers to other states** from 2000 to 2010.
 - ⇒ This out-migration resulted in a *net loss of \$4.3 billion in household income*.

THE SOLUTION: THE TAXPAYER PROTECTION ACT

The Taxpayer Protection Act would:

Limit future growth in state and local government spending.

- Government spending increases would be limited to the rate of inflation plus population growth.

Require the prioritization of spending by government.

- Funding for core government functions will be more than sufficient.

Ensure a prudent Rainy Day Fund.

- 25% of excess taxes collected would be placed into a Rainy Day Fund that can be used to balance the budget in times of recession.

Provide tax relief for families.

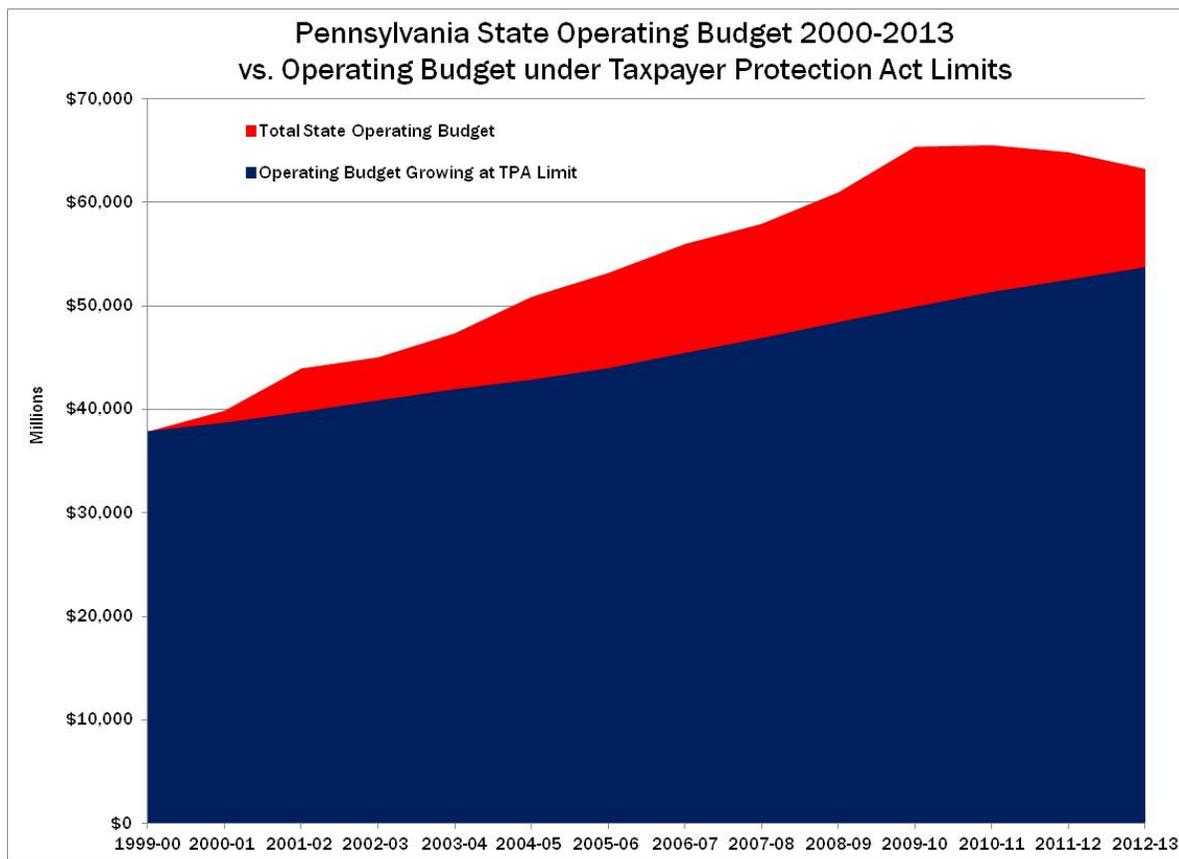
- 75% of all excess state tax revenues will be used to reduce Personal Income Tax rates. After the Rainy Day Fund reaches 5% of spending, **all** excess revenues will be used to reduce tax rates.

THE TAXPAYER PROTECTION ACT PREPARES PENNSYLVANIA FOR RECESSIONS

- Prior to 2011-12, Pennsylvania's total operating budget had increased for at least 40 consecutive years.
 - ⇒ Legislators spent every dollar available during economic growth, then raised taxes in recessions.
- The Taxpayer Protection Act (TPA) would force lawmakers to limit government spending during boom years, put money aside in a Rainy Day Fund, and prepare for periods of economic stagnation.

SPENDING LIMITS SHOULD ENCOMPASS ALL GOVERNMENT SPENDING

- Often state budget discussions focus only on the General Fund, which represents less than half of all state spending. Pennsylvania's total state operating budget is more than \$63 billion.
 - ⇒ Since 1970, General Fund spending grew 83% in inflation-adjusted dollars. In contrast, spending from "Other State Funds" ballooned by 509%.
- Under the TPA index, total state spending could have increased by \$16 billion since 2000. In actuality, state spending increased by \$25 billion.



THE TPA ALLOWS FOR REASONABLE INCREASES IN GOVERNMENT SERVICES

- A spending limit only slows the growth in spending, it does not mandate any cuts.
 - ⇒ Under the TPA, spending from state funds in FY 2012-13 could increase by \$963 million.
 - ⇒ Government spending **should be limited to core programs and services**. Increases should be tied to the increase in the prices (inflation) and the number of people served (population growth).
- Spending limits will force policymakers to prioritize, rather than spend money without regard to taxpayers' ability to pay for it.

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For more information on the **Pennsylvania State Budget**, visit www.CommonwealthFoundation.org/Budget

