



Policy Memo

from the COMMONWEALTH FOUNDATION

March 12, 2015

Summary of Governor Wolf's 2015-2016 Budget Proposal

Key Facts

1. General Fund spending is projected to reach **\$31.6 billion**—the largest spending increase (8.7 percent) in 25 years. (Gov. Wolf is proposing to move \$1.75 billion in school pension payments to a new fund to make the increase in General Fund spending look smaller.)
2. The budget would increase state taxes by \$4.5 billion—the largest tax increase in state history.
3. The record tax increases would amount to \$356 per person or \$1,425 per family of four. Gov. Wolf's claim that his budget will save homeowners more than \$1,000 (in 2017) is based solely on proposed property tax cuts, and **does not account for his proposed tax increases**.
4. Gov. Wolf's property tax relief plan fails in two ways: His proposed tax increases more than triple any tax relief, and local school districts can continue to raise property taxes. Moreover, tax increases would begin immediately, while property tax cuts would be more than one year removed.
5. State funding for education was not cut and Pennsylvania does not underfund education. Pennsylvania education spending is at an all-time high. State spending is well above most other states—\$3,000 more per student than the national average.

Detailed Summary

- How much is Gov. Wolf proposing to spend?
 - Governor Wolf's budget suggests a \$29.8 billion General Fund budget or a 2.7 percent increase—but this total shifts \$1.75 billion in school pension payments off the General Fund books to another fund to make General Fund spending increases look smaller.
 - In an apples to apples comparison, the General Fund Budget would be **\$31.6 billion**.
 - This is the largest spending increase (8.7 percent) in 25 years. You have to go back to 1991—Gov. Bob Casey's first budget—to find a larger spending increase.
 - The \$31.6 billion figure excludes \$2.1 billion the state will collect in taxes next year but will hoard until 2016-17 when the first property tax rebates go out. Including this line item in the General Fund would put spending at **\$33.8 billion or a 16 percent increase** over the prior year's budget. This would be the largest increase since 1971.
- Gov. Wolf's \$4.5 billion state tax increase would be the largest increase in Pennsylvania's history. His state tax increases amount to \$356 per person or \$1,425 per family of four.
- Tax increases would occur immediately. There would be no property tax relief next year.
 - Part of the \$4.5 billion increase in 2015-16 is \$2.1 billion ostensibly for property tax relief, but the state will hold onto that money for at least another 12 months.

- When all tax increases are fully implemented, it will raise \$8 billion during 2016-17.
- Property tax rebates begin in 2016-17, with \$3.6 billion distributed to school districts.
- After the shift for property tax relief, Wolf’s budget would mean a **net \$4.4 billion tax** increase—though the property tax relief is distributed unevenly to school districts.
- There is no guarantee of lower property taxes.
 - Gov. Wolf’s property tax relief plan does not prevent local governments and school districts from increasing property taxes.
- This budget calls for more corporate welfare, with \$675 million in new borrowing:
 - \$100 million for Pennsylvania Industrial Development Authority
 - \$250 million for the Business in our Sites program
 - \$225 million for alternative energy programs
 - \$100 million for miscellaneous “job creation” programs
- Higher Education receives a significant increase:
 - \$15 million increase for community colleges
 - \$45 million increase to Pennsylvania State System of Higher Education
 - \$80.9 million increase to state-related universities
- School districts will get more money, though it isn’t clear how funds would be distributed:
 - \$400 million basic education increase
 - \$100 million special education increase
 - \$120 million for prekindergarten programs
- Gov. Wolf has proposed cutting reimbursements for cyber schools by almost one-third.
 - Reduces payments to cyber charters using an arbitrary state-wide formula.
 - The formula is based on the cost of online programs run by Intermediate Units—programs that do not provide a full curriculum and are used by very few students.
- The budget allows school districts—which have \$4 billion in funding reserves—to seize the reserve funds of charter schools.
- Governor Wolf is proposing to borrow \$3 billion to fund school pensions.
 - The budget claims this will lower the pension unfunded liability by \$8 billion, an inaccurately claim likely due to misuse of terminology.
 - Pension obligation bonds are a risky proposition. They assume that investment returns will be better than the rate at which the state borrows funds.
- Wolf’s budget mentions “modernizing” Pennsylvania’s liquor store monopoly to make annual profits of \$185 million to pay down pension bonds.
 - Modernization means consumers would pay more for wine and spirits, as the PLCB would have the power to increase prices arbitrarily.

| Proposed Tax Changes in Gov. Wolf's Budget | | | | |
|---|----------------------|---------------------------|----------------------|---------------------------|
| Item | 2015-16 | | 2016-17 | |
| State Tax Rate Changes | Total Revenue | Per Family of Four | Total Revenue | Per Family of Four |
| Corporate Net Income Tax Rate Reduced to 5.99% on January 1, 2016; Mandatory Combined Reporting; Reduction of Net Operating Loss Carry Forward. Future reductions in 2017 and 2018 to get rate to 4.99% | (\$249,300) | (\$78) | (\$390,000) | (\$122) |
| Severance Tax of 5% and 4.7 cents per MCF - Jan 1, 2016 | \$165,700 | \$52 | \$1,015,000 | \$318 |
| Personal Income Tax Rate Increase to 3.7% - July 1, 2015 | \$2,376,700 | \$743 | \$2,468,800 | \$772 |
| Personal Income Tax Imposed on Lottery - July 1, 2015 | \$15,700 | \$5 | \$15,700 | \$5 |
| Sales Tax Increase to 6.6% and Expanded to untaxed items and services - January 1, 2016 | \$1,554,300 | \$486 | \$3,876,400 | \$1,213 |
| Bank Shares Tax - retroactive rate increase | \$339,200 | \$106 | \$150,000 | \$47 |
| Cigarette Tax increase \$1 per pack - October 1, 2015 | \$358,400 | \$112 | \$380,700 | \$119 |
| Tobacco Products and eCigarettes tax of 40% on wholesale price - October 1, 2015 | \$84,100 | \$26 | \$133,900 | \$42 |
| Tax Forgiveness | (\$90,200) | (\$28) | (\$90,200) | (\$28) |
| Total State Tax Increases | \$4,554,600 | \$1,425 | \$8,053,000 | \$2,519 |
| School Property Tax Relief | | | | |
| | Total Revenue | Per Family of Four | Total Revenue | Per Family of Four |
| Transfer to Property Tax Relief Fund | \$0 | \$0 | (\$3,666,000) | (\$1,147) |
| Net Tax Increase | | | | |
| | Total Revenue | Per Family of Four | Total Revenue | Per Family of Four |
| State Tax Increases Less Property Tax Relief | \$4,554,600 | \$1,425 | \$4,387,000 | \$1,372 |

Editor's Note: This chart has been updated. A previous version counted refunds as a result of changes twice and did not include the proposed expansion of the Tax Forgiveness Program.

Sales Tax Expansion Items

Currently Exempt Goods and Services that will be Taxed

- Candy and Gum
- Personal Hygiene
- Newspapers
- Magazines
- Non-Prescription Drugs
- Caskets & Burial Vaults
- Flags
- Textbooks
- Airline Catering
- Commission
- Horses
- Construction of Memorials
- UCC Filing Fees
- Investment Metal Bullion
- Catalogs and Direct Mail Advertising
- Dry Cleaning
- Personal Care Services
- Death Care Services
- Other Personal Services
- Advertising, Public Relations and Related
- Scientific Research
- Administrative Services
- Parks and Campgrounds
- Sports Admissions
- Theater, Dance, Music Tickets
- Amusement and Recreation Services
- Museums, Historic sites, Zoos & Parks
- Home Health Care, Nursing Care, & other Ambulatory Health Care
- Social Assistance including day care
- Legal
- Accounting, Auditing and Bookkeeping
- Specialized Design
- Other Professional and Technical Services
- Transit and Ground Transportation
- Air Transportation
- Truck Transportation
- Other Transportation
- Financial Institution fees
- Basic Television
- Waste Management and Remediation

Currently Exempt Services that Seem to be Taxed Under Wolf Plan

- Services to Buildings and Dwellings
- Consulting
- Information Services
- Architectural, Engineering and related
- Custom Programming
- Parking Lots

Services that Will be Taxed Under Wolf Plan, Not Itemized in Executive Budget

- Employment Services
- Real Estate Agent and Broker Services
- Travel Arrangement Services
- Other Support Services
- Higher Education

(Note: Business to Business Services would remain tax exempt)