The Race to Rebuild: How Pennsylvania Can Bounce Back After COVID-19

Executive Summary

Pennsylvanians are facing some of the biggest challenges of their lifetimes. Small business owners face closure, children’s schooling is in disarray, and job seekers have few prospects. Families need help now. It is time for lawmakers to launch a race to rebuild Pennsylvania using the following policy solutions.

- **Get students back on track:**
  - Establish emergency education scholarship accounts for low-income families harmed by school shutdowns.
  - Ensure flexible enrollment for online learning so location doesn’t dictate success.
  - Provide relief to community private schools facing extinction.

- **Make Pennsylvania’s health care system always prepared:**
  - Protect vulnerable populations.
  - Ensure telemedicine insurance reimbursement to improve patient access and outcomes.
  - Permanently ease licensing restrictions for certain health care professionals to better serve their communities.

- **Fix fiscal issues and prevent tax hikes on working families:**
  - Enact spending growth limits known as the Taxpayer Protection Act to protect against overspending that penalizes future generations.
  - Reduce nonessential spending to prioritize needed services.
  - Move special funds into the General Fund to scrutinize and prioritize every dollar.
  - Strengthen balanced budget requirements and spending restraints to protect against deficits.
  - Reduce corporate handouts and subsidies to establish a system fair to all businesses.
  - Privatize the state liquor store system to improve consumer access, fix financial mismanagement, and generate revenue.

- **Jump-start local small businesses:**
  - Adjust the tax code to permit businesses to carry forward any loses and aid in recovery.
  - Enact a package of regulatory reforms to ease barriers for job creators.
  - Protect small business owners against lawsuits.
  - Repeal prevailing wage mandates to produce needed savings for municipalities and school districts.
  - Reassess occupational licensing restrictions to help workers find jobs.
Introduction

Pennsylvania citizens and business have endured months of confusion and conflicting orders, harming their ability to stay solvent and care for their families and communities. As of July 15, Governor Wolf imposed further restrictions on select industries across the entire state, and schools are struggling to determine re-opening plans so children can learn.

Early evidence suggests that long-term, intense restrictions on economic activity are ineffective at reducing the spread of COVID-19, delaying rather than reducing virus deaths. Early interventions like Wolf’s broad shutdown of “non-life essential” businesses were largely ineffective at saving lives, and our commonwealth cannot return to those strategies.

Now, Pennsylvania is facing a livelihood crisis as a result of COVID-19 policies. The collateral damage could lead to far more deaths and heartache, even exacerbating existing inequalities and generational poverty. Specifically, Pennsylvania and the nation have experienced:

- **Lost jobs:**
  - Since Wolf’s emergency order, more than 1.5 million workers have lost their jobs—approximately 27% of Pennsylvania's workforce—a disaster dwarfing the “great recession” of 2008–09.1
  - The Independent Fiscal Office found, compared to the previous year, a 9.8% decrease in salaried wages and 90,000 lost jobs in the second quarter of 2020.

- **Harm to health and life:**
  - Early in the pandemic, many families were effectively left homeless due to Wolf shuttering real estate transactions. This included vulnerable older adults and front line nurses, who must still deal with the ramifications of housing insecurity.
  - Numerous studies link recessions to reduced life expectancy. Both economic hardship and social isolation are also linked to higher suicide rates—and these have already been rising for decades.
  - Hospitals are losing money and laying off employees in Pennsylvania because of government orders to cancel all elective procedures. Postponing these procedures carries health consequences too, including heart attacks that could have been prevented.
  - Opioid abuse is on the rise, exceeding previous years; in some parts of the state, overdose deaths have even surpassed those from COVID-19.
  - Advocates report a rise in domestic violence, and child abuse has tragically risen as well.

We must safely and smartly jump-start Pennsylvania to overcome the economic and personal traumas of the pandemic and the government response. Ensuring students can continue to learn, bolstering health care access, preventing tax increases in response to out-of-control state spending, and providing new jobs and worker flexibility will offer the relief our commonwealth residents need and deserve.

Below are our top policy solutions to spark recovery.

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Let Kids Learn

As school districts navigate how to safely re-open, educational disparities loom and parents are searching for quality education for their children. Preliminary data from other countries provide optimism that schools may be able to safely open in the fall. Now more than ever, however, parents deserve options to make the best long-term decisions for their families.

Back on Track Education Scholarship Accounts

The government-run education system has failed many families, but unlike many colleges, there are no refunds for students in public schools. Issuing emergency scholarship accounts (ESAs) directly to families will ensure their students do not fall behind and achievement gaps do not expand.

Specifically, “Back on Track” ESAs will provide low-income families with a $1,000 flexible education account to help them afford unanticipated education needs including tutoring, special education services and therapists, broadband, or curricula.

- As we recently outlined, Back on Track companion legislation in House Bill 2696 (Rep. Clint Owlett) and Senate Bill 1230 (Sen. Judy Ward) are first-in-the-nation COVID-19 recovery proposals to prioritize children’s’ future and families’ peace of mind.

Provide enrollment flexibility for online learning

All Pennsylvania schoolchildren should have access to online curriculum and options to learn regardless of their geographic location. Regulations that prevent students from enrolling in an online learning program offered by another school district or a charter school should be suspended. Students who choose charter schools should be fully funded.

Private school relief

The coronavirus pandemic has forced at least 13 small, local private and religious schools to close permanently—displacing over 1,300 students. A new analysis shows Pennsylvania taxpayers face a $1.2 billion hit if just 30% of current private school students switch to local district schools. Private schools also benefit communities through outcomes like reduced crime and teen pregnancy.

Lawmakers should ensure state and federal COVID-19 aid also supports Pennsylvania’s private schools. One way to do this is to pressure Wolf to give significant grants to private schools from the CARES Act Governor’s Emergency Education Relief Fund (GEER). Between GEER and the Elementary and Secondary School Emergency Relief Fund (ESSER), Pennsylvania schools received roughly $625 million. Since private schools educate around 12% of Pennsylvania students, Wolf should grant a proportionate share of CARES Act aid, $75 million, to private school students.

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Always Prepared Health Care Reform

Protect vulnerable populations through targeted mitigation efforts

The majority of COVID-19 deaths have been among older, vulnerable populations, with over two-thirds of Pennsylvania deaths occurring in nursing homes.4

An International Institute of Forecasters report found that predictions for hospital and ICU bed requirements have been inaccurate, resulting in costly consequences for patients who avoided medical attention due to COVID-19. MIT’s National Bureau of Economic Research compared strategies for limiting the spread of COVID-19 and concluded that twice as many lives could be saved if governments had focused their efforts on the most vulnerable.

The Wolf administration should focus on:

• Raising testing availability, which is currently 47th in the nation.
• Implement a risk-based approach including geographically targeted mitigation efforts.
• Utilizing expert resources such as the Pennsylvania Health Care Association nine-step recommendation list for long-term care providers.
• Communicating with and seeking input from impacted industries and populations before implementing additional mitigation efforts targeted at those groups, ensuring restrictions are data-driven and fair.

Expand telemedicine for all insurance types

The state and federal governments suspended barriers to the use of telemedicine for Medicaid and Medicare, and health care providers were encouraged to use telemedicine through the waiving of fees.

Physicians are willing to try telemedicine thanks in part to improved patient outcomes and cost savings, yet barriers to its wider use remain. The chief one involves the lack of clarity on whether health care providers will be reimbursed for these services. Passing legislation that ensures reimbursement for telemedicine services will improve health care access and affordability for Pennsylvanians.

Such policies—like those found in vetoed Senate Bill 857—should continue, as telehealth has many advantages, even outside of a pandemic: the primary one being the ability to address inadequate access to care. In particular, telemedicine can help rural residents who, according to the Centers for Disease Control, are more likely to prematurely die from one of the five leading causes of death than residents in more urban areas. This should matter to Pennsylvania lawmakers, because over one in four Pennsylvanians live in rural areas.5 Further, a 2017 study found that patients experienced an average time, travel, and cost savings of $156 per consultation when utilizing telehealth.6

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Freedom to work for health care providers

Wolf suspended hundreds of regulations to make health care more accessible (and more affordable) during the COVID-19 crisis. If these regulations reduce access to health care during a crisis, they reduce access all the time. Permanently suspending these regulations empowers health care providers to better meet the needs of their community, helping Pennsylvania always be prepared for any crisis.

Licensed professionals should be empowered to work to the greatest extent their training. For example:

- **Certified Registered Nurse Practitioners** should be allowed to practice independent of a physician and outside their specific clinical specialty.
  - House Bill 100 (Rep. Jesse Topper) and Senate Bill 25 (Sen. Camera Bartolotta) would create a path toward independent practice.
- **Physician assistants** practice under a collaborative agreement with a physician, with practice limits placed at the state level. This deprives individual practices of the flexibility to adjust their structure to adequately reflect the ability, training, or knowledge of the physician assistant. Diminishing requirements pertaining to written agreements and supervision and administration of the **5,700 physician assistants** in the state will better serve patients.
  - These improvements to streamline practice operations and reduce some of the current patient burdens of physicians are embodied in House Bills 1997 and 1998.
- Similarly, the Department of State should continue suspending the limitations on the number of institutions with which a **physician** can be affiliated.
- **Pharmacists’** qualifications put them in a prime position to help assist physicians to meet their patients’ medical needs. Eliminating regulations regarding remote supervision of staff, allowing for the licensure of out-of-state pharmacies to ship goods into Pennsylvania, and expanding pharmacists’ existing abilities to immunize would empower these medical professionals to better serve their communities.
  - These improvements to streamline practice operations and reduce some of the current patient burdens of physicians are embodied in House Bills 1997 and 1998.
- **Advanced practice registered nurses** are divided into specialty subcategories, including **Certified Registered Nurse Anesthetists**. However, while many states recognize nurse anesthetists as a separate license, Pennsylvania does not. This bars these medical professionals from the flexibility to fill gaps during health crises like COVID-19.
  - Senate Bill 325 and House Bill 1064 would officially recognize the expertise of certified registered nurse anesthetists as a specialty. This legal recognition makes it easier for these professionals to utilize their training during times of crisis, including the ability to administer ventilators.
- Public officials should also evaluate the additional temporary suspensions made during COVID-19, from out-of-state telemedicine providers to allowing military medical personal to practice in Pennsylvania. Those lessened restrictions that improve access to care, health outcomes, and affordability—and keep patients safe—should be made permanent.7

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Prevent Tax Hikes on Working Families and Small Businesses

As we outlined both before the pandemic and in response to the coronavirus financial pressures, the road forward requires honest budgeting that protects working families.

Enact the Taxpayer Protection Act to prepare for future crises

True budget balance is a sustainable rate of budget growth; government spending must only grow in line with available resources. The Taxpayer Protection Act (TPA) would limit annual General Fund budget growth to the three-year average sum of population growth and inflation. It would also bring Pennsylvania in line with 28 other states that already have some form of tax or spending limit.8

The TPA does not mandate cuts to government services and, in an emergency, the spending limit may be exceeded if approved by a supermajority of the General Assembly. With the TPA in place, legislators will be free to make thoughtful trade-offs about where taxpayer dollars are spent, just as every citizen does in his or her own household or business. If the TPA had applied to General Fund spending from fiscal year 2003–04 through 2018–19, a cumulative $35 billion, or $2,700 per person, would have remained in taxpayers’ hands.

- House Bill 1316 (Rep. Ryan Warner) and Senate Bill 116 (Sen. Camera Bartolotta) propose a constitutional amendment to enact the TPA, which requires approval by the General Assembly in two consecutive legislative sessions followed by voter referendum in order to become law.

Pennsylvania state revenue has taken a hit in the present economic crisis, which places the state in danger of a budget deficit. The Independent Fiscal Office (IFO) reports that fiscal year 2019–20 collections in the General Fund were $32.3 billion compared with the budgeted $34 billion—a $2 billion shortfall.

In June, the legislature passed a stop-gap budget—funding the largest programs at the same levels as last year and funding other programs for a partial year—ending November 30 in the hope that economic recovery will be underway. Federal emergency aid funded one-tenth of the budget, temporarily filling the revenue gap. However, Washington won’t keep bailing out the states forever, so reforms are essential to fund vital services.

Reduce nonessential spending

During past economic downturns, governors froze nonessential spending. Governor Rendell proposed $500 million in budget cuts in 2008 and implemented a hiring freeze and pay freeze for nonunionized workers. Wolf’s hiring freeze was a good start, but more must be done. Lawmakers should also reduce unnecessary spending and prioritize programs during this crisis to prevent tax hikes families cannot afford.

Move special funds online and prioritize all state spending

In this time of crisis, lawmakers need to be able to prioritize all state spending, not just the General Fund budget. This includes about $24 billion in off-budget special funds (the “shadow

budget"). The state has $340 million in the rainy-day fund that can be tapped immediately, but this is only about 1% of the General Fund budget. Lawmakers must scrutinize every dollar spent and not leave special funds on autopilot.

- **House Bill 1988** (Rep. Seth Grove) would consolidate numerous so-called special funds into the General Fund.
- **House Bill 1991** (Rep. Dawn Keefer), a constitutional amendment, would prohibit the diversion of General Fund revenue into special funds.

The bills would bring money into the General Fund and increase transparency by tapping these funds' nearly $14 billion in surplus revenue.

**Strengthen balanced budget requirements**

Revenue losses and overspending threaten a balanced budget. The 2016-17 budget was never truly balanced, and fiscal year 2017 was out of balance until October (when the legislature voted to borrow $1.5 billion from tobacco funds to bridge the gap). Public officials must protect against overspending and increased budget deficits.

- **House Bill 855** (Rep. Jim Struzzi) would require an intra-year update to the administration’s revenue projections and provide for budget reductions in the event of reduced revenue projections.

**Avoid mistakes from previous economic crises**

Past efforts in 2001, 2008, and 2009 to “stimulate” the economy through corporate handouts, long-term benefit programs, and stimulus spending slowed hiring. In June 2009, the unemployment rate was higher than what stimulus proponents projected without a stimulus package. In fact, the 10 states that spent the least on corporate handouts from 2007 to 2015 saw faster job growth than the 10 states that spent the most.8

**Avoid narrow subsidies to select businesses and industries**

Relief must be offered across the board, not only to the politically connected. Last year, the Independent Fiscal Office identified $60 million of ineffective tax credits. Overall, the 2020–21 Governor’s Executive Budget includes more than $958 million in grants and tax credits for private businesses, spread across over 30 different tax credits, grants, loans, and loan guarantee programs. Fraud is also rampant. A grand jury report from last year detailed outrageous cheating pertaining to Research and Development and Keystone Innovation Zone credits.9

Lawmakers should eliminate corporate giveaways and use the savings for a revenue-neutral corporate tax cut. This could lower the corporate tax rate from the current 9.99% to between 6.93% and 7.2%.10

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Liquor privatization

The state-run liquor system has long been marked by scandal. The mishandling of COVID-19 and the approaching financial disaster from growing pension liabilities are further reasons to privatize the system.

- The Pennsylvania Liquor Control Board (PLCB) spends most of its earnings on itself. Of the PLCB’s $2.1 billion in sales for the fiscal year ended June 30, 2019, after expenses, only 9% was transferred to the state General Fund. Its $185 million to the General Fund in 2019 is less than 1% of General Fund spending.
- Despite launching a new web portal taking curbside orders at a rate of about 7,000 per day, the PLCB’s prolonged shutdown and its incompetence in selling online have cost it about $47 million in lost revenue.
- A border bleed study from 2011 indicated about 40% of consumers mixed in-state and out-of-state alcohol purchases, decreasing Pennsylvania revenue.
- Local restaurants are burdened under artificially high prices. As of 2018, the average PLCB markup on spirits was 65%, with only a 10% discount for licensees.

Privatizing liquor sales will ease the challenges restaurants are facing, encourage entrepreneurship, and better steward the revenue generated through alcohol sales rather than wasting it through mismanagement. This is particularly crucial as Pennsylvania faces a budget shortfall.

- House Bill 2547 (Rep. Tim O’Neal) would fully privatize the state wine and spirits system.

Help Pennsylvania Get Back to Business

According to a May 2020 poll commissioned by the Commonwealth Foundation, “jobs and economy” was the most important issue identified by voters, despite the health fears stemming from COVID-19. Of voters surveyed, 41% lost employment. This reflects Census Bureau data from the end of July, which found 4.7 million Pennsylvanians have lost employment since March 13, and another 2.8 million expect to by the end of August.

Further, over 60% of small businesses claimed, four months ago, that they risk closing permanently within five months if the crisis continues.

Permit small businesses to carry forward loses

Small businesses that take losses in 2020 should be permitted to carry them forward and deduct them in future years, something that corporations can already do. Given that many businesses will see immense losses this year, this is critical to their long-term survival.

- Passing House Bill 1603 and Senate Bill 202 would adjust the tax code to permit small-business owners to deduct net operating losses in future tax years.

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11 The survey was conducted statewide with a targeted oversample by the polling company between May 16–20, 2020, among 500 registered Pennsylvania voters. This survey has a margin of error statewide of ± 3.83% at the 95% confidence interval, with a 281 targeted oversample of registered voters of select counties, with a margin of error of ± 5.85%.

Ease barriers facing job creators

Small businesses that manage to survive the crisis will still have to face Pennsylvania’s regulatory policies. Lawmakers should use this opportunity to ease the barriers facing entrepreneurs and make it easier for small businesses to rehire and continue serving the needs of their communities. Specifically, lawmakers can streamline the ability to repeal existing regulations, track the status of unapproved permits, and require legislative approval for regulations that will cost more than $1 million a year.

- **House Bill 430** (Rep. Kerry Benninghoff) would allow the General Assembly to repeal regulations through a concurrent resolution.
- **House Bill 509** (Rep. Greg Rothman) would create an online tracking system for state permits to cut down the countless hours entrepreneurs spend navigating the complex permitting process.
- **House Bill 806** (Rep. Dawn Keefer) would require the General Assembly to approve any economically significant regulation, defined as an impact of $1 million or more per year for the state, municipalities, and/or the business community.
- **House Bill 1055** (Rep. Kate Klunk) would create an Office of the Repealer to review or amend current regulations.

Protect small business from lawsuits

Starting a small business already carries a great risk. Entrepreneurs trying to get back on their feet should not have to worry about the threat of lawsuits by aggressive tort lawyers.

Many states have already passed legislation that would offer legal protection to companies, health care organizations, and health care providers that are making good faith efforts to keep their workplaces and related operations safe in a post-COVID world. Pennsylvania should do the same to protect against excessive lawsuits when employers follow official health and safety guidelines.

- **Senate Bill 1181** (Sen. Michele Brooks) and **House Bill 2384** (Rep. Dawn Keefer) would provide liability protection.

Repeal prevailing wage mandates

Despite its name, the “prevailing wage” is an artificially inflated wage paid to workers on government construction projects. It is usually set at union rates higher than the rate for identical private projects. According to U.S. Census data, Pennsylvania state and local governments spent more than $10.6 billion on construction in 2017. Assuming a 10% to 30% prevailing wage premium, state and local governments could save between $1 billion–$3.2 billion on construction costs if the mandate were repealed.13

Local government groups like the Pennsylvania Association of Boroughs and the Pennsylvania School Boards Association both support relief from prevailing wage mandates.

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Provide flexibility to help workers

Occupational licensing requirements create barriers to employment at a time when many workers are already impaired from making a living by public health restrictions.14 While many businesses are closing entirely, others—such as grocery stores and delivery companies—are ramping up. At this time of upheaval, the state should ease the process for all, not just medical workers, to transition to new or temporary jobs by eliminating occupational licensing.

Over 250 Pennsylvania professions require a license to work, many of them low- and mid-income jobs.15 Evaluating opportunities to ease some of these licensing restrictions, for which Wolf has voiced support, will help more Pennsylvanians find jobs.

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