The Race to Rebuild: HOW PENNSYLVANIA CAN BOUNCE BACK AFTER COVID-19

JANUARY 21, 2021
The Race to Rebuild: How Pennsylvania Can Bounce Back After COVID-19

EXECUTIVE SUMMARY
Pennsylvanians continue to struggle amidst the COVID-19 pandemic and government restrictions. Small business owners face permanent closure, children’s schooling is in disarray, and job seekers have few prospects. Families need help now. With the start of the 2021—2022 legislative session, lawmakers must launch a race to rebuild Pennsylvania using the following policy solutions.

- Get students back on track
  - Expand proven education tax credits so students can attend schools that work for them.
  - Establish education scholarship accounts so parents have more flexibility to meet their children’s needs.
  - Protect options like education pods that are helping parents navigate school closures.

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

- 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.
  - Require separate budget supplementals legislation and mid-year adjustments.
  - Reduce corporate handouts and subsidies to establish a system fair to all businesses.
  - Consider a Turnpike lease to reduce debt and fund transportation needs.
  - Privatize the state liquor store system to improve consumer access, fix financial mismanagement, and generate revenue.

- Jump-start local small businesses
  - Provide tax reform to permit small businesses to carry forward loses and aid in recovery, and reduce taxes to let employers survive and thrive.
  - Reduce regulatory red tape for job creators.
  - Protect small business owners, schools, and health care providers from opportunistic lawsuits.
  - Reassess occupational licensing restrictions to help workers find jobs.
INTRODUCTION
Pennsylvania citizens and business have endured an extended public health threat. Making matters worse, a barrage of government orders has harmed family, business, and community solvency. Now, Pennsylvania is facing a livelihood crisis, exacerbating existing heartache, inequalities, and generational poverty.

Specifically, Pennsylvania and the nation have experienced:

- **Lost jobs**
  - From Wolf’s emergency order to the end of 2021, more than 2.5 million workers filed for unemployment compensation—a disaster dwarfing the “great recession” of 2008–09.¹
  - The Independent Fiscal Office (IFO) found, compared to the previous year, a 7.8% decrease in payroll employment and 477,000 lost jobs as of September 2020, mirroring national data of 459,000 fewer (-7.3%) payroll jobs in November compared to January 2020.²
  - According to Federal data, pandemic restrictions forced 30% Pennsylvania businesses to close, at least temporarily, as of September. This is substantially higher than the national rate and second only to Michigan. Additionally, 60% of establishments told employees not to work.³

- **Harm to health and life**
  - Early in the pandemic, many families were effectively left homeless due to Wolf shuttering real estate transactions, which included vulnerable older adults and front line nurses who must still deal with the ramifications of housing insecurity. Meanwhile, 48,000 Pennsylvania renters owe a collective $244 million in rent from eviction moratoriums as of December.⁴
  - 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. Preliminary data from a Centers for Disease Control and Prevention (CDC) report shows increased mental health concerns between April and June 2020, with twice as many Americans considering suicide in June compared to 2018.⁵
  - Following early government orders to cancel all elective procedures, hospitals lost money and laid off employees. Postponing these procedures also carries health consequences, including heart attacks that could have been prevented. Hospitals continue to face staffing shortages.

---

⁵ Czeisler, Lane, Petrosky, et al, “Mental health, Substance Use, and Suicidal Ideation During the COVID-19 Pandemic—United States, June 24–30, 2020,” Centers for Disease Control and Prevention, August 14, 2020, https://www.cdc.gov/mmwr/volumes/69/wr/mm6932a1.htm?s_cid=mm6932a1_w.
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.

**HELP STUDENTS GET BACK ON TRACK**

Students and their parents need relief, urgently. In some school districts, children have not set foot in a classroom since March 13. The depths of COVID-related learning loss and kids falling through the cracks constitute a crisis. Educational disparities loom and parents are searching for quality education for their children. Now, more than ever, they deserve options to make the best long-term decisions for their families.

**Expand education scholarship tax credits**

Tax credit scholarships have a proven track record of helping parents improve their child’s education. The Educational Improvement Tax Credit (EITC) and Opportunity Scholarship Tax Credit (OSTC) programs have given thousands of children access to excellent schools that are preparing them for the future.

Tragically, thousands of students are turned away from these programs every year due to arbitrary caps. The program caps were increased in 2018, resulting in an additional 8,000 student scholarships issued the following year—but over 40,000 were still denied due to program limits. These opportunities must be expanded so no kids are turned away.

Sen. Mike Regan has a plan to get Pennsylvania kids off waitlists and in exceptional schools by allowing these programs to grow to meet demand. With private schools more likely to be offering in-person education options, there is added urgency behind expanding EITC and OSTC. Plus, Sen. Regan’s plan will ensure the programs are ready to meet new challenges in the future.

**Establish education scholarship accounts**

The education disruptions from COVID-19 school closures have had disparate impacts on individual students. No systemwide fix can address all these problems. But there is a solution that can give parents the flexibility they need: education scholarship accounts (ESAs).

ESAs are restricted-use accounts that are funded with a portion of the state’s per-pupil education dollars. The money can be used for things like tuition, online classes, curriculum, tutoring, and services for students with special needs. In other words, they are the perfect way to get individual students the specific help they need right now. Even before COVID, 73% of Pennsylvania voters supported education scholarship accounts. That support is likely even higher now based on national polling results.
While a universal education scholarship account would be the fairest and most comprehensive way to help Pennsylvania children, there are other options to consider.

- Children with special needs have unique challenges often making virtual learning particularly difficult. Targeted ESAs can equip their parents to find the solutions that work for them.
- ESAs for low-income families or students who are assigned to poor performing schools would help thousands of children—including some who have been most impacted from school closures.
- Children whose local district schools have not resumed in-person education are particularly in need of support from ESAs.
- Even before COVID, children in military families have had to deal with educational upheavals when their parents transfer to a new base. ESAs would allow these children to have more educational continuity.

**Protect options like education pods (a.k.a. pandemic pods) that help parents navigate school closures**

Shortly after school closures were announced, parents began solving their new educational hurdles. Pandemic pods became the go-to term for small groups of families who were banding together to help their children learn and have a social outlet. It is crucial to protect these options from burdensome regulations so they can remain nimble during the pandemic and beyond.

**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 half** of Pennsylvania deaths occurring in nursing homes.\(^6\) Priority should continually be placed upon providing this population with needed protections in addition to raising testing availability, which has consistently ranked among the bottom in the nation.

**Freedom to work for health care providers**

Wolf suspended hundreds of regulations to make health care more accessible and 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 of their training. For example:

- **Certified Registered Nurse Practitioners** should be allowed to practice independent of a physician and outside their specific clinical specialty.
  - Reintroducing 2019—2020 House Bill 100 (Rep. Jesse Topper) and Senate Bill 25 (Sen. Camera Bartolotta) will 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 were embodied in 2019-20 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.

Physicians’ qualifications put them in a prime position to help physicians 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.

- Reintroducing 2019—2020 House Bill 91 will expand pharmacists immunization ability, addressing declining vaccination rates as people increasingly seek to avoid going to the doctor.

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.

- Reintroducing 2019—2020 Senate Bill 325 and House Bill 1064 will officially recognize the expertise of certified registered nurse anesthetists as a specialty, making 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

- Reintroducing House Bill 2779 (Rep. Chris Quinn) to retain healthcare waivers and flexibilities for one year after the COID-19 emergency declaration ends and making waiver permanency recommendations is a meaningful step toward better care.

---

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 fee waivers.

Physicians are willing to try telemedicine thanks in part to improved patient outcomes and cost savings, yet barriers remain to its wider use. The chief roadblock involves 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.

Telehealth has many advantages even outside of a pandemic, primarily, the ability to address inadequate access to care. In particular, telemedicine can help rural residents who, according to the CDC, 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. Further, a 2017 study found that patients experienced an average time, travel, and cost savings of $156 per consultation when utilizing telehealth.

Sen. Elder Vogel intends to reintroduce legislation defining telemedicine, proposing guidelines on providers, and offering clarity on insurance reimbursement.

PREVENT TAX HIKES ON WORKING FAMILIES AND SMALL BUSINESSES

Lawmakers face a budget shortfall of at least $3 billion come June 2021, according to the Independent Fiscal Office’s latest projections. As COVID-19 revenue losses materialize and entitlement spending increases, Pennsylvania must prioritize spending.

Federal COVID-19 relief funds are limited to COVID-related costs and are not intended to plug revenue gaps. Lawmakers cannot look to the $900 billion COVID-19 stimulus relief contained in the federal Consolidated Appropriations Act, 2021. Without a targeted approach we will repeat the long-term underemployment and tepid economic growth following the Great Recession.

As we outlined before the pandemic, in response to the coronavirus financial pressures, and preceding the state budget, 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.

---


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.

- Reintroducing House Bill 71 (Rep. Ryan Warner) a TPA constitutional amendment introduced for the third consecutive session, was passed out of House State Government Committee January 2021.

Reduce nonessential spending

Under Wolf, Pennsylvania state spending has dramatically accelerated. Total operating funds have grown by more than $17 billion and two of the last six budget cycles have resulted in tax increases. Last year, state spending jumped again—thanks to one-time federal funds—despite substantial revenue declines of 7.5%. The dependence on federal funds sets up lawmakers to repeat the mistakes of 2009 where a major budget hole occurred after using stimulus funds for basic education.

It is clear that more spending has not placed the commonwealth in fiscally stability. Over the past six years the rainy day fund has grown to just $340 million.

During past economic downturns, governors froze nonessential spending. For instance, 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 prioritize all state spending, not just the General Fund budget. This includes about $24 billion in off-budget special funds (the “shadow budget”), which have amassed more than $10 billion in reserves.

Last year lawmakers used $431 million in shadow budget transfers to balance the budget. These one-time revenue sources should be considered again. Government officials could transfer at least $1 billion from the shadow budget reserves listed below to balance the budget without impacting the needs and success of those programs.

---

10 The legislature tried to camouflage 2020 spending in an accounting gimmick, moving $1 billion of new spending into the prior fiscal year so it looks like spending decreased $760 million.
Lawmakers must scrutinize every dollar spent and not leave special funds on autopilot.


### Pass budget supplementals separately and require mid-year adjustments

Wolf vastly exceeded the amount budgeted for government programs three times in six years. This includes $400 million in 2017 (for the 2016—2017 budget), $673 million in 2019 (for the 2018—2019 budget), and more than $1 billion in 2020 (for the 2019—2020 budget). Legislative voting on supplemental spending, or overspending from the previous year, in a stand-alone bill would put more scrutiny on this previously occasional practice that has become a concerning habit.

Intra-year reviews that include budget adjustments to reflect revenues deficits are common practice. But in the past few years, the governor did not adjust program spending to reflect changing economic realities. Requiring periodic budget updates and budget reductions in the event of reduced revenue collections could prevent wide revenue and spending gaps come June.
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.11

Avoid narrow subsidies to select businesses and industries

Relief must be offered across the board, not only to the politically connected. Overall, the 2020—2021 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.

Not only are these programs unaccountable—a grand jury report from last year detailed outrageous cheating pertaining to Research and Development and Keystone Innovation Zone credits12—but Pennsylvania has five underperforming tax credit programs that cost over $120 million a year in unrealized investment returns, according to recent IFO evaluations.13

Completely eliminating these programs would reap $145 million in savings. Alternatively, legislators could reduce corporate welfare waste in industries like film production ($61 million), research and development ($48 million), and mobile telecommunications ($4 million).

Lawmakers could build on mandatory IFO tax credit evaluations by automatically sunsetting underperforming programs with less than a dollar-for-dollar return, using savings to lower the corporate tax rate from the current 9.99% to between 6.93% and 7.2%.14

Reduce Turnpike tolls through a lease

The growing logistics and trucking industry in Pennsylvania is harmed by the ever-increasing tolls on the Turnpike, and fuel tax revenues are in a slow decline thanks to more efficient cars. In contrast, leasing the Pennsylvania Turnpike to a private operator could yield billions of dollars in revenue.

A recent study by the Reason Foundation suggests a Turnpike valuation of $16 billion to $25 billion. After paying off debt, the study estimates net proceeds of $6.8 billion. In 2006, the Pennsylvania Funding and Reform Commission proposed leasing the Turnpike to a private operator. At least one bid came in at $13 billion for a 75-year lease with a limit on toll hikes.

14 “Initial Revenue Estimate,” Independent Fiscal Office, May, 2020, http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Revenue-Estimate-2020-05.pdf. Calculation is based on total corporate welfare spending from the 2020-21 Governor’s Executive budget. The higher 7.2% rate is based upon pre-COVID revenue estimates from June 2019, instead of the 2020 IFO estimate, to avoid distorting the likely impact of this policy.
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 recently released Pennsylvania Liquor Control Board (PLCB) annual report shows a sharp decline in sales from FY 2019-20.
- The 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. In addition to convenience for customers, privatization of the state liquor system would raise $1 billion in one-time revenue, with approximately $30 million in additional yearly tax revenue, which is particularly crucial as Pennsylvania faces a budget shortfall.

PLCB privatization has been regularly introduced, including last session as House Bill 2547 (Rep. Tim O’Neal).

- Incremental liquor reforms that could increase alcohol revenue, but fall short of full privatization, include 2019—2020 Senate Bill 548 (Sen. Gene Yaw), which would allow private wine and liquor stores.
- In the absence of full privatization, legislators should still pursue reforming the PLCB wholesale system. For instance, Rep. Jason Ortitay intends to reintroduce legislation replacing the PLCB-run online platform and contracting with third party delivery systems.

HELP PENNSYLVANIA GET BACK TO BUSINESS

Pennsylvanians have lost their jobs, industries are contracting, and businesses are shutting down. According to Census Bureau data from the end of December 2020, 5.18 million Pennsylvanians have lost employment income since March 13, and another 3.27 million expect to by mid-January 2021.15

Further, according to an NFIB December survey, one-quarter of small businesses nationally will have to close if current economic conditions don’t improve over the next six months.16 This reflects a 27.7% drop in

revenue for Pennsylvania small businesses between January 2020 and January 2021 compared to the previous year. Several industries have been particularly hard-hit. For instance, a December survey of just 6% of state restaurants noted 26,250 hospitality employees were laid off after Wolf’s indoor dining ban.

Business owners—and the Pennsylvanians they employ—need help now.

**Permit small businesses to carry forward loses**

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

- A Senate small business reform package includes a proposed reform (Sen. Judy Ward) to adjust the tax code to permit small-business owners to deduct net operating losses in future tax years.
- Similarly, Sen. Ryan Aument intends to introduce a small business assistance legislative package that includes a reform for businesses that have experienced pandemic-related losses. They could offset earnings from prior or future years against current year losses, qualifying for refunds for prior years (carryback) or future tax cuts (carryforward). The program would sunset in three years.
- Rep. George Dunbar plans to introduce legislation allowing for businesses to temporarily relax the operating loss deduction limits.

**Ease Pennsylvanians’ tax burden**

Pennsylvania business owners shoulder the second largest tax rate in the nation, impeding businesses from coming to and thriving in the commonwealth. To help business owners recover, provide family sustaining wages, and reinvigorate the economy, public officials should lower the corporate net income tax (CNIT) rate from the current 9.99% to approximately 7%. Reducing the rate is shown to spur investment, jobs, and economic growth.

Utilizing more responsible spending elsewhere—such as reducing nonessential spending and ineffective and cronyistic tax credits—will allow a revenue-neutral transition to more sustainable long-term growth.

Sen. Michele Brooks intends to reintroduce legislation reducing the CNIT rate by 0.5% annually over a six year period until it reaches 6.99%.

**Cut the red tape facing job creators**

Small businesses that manage to survive the crisis will still have to face Pennsylvania’s regulatory policies. Pennsylvania has almost 163,000 individual regulations, making it the state with the 11th-highest number of total restrictions, according to the Mercatus Center database. These regulations place a disproportionate burden on small businesses.

Recovering from COVID-19 will take more than a return to the status quo. Lawmakers should use this opportunity to ease the barriers facing entrepreneurs. The alternative is more devastating closures.

---

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.

- Sen. Michelle Brooks intends to reintroduce legislation instituting a one-time automatic review of all economically significant regulations established after the effective date of the bill’s enactment.
- Rep. Kate Klunk intends to reintroduce legislation creating an Office of the Repealer to review or amend current regulations.
- Rep. Dawn Keefer plans to reintroduce legislation requiring 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.

Additional reforms to consider from last session include House Bill 430 (Rep. Kerry Benninghoff) allowing the General Assembly to repeal regulations through a concurrent resolution and House Bill 509 (Rep. Greg Rothman) creating an online tracking system for state permits to simplify the complex permitting process.

**Protect small business and care providers 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. Unfortunately, hospitals, manufacturers, and businesses are susceptible to lawsuits in their attempts to counteract and survive the impacts of COVID-19.

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.

In 2020, the legislature passed, and Wolf vetoed, House Bill 1737, which would have provided COVID-19 liability protections for schools, businesses, manufacturers of personal protective equipment, and healthcare workers who followed proper CDC regulations. Lawmakers should continue efforts to grant small businesses broad liability protection, especially as vaccines distribution expands and in-person activities increase.

- Sen. Pat Stefano will introduce liability protection for restaurants and taverns, with exceptions for businesses who repeatedly and willfully neglect mandatory safety and health standards required to prevent COVID-19 spread.
- Sen. Bob Mensch intends to introduce liability protections for school and child care facilities.
Provide flexibility to help workers

Over 250 Pennsylvania professions require a license to work, many of them low- and mid-income jobs. Unfortunately, occupational licensing requirements create barriers to employment at a time when many workers are already impaired from making a living by public health restrictions.

At this time of upheaval, during which many businesses are closing entirely, the state should ease the process for more workers to transition to new or temporary jobs by eliminating unnecessary occupational licensing or decreasing requirement burdens. Evaluating opportunities to ease some of these licensing restrictions, for which Wolf has voiced support, will help more Pennsylvanians find jobs.

---
