The Budget Pennsylvania Needs Now

Pennsylvania Budget and Policy Center • 412 N. 3rd St, Harrisburg, PA 17101 • www.pennbpc.org • 717-255-7156

By Marc Stier[1]

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Introduction / Executive Summary

No matter where we live, what we look like, whether we are native-born or immigrants, or whether we are struggling or getting by, the COVID-19 recession is a threat to all of us. We need the state government to do more for families and small businesses to meet that threat. Yet the recession will cost the state at least $3.3 billion in revenues over two years.

Squaring this circle would be difficult at any time, but the General Assembly must act by November 30 when the stop-gap funding, enacted in June for about half of the General Fund, runs out.

Democratic and Republican senators appear close to a compromise that avoids a budget impasse at this dangerous time even as it leaves many problems unresolved. Our understanding is that it would fund a full-year General Fund budget at the same level as in Fiscal Year 2019-2020 with some adjustments to

- meet higher levels of Medical Assistance spending;
- pay the actuarially required contribution to pension funds;
- fund all debt service;
- meet contractually required government obligations to vendors and employees.

We have not seen any detailed estimates of the total expenditures included in a budget that does all this, but we estimate that it will be a total of somewhere between $35.75 and $36 billion.

Using the IFO's recent estimate that the state will receive $35.1 billion in revenues in the current fiscal year, and after adjusting for refunds and prior year lapses, we believe that revenues to meet the proposed expenditures will fall short by roughly $3.1 to $3.4 billion

Where will these additional revenues come from? Our understanding is that they will come from some combination of

- using the remaining $1.3 billion of CARES Act funding;
- transfers from special funds;
- rely on enhanced federal funding of Medical Assistance, which raised the federal reimbursement rate by 6.2 percentage points, being extended for another quarter;
- rolling some community health choices payments from the current fiscal year to the next one;
- using roughly $300 million from the rainy day fund; and
- (over)estimating revenues at somewhat higher levels than those proposed by the IFO.

[1] While Marc Stier is the author of this policy brief it draws on research produced by the entire Keystone Research Center / Pennsylvania Budget and Policy Center Team including Stephen Herzenberg, Diana Polson, Claire Kovach, and Maisum Murtaza. Charts were prepared by Stephanie Frank and the paper edited by Erica Freeman.

This is not an adequate budget to meet the needs of the moment. As we show in this paper, the pandemic has harmed many Pennsylvanians, who need some kind of relief and support from the state government, not only to avoid an immediate humanitarian disaster but to enable the state's economy to recover quickly and in a way that allows all Pennsylvanians to thrive. Among these needs are

- improvements in Pennsylvania's public health infrastructure which was woefully unprepared for the pandemic and remains less prepared than it should be for dealing with the ongoing crisis;
- efforts to prevent a major housing crisis—between 881,000 and 1,762,000 individuals in Pennsylvania may face homelessness when the eviction moratorium ends;
- support for schools that are facing a shortfall in local revenues of roughly $1 billion and are losing funds to cyber charter schools that are funded in ways that undermine local schools;
- aid to small businesses that are badly hurting, especially in the hospitality and entertainment industries;
- appropriate wages and other benefits for front-line workers who are still without sufficient personal protective equipment and who have never received an increase in pay to compensate them for taking on the risks of keeping vital sectors of our economy going during the pandemic;
- additional aid for unemployed workers, especially if the federal government fails to provide it; and
- closing the remaining gaps in funding for health care in the state, especially small hospitals and personal care facilities in rural and urban parts of the state.

The tentative agreement we are hearing about also fails to address the revenue shortfall. For one thing, it relies on economic forecasts that may be extremely optimistic, especially in light of the recent upsurge in COVID-19 cases. As we have recently pointed out, even without another round of government closures of businesses—which may be necessary—the rapid spread of the coronavirus will itself lead to economic decline.

The budget agreement also appears to rely on more than $3 billion in one-time revenues that will not recur in the next fiscal year, including the CARES Act funds, transfer from special funds, enhanced federal support for medical assistance through a higher FMAP rate, the use of the rainy day fund, and rolling Community Health Choices payments forward for one year.

We are also deeply concerned about transfers from special funds that may never be made whole and that are based on a right-wing fantasy we exploded two years ago that these funds are some kind of "surplus" rather than being dedicated to legitimate purposes approved by the General Assembly, and in some cases the people of the state, and being held until it is appropriate to spend them.

We understand the rationale for using one-time funds to avoid disastrous budget cuts and believe that it makes sense to spread the pain of a once-in-a-lifetime disaster beyond the current year—especially when budget cuts will make the pain worse. And we do understand that there is some chance that the federal government might eventually take long-delayed action to provide state and local governments with the support they very much need and deserve and that this might either provide funds to meet some of the needs unmet by this reported budget agreement and / or allow us to avoid the consequences of an overly optimistic revenue forecast or of the over-use of special fund transfers and one-time revenues.

However. it is also clear that even on the most optimistic assumptions, our economy will not return to the state it was in before the pandemic for a few years meaning revenues will fall short again in the fiscal year beginning on July 1, 2021. And, given that the state budget has been balanced year after year with one-time revenues—and that the state had to borrow $1.5 billion to cover a deficit of that amount in Fiscal Year 2016-17—the General Assembly can't avoid decisions about raising needed revenues for much longer.

As problematic as we find this agreement, we are even more troubled by reports that House Republicans are demanding deeper cuts to the budget. It is critical that Governor Wolf, Senate Democrats and Republicans, and House Democrats stand together to oppose the demands of House Republicans.

After a decade of austere budgets that have given us General Fund budgets 12% below where they were as a share of gross state product during the period from 1997 to 2011, we cannot cut the budget without

- undermining the education of our children and of college students or raising property taxes throughout the state;
- harming those who are ill, require long-term care or suffer from mental illness;
- reducing the support people need to avoid eviction from their homes;
- making life immeasurably more difficult for those who are living with intellectual or physical disabilities;
- making it harder for people lucky enough to be employed to afford child care so they can keep their jobs; and
- seeing our already dilapidated roads and bridges and our polluted air and water further decline.

In every one of these areas, we already invest too little. And deep budget cuts would not only make life harder for working people, children, and seniors, it would diminish the long-term economic prospects of our workers and businesses which depend greatly on investment in education.

Most importantly, we cannot drastically cut the state budget without undermining the already slow recovery of our economy from the Recession. House Republicans want to double down on the mistakes of the Corbett years when deep cuts to the budget during the Great Recession added tens of thousands of working people to the unemployment rolls, which hurt local businesses throughout the state and led Pennsylvania to have one of the slowest recoveries of any state.

Instead of cutting the budget, we would like to see our state fix an upside-down tax system that currently taxes the top 1% at half the rate of those in the middle and lets 73% of corporations escape taxes entirely. We can, and should, ask corporations and the richest Pennsylvanians—who have seen their income and wealth increase during the pandemic—to pay more, while cutting taxes on working people.

There is an adage that says "don't raises taxes during a recession." But this applies mainly to the federal government, and it assumes that raising taxes during recession will reduce consumption and investment and thus deepen the economic contraction. But that is not the situation we face today.

Consumption, especially on the part of the richest Pennsylvanians, is still almost 10% below where it was in January even though their incomes are higher than they were at that time. For obvious reasons, well-off Pennsylvanians are not going out to dinner or to shows or movies or sporting events. They are not traveling or going to hotels or doing much shopping at brick and mortar stores. And well-off people from around the country and the world are not traveling to our state and spending money here. Instead, the richest Pennsylvanians are saving their earnings at all-time record levels and many of them are saving even more money because they have refinanced their homes. Nor, in light of the pandemic-induced recession and the sharp decline in consumption, are businesses investing in the state at levels they were before it began, even though the cost of capital is at an all-time low.

If we want to lift the Pennsylvania economy out of a deep recession, the federal and state governments must be do the spending and investment that the private sector cannot and will not do now. The federal government can run deficits, spending more than it received in revenue, to do that. But Pennsylvania can do so only by raising revenues—and now, when the richest Pennsylvanians are saving more and multinational corporations have cut back on their investments, is the ideal time to ask them to pay their fair share of taxes.

New revenues would enable the state to help small businesses, to ensure that families do not lose their homes, to help school districts make up for lost local revenues, and to ensure that everyone continues to have access to doctors and hospitals. And it would provide the revenues we will need once the immediate crisis is over to balance our budget and begin to meet our long-standing public investment deficit, especially in education at all levels and infrastructures—the investments we so need to generate increased productivity and economic growth in the future.

We understand that this is too far for Republicans to go. But if House Republicans are not willing to ask those of us doing better during the recession to help other Pennsylvanians, at the very least they should stop dividing Pennsylvanians from one another, harming us all by demanding irresponsible cuts to a budget that is already tight. At the very least, they must support a workable compromise upon which we can build for the future.

The Impact of COVID-19 on Pennsylvania's Economy

The Impact So Far

The COVID-19 pandemic has had a devastating impact on the economies of Pennsylvania, the United States, and the entire world.

The real gross domestic product of Pennsylvania shrank at a quarterly annualized rate of 5.8% in the first quarter of 2020 and a shocking 34% rate in the second quarter. When the data is released we expect it will show a substantial recovery in the third quarter of 2020 although one that still leaves the economy behind where it was a year ago.

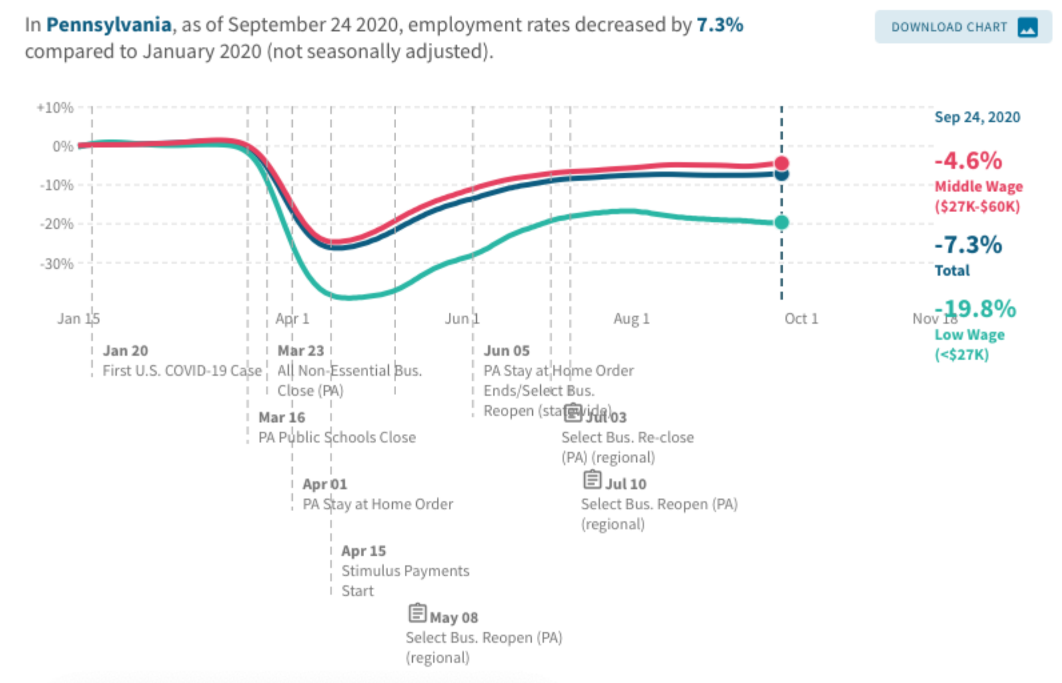
The economic crash led to a spike in unemployment with a loss of 849,000 jobs compared to the prior year in the second quarter and 506,000 in the second quarter. The unemployment rate reached 14% in the second quarter and 10.4% in the third quarter. That the unemployment rate has declined is due as much to shrinkage in the labor force as it is to economic recovery because many people who cannot find jobs or who are needed to take care of family members have left the work force.

The economic crisis created by the pandemic has affected Pennsylvanians unequally—and far more so than in a typical recession. Job losses were far greater among those in the sectors of the economy where wages are low and which employ a higher share of women and people of color, such as food service and retail. That is why unemployment rates for Black and Latinx people were far higher than those for white people as Table 1 shows and were also higher for those with low incomes than those with high incomes as shown by Figure 1.

Table 1. Black and Hispanic People in Pennsylvania and Nationally Experienced a Larger Increase in Unemployment from 2020 Q1 to 2020 Q2				
	Pennsylvania Unemployment Rate		Percentage Point Increase in Unemployment from Q1 to Q2	
	Q1 2020	Q2 2020	Pennsylvania	United States
All	5.1%	14.2%	9.1%	9.2%
White	4.0%	12.2%	8.2%	7.8%
Black	10.2%	22.0%	11.8%	11.1%
Hispanic	8.3%	19.7%	11.4%	12.1%

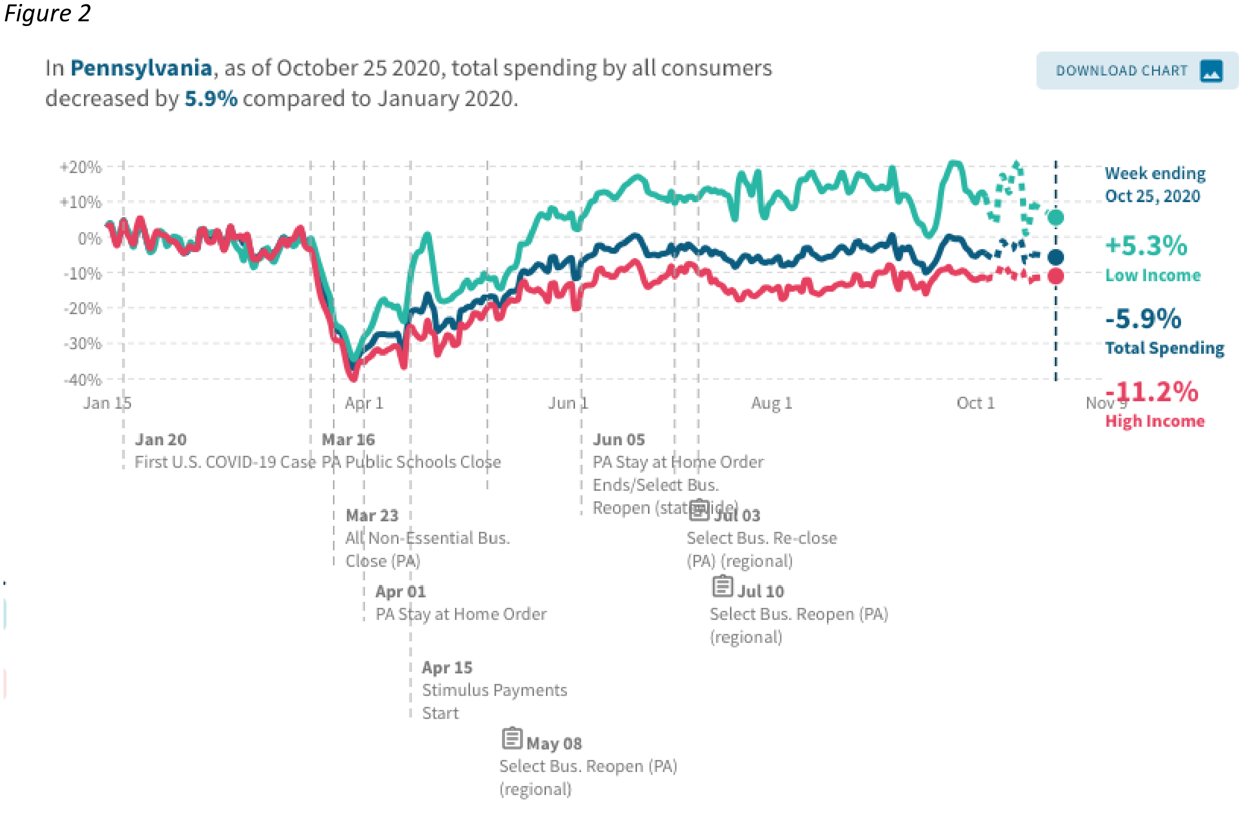
Source: Keystone Research Center based on Economic Policy Institute analysis of LAUS data and CPS data.

Figure 1



Despite a severe drop in the country's economic activity, there is one area that didn't suffer as much of a decline and where those with low incomes were relatively better off than those with high incomes: *consumer spending*. Consumer spending for all Pennsylvanians fell sharply in March and April and then gradually recovered through early September and has declined a bit since then (Figure 2). By the middle of October it was only 5.9% below that of January 2020 for all Pennsylvanians. Consumer spending among higher-income Pennsylvanians remained at 11.2% below January 2020, while it had risen by 5.3% for low-income Pennsylvanians.

Figure 2



Source: Opportunity Insights, Economic Tracker, accessed November 16, 2020.

How was it possible for consumer spending to continue at relatively high levels and actually increase for low-income Pennsylvanians? The answer is the federal stimulus and unemployment compensation payments to Pennsylvanians—which are expected by the IFO to total $42.3 billion in 2020—far exceed lost labor income of $25.5 billion.[2] Federal stimulus payments, along with the Paycheck Protection Program, which provided $20.7 billion to Pennsylvania businesses, worked to soften the blow of the pandemic on the economy. They raised consumption levels quickly after the initial deep drop helping both employers and employees. And they allowed some businesses that might otherwise have had to close their doors to survive.

Future Prospects

The success of federal relief programs should not blind us to the remaining problems.

Some sectors of the economy, such as the hospitality and entertainment industries, were especially hard hit by the economic crisis and may not fully recover for a long time.

Unemployment remains high and is likely to stay high for some time as adjustments to new spending patterns take place and the economy fully recovers. Some jobs may not come back due to shifts in spending patterns and increased automation.

Many small businesses have been hit badly and are still suffering as small business revenue remains

[2] Independent Fiscal Office, Revenue and Economic Update, Fiscal Year 2020-21, October 2021.

13.6% below where it was in January. The number of small businesses open has declined by 18.4% since January.

According to the federal pulse survey, about 20% of Pennsylvanians fell behind on their rent or mortgage payments in a typical week during the first few months of the economic crisis and it is likely that a higher percentage are still behind. If and when the CDC moratorium on evictions and foreclosures ends, over a million Pennsylvania renters are at risk of losing their homes.

And we still are not sure of the impact of the end, on July 25, of the Federal Pandemic Unemployment Compensation (FPUC), which provided an additional $600 per week to the unemployed. Together with Pandemic Unemployment Assistance, FPUC added about a $1 billion per week to Pennsylvanians' incomes. The failure to extend FPUC or to enact a second stimulus payment is no doubt partly responsible for the stagnation and slight decline in consumer spending in September and October as well as the stagnation in employment during this same period.

The state of the Pennsylvania economy in the rest of this year and in the next few years remains unknown. The IFO projects Real GDP growth of 3.0 in 2021—which, of course, would not even be a full recovery from the decline of 5.6% it projects for 2020. But other forecasters have lower or higher projections. What actually occurs is, of course, dependent on decisions by the current and new president and Congress on renewing or expanding some of the programs that have protected our economy from a much greater collapse.

Why the Economy Collapsed

One last point about the economy during the pandemic: contrary to the views of many political leaders, it was not primarily business closures and stay-at-home orders, either in Pennsylvania or other states, that led to an economic collapse.

As we show in detail in other work, the economy was going to suffer badly as a result of COVID-19 regardless of whether Governor Wolf and other governors, both Democratic and Republican, ordered businesses to close and people to stay at home for one very simple reason: customers and workers would have simply stayed away anyway.[3] They understood the risks of COVID-19 to themselves, their families, and the community at large. And if we had allowed COVID-19 to spread more widely and cause more deaths, more of them would have stayed away from community businesses for an even longer period of time.

How do we know this? Through four critical pieces of evidence. First, public opinion surveys tell us that even as infection rates decline, people are extremely wary of going back to businesses where many people congregate. Even as Republicans were demanding an end to the Governor Wolf's restrictions on restaurants two weeks ago it was clear to anyone who sought a dinner reservation in Philadelphia that restaurants usually booked for weeks ahead in normal times had plenty of seats available.

Second, our analysis of Pennsylvania counties shows that the economic decline since the start of COVID-19 has been associated with higher rates of infection. That's why urban areas have suffered worse in this recession than rural areas, the opposite of what's usually the case.

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[3] Marc Stier, The False Choice Between Our Health and the Economy, October 15, 2020. https://krc-pbpc.org/research_publication/covid-19-the-false-choice-between-our-health-and-the-economy/.

Third, there is the striking example of Sweden, which did not order businesses to shut down or people to stay at home and suffered an economic decline almost as bad as the United States' and a greater mortality rate. And if we compare Sweden—not with the United States, which largely failed to contain COVID-19—but with Denmark, which did do so, the difference is even more striking. Denmark quickly closed businesses and ordered people to stay at home in the spring. The result was a mortality rate one-fifth of that of both Sweden and the United States and an economy that did not suffer as badly and is already rebounding. Denmark's GDP dropped by only 7.4% in the second quarter, while Sweden's dropped by 8.6% and ours by 9.5%.

As we have shown, the willingness of people to stay at home and close their businesses—whether because of their own good sense, Governor Wolf's health and safety orders or both—saved as many as 16,000 lives in Pennsylvania. And, now we know that it protected our economy as well. Trump and the Republicans in Pennsylvania have been telling a false story about COVID-19 and the economy. The critical path to protecting our economy from the pandemic was not to ignore COVID-19 and ask people to bear the brunt of it, but to get the virus under control quickly and decisively.

The Impact of COVID-19 on General Fund Revenues

Initial Projections

We have known for some time that the recession created by the COVID-19 pandemic would lead to a sharp decline in state revenues. There was great uncertainty about the nature, depth, and extent of the recession. The threat of COVID-19, combined with the business closures and stay-at-home orders, led to what economists call a sharp supply-side recession, that is one that occurs when the producers of goods and services stop offering them for sale. That, however, was accompanied by a more traditional demand-side recession created when consumption declines, whether because employment and wages drop substantially or, as in this case, because individuals and households decide that it is too dangerous to purchase or produce many goods and services.

And then, further uncertainty arises because

- we do not know how much support for consumption will be provided by federal relief and stimulus programs in the future;
- we do not know how slowly consumption will recover once the economy begins to revive because individuals and families are concerned about the income they have lost or the possibility of future losses;
- we do not know how much long-term economic disruption and unemployment will be created by shifts in consumption and production patterns; and
- we don't know how further spikes in COVID-19 will affect the economy.

Our initial projections, based on those made in New York State and by national economic forecasters, was that Pennsylvania would see a decline in revenue of about $5 to $10 billion.

Recent Trends and Alternative Futures

By the middle of June, the Pennsylvania Department of Revenue was predicting a two-year revenue shortfall of $5.3 billion, while the Independent Fiscal Office projection was a bit more optimistic as it expected a two-year decline of $4 billion.

Since July, revenues have been coming in higher than the June estimates and that has led the IFO to revise its two-year revenue deficit to $3.4 billion. Department of Revenue expectations are roughly the same.

The improved revenue projections are mostly a product of the response of the economy to substantial fiscal stimulus on the part of the federal government in the second quarter of 2020 and the decline of COVID-19 cases in Pennsylvania during the same time. But a continuation of those trends are deeply uncertain.

In March, the House of Representatives passed the HEROES Act, which provided substantial support for state and local governments, an extension of expanded unemployment insurances, another round of stimulus checks, and other important measures that could help ensure that the economy stabilizes and revives. But Republicans in the United States Senate blocked consideration of that bill and other similar ones. While the election of Joe Biden to the presidency should lead to new attempts to enact such legislation, at this point it is not clear whether the Senate, which remains in control of Republicans, will support it.

If new federal stimulus policies are not enacted—and the most recent spike in COVID-19 cases continues—another economic downturn is likely. Jerome Powell, chair of the Federal Reserve, has consistently warned of the "the dire consequences" of congressional failure to provide more fiscal relief.[4]

The Context of the November Budget: Recent Trends in Public Investment

To choose the right path for the budget in response to the challenge of COVID-19, we need to place the current situation in some historical context with regard to state revenues and expenditures and the public investment deficit.

Revenues and Expenditures

One response to a revenue shortfall is to find places in the budget to cut. No one wants a budget filled with "waste, fraud, or abuse" or a budget that is "bloated." But it is hard to credit these common descriptions of the General Fund budget when we look at the actual pattern of spending over the last ten years. Evaluating the size of a government budget must always be done in the context of population and inflation and one of the best ways of doing that for the state budget is to look at it relative to the gross state product, which varies as the population, productivity, and cost of living goes up.

By that measure, far from "skyrocketing" or "growing out of sight," state expenditures and revenues began shrinking in Pennsylvania at the start of the Corbett administration and have continued through the Wolf administration despite Governor Wolf's efforts. As Table 2 shows, state spending is now 11% below the average from 1997 to 2011. And keep in mind that because productivity tends to grow faster in capital-intensive rather than labor-intensive fields, and that government and education work is labor-intensive, we would expect that the share of gross state product dedicated to education and government would have to rise slightly over time to provide the same services to our people. [5]

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[4] See Stephen Herzenberg, The Choice Before Us: New Deal or Depression, Keystone Research Center, October 29, 2020.

[5] Technological innovation makes it possible to produce goods, such as computers and cars, that are both relatively cheaper and / or much more capable than they were in the past. But services are far more likely to be labor intensive. That

Table 2

Pennsylvania General Fund Expenditures and Revenues as a Percent of Gross State Product (GSP)			
Fiscal year ending	**Expenditures / GSP**	**Revenues / GSP**	**Reduction in Spending Compared to 1997-2011**
Average 1997 to 2011	4.66%	4.85%	
Average 2012 to 2015	4.22%	4.34%	-9%
Average 2016 to 2019	4.22%	4.36%	-9%
Governor's budget 2020-21	**4.13%**	**4.26%**	**-11%**
Projections 2022 to 2025	4.04%	4.17%	-13%

Source: Pennsylvania Budget and Policy Center based on Independent Fiscal Office, "Economic and Budget Outlook, Fiscal Years 2019-20 to 2024-25," November 2019; and Governor's Executive Budget 2020-21, p. A2-3 (years 2019-20 and on).

Falling and Unfair Taxes

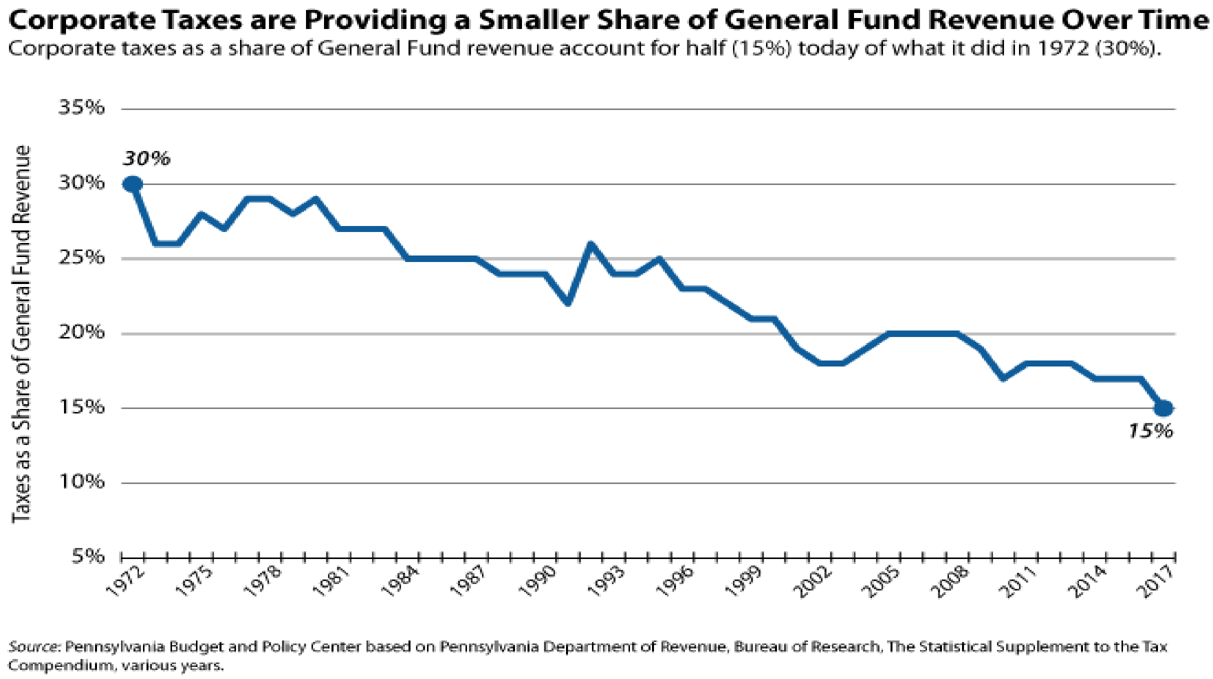
Table 2 shows that not only expenditures but revenues have fallen sharply as a share of gross state product. And revenues have persistently been lower than expenditures as a share of gross state product, which is why there has been a struggle to balance it year after year, and, as our budget analyses from the last five years have pointed out, they have been tenuously balanced only by relying on short-term revenues—and in 2017-2018 the state ran a deficit of $1.5 billion that was covered by securitizing about half of the tobacco settlement revenues.

Why have we seen persistent revenue shortfalls? Mainly because we allow corporations and the rich to pay less than their fair share of taxes.

Corporate taxes have fallen precipitously as a share of General Fund revenues from 30% in 1972 to 15% today (Figure 3).

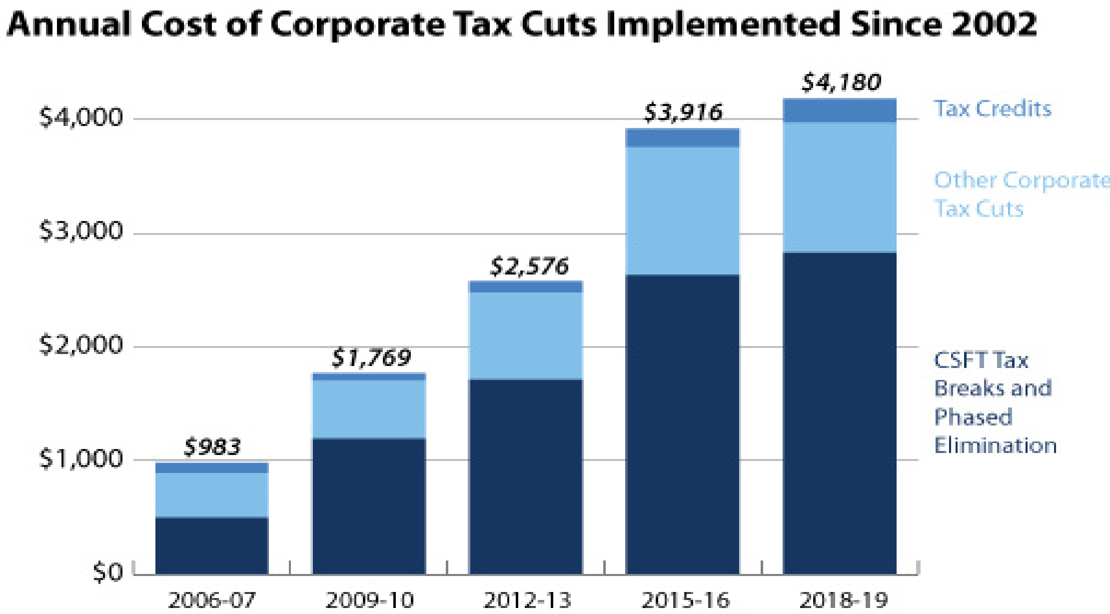
is why we pay relatively more for haircuts and concert tickets today than twenty years ago even while our computers become cheaper and more capable. So one would expect that, to maintain the same level of service, government would have to grow as a share of GDP over time. It has not done so in Pennsylvania.

Figure 3



Our research shows that corporate tax cuts enacted since 2002 have cost the state $4 billion in revenues every year (Figure 4). Had we not cut corporate taxes, closing the state's budget deficit this year would be relatively easy even if those corporate tax revenues were reduced by 25% due to the recession. Moreover, there is no evidence that these corporate tax cuts have contributed to economic growth in Pennsylvania at all as the state has grown relatively slowly during this time. The near-theological belief that corporate tax cuts always lead to economic growth makes no sense when one recognizes that corporate taxes are a very small share of the cost of doing business and that the best evidence we have suggests that many other factors, and especially the availability of a highly educated workforce, are far more important determinants of where businesses locate their operations.

Figure 4



Source: Table A1. CSFT tax breaks and phased elimination includes the first two rows of Table A1; other corporate tax cuts the next four rows; and tax credits the remaining rows.

The other reason revenues grow slowly in Pennsylvania is that our tax system asks the richest Pennsylvanians to pay relatively little. As Figure 5 shows, the top 1% of households, with incomes above $511,000 and an average income of $1.3 million, pay only 6% of their income in state and local taxes. Families in the middle 20%, with an income range from $38,100 to $62,200 and an average income of $49,400, pay 11% of their income in state and local taxes. And families in the bottom 20%, with incomes below $19,100 and an average income of $11,600, pay 13.8% of their income in state and local taxes.

Pennsylvania's tax system is not only grotesquely unfair, but it dramatically reduces state revenues. Especially at a time when income inequality is exorbitant—with the top 1% of households earning 21.7 times what the bottom 99% and more than a quarter (28%) of Pennsylvanians living below 200% of the poverty line—the state will not generate sufficient revenue to provide the public goods and services we all need if we do not ask the very rich to pay their fair share.[6] When asked why he robbed banks, the famous bank robber Willie Sutton once said, "because that's where the money is." Similarly, one reason we need to tax the richest Pennsylvanians at the same rate as everyone else is because "that's where the money is." We will not be able to raise sufficient revenues to truly balance the state budget or do all that it should do until we fix our upside-down tax system.

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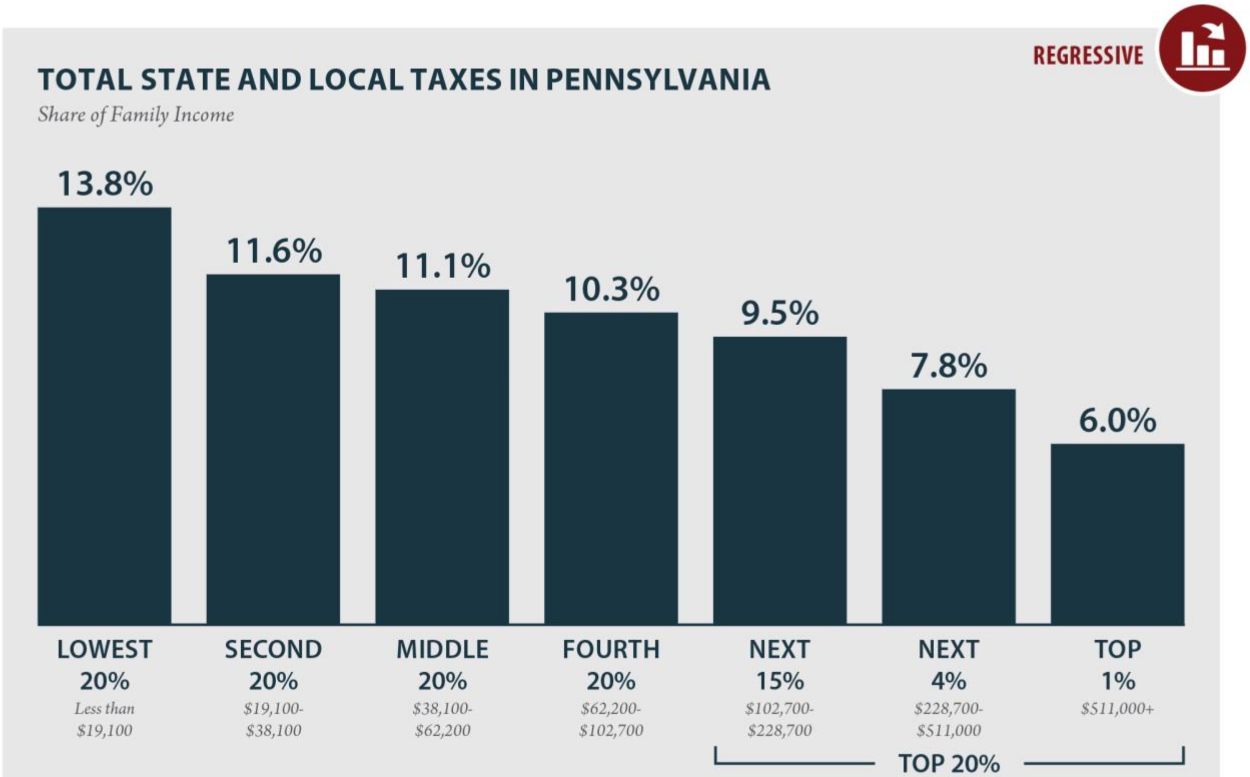
[6] Economic Policy Institute. "The Unequal States of America: Income inequality in Pennsylvania." Accessed at: https://www.epi.org/multimedia/unequal-states-of-america/#/Pennsylvania. Two hundred percent of the federal poverty line in 2020, for example, is equal to earning less than $25,520 for a single person and earning less than $52,400 for a family of four.

Figure 5



Source: Institute on Tax and Economic Policy, Who Pays: A Distributional Analysis of the Tax Systems in all Fifty States, 2018.

The Public Investment Deficit

The consequence of sharply reduced state expenditure and revenues is what we have called a public investment deficit—a persistent lack of funding for critical public programs that provide goods and services all Pennsylvanians need to thrive. Pennsylvania Budget and Policy Center has described various elements of our public investment deficit over the years and can only summarize it here.

Pennsylvania invests too little in K-12 public education, leading to our state having the greatest disparity in funding between our wealthy and poor school districts. The disparity in funding between schools with predominantly white and predominantly Black students remains stark and shameful.[7] The wealth of the neighborhood in which each child grows up plays far too great a role in determining the quality of their education and their ability to make the greatest use of their talents. That not only harms individual Pennsylvanians but denies all of us the benefits of our greatest natural resource, the talents of our children.

[7] Emma Brown. “In 23 states, richer school districts get more funding than poorer districts.” The Washington Post, March 12, 2015. Accessed at: https://www.washingtonpost.com/news/local/wp/2015/03/12/in-23-states-richer-school-districts-get-more-local-funding-than-poorer-districts/#graphic, Kristen A. Graham. “Pa’s school-spending gap widest in nation.” The Philadelphia Inquirer, March 13, 2015. Accessed at: https://www.inquirer.com/philly/news/local/20150314_Pa__s_school-spending_gap_widest_in_nation.html. Updated Census data can be found at: https://www.census.gov/data/tables/2017/econ/school-finances/secondary-education-finance.html.

Pennsylvania does no better when it comes to higher education. We rank 48th in the nation for per capita investment in higher education with a per capita investment of less than half the national average. State funding of the PA State System of Higher Education fell from two-thirds to one-fourth of system revenue between 1983-84 and 2016-17. We rank number one in terms of highest student debt. We have systematically underfunded our institutions of higher education that once helped many children rise out of poverty and the working class into the middle class. The decline in state funding has driven tuition up and made those colleges far less accessible to most Pennsylvanians. And then, when the number of students decline, we blame young people and the colleges themselves instead of the failure of public policy to support them. A substantial body of research shows that the more education people receive, the faster economies grow and the higher wages rise for everyone, not just the college educated. Yet Pennsylvania ranks 40th out of all states in the percentage of adults with more than a high school degree.

Our state has reduced spending to protect the environment and we have lost over 900 positions over the last 18 years in our Department of Environmental Protection at a time of increasing concerns over global warming and air and water pollution and when the growth of the natural gas industry has made environmental regulation more important.

We have enormous infrastructure needs, including the need for investments in maintaining roads and bridges and improving public transportation. And we will soon face a half billion-dollar shortfall in subsidies for public transit.

Also, we are alone in our region in not raising the minimum wage, which not only holds wages down for those at the very bottom but for people whose wages are far above the minimum. Because of this, we haven't received the economic benefits of higher wages, the fast economic growth and higher levels of employment that come from working people's greater ability to consume more from local businesses, a conclusion reached by a recent study by that bastion of left-wing thought, the New York Federal Reserve.

The reality for Pennsylvania—and the critical context in which state budget decisions should be made—is that in one area after another our state government has failed to provide the public investment that leads to broad-based prosperity. Instead, we have allowed a corporate-sponsored agenda to drive public policy, leading to cuts in taxes and spending that far from creating economic growth and prosperity for most Pennsylvanians, serves only the interests of the wealthiest Pennsylvanians and the owners of multi-national corporations who do not live or work in our state but contribute to the state legislators who serve their interests.

Critical State Needs in the Time of COVID-19

The pandemic, and the economic recession it created, thus took place at a time when Pennsylvanians already needed more from government than they were getting, not less. The pandemic itself has dramatically increased the need for public investment in a number of critical areas.

First, it is clear that Pennsylvania's public health infrastructure was woefully unprepared for the pandemic. Public health spending has been flat-funded for eight years. Only six counties and four cities have their own health departments (counting Philadelphia as a county not a city). While major improvements have been made since the pandemic began, we still do not have the infrastructure to do rapid testing everywhere we need it or effective contract tracing even when community spread of the disease is relatively low, let alone when we see a huge upsurge in transmission.

Second, we are facing a major housing crisis. If not for the partial (and insufficient) eviction moratorium put in place by the CDC, based on Census pulse survey data we estimate that between 881,000 and 1,762,000 individuals in Pennsylvania would face homelessness due to owing back rent. The housing assistance program put in place by the state and funded with CARES Act money has now ended and was designed so poorly that only about $10 million of the $175 million in promised assistance was spent.

Third, our schools are facing a shortfall in local revenues of roughly $1 billion partly because of a reduction in local earned income revenues and partly because homeowners and businesses have fallen behind on their property taxes. Local school districts are also in trouble because of the additional costs of providing the training and computer and other equipment needed for virtual education, as well as being hurt because many students are, understandably, attending cyber charters which were prepared to teach virtually. The existence of those charters has been a boon to Pennsylvania students during this time, but because charter schools are paid with funds from local public school districts and are paid at levels far beyond the cost of cyber-education, the school districts are suffering estimated losses of about $300 million in funding.

Fourth, small businesses are in extreme duress. According to the Opportunity Insights Economic Tracker, the number of Pennsylvania businesses open on the date this was written (November 17, 2020), was 23% below the number open on January 1, 2020. Many of them may never reopen. Businesses in the hospitality and entertainment industries have been badly hurt by the unwillingness of people to risk their lives at restaurant, hotels, and theater or concert venues, as well as by government closure orders. These and other small businesses are not only major employers in the state but are also major attractions within the tourism industry that has also been badly damaged by the pandemic and is far less likely to recover if critical components of them shut their doors permanently. Two earlier rounds of state support for small businesses were fully subscribed soon after they were funded. Much more is needed.

Fifth, too many front-line workers are still without sufficient personal protective equipment and have never received an increase in pay to compensate them for taking on the risks of keeping vital sectors of our economy going. They deserve both state support and an immediate increase in their minimum wage to $15 per hour.

Sixth, unemployed workers are already suffering from the loss of the additional weekly payment of $600 which expired at the end of July; extended unemployment insurance will run out for many others at the end of 2020. Only the federal government has the capacity to reinstitute or extend the unemployment insurance programs on which so many Pennsylvanians rely, including the businesses whose customers are receiving unemployment insurance. But the state may need to step up to help many Pennsylvanians if the federal government does not provide enough assistance.

Finally, there remain gaps in funding for health care in the state. Much of the CARES Act funding went to support hospitals and nursing homes or other personal care facilities that had substantially higher costs or had lost revenues due to COVID-19. But while we do not at present have data to estimate the additional need, it appears that many of these institutions continue to be troubled and we particularly fear that small hospitals in rural and urban parts of the state may close their doors if they do not receive additional support.

The Stop-Gap Budget

The Rationale for a Stop-Gap Budget

In June, Governor Wolf and the General Assembly agreed on stop-gap budget of $25.8 billion. Many of the budget lines were flat-funded at five-twelfths of what they received in 2019-20—that is only enough money was appropriated to cover 5 of the 12 months in a year. Some critical areas did receive full-year funding at 2019-20 levels.

Putting off major decisions about the 2020-21 budget made sense in June given the great uncertainty about the course of COVID-19, the depth and length of the recession, the response of the federal government, and thus how much state tax revenue amounts will fall. It would have been very difficult to figure out how to balance a budget with so much uncertainty about revenues. And it made sense to try to put off difficult decisions to either raise taxes to close the revenue shortfall or to cut expenditures to close a budget deficit. Of course, there was a political element to this decision as well as it enabled the General Assembly to avoid taking the political heat for making these difficult decisions.

What made the stop-gap budget acceptable to PBPC was that the June agreement to fund education at all levels for twelve months, albeit at the inadequate 2019-2020 level, made it impossible for the General Assembly to decide to balance the budget by deep cuts in education funding later in this year without the approval of the governor. As we have warned, the last thing Pennsylvania needs is a replay of our experience of 2011-2012 when, under the leadership of Governor Corbett, Republicans slashed funding for human services and education.[8]

What the Stop-Gap Budget Contained

The stop-gap budget funded a number of budget lines for the full year at 2019-2020 levels. These include

- K-12 funding—however, instead of adjusting funding to changes in the fair funding formula, school districts will receive what they did in 2019-2020;
- higher education, including community colleges, the Pennsylvania State System of Higher education (PASSHE), state-related universities, and PHEAA which provides state grants and loans to college students;
- Medical Assistance, which was funded for a full year and included a rollover of additional spending needed for 2019-20 (The amount appropriated was reduced by the amount expected to be received from the 6.2 point temporary increase in the FMAP rate, which the percentage at which the federal government funds this joint federal-state program); and
- debt service.

In some areas, the general appropriation bill provides additional funds beyond 2019-20 levels. They include

- pensions for public school employees (PSERS), which was increased to meet the actuarially required contribution; and

[8] See Diana Polson and Marc Stier, What Not to Do in the Face of a COVID-19 Drive Recession, Lessons from the Corbett Years, Pennsylvania Budget and Policy Center, March 31, 2020.

- pupil transportation received a supplemental increase of $157 million to make good on underpayment in previous years and to meet prospective needs.

The stop-gap budget more or less flat funded a number of areas at five-twelfths of the 2019-2020 appropriation. These include

- state employee pensions (SERS);
- most human services, with some exceptions where a higher level of funding is expected for the year (including Critical Access Hospitals and Autism Intervention and Services) or where additional funding was needed to make timely allocations to counties (County Child Welfare);
- Departments of Environmental Protection and Conservation and Natural Resources, although funding levels projected for a full year would add a small amount of funding to both departments;
- transportation;
- criminal justice;
- State police, although it received slightly more than five-twelfths of the 2019-20 funding level;
- the judiciary;
- the Pennsylvania Commission on Crime and Delinquency;
- the Department of Military and Veterans Affairs;
- the Department of Community and Economic Development; and
- the Department of State, although it received additional funding from Act 77 to pay debt service on voting machine reimbursement bonds.

The stop-gap budget did not include a number of proposals put forward by Governor Wolf in his proposed budget including:

- an increase in the minimum wage and accompanying increases in human services program to pay the higher wages;
- the Nellie Bly Scholarship Fund which was to be funded by a transfer from the Race Hose Development Fund;
- an initiative to reduce the intellectual disability / autism wait list; and
- $3 million in new funding for access to reproductive health care.

The CARES Act Funds

In addition to enacting a stop-gap budget in June, the General Assembly made decisions about how to spend approximately $2.6 billion of the $3.9 billion of federal CARES Act funds. As required by federal law, those appropriations address immediate problems created for individuals, families, businesses, and institutions damaged by the pandemic or the economic crisis created by the pandemic itself. Among other things, funds were distributed to

- counties to help with county response and planning, municipality assistance, small business grants, nonprofit assistance, and expansion of broadband internet;
- small businesses;
- the state system of higher education (PASSHE);
- the Pennsylvania Higher Education Assistance Agency (PHEAA);
- nursing homes, personal care facilities, and adult day care facilities;
- intellectual disability and autism programs;

- the Pennsylvania Emergency Management Agency (PEMA) for fire companies and emergency service providers and to provide medical equipment for hospitals, nursing facilities, and emergency medical services; and
- the Pennsylvania Housing Finance Agency to help mortgagors and renters.

In addition, $300 million was transferred to the Property Tax Relief Fund, which reduces property taxes for homeowners in 66 counties and the wage tax in Philadelphia to replace funds lost because casinos closed or operated at reduced levels. This use of CARES Act funding was recently rejected by the federal government.[9] There will no doubt be an effort on the part of legislators to replace these funds.

The Current Problem: Meeting Pennsylvania's Needs While Closing the Revenue Gap

Spending authority for many budget lines will thus run out on or soon after November 30. Exactly what this means is somewhat unclear. This is not a usual budget impasse in which there is no budget going forward, but a situation in which there is a budget in place and not enough money appropriated to fund much of what we all believe the state should do. So it is not clear whether, in the event of an impasse, the state would be able to keep paying, for example, employees for whom funding has run out. Spending for public safety and health would still be allowed although what this does or does not include is not entirely certain.

So it is clear that by the end of this month, when the terms of members elected in November 2018 expire, the General Assembly must enact another appropriation bill that provides additional authority for the General Fund. Failing to do that would require a special session of the newly elected General Assembly in December.

The General Assembly and the governor are currently negotiating a plan for the parts of the budget funded for only five months in the June stop-gap budget. As always, the problem is to balance expenditures and revenues, although as we have seen, this year there are complications in both areas.

The IFO's most recent estimate is that the state will receive $32.6 Billion in revenues in the current fiscal year and after adjusting for refunds and prior year lapses. Again, that estimate is fraught with uncertainty because we do not know the state of the national and Pennsylvania economies over the next few years.

Similarly, there is uncertainty on the expenditure side. The governor proposed a budget of just over $36 billion in February. It is clear that at this time the General Assembly would not support the new initiatives in the governor's budget and has so far chosen to flat-fund most line items at the 2019-20 level. Yet we know that the budget cannot be entirely funded at last year's levels because of mandatory expenditures for pensions, debt service, Medical Assistance, and contractual required obligations to employees and vendors. Our best guess of the expenditures needed to provide a budget that would provide the same level of government goods and services provided Pennsylvanians as in 2019-20 (what in budget jargon is called the "cost-to-carry budget") is about $35.8 billion.[10] This

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[9] Ed Mahon and Cynthia Fernandez, Feds reject Pa.'s plan to spend up to $300M in stimulus money for school property tax relief, PA Spotlight, November 16, 2010.

[10] That this amount is so close to the governor's proposed budget shows just how austere the governor's budget was and how limited his new initiatives were, although as we pointed out in our initial analysis of the budget, the governor proposed a number of important measures to spend government funds more efficiently. See Diana Polson, Marc Stier, and Stephen Herzenberg, Calm Before the Storm: An Analysis of Governor Wolf's Proposed Budget for 2020-2021, Pennsylvania Budget and Policy Center, March 19, 2020.

figure, however, does not include any new expenditures to meet the immediate needs of schools, small businesses, renters, and others we identified earlier. Nor does it include the $300 million necessary to continue property tax relief for Pennsylvania homeowners.

If we start with the current IFO estimate of revenues and our estimate of the current services or cost-to-carry budget of 35.8 billion, a first estimate of the current budget deficit is $3.2 billion. Adding in the funds needed for property tax relief brings the total to $3.5 billion. Expenditures to meet Pennsylvanians' current pandemic-related needs would deepen the deficit.

The Current Problem: Meeting Pennsylvania's Needs While Closing the Revenue Gap

What are the possible solutions to this budget hole?

Budget Cuts

The first solution to a budget deficit that comes to some minds is to cut the budget.

The difficulty of that solution is that after a decade of austere budgets that have given us General Fund budgets 11% below where they were as a share of gross state product during the period from 1997 to 2011, there is little or no "waste, fraud, or abuse" to cut. No doubt one can always find some areas where government can be more efficient. But Governor Wolf has already taken substantial steps to modernize and improve our state government. And the magnitude of a budget deficit that is about 10% of the total General Fund is so great that small reforms would barely make a dent in the overall problem.

We already spend less than we have in the past and too little to meet the needs of Pennsylvanians. Thus we cannot cut the budget without

- undermining the education of our children and of college students or raising property taxes throughout the state.
- harming those who are ill, require long-term care or suffer from mental illness.
- reducing the support people need to avoid eviction from their homes.
- making life immeasurably more difficult for those who are living with intellectual or physical disabilities.
- making it harder for people lucky enough to be employed to afford child care so they can keep their jobs.
- seeing our already dilapidated roads and bridges and our polluted air and water further decline.

In every one of these areas, we already invest too little. And deep budget cuts would not only make life harder for working people, children, and seniors, it would diminish the long-term economic prospects of our workers and businesses, which are heavily depending on investment in education.

Most importantly, we cannot drastically cut the state budget without undermining the already slow recovery of our economy from the Recession. House Republicans want to double down on the mistakes of the Corbett years when deep cuts to the budget during a recession added tens of thousands of working people to the unemployment rolls, which hurt local businesses throughout the state and led Pennsylvania to have one of the slowest recoveries from the Great Recession of any state.

Our understanding is that Senate Democrats and Republicans and the administration have reached an agreement in principle on a budget that Democratic and Republican senators appear close to a compromise that avoids a budget impasse with full-year General Fund budget at the same level as in Fiscal Year 2019-2020 with some adjustments to

- meet higher levels of Medical Assistance spending;
- pay the actuarially required contribution to pension funds;
- fund all debt service, and
- meet contractually required government obligations to vendors and employees.

While we are concerned that such a budget would not meet the immediate needs created by the pandemic nor do anything to reduce the long term public investment deficit of the state, such a compromise would, at the very least, remove the threat of budget crisis at the end of November. And, as we point out below, it would leave open the possibility that additional spending to meet these needs would be possible if and when the state receives new federal funds.

Using the CARES Act Money

A second possible solution is to use the remaining $1.3 billion in CARES Act money to backfill lost revenues.

Our understanding is the General Assembly is prepared to take this route. There, are, however, two problems with this idea.

The first is that it is not clear that federal law and regulations will allow CARES Act funds to be used for this purpose. As we have seen, the use of CARES Act funds to provide property tax relief was recently disallowed by the federal government. The General Assembly could try to avoid this problem by designating CARES Act monies to fund parts of the state budget, e.g., emergency or health care services that better fit the purposes of the CARES Act. Because money is fungible, using CARES Act funds for these purposes frees up the remaining revenues for other parts of the budget. It appears that the federal government is willing to countenance this more or less transparent repurposing of CARES Act funds and that others states have done this as well.

A second problem with the using CARES Act funds to backfill lost revenues is that, as we have pointed there are in fact immediate, new needs created by the pandemic for which using CARES Act money would be appropriate. House Democrats have proposed a number of pieces of legislation, summarized here, that distributes the remaining CARES Act funds to relieve the distress created by the pandemic. To our mind, distributing the remaining $1.3 billion in CARES Act funds in this way to meet these needs is a better approach than relying on it to make up for lost revenues.

New Federal Funds?

Many of us have hoped that the federal government would again come to the relief of states by providing new funds that could be explicitly used to make up for short falls in state revenues due to the pandemic. The U.S. House of Representatives passed the HEROES Act in March, which would have likely provided about $4 Billion in additional funds to the state, making up the deficit and allowing CARES Act funds to be used to meet needs created by the pandemic.

The U.S. Senate majority has consistently blocked consideration of the HEROES Act and Senate Republicans, including our own Senator Pat Toomey, have falsely and irresponsibly said that the federal government should not "bail out" states that are in a fiscal crisis due to overspending. As we have seen, this is certainly not the case in Pennsylvania. Nor is it true for other states.

At this point, we do not really know if additional federal relief will be forthcoming. Many economists, of a variety of political persuasions have called for new federal stimulus spending that would include support for state and local governments. Whether Senate Republicans will agree to it, either during the interregnum before the inauguration of Joe Biden or after, remains to be seen.

We do understand that all sides in the current negotiations over the state budget are presupposing that the enhanced federal funding of Medical Assistance (Medicaid in other states), which raised the federal reimbursement rate by 6.2 percentage points will be extended for at least another quarter, through March 2021. Again, we do not know how likely this is.

Short-Term Fixes

Our understanding is that the current budget negotiations include a number of one-time revenues that fall into three groups.

The first is to transfer money from special fund balances. This is an idea that House Republicans keep returning to although it is largely based on a confusion between a bank balance and a budget surplus.[11] As we have pointed out before, House Republicans look at surpluses in the special funds and ask why they can't be used to fund current operations. What they forget is that, in most cases, those surpluses exist because money comes into the funds at certain times and is spent at other times. So for example, funds come into the Multi-modal Transportation Fund on a regular basis but expenditures for particular projects only take place when they are ready to be carried out. The special funds, in other words, are similar to a bank account a family creates to save money for a major renovation. The family can use the balance in that special account for its weekly living expenses but it won't have any money left to pay its contractor when the bill comes due. Using special funds balances to pay General Fund expenditures would thus requires a reduction in expenditures for purposes the General Assembly, and in some cases, the citizens of the state when voting for a bond issue, have approved. Raiding special funds is not simply finding lost money and using it to pay the state's bills.

The second one-time revenue source about which there seems to be agreement—except among some House Republicans—is to use the $340 million in the rainy day fund to make up for lost revenues. This is, of course, a good idea. It is clearly raining now.

The third one-time revenue source is to roll over some Community Health Choice payments from the current fiscal year to the next one. This is the kind of budget gimmickry we have frequently seen in the state and, as we point out below, it would have some consequences in the future.

It's not clear whether any agreement reached this month would also include two other typical ways of closing budget deficits with gimmicks. We have already talked about one of them, the possible overestimate of revenues. A second common way of balancing the budget is to underestimate Medical Assistance caseloads which has become something of an art form in Pennsylvania budget politics. We are told that an effort is being made this year not to do that, although given the uncertain course of the economy which may lead to more people losing employer-paid health care than leaving them with no alternative but Medical Assistance, getting caseload projections right is especially difficult this year.

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[11] See Marc Stier, The House GOP Budget Plan to Raid Special Funds Explained, Pennsylvania Budget and Policy Center, September 12, 2017 and Marc Stier, Memo on the PA House GOP Budget Plan to Raid Special Funds, Pennsylvania Budget and Policy Center, September 5, 2017.

Borrowing

We generally question using short-term revenues and budget gimmicks to close deficits because they typically just push the deficit problem to future years. However, when we are faced with a budget shortfall largely, though not entirely, caused by the pandemic-induced recession, putting problems off to future years when revenues might recover makes sense.

That raises the question of whether the state should explicitly borrow from the credit market to close the deficit rather than using gimmicks like borrowing form special funds.

There is some rationale for doing so. Just as we borrow funds to spread the cost of infrequent natural disasters and war over more than one year (or in the case of the borrowing that paid the costs of fighting World War II, over more than one generation), borrowing to spread the pain of a once-in-a-lifetime natural disaster makes sense.

The state could borrow by securitizing revenues from a number of possible sources such as the rest of the tobacco settlement funds or liquor control board revenues.

There is, of course, a constitutional barrier to paying operating costs with borrowed funds. But the state has found ways around it in the past, such as when $1.5 billion was raised by securitizing about half of the tobacco settlement funds to deal with the budget shortfall of Fiscal Year 2016-2017.

Avoiding Budget Problems in the Future

One problem with using one-time revenues to balance the budget is that it postpones rather than resolves a budget deficit problem. Borrowing to close a budget deficit creates a larger problem in the future because budgets in subsequent years not only have to meet current year obligations but pay back the funds use from banks, special funds, or the rainy-day fund.

This is not a serious problem if one can expect that future revenues will grow. However the long term prospects for state revenues is deeply problematic. As we pointed out above, the recovery from the pandemic recession, and the structural adjustment to economic changes it has created, could take some years. In September, the Department of Revenue projected that revenues for the fiscal year beginning on July 1, 2021, would be $33.8 billion or $3.4 billion below the projection of March 2020.

If the current year budget is balanced with CARES Act funds, special fund transfers, the rainy day fund, and rollover of payments to fiscal 2021, the budget hold for next year will be greater, perhaps by $2 to $3 billion.

New Revenues

And that raises the question of whether, instead of cutting the budget or funding it with one-time revenues, it is time to meet the current crisis by fixing our upside-down tax system and corporations and the richest Pennsylvanians—who have seen their incomes recover and wealth increase during the pandemic—to pay more, while cutting taxes on working people.

There is an adage that says “don’t raises taxes during a recession.” But this applies mainly to the federal government and it assumes that raising taxes during recession will reduce consumption an investment and thus deepen the economic contraction. But that is not the situation we face today.

Consumption, especially on the part of the richest Pennsylvanians, is still almost 10% below where it was in January even though their earnings and wealth are higher at the start of the year. For obvious reasons, well-off Pennsylvanians are not going out to dinner, shows, movies or sporting events. They are not traveling, going to hotels or doing much shopping at brick-and-mortar stores. And well-off people from around the country and the world are not traveling to our state and spending money here. Instead, the richest Pennsylvanians are saving their earnings at all-time record levels and many of them are saving even more because they have refinanced their homes to take advantage of low mortgage rates.

Nor, in light of the pandemic-induced recession and the sharp decline in consumption, are businesses investing in the state at levels they were before it began, even though the cost of capital is practically at an all-time low.

If we want to lift the Pennsylvania economy out of a deep recession, the federal and state governments must do the spending and investment the private sector is not doing now. The federal government can deficit spend to do that. But Pennsylvania can do so only by raising revenues—and now, when the richest Pennsylvanians are saving and multinational corporations have cut back on their investments, is the ideal time to ask them to pay their fair share of taxes.

Raising new revenues would enable the state to balance the budget this year without budget gimmicks and also allow it to help small businesses, ensure that families do not lose their homes, help school districts make up for lost local revenues, and ensure that everyone continues to have access to doctors and hospitals. It would provide the revenues we will need next year to make up for another revenue shortfall. And once the immediate crisis is over the state would have more funds to begin to meet our long-standing public investment deficit, especially in education at all levels and infrastructures, the investments we so desperately need to generate increased productivity and economic growth in the future.

Over the years, we have put forward a number of ideas to raise revenues fairly. They include

- the Fair Share Tax, which would cut taxes for half of Pennsylvanians, enabling them to better weather the storms of the pandemic and help our economy recover, while raising about $2.3 billion in new revenues, half of which would come from the top 1% of Pennsylvanians and 88% of which would come from the top 5% of households in the state;
- corporate tax reform in the form of instituting world-wide combined reporting, which would generate roughly $500 million by asking the 73% of out-of-state multi-national corporations that pay no corporate taxes to do so; and
- a severance tax on natural gas drilling which, when gas prices recover, would raise $300 to $400 million per year.

Other possible sources of new revenues are transferring funding from the Race Horse Development Fund, legalizing adult-use cannabis, and legalizing video gaming terminals.

A recent paper by Sharon Ward makes a compelling case for eliminating subsidies for the race horse industry.[12] The subsidy generates few jobs and transfers money from Pennsylvanians with low and moderate incomes to rich race horse owners around the country and abroad. In addition, it supports horse owners who often treat their animals with cruelty.

We have supported the legalizing adult-use cannabis in the past and continue to think it is a good idea for many reasons, including the raising of new revenues that could reach $500 million a year in a few

[12] Sharon Ward, The Race Horse Development Fund: How Pennsylvanians Bankroll the Sport of Kings, Education Voters of PA, May 2020.

years.[13] With the fiscal year half over, however, it will not contribute to solving the current budget problem although it could help in future years.

We remain dubious about video gaming terminals, partly because gaming revenues tend to be highly regressive and partly because we fear that video gaming terminals would cannibalize existing gaming revenues.

Conclusion

We understand that raising taxes, especially on the rich and corporations, is too far for the Republicans that control the PA General Assembly to go. But if House Republicans are not willing to ask those of us doing better during the recession to help other Pennsylvanians, at the very least they should stop dividing Pennsylvanians from one another which harms us all by demanding irresponsible cuts to a budget that is already tight. At the very least, they must support a workable compromise upon which we can build for the future.

But even doing that would not be enough to truly meet the needs of Pennsylvanians in either the short-term or long-term. We understand that neither the General Assembly that currently sits in Harrisburg, nor the one elected in the recent General Election, is likely to adopt the bold policies we support.

But our task is to tell the truth as we see it, the truth about both the injustice and inequity that exists in our Commonwealth right now and about the public policies that could relieve them and create a far better world for most Pennsylvanians.

We write, in other words, with the faith that telling the truth about our circumstances will ultimately help Pennsylvanians understand that there is an alternative to which they can aspire—one in which everyone, no matter what they look like, where they live, where they come from, or whether they started off poor or rich, can thrive.

[13] Diana Polson, Exploring the Potential Benefits of Adult-Use Cannabis Legalization in Pennsylvania, Pennsylvania Budget and Policy Center, October 2, 2019.