

# A Bold Budget for This Moment of Crisis and Beyond:

## An Analysis of Governor Wolf's Proposed Budget for 2021-22

Thursday, March 11, 2021



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AND  
PA BUDGET AND POLICY CENTER

# About the Pennsylvania Budget and Policy Center

PBPC is an independent, nonpartisan organization based in Harrisburg that works to create broadly shared prosperity in Pennsylvania by means of research, policy analysis, advocacy and organizing.

[www.krc-pbpc.org](http://www.krc-pbpc.org)

# A Different Kind of Budget Presentation

- Focus on major initiatives today.
- Read the rest
  - in our budget analysis.
  - in the “Know the Issues” section of our website.



# The State's Role in Creating a Just Recovery

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# The COVID-19 Pandemic and the Budget

## The pandemic

- has been felt most by low-income workers.
- has revealed deep educational inequities.
- has accelerated industry restructuring, which requires a smart public policy response.
- has revealed continuing inequities in the state's tax system.



# Governor Wolf's Major Initiatives

- Raise the minimum wage.
- Reconfigure the way the state funds our schools and add more than \$1 billion to basic education funding.
- Establish Nellie Bly Scholarship Program.
- Implement Back to Work PA.
- Implement tax reform.

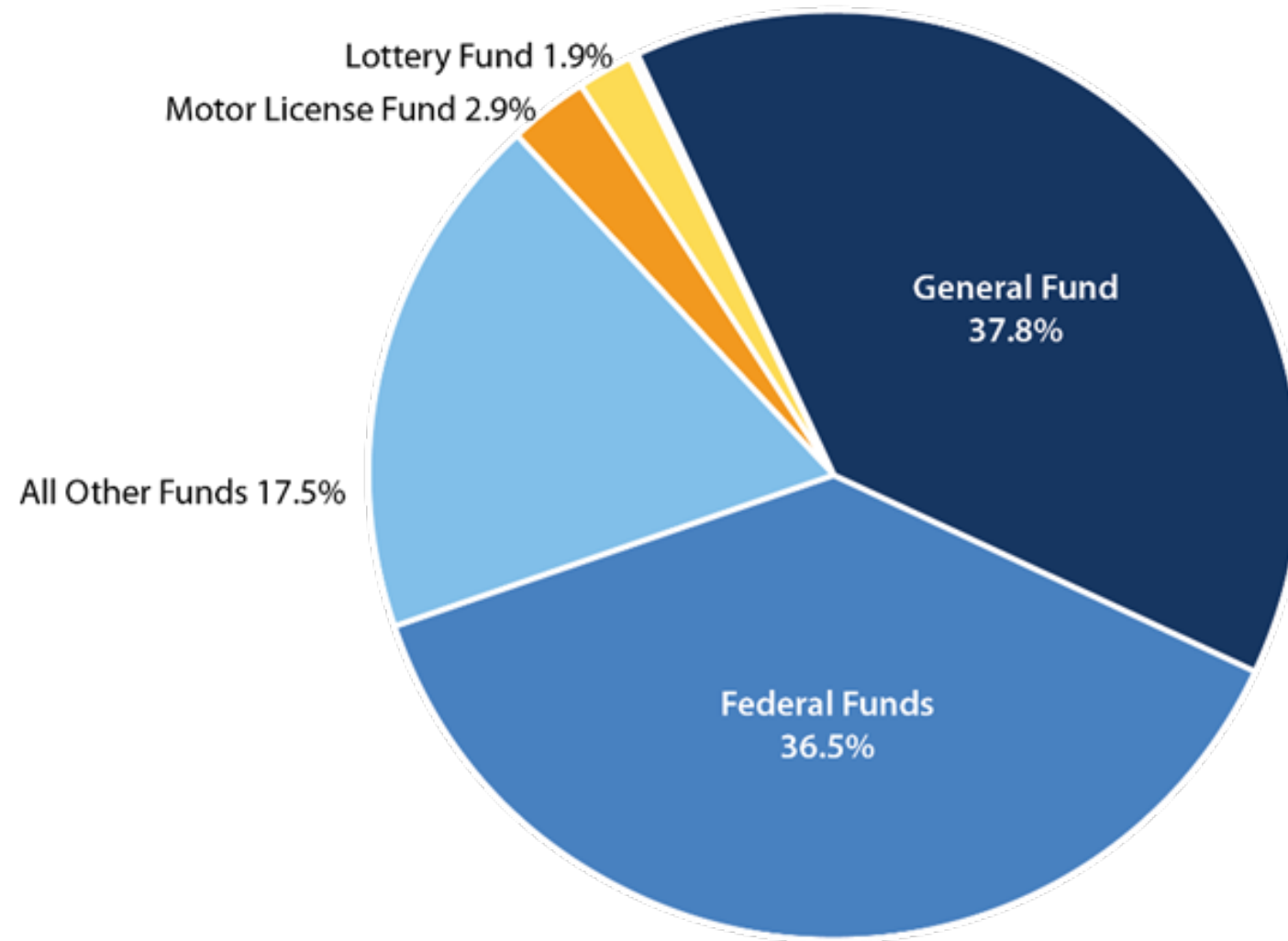


# Overview of Pennsylvania's Budget

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## Components of the Pennsylvania's Proposed 2021-22 Combined Operating Budget



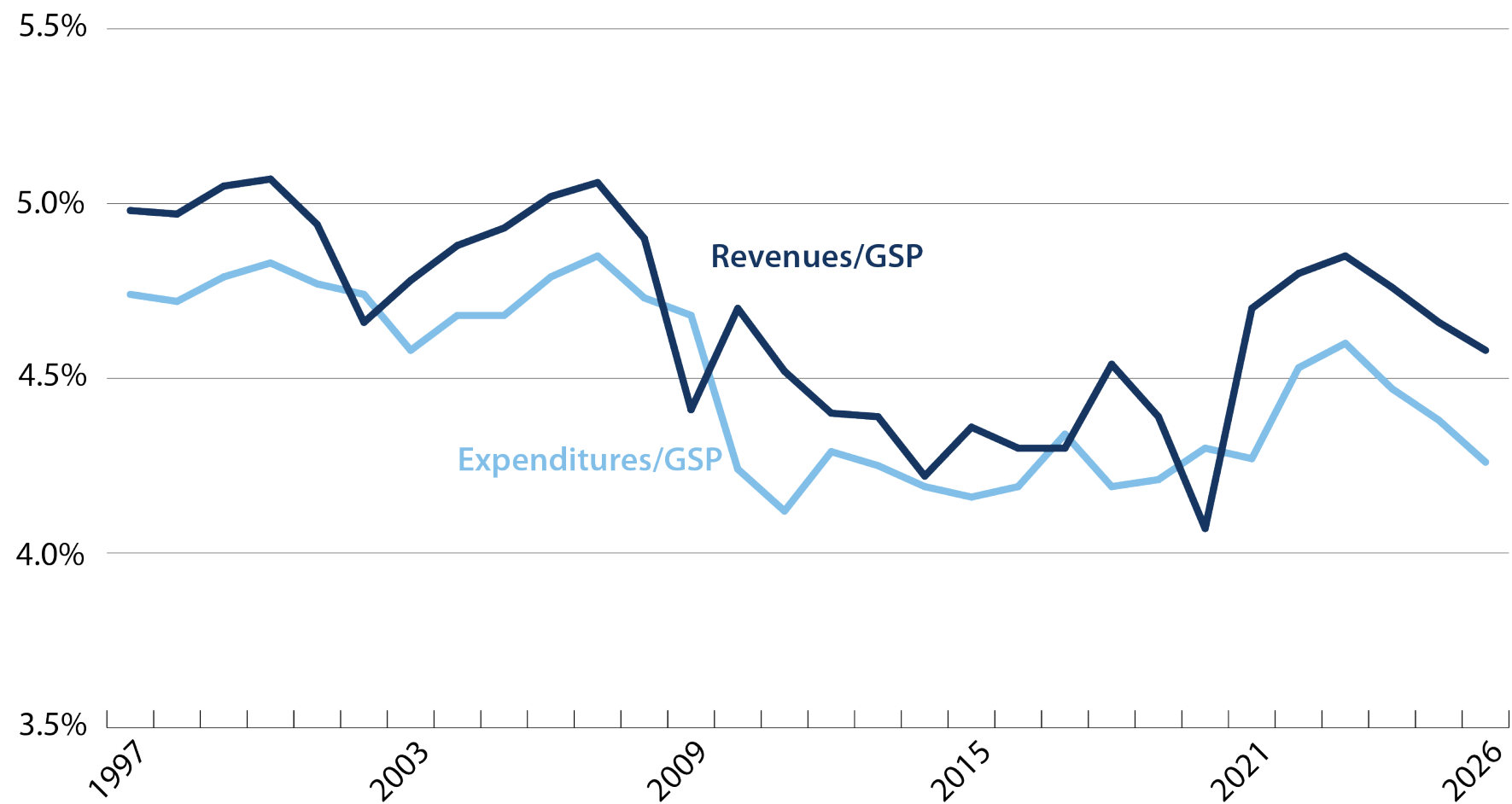
Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2021-22 "Budget in Brief," February 2, 2021.



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# General Fund Expenditures and Revenues Have Become a Smaller Share of the Economy Over Time



Source : Pennsylvania Budget and Policy Center based on Independent Fiscal Office report, “Economic and Budget Outlook, Fiscal Years 2018-19 to 2024-25,” Tables A3 and A4

## 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%              | 4.86%          |                                             |
| Average 2012 to 2015              | 4.22%              | 4.34%          | -9%                                         |
| Average 2016 to 2020              | 4.25%              | 4.32%          | -9%                                         |
| <b>Governor's budget 2021-22*</b> | <b>4.53%</b>       | <b>4.80%</b>   | <b>-3%</b>                                  |
| Projections 2023 to 2026*         | 4.43%              | 4.71%          | -5%                                         |

\*Years 2021 to 2026 are budget numbers and projections from the Governor's budget. Prior years are from the IFO.

Source: Pennsylvania Budget and Policy Center based on Independent Fiscal Office, "Economic and Budget Outlook, Fiscal Years 2020-21 to 2025-26," January 2021; and 2021-22 Executive Budget (February 2, 2021).

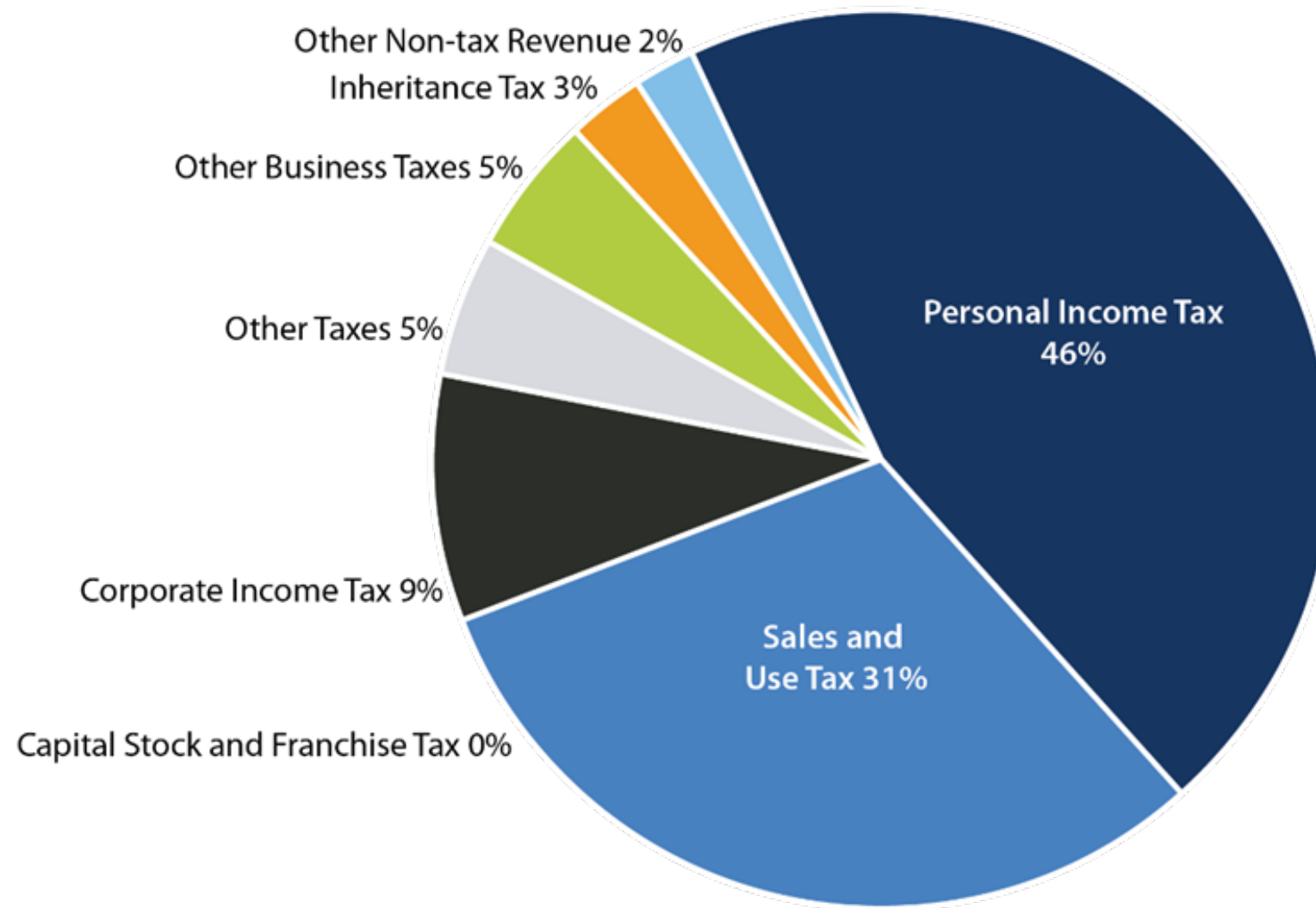


# General Fund Revenues and Taxation

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## Governor's Proposed General Fund Revenue, 2021-22: \$40.1 Billion

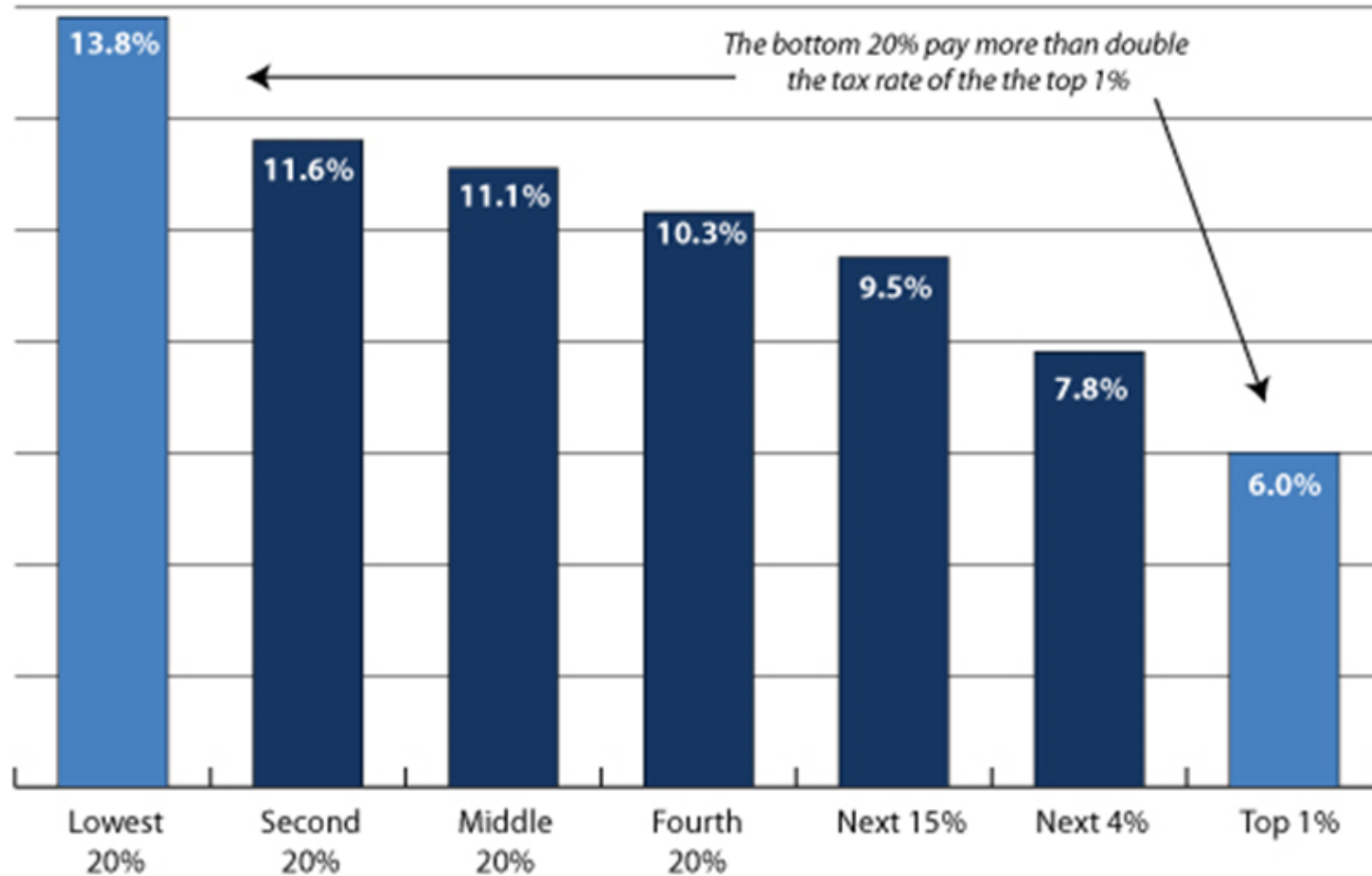


Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2021-22 Executive Budget (February 2, 2021).



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## In Pennsylvania, Higher Income Taxpayers Pay A Lower Share of Their Income in State and Local Taxes



Total State and Local Taxes as a % of Income in Pennsylvania

Source: Institute on Taxation and Economic Policy, Who Pays? <http://www.itep.org/whopays/>



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# Personal Income Tax

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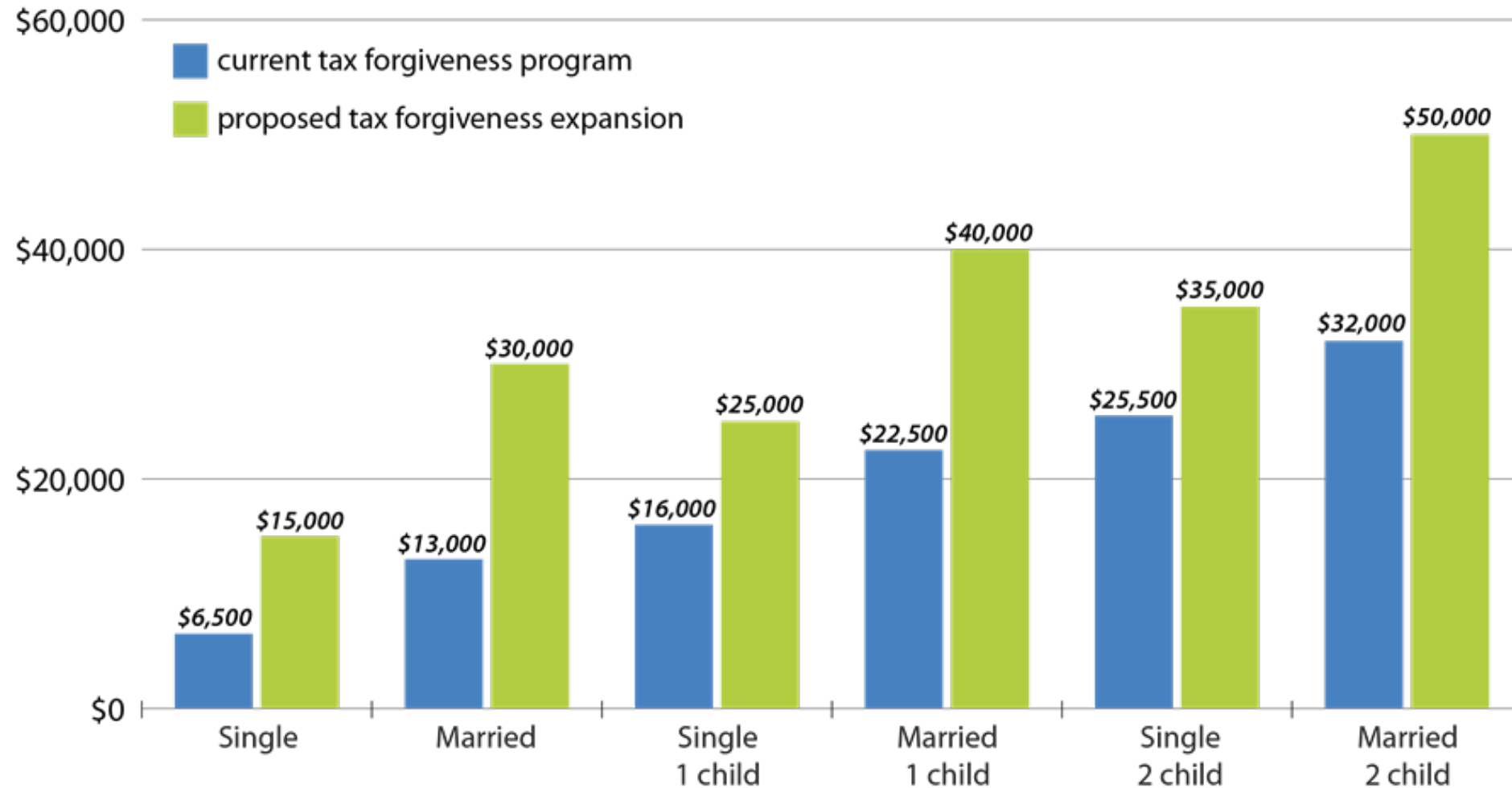
# Governor Wolf's Tax Proposal to Raise Much Needed Revenue for the State

- Increase the personal income tax rate from 3.07% to 4.49%.
- Expand Pennsylvania's Tax Forgiveness Program so that moderate- and low-income households won't be negatively impacted by the increase.



# Under Governor Wolf's Proposal to Expand Pennsylvania's Tax Forgiveness Program, the Income Threshold for 100% Forgiveness Would Significantly Increase

Income threshold for 100% tax forgiveness under current program and proposed expansion



Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2021-22 Executive Budget (February 2, 2021) and data on PA Tax Forgiveness from: <https://www.revenue.pa.gov/FormsandPublications/PAPersonalIncomeTaxGuide/Pages/TaxForgiveness.aspx>

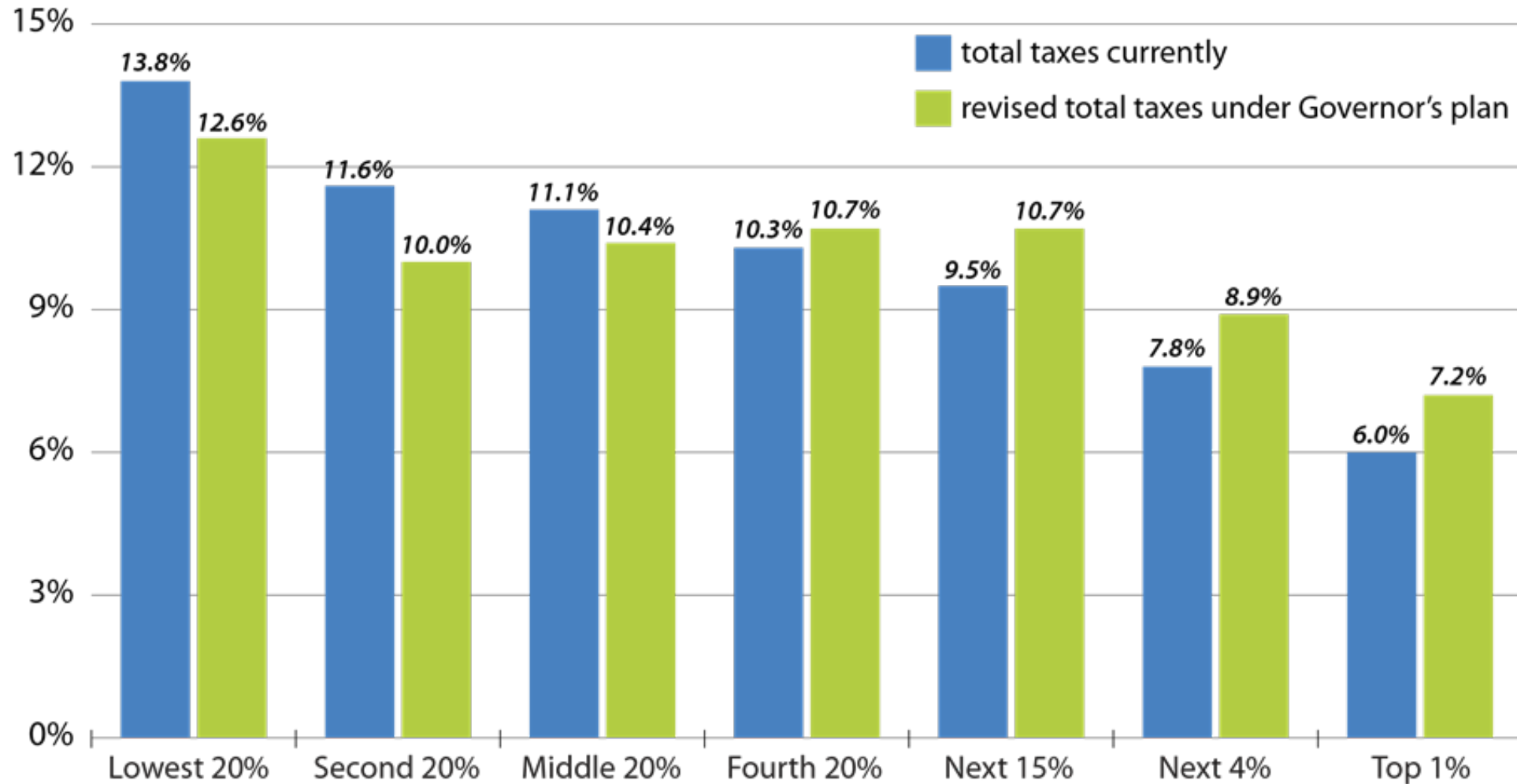


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# Governor Wolf's Tax Change Proposal Would Lessen the Tax Burden on the Poorest 60% of Income Earners and Increase it for the Top 40%

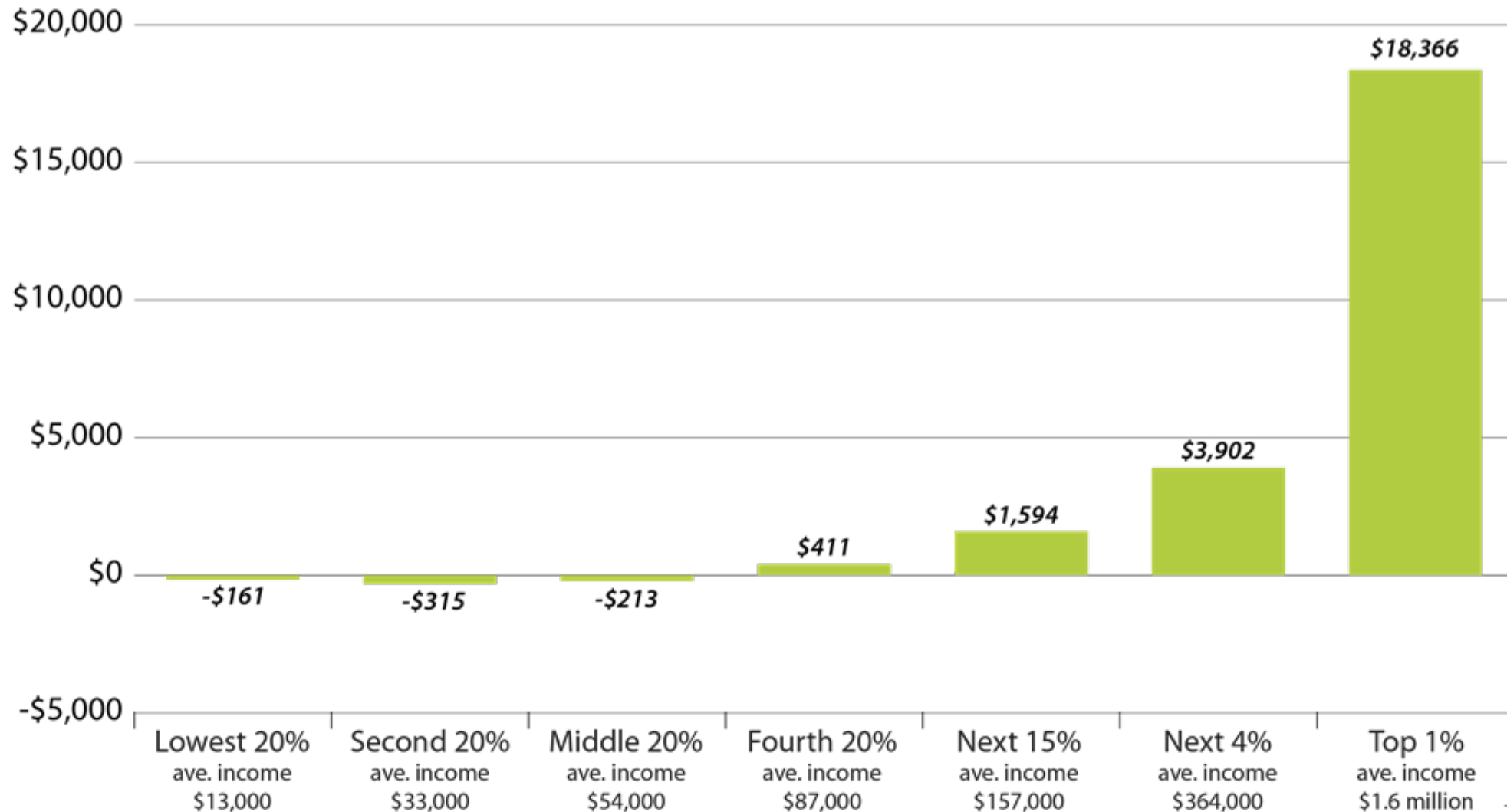
Share of income spent on state and local taxes, by income group in Pennsylvania



Source. Pennsylvania Budget and Policy Center analysis of Institute on Taxation and Economic Policy data.

# Under Governor Wolf's Plan, the Top 1% of Income Earners Would See the Largest Dollar Amount Changes to Their Taxes

Average tax change under Governor Wolf's plan for 2019 income levels



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Source: Pennsylvania Budget and Policy Center analysis of Institute on Taxation and Economic Policy data.

# Corporate Taxes

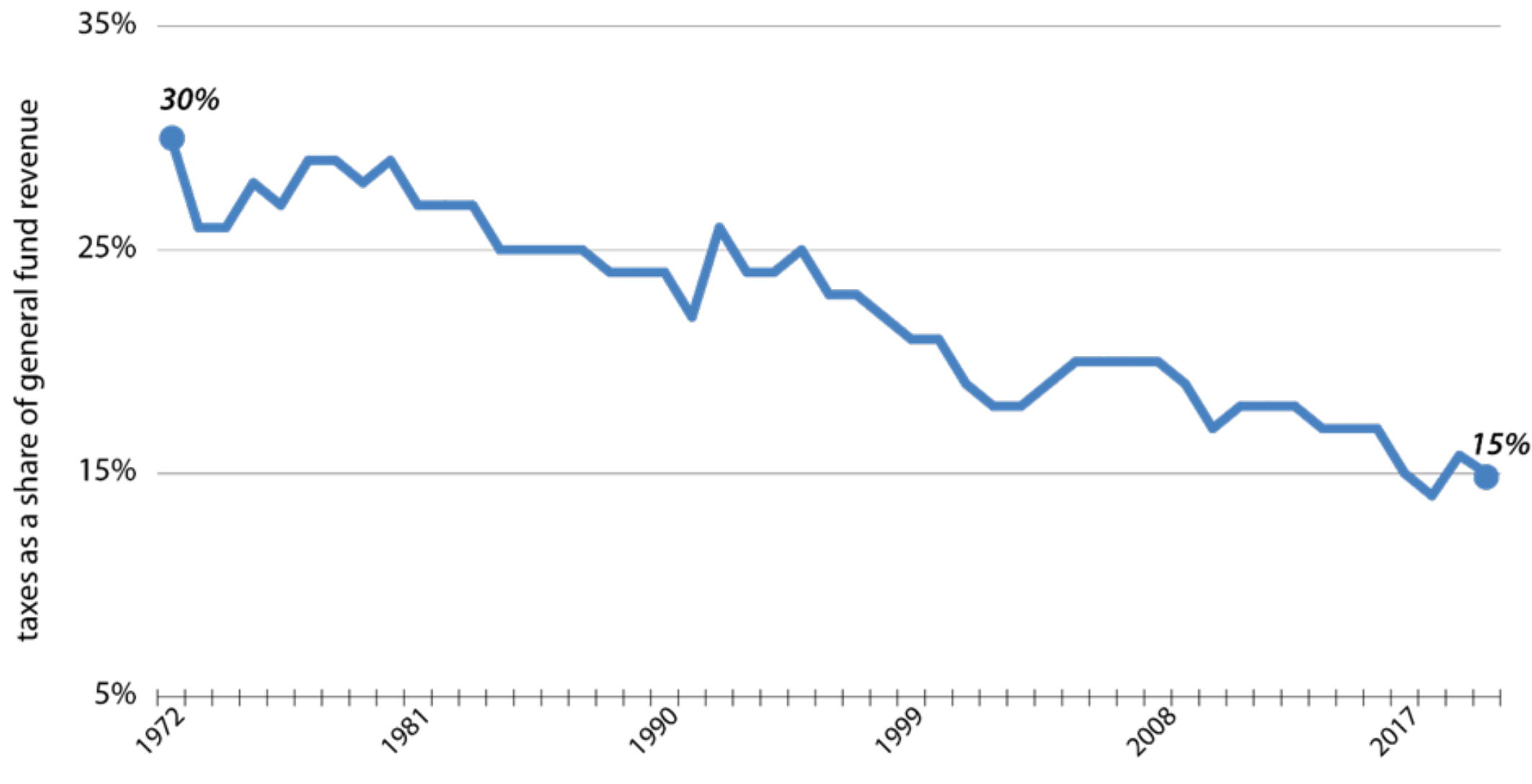
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# Corporate Taxes Are Providing a Smaller Share of General Fund Revenue Over Time

As a share of General Fund revenue, corporate taxes account for half (15%) today of what it did in 1972 (30%).



Source: Pennsylvania Budget and Policy Center based on Pennsylvania Department of Revenue, Bureau of Research, The Statistical Supplement to the Tax Compendium, various years.



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# Corporate Taxes

Governor Wolf proposes:

- a gradual decrease in the corporate net income tax from 9.99% to 5.99%.
- combined reporting, which will ensure corporations pay their fair share.



# Raising the State Minimum Wage

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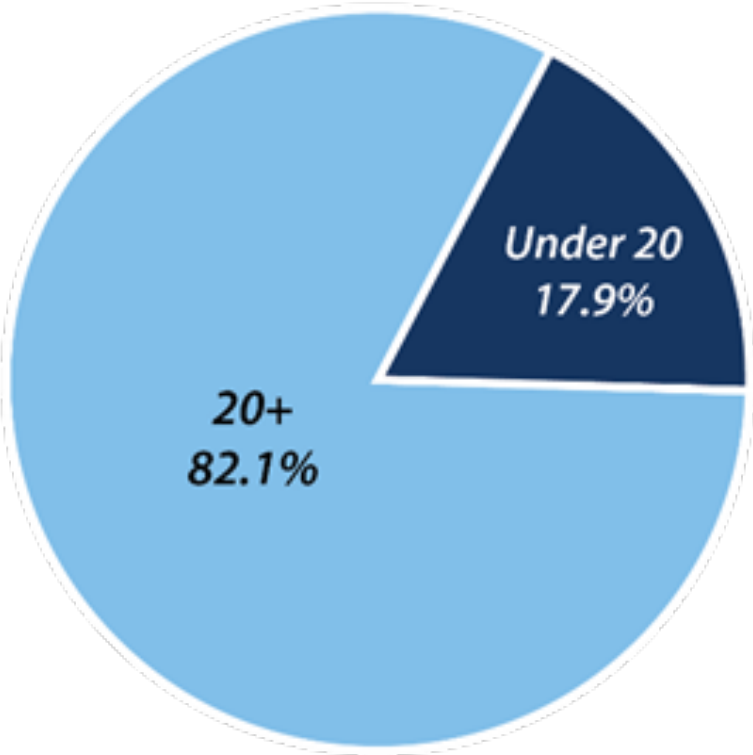
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# The Governor's Minimum Wage Proposal

- Increase the minimum wage to \$12 (July 1, 2021).
- Every year, increase the wage by an additional 50 cents until the minimum wage reaches \$15 in 2027.
- One Fair Wage – eliminate Pennsylvania's tipped minimum wage of \$2.83/hour.
- By 2027 27.5% of the PA workforce, 1.6 million people will be making \$6 billion more
- Will raise:
  - \$116.4 million in personal income tax and sales and use tax in 2021-22.

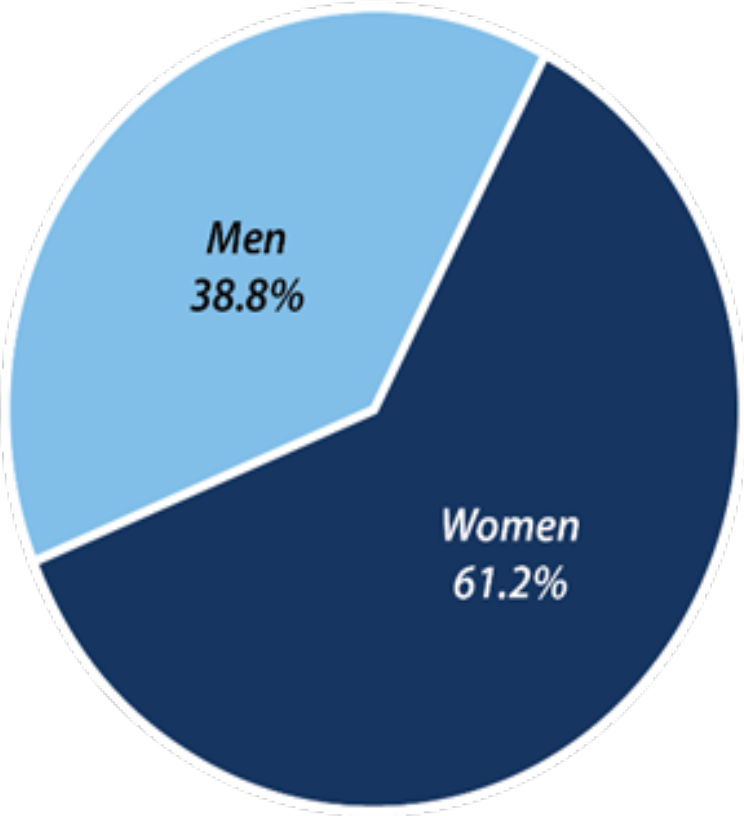
# Most Workers Who Benefit From a \$15 Minimum Wage Increase are Not Teens

Share of those who would benefit from an increase to \$15 in 2027 by age category.



Source: Keystone Research Center based on data from the Economic Policy Institute.

# Women Make Up Over 60% of Workers Who Benefit From a Minimum Wage Increase to \$15/Hour by 2027



Source: Keystone Research Center based on data from the Economic Policy Institute.



# White Workers Make Up Most of Those Who Benefit From a 2027 Raise to \$15/Hour; Larger Shares of Workers of Color Benefit

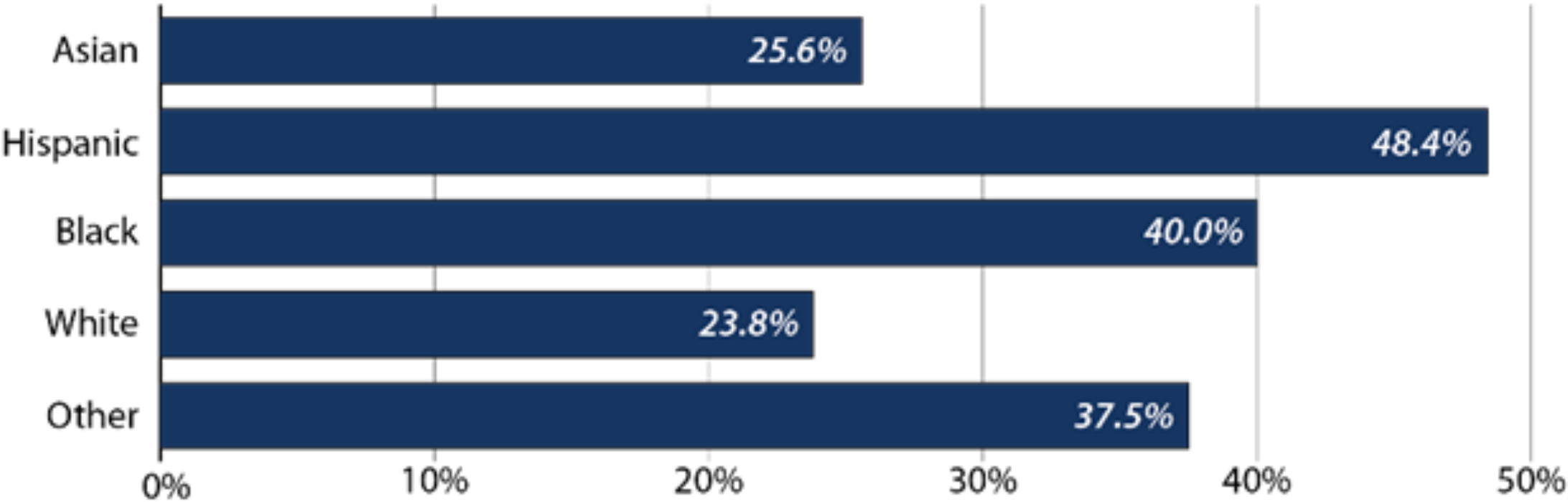


Source: Keystone Research Center based on data from the Economic Policy Institute.



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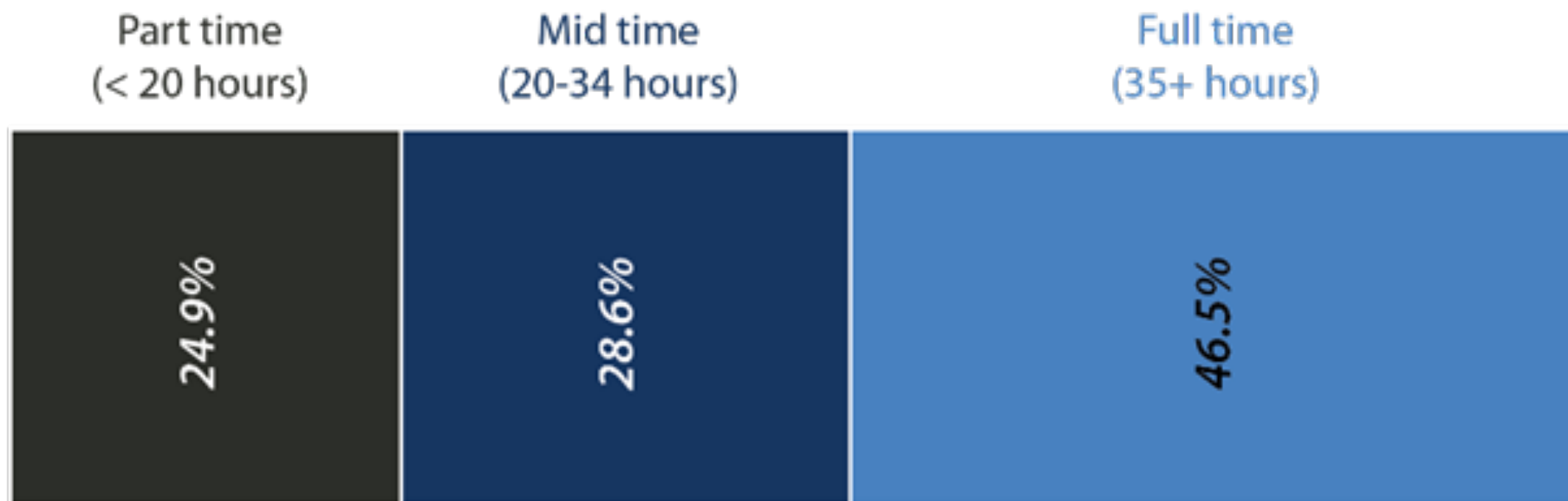
# Share of Workers in Each Racial/Ethnic Group that Benefit From a \$15 Wage in 2027



Source: Keystone Research Center based on data from the Economic Policy Institute.

# Full Time Workers Benefit the Most From a Minimum Wage Increase to \$15 by 2027

Share of affected workers by hours worked.



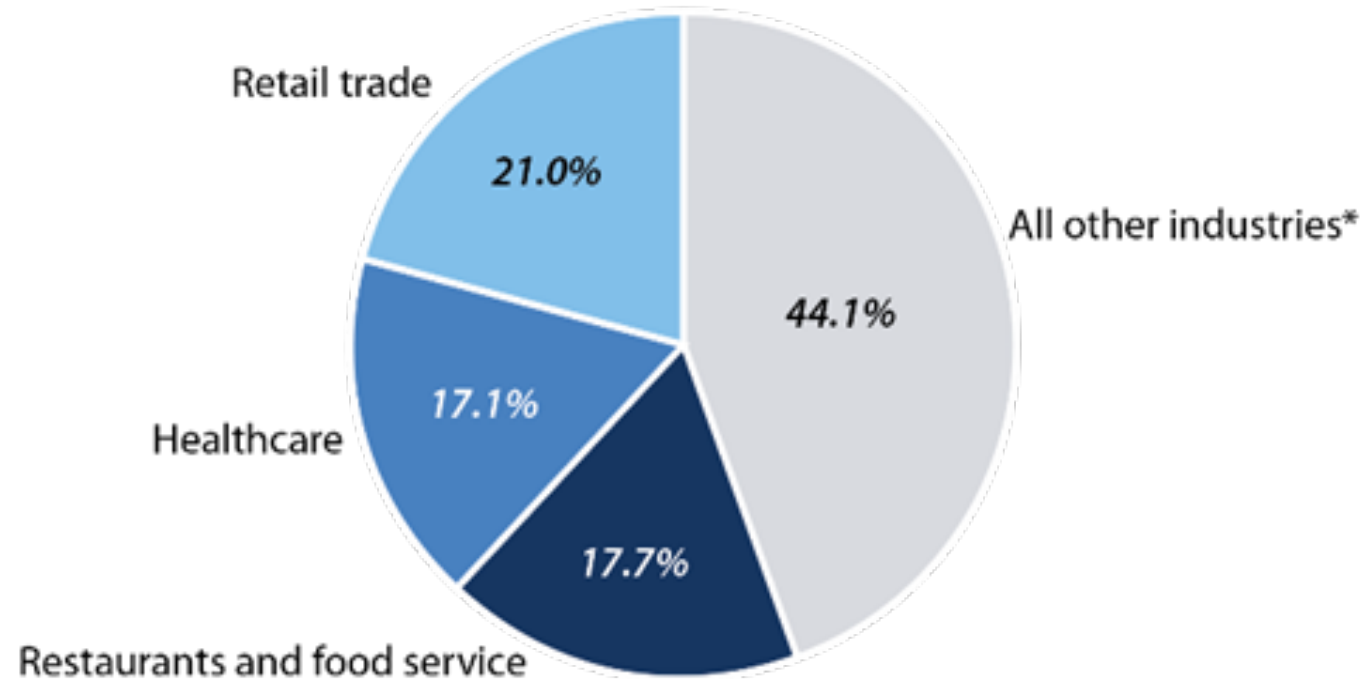
Source: Keystone Research Center based on data from the Economic Policy Institute.



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# More Than Half of Workers Who Benefit Are in Service Industries and Healthcare

Share of affected workers who are in each industry.



\* All other industries includes: Manufacturing (6.8%); Education (6.0%); Other services (6.5%); Administrative, support, and waste management (5.0%); Transportation, warehousing, utilities (3.7%); Arts, entertainment, recreational services (3.5%); Construction (2.2%); Finance, insurance, real estate (2.0%); Wholesale trade (2.1%); Accommodation (1.9%); Professional, scientific, management, technical services (1.3%); Agriculture, forestry, fishing, mining (1.4%); Public administration (1.0%); and Information (0.7%).

Source: Keystone Research Center based on data from the Economic Policy Institute.



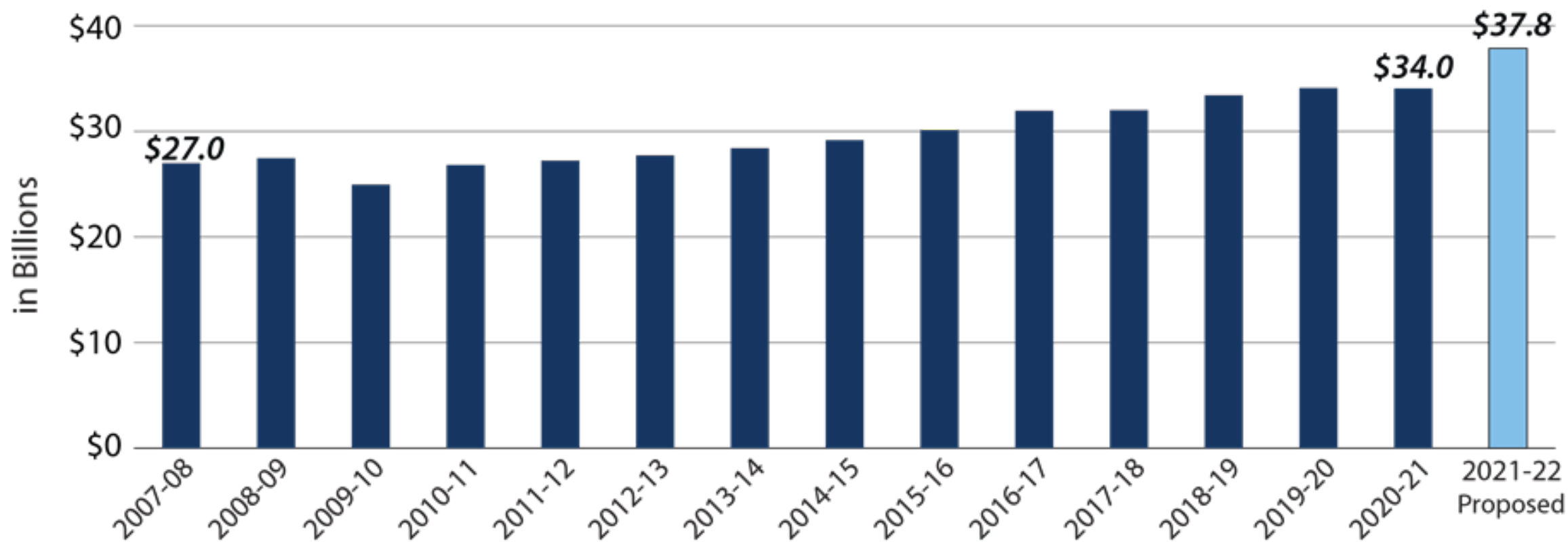
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# General Fund Expenditures

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## The 2021-22 Proposed Budget Increases General Fund Spending by 11.1% from the Prior Year



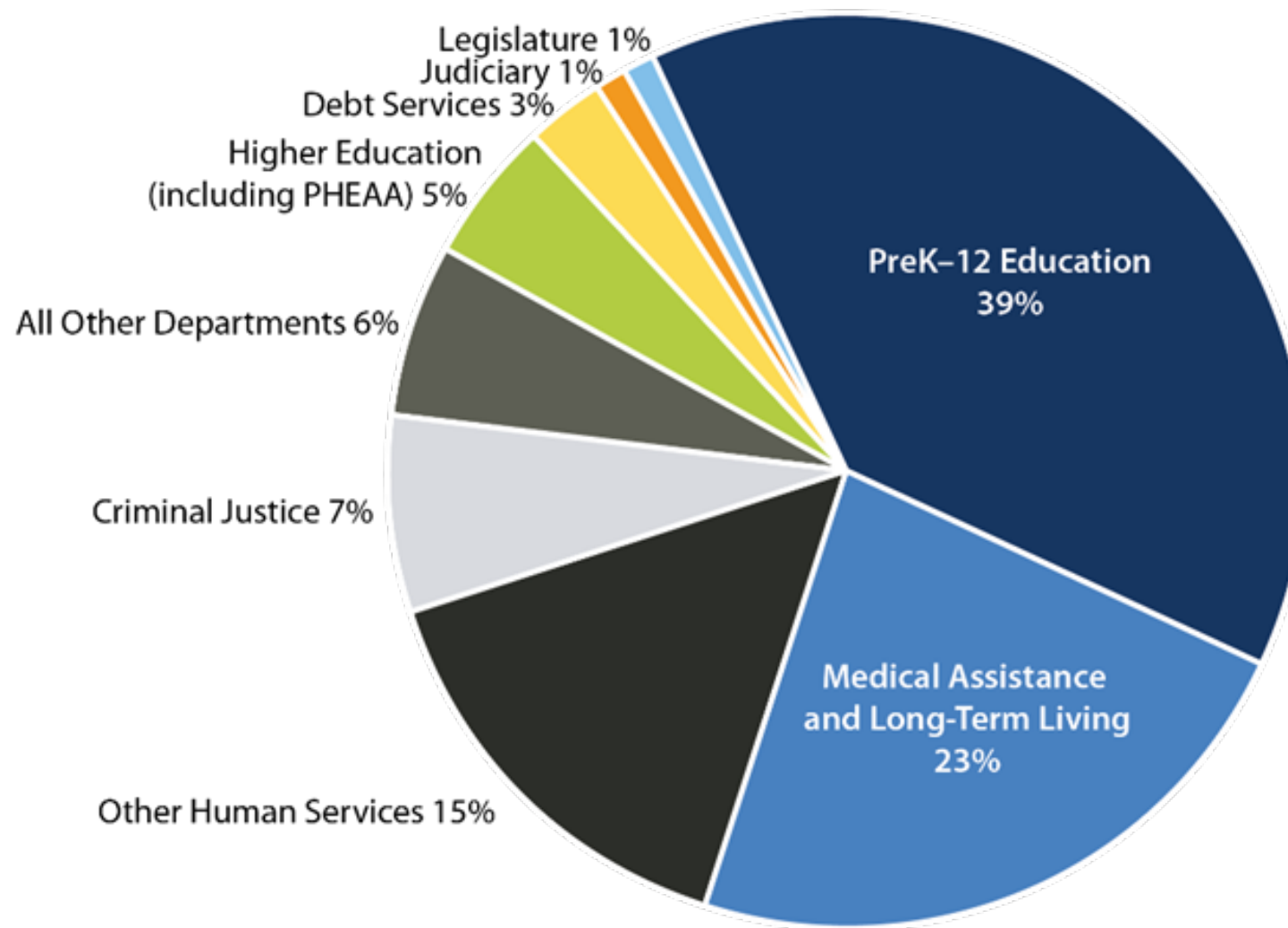
Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2021-22 Executive Budget (February 2, 2021) and previous budgets.



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## 2021-22 General Fund Expenditures

Share of the total state expenditures by major category in the 2021-22 Governor's proposed budget



Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2020-22 Executive Budget (February 2, 2021)



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# K-12 Education

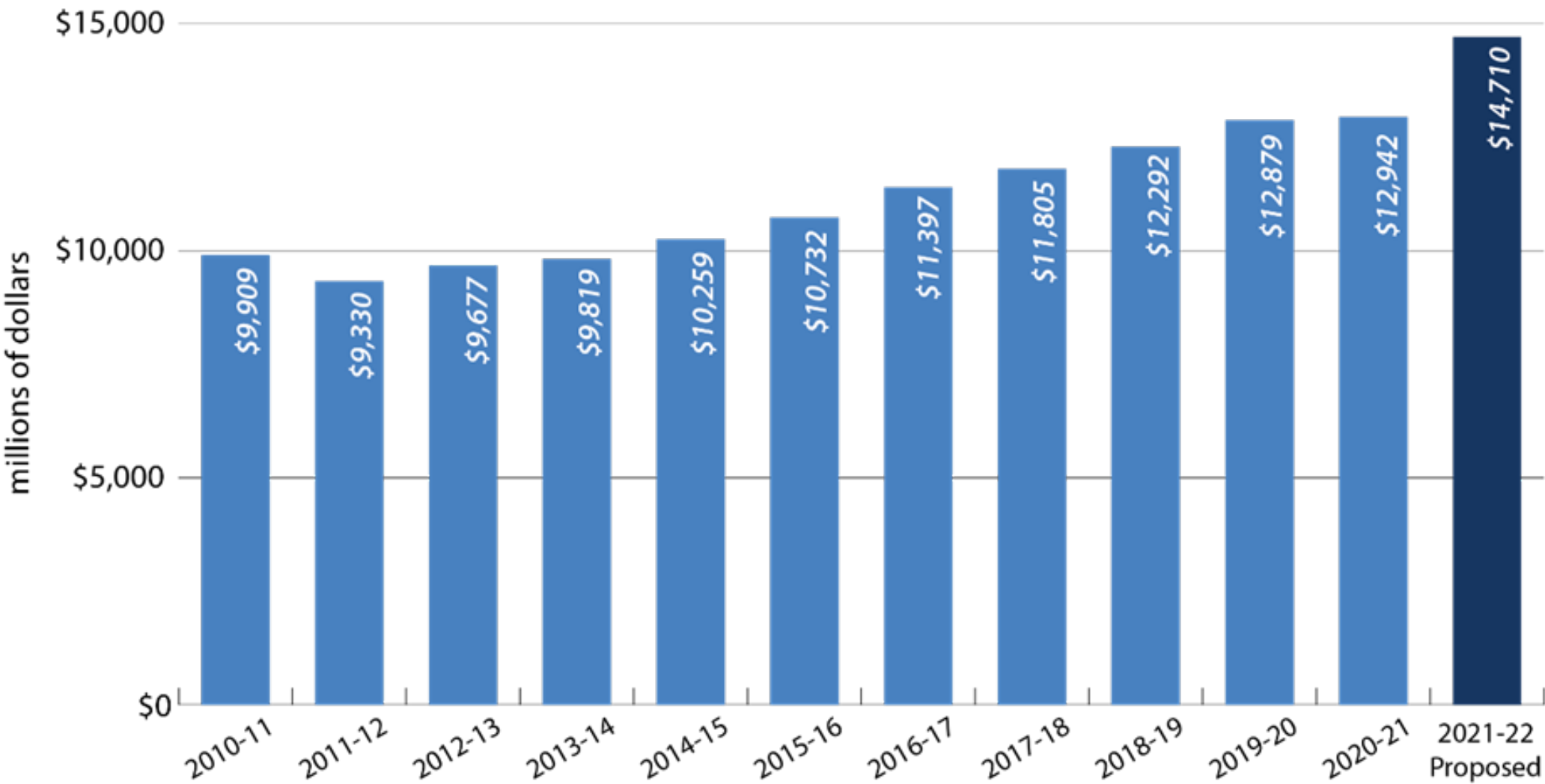
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# The 2021-22 Proposed Budget Would Increase Spending on PreK-12 by 13.7% from Last Year

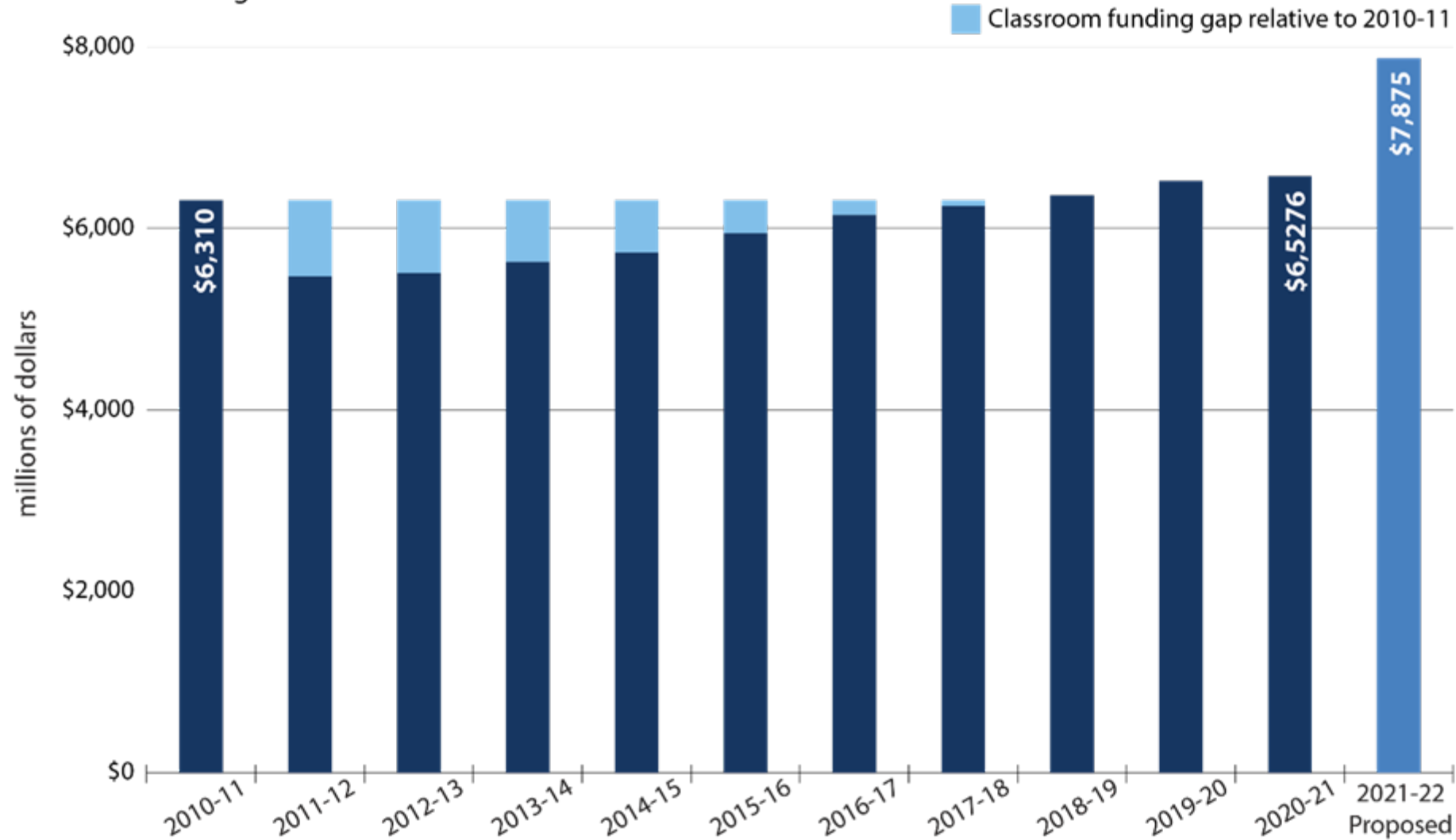
Total PreK-12 spending 2010-11 to 2021-22



Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf’s 2020-21 Executive Budget (February 4, 2020) and previous budgets.

# Governor Wolf's 2021-22 Proposed Budget Would Increase Classroom Funding by 18.9% from the Previous Year

Classroom funding\* 2010-11 to 2019-20



\*Classroom funding includes the basic education subsidy plus formula enhancements, charter reimbursements, accountability block grants, and American Recovery and Reinvestment Act (ARRA) funding.

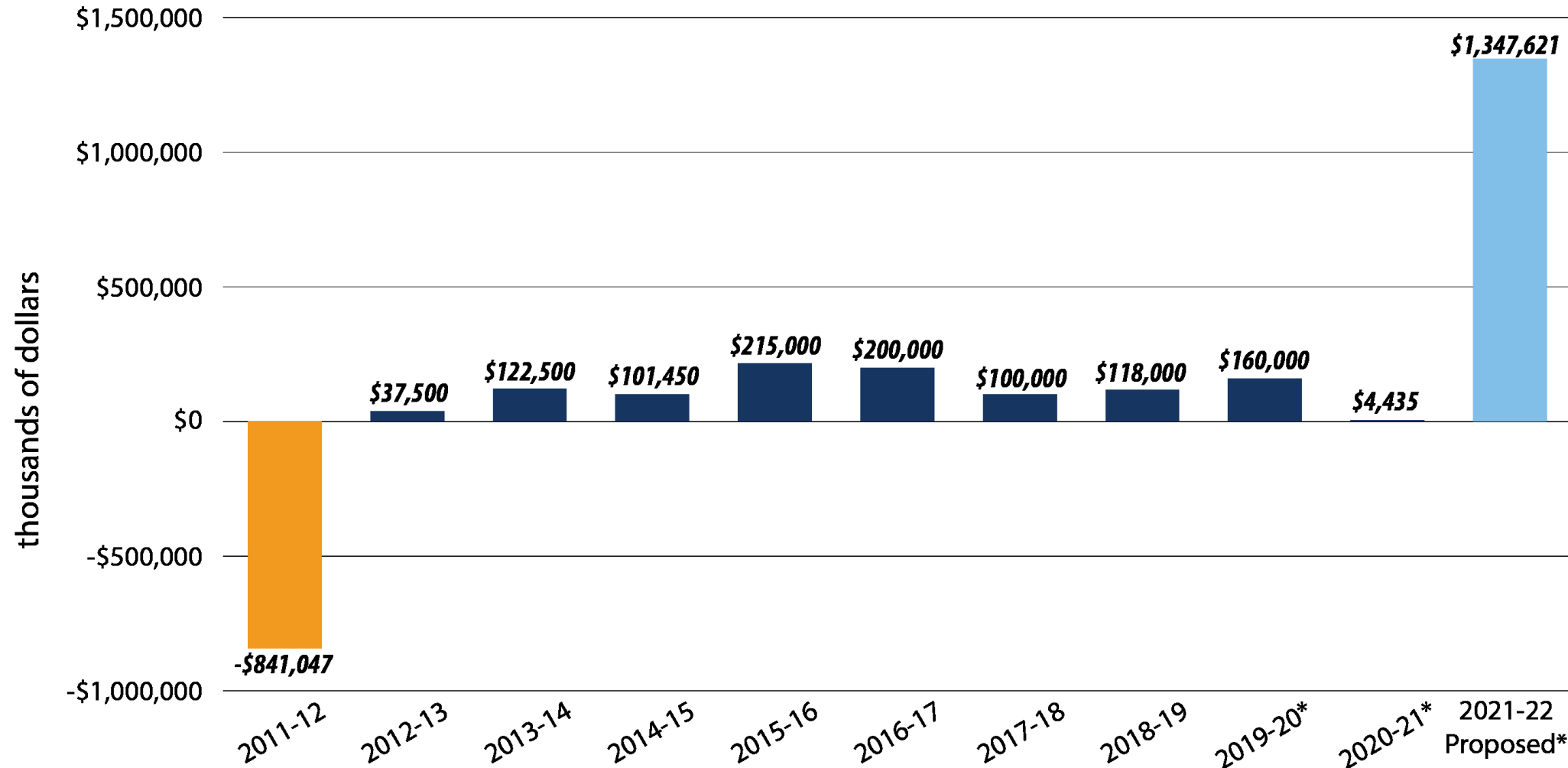
\*\* In 2019-2020 and 2020-21, the General Assembly combined the Teacher Social Security line item with Basic Education funding, increasing the BEF by \$487 million in 2019-20, \$502 million in 2020-21, and \$527 million in 2021-22. We have reduced the enacted BEF total by that amount in order to make year-to-year accurate comparisons in state support for K-12 classroom spending possible.

Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2021-22 Executive Budget (February 2, 2021) and previous budgets



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# Yearly Change in Classroom Spending in Pennsylvania, 2011-12 to 2021-22 Proposed



\* Since 2019-20, the General Assembly combined the Teacher Social Security line item with Basic Education funding, increasing the BEF by \$487 million in 2019-20, \$502 million in 2020-21 and \$527 million in 2021-22. We have reduced the enacted BEF total by that amount in order to make year to year accurate comparisons in state support for K-12 classroom spending possible.

Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2021-22 Executive Budget (February 2, 2021) and previous budgets.

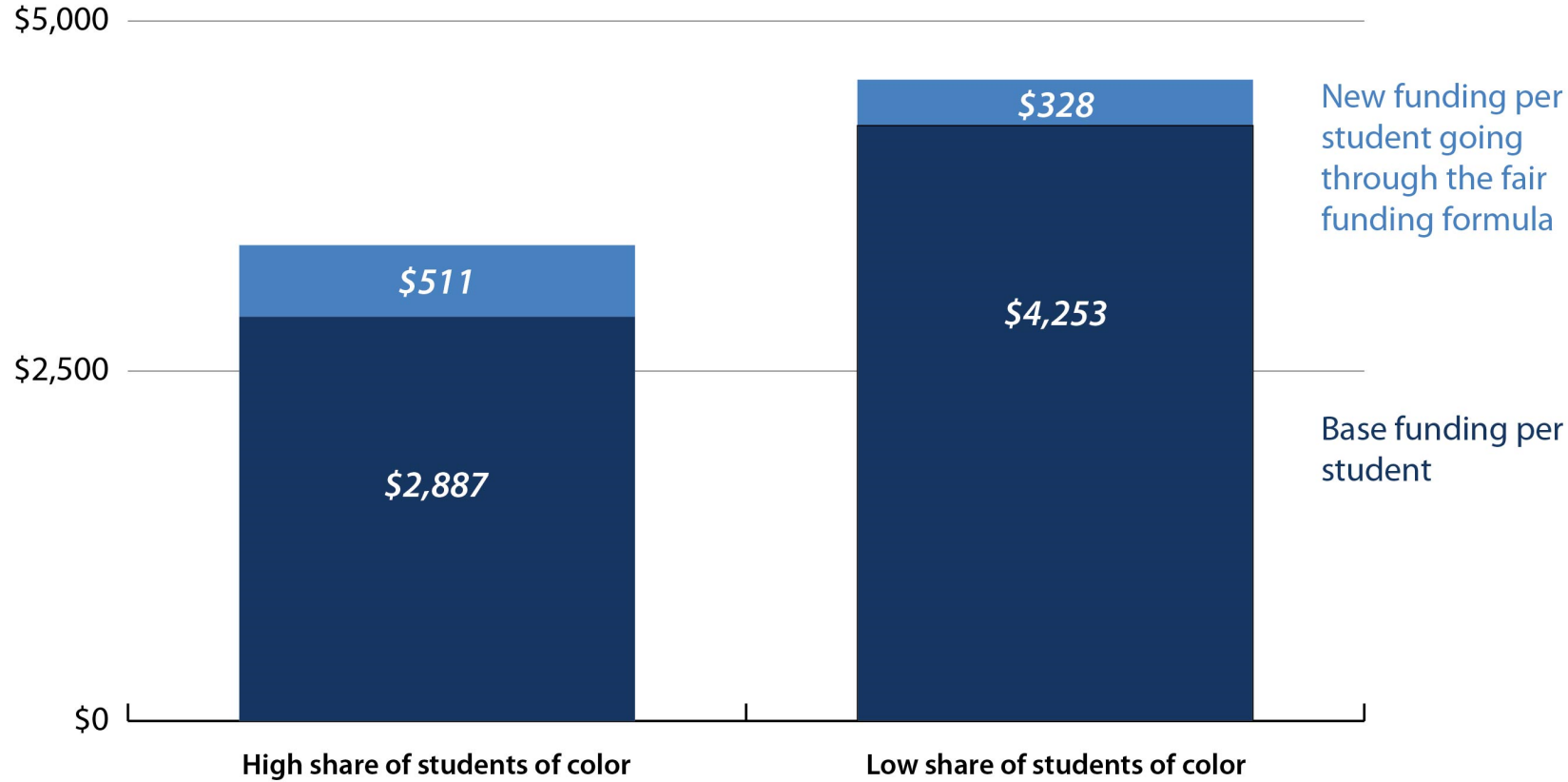
# Funding Inequities

- The state contribution to K-12 funding is low (38% compared to the national average of 47%).
- Local governments must raise the rest, despite variation in tax bases.
- PA leads the nation in disparities between our wealthiest and poorest school districts—students in the poorest districts receive 33% less than students in the richest.



# Per Student Funding by Percent Share of Students of Color, Governor Wolf’s Proposed 2020-21 Funding, Base Funding and New Funding

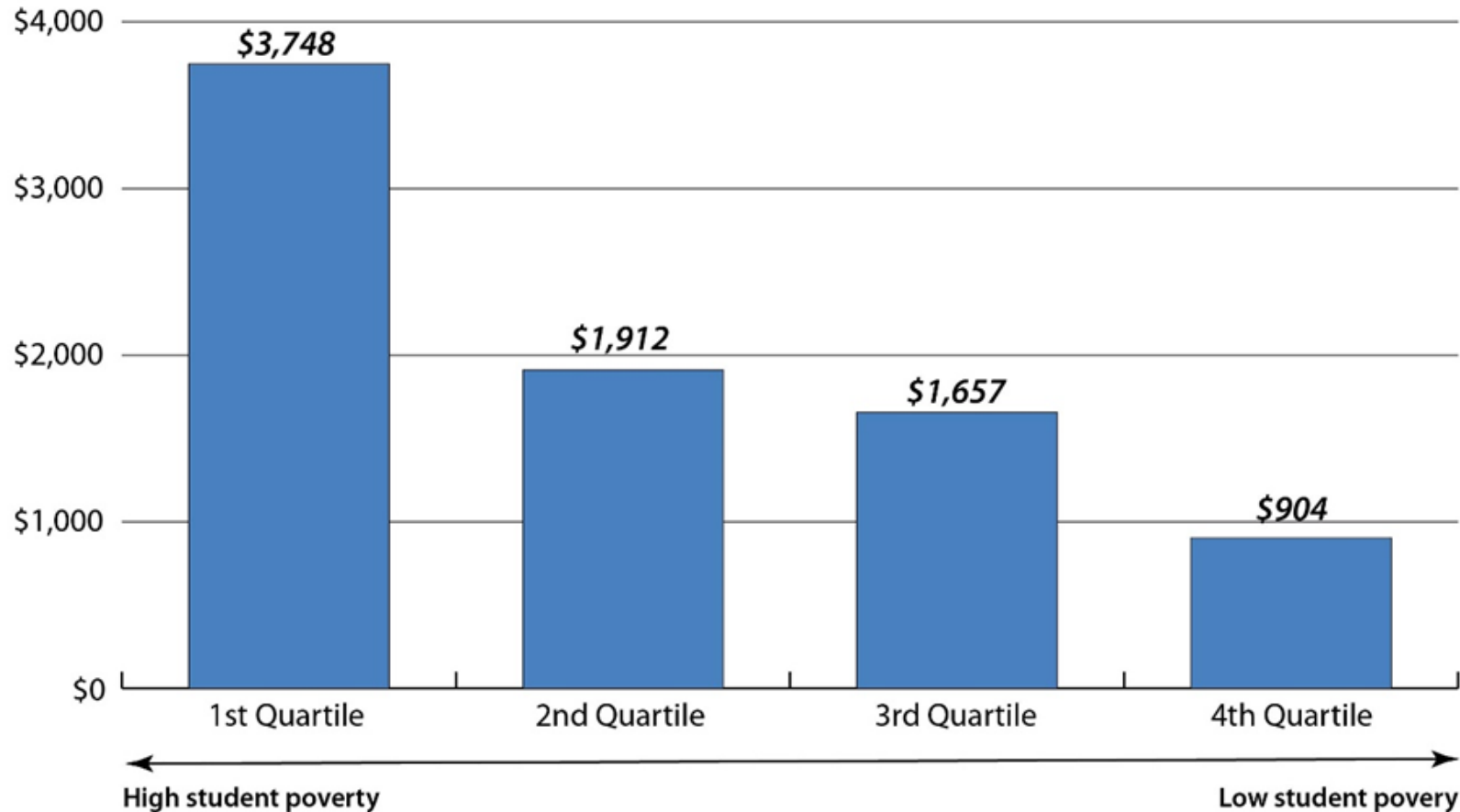
The state’s 500 school districts are broken down into two groups of 250 school districts based on the percent share of students of color. The districts with the highest share of students of color are divided into two categories, labeled as such. The dollar amounts plotted for each group represent the enrollment weighted average of the proposed 2020-21 Basic Education Funding subsidy, base funding and new funding (distributed by the fair funding formula).



Source: Keystone Research Center analysis of data from the Pennsylvania Department of Education.

## The Gap Remaining Between Per Student Funding in 2019-20 and Guaranteeing that ALL Pennsylvania Schools have What They Need to Properly Educate Their Students

How short of adequacy is per student funding based on calculations by the Public Interest Law Center.



*Note:* The state's 500 school districts are broken down into four groups of 125 school districts based on the percent of children age 5 to age 17 living below the poverty line. The districts with the highest percentage of students in poverty are in the 1st quartile and the districts with lowest percentage of students in poverty are in the 4th quartile. The per student adequacy gap listed for each quartile above is a weighted average within each quartile of the Public Interest Law Center's estimate of state adequacy.

*Source:* Pennsylvania Budget and Policy Center based on data provided by the Public Interest Law Center.



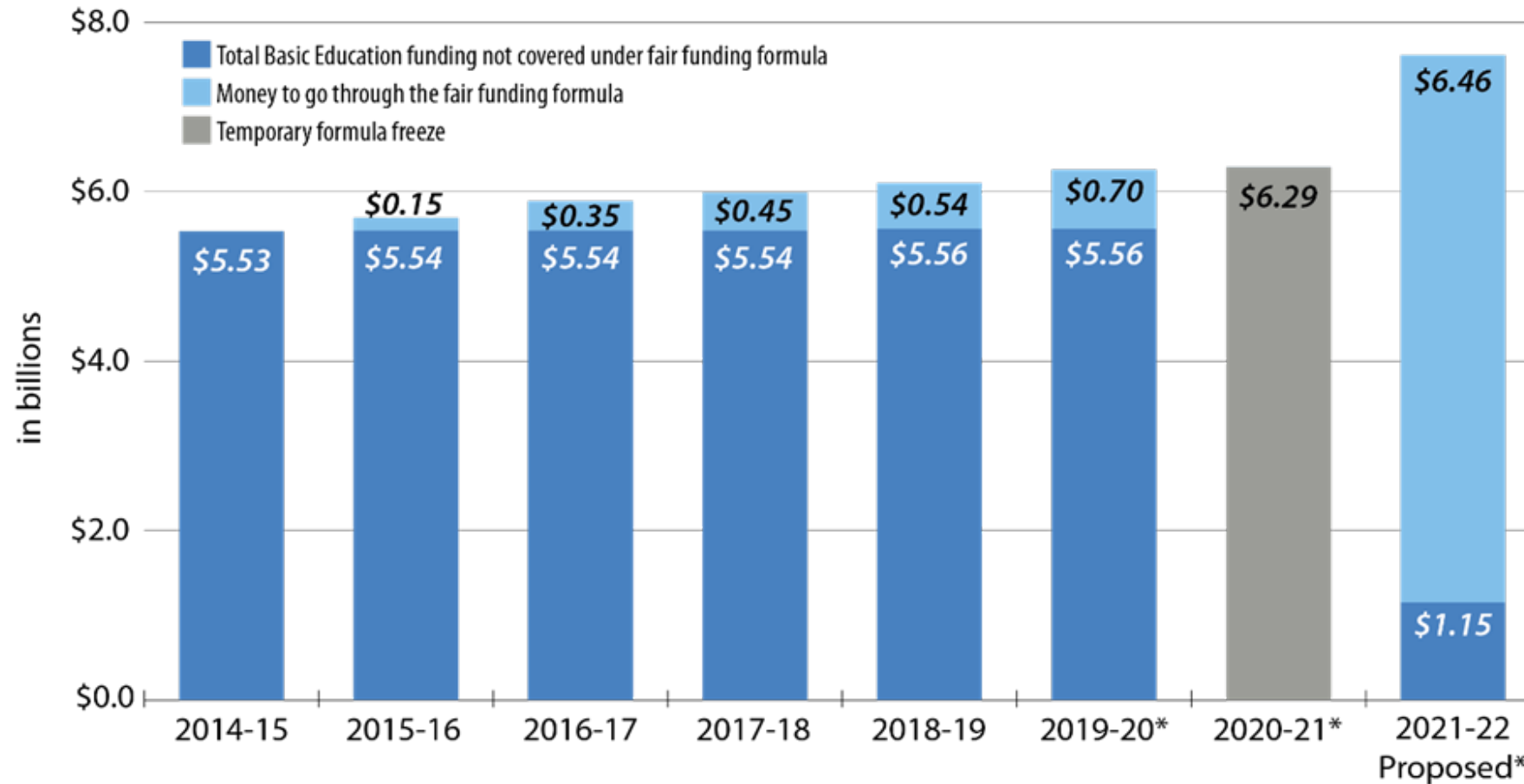
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# The Basic Education Funding Formula and Governor Wolf's Bold Education Proposal

- The Basic Education Funding formula passed in 2016 to address inequities in school funding.
  - Has only applied to “new” funding since 2014-15.
- The governor proposes:
  - all BEF funding from last year go through the formula.
  - an additional \$200 million in funding through the formula.
  - \$1.15 billion to ensure no district gets a decrease.

# In the Governor's Proposed 2021-22 Budget, 85% of Basic Education Funding Will Go Through the Fair Funding Formula, Up from 11% in 2019-20

The \$1.15 billion not going through the formula in 2021-22 is intended to ensure there are no negative funding impact



*Note:* The base amount (pre-formula money) changed slightly in 2015-16 and 2017-18 due to changes in the base allocation for certain school districts. For more information see the Pennsylvania Democratic House Appropriations Committee's report "Governor Wolf's 2019/20 Executive Budget Briefing." Also see Education Budget (pa.gov).

\*In 2019-20, 2020-21, and 2021-22 the General Assembly combined the Teacher Social Security line item with Basic Education funding, increasing the BEF. We have reduced the enacted BEF total by that amount in order to make year-to-year accurate comparisons in state support for K-12 classroom spending possible.  
Source: : Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2020-21 Executive Budget (February 4, 2020) and data downloaded on basic education funding from: <https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Education%20Budget/Pages/default.aspx>

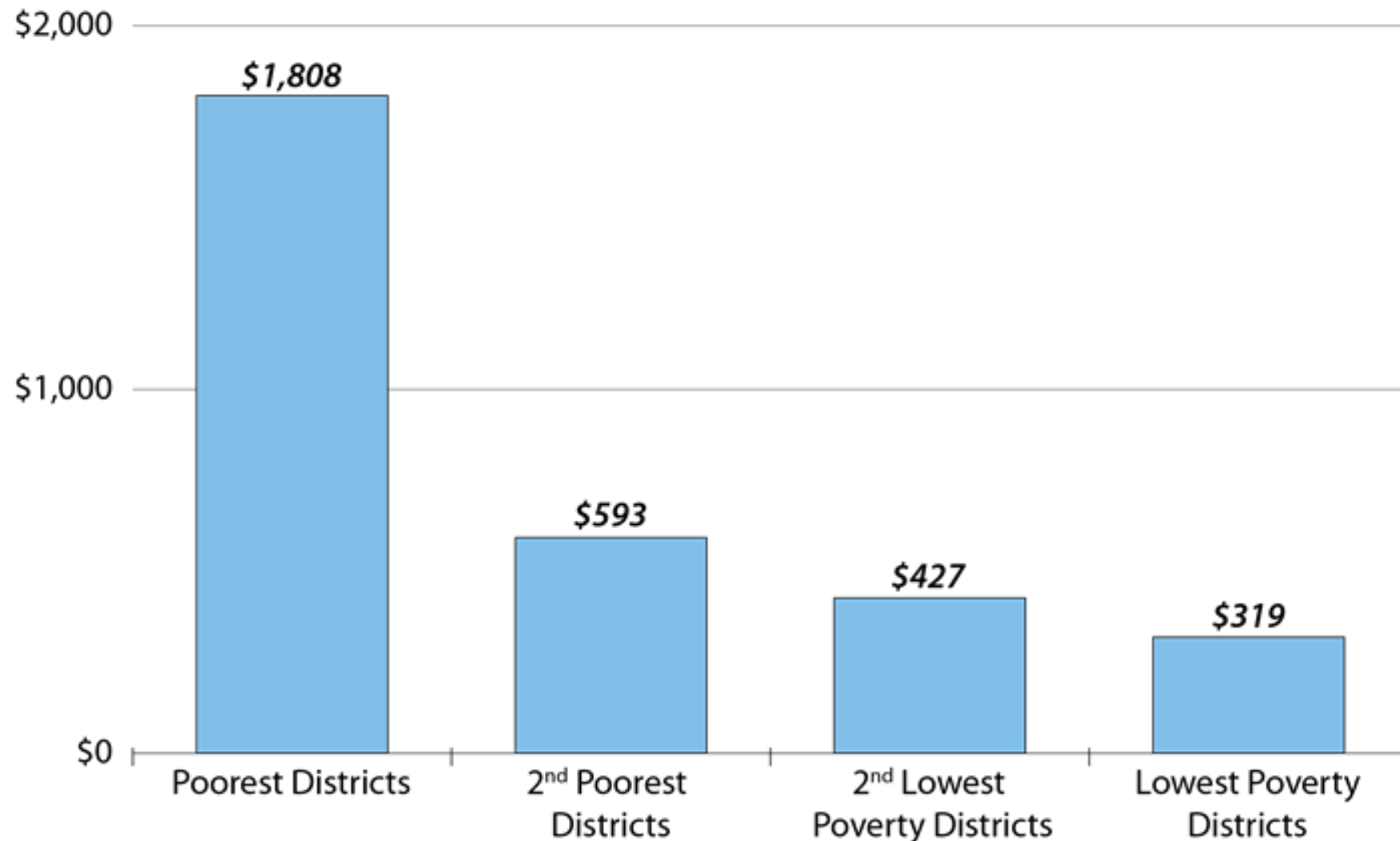


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# Governor Wolf's Proposal Provides Most Funding to the Districts That Need It Most: Distribution Based on Poverty Rate

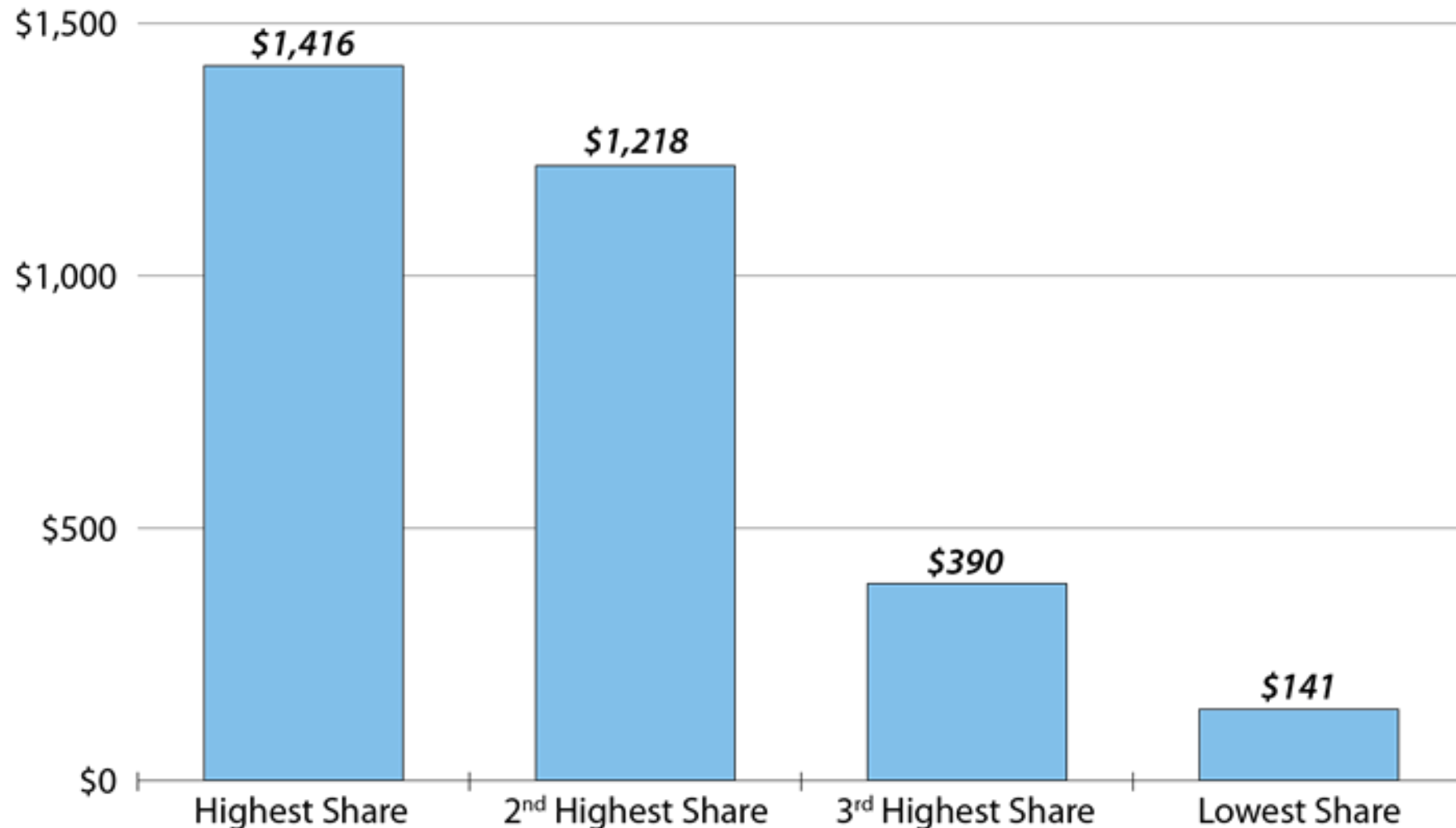
Increase in Funding per Student in Four Groups of Districts, Each Educating One Quarter of Public K-12 Students



Source: Pennsylvania Budget and Policy Center analysis of Pennsylvania Department of Education data.

# Governor Wolf's Proposal Provides Most Funding to the Districts That Need It Most: Distribution Based on Black Share of Students

Increase in Funding per Student in Four Groups of Districts, Each Educating One Quarter of Public K-12 Students



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Source: Pennsylvania Budget and Policy Center analysis of Pennsylvania Department of Education data.

# Charter School Reform

- Cyber charter tuition reform would save school districts \$130 million next year.
- Applying the special education funding formula to charter schools would save school districts \$99 million next year.



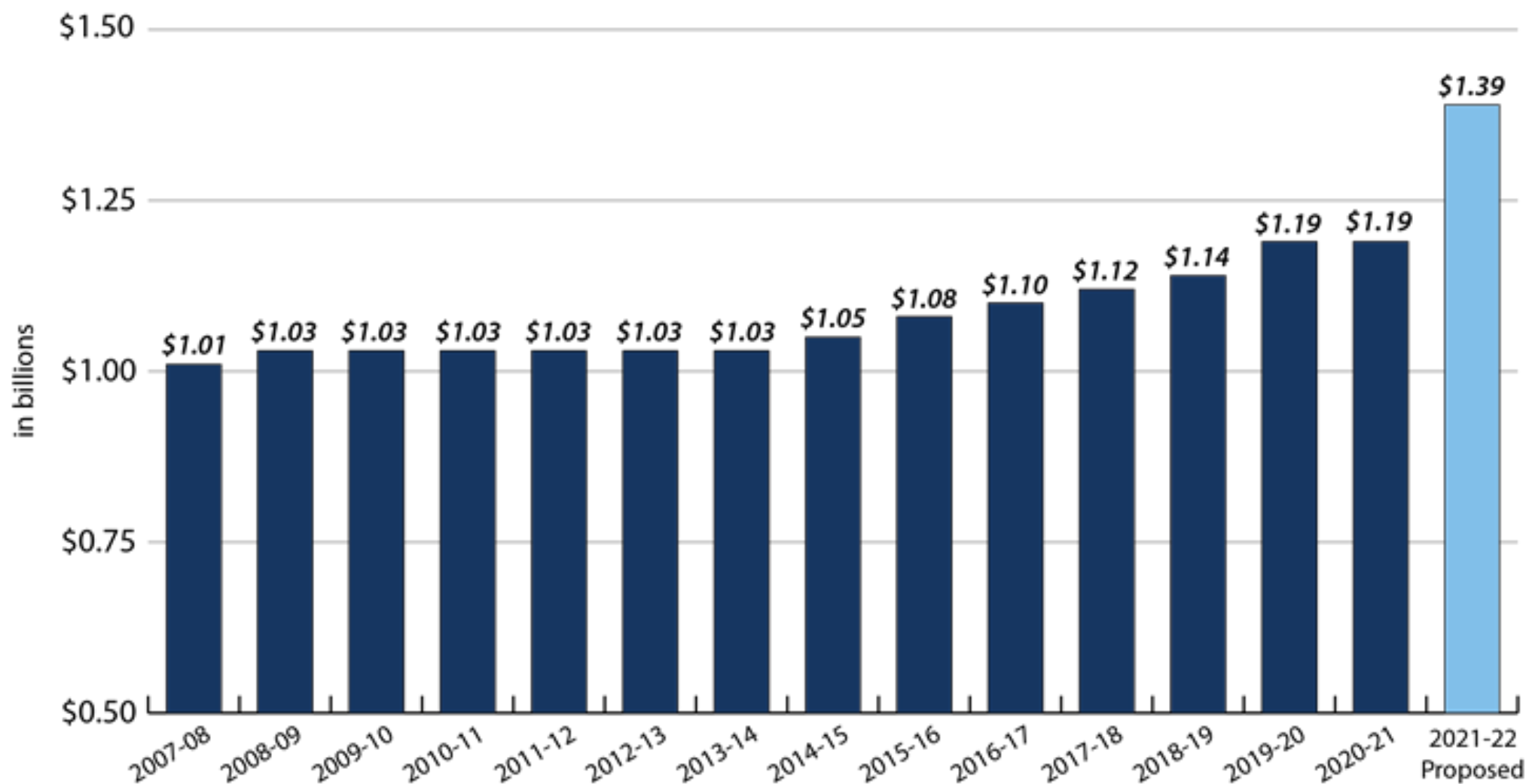
# Special Education

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## Governor Wolf's Proposed 2021-22 Budget Would Increase Special Education Funding by 17% From Last Year, an Increase Larger Than All His Years in Office Combined

If the proposed budget goes through, increases for Special Education would total \$340 million



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Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2021-22 Executive Budget (February 2, 2021) and previous budgets.

# Early Childhood Education

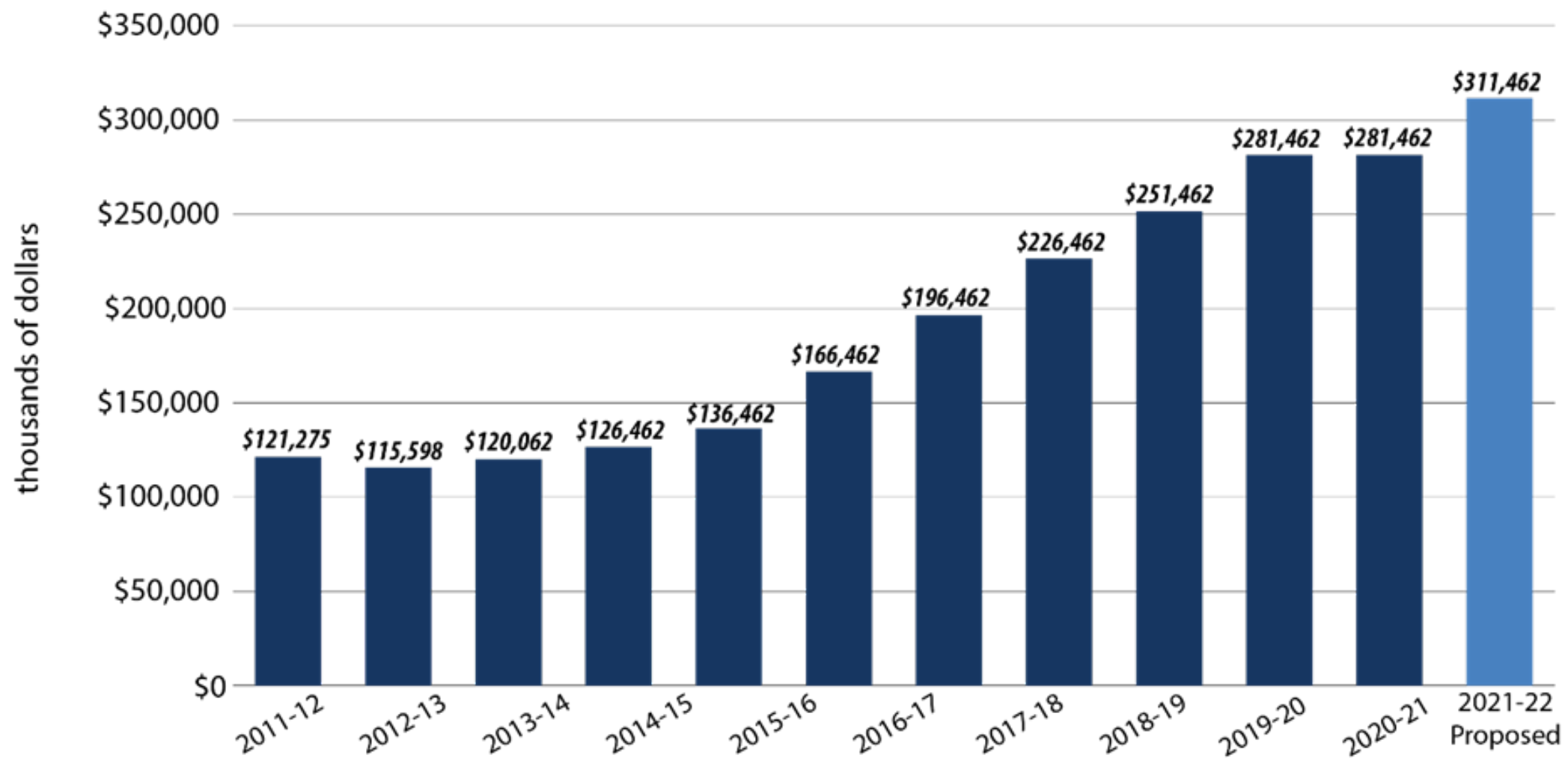
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# Governor Wolf's 2021-22 Proposed Budget Would Increase Spending on Pre-K by \$30 Million, an 11% Increase from the Previous Year

Pre-K spending over time from 2010-11: Since taking office, Governor Wolf has more than doubled funding for Pre-K.



Note: Data is for Pre-K spending only (Pre-K Counts and Head Starts Supplemental Assisatance).

Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2020-21 Executive Budget (February 4, 2020) and previous budgets



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# Higher Education

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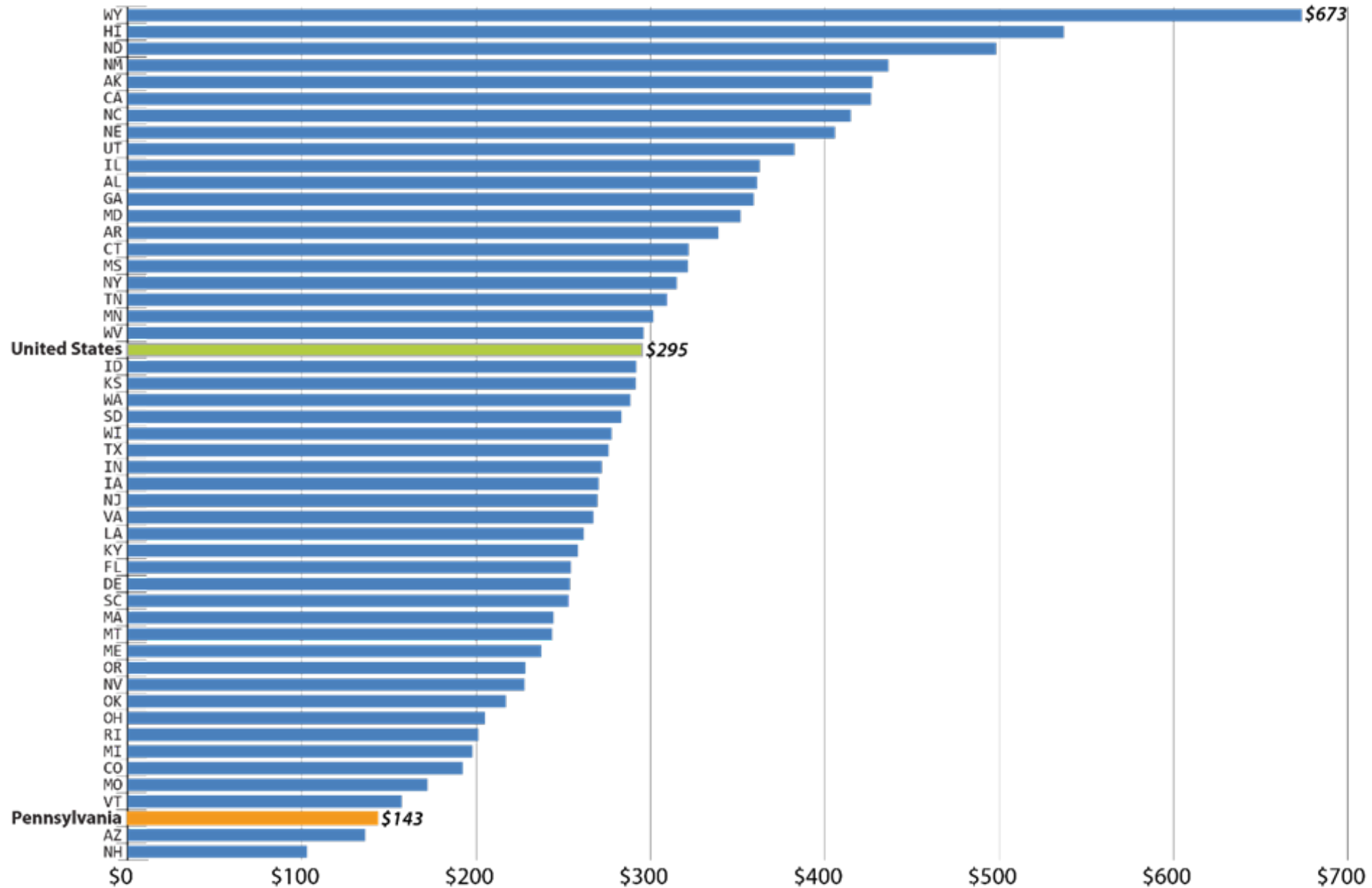


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# State Higher Education Investment Per Capita, Fiscal Year 2020

Pennsylvania ranks 48th in the nation for per capita investment in higher education, investing less than half the per capita national average

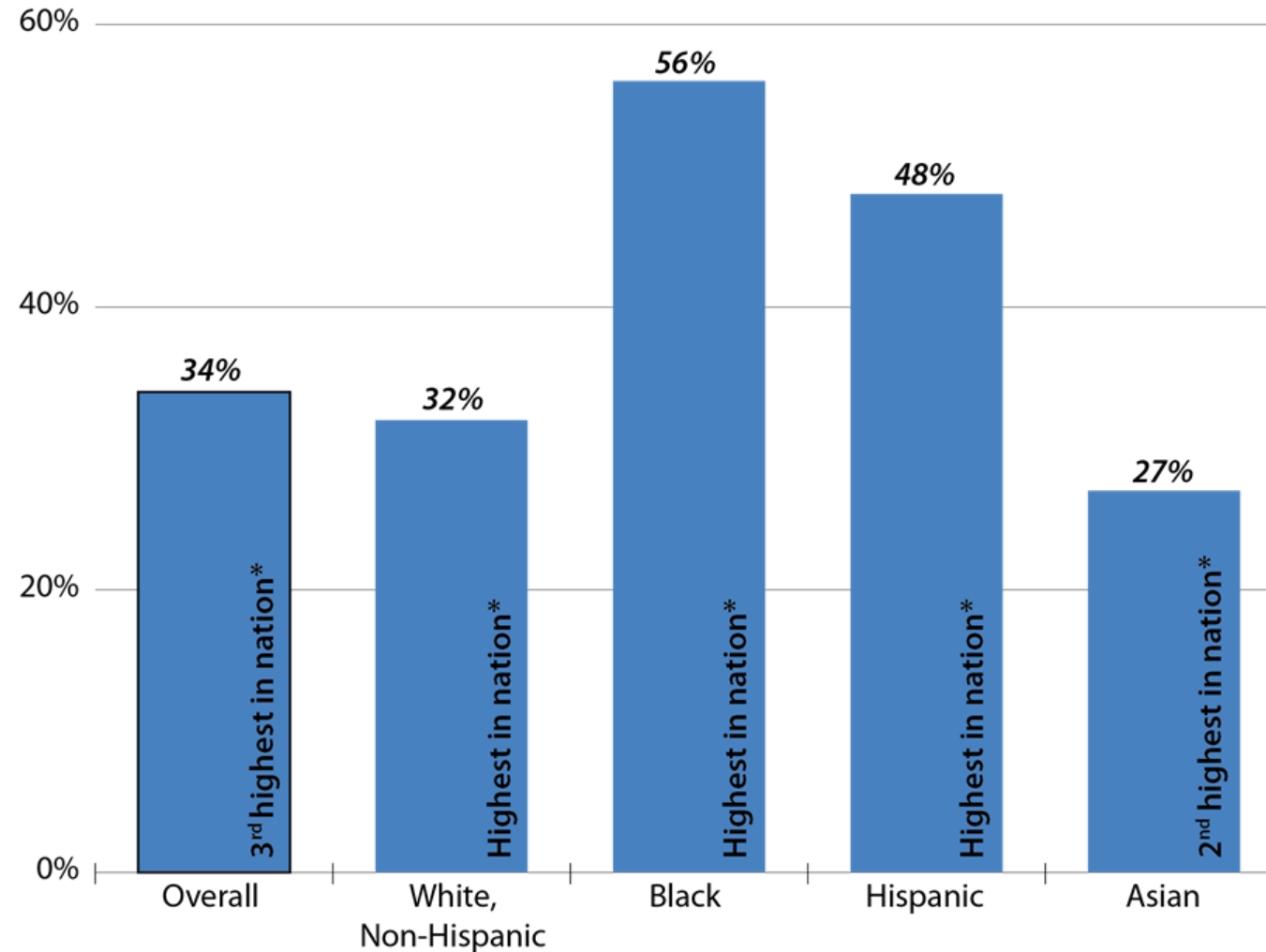


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Source: Pennsylvania Budget and Policy Center based on University of Illinois Grapevine data base Table 4, online at <https://education.illinoisstate.edu/g>

# Pennsylvania Has the Worst Tuition Burden in the Nation for Whites, Blacks, and Hispanics; Black and Hispanic Students Face the Largest Burden

Average net price at public, four-year university as share of median household income, Pennsylvania, 2018



\* In terms of price of four-year university as a share of median household income, Pennsylvania ranks worst in the nation for white/ non-Hispanics, Blacks, and Hispanics. 2nd worst for Asians and PA ranks 3rd highest in the nation overall.

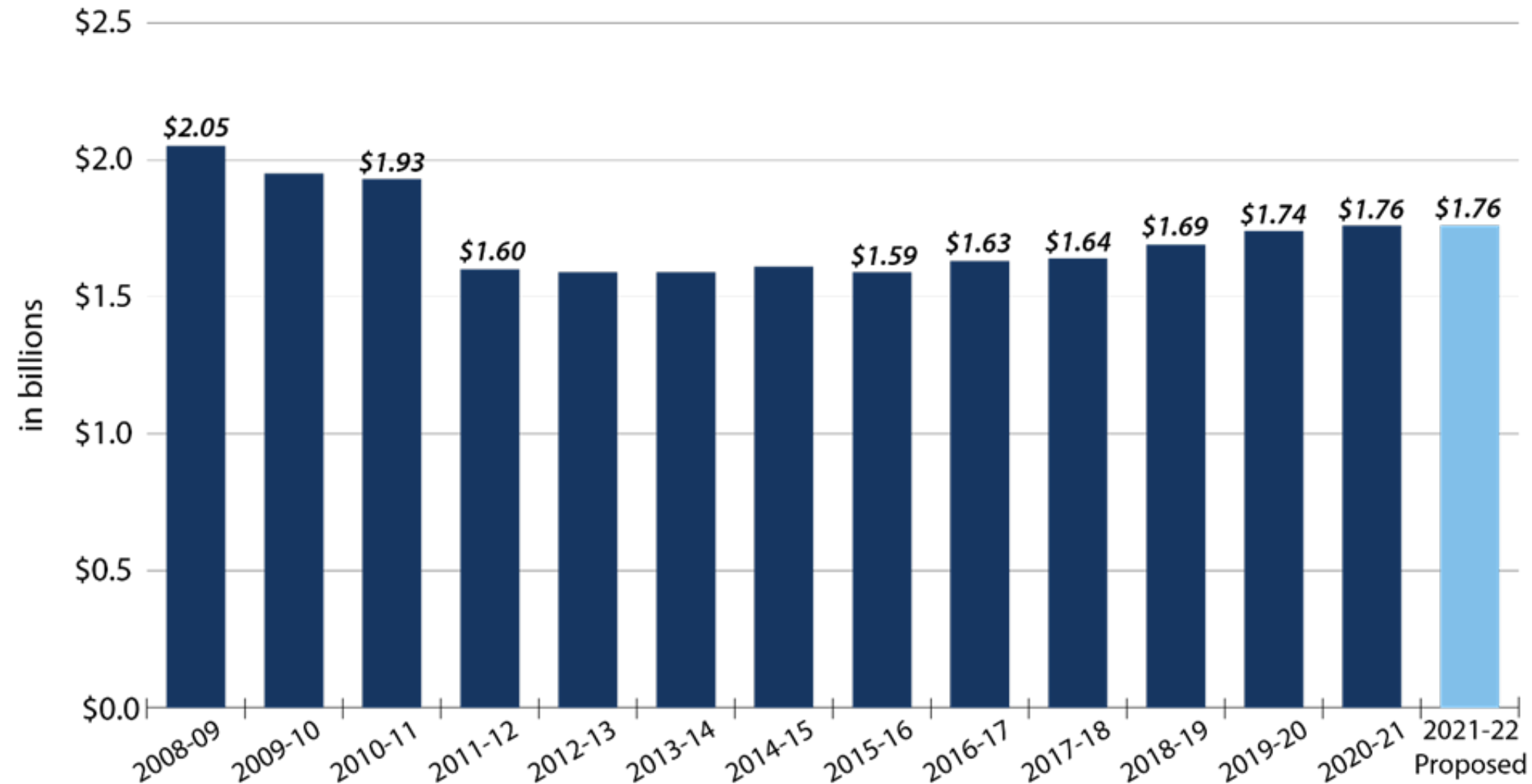
Source: Pennsylvania Budget and Policy Center analysis of data from the Center on Budget and Policy Priorities report: <https://www.cbpp.org/sites/default/files/2-17-21sfp.pdf>



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# In Governor Wolf's 2021-22 Proposed Budget, Funding for Higher Education Would Be Relatively Flat Funded. Restoration of the Corbett Budget Cuts Have Yet to be Achieved

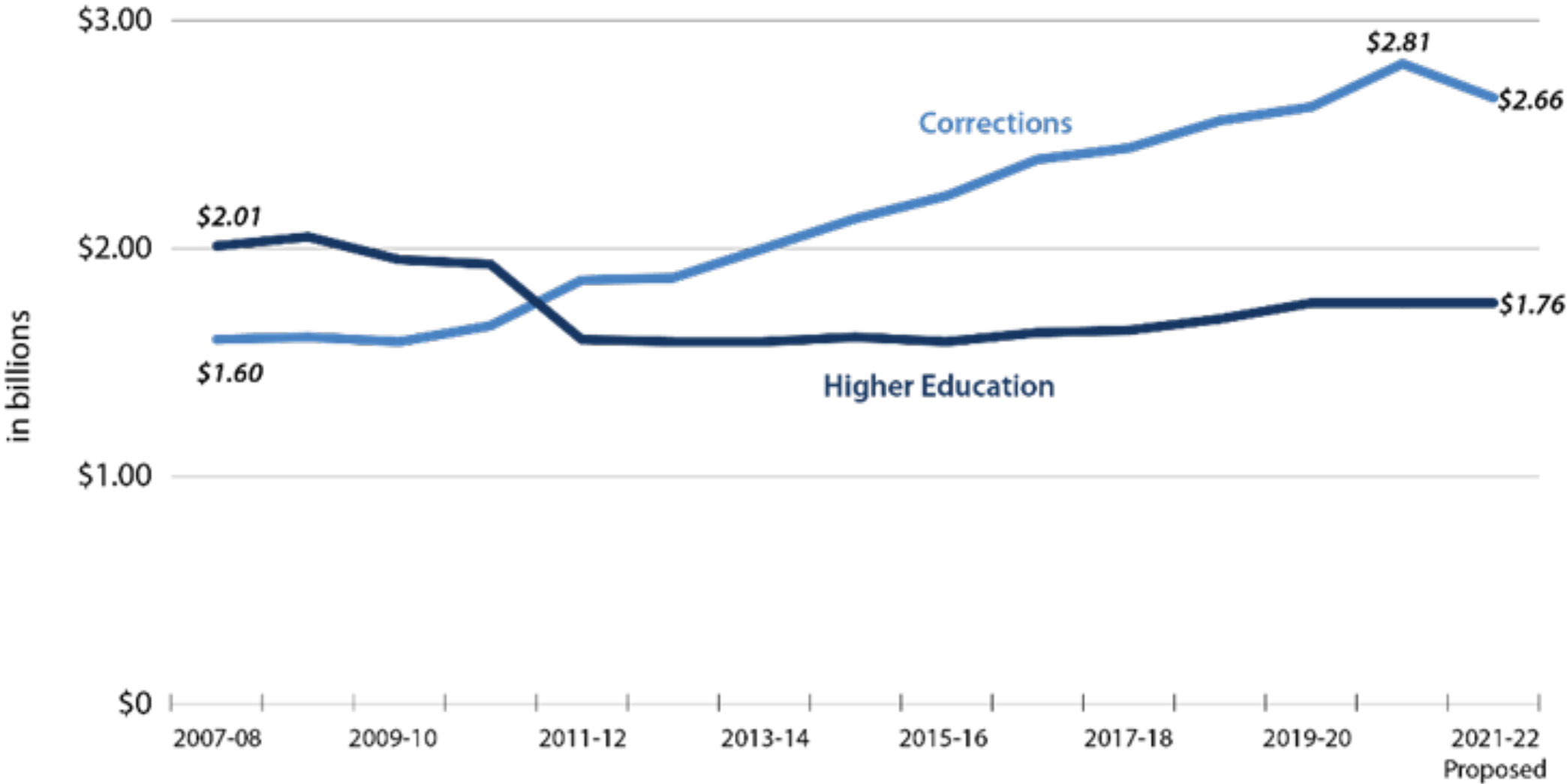
Higher Education funding in Pennsylvania from 2008-09 to 2021-22



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Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2021-22 Executive Budget (February 2, 2021) and previous budgets

# State Funding for Criminal Justice Surpassed Funding for Higher Education in 2011-12 and Has Been Steadily Growing



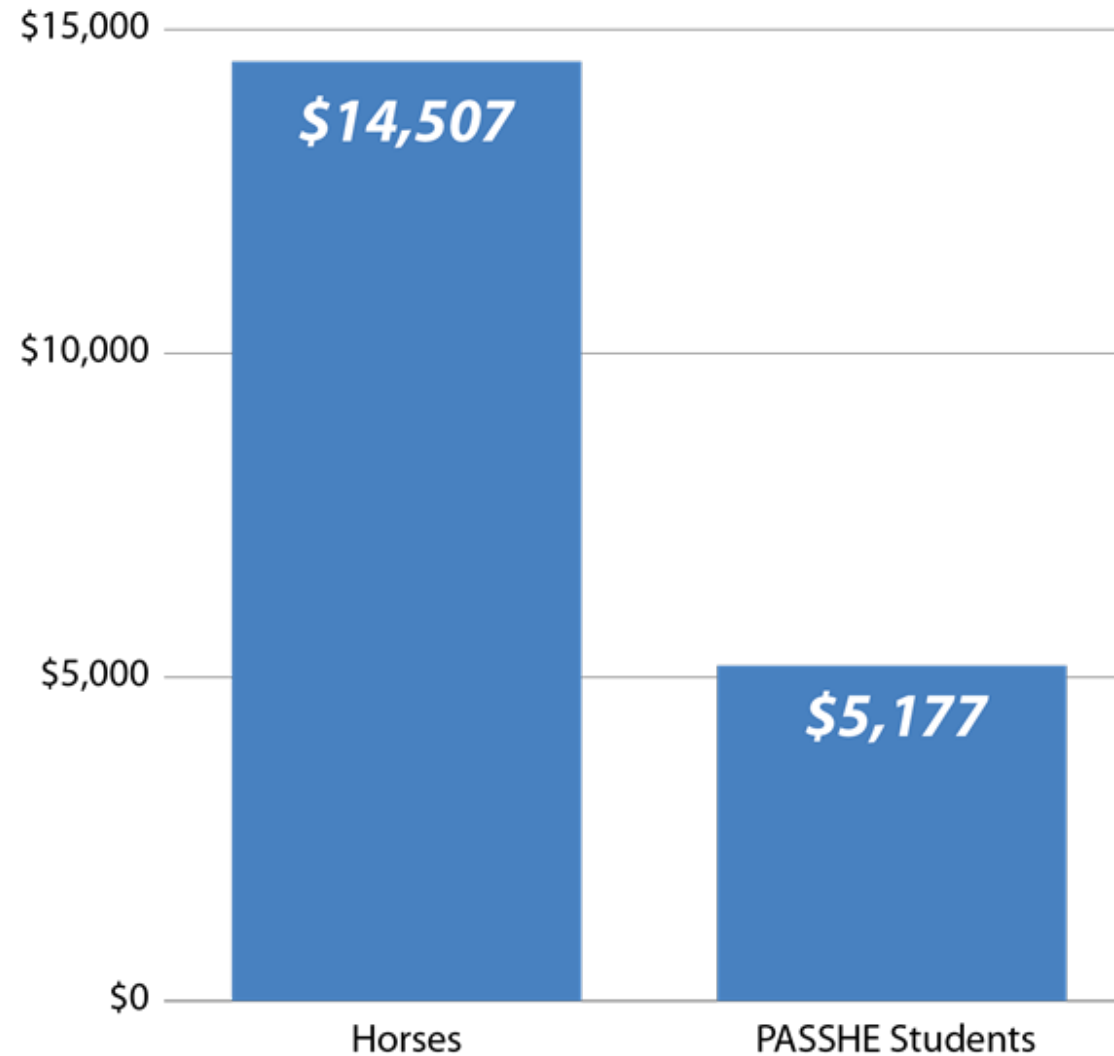
Note: In 2017-18, the Department of Probation and Parole merged with the Department of Corrections and Rehabilitation to form the Department of Criminal Justice; so in 2017-18, 2018-19, and 2019-20 these numbers include Probation/Parole.  
Source: Pennsylvania Budget and Policy Center analysis of the 2021-22 Executive Budget (February 2, 2021) and previous budgets.

# Nellie Bly Tuition Program

- Cover fees and tuition for full-time students (not already covered by grants) enrolled in one of PA's 14 State System schools.
- Those in families who make less than \$104,800/year would be eligible.
- Students would be required to stay in PA after they graduate (for as many years as they received the scholarship).
- The program would be paid for with money currently going to the Race Horse Development Trust Fund.



## Through the Race Horse Development Fund, Pennsylvania Spends Three Times as Much on Horses as it Does on Students Attending PASSHE Schools



*Note:* Pennsylvania State System of Higher Education (PASSHE) consists of 14 PA state universities, with a total enrollment of 90,415, received \$468.1 million in 2018, \$5,177 per student.

*Source:* Pennsylvania Gaming Control Board Pari-mutuel Benchmark Reports, 2018.



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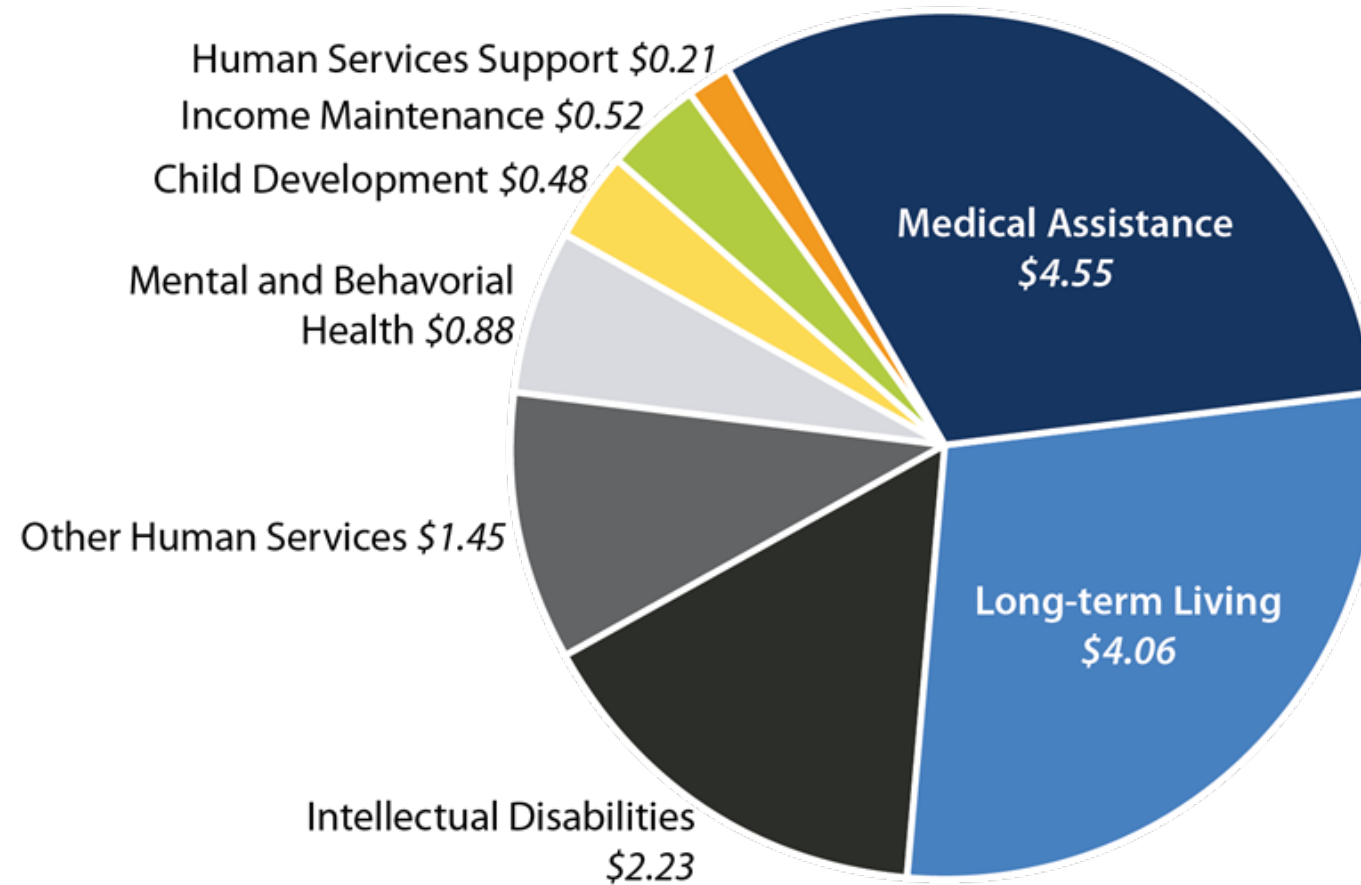
# Human Services

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# Human Services Funding for Governor Wolf's 2021-22 Proposed Budget (in Billions)

Total DHS Budget: \$14.38 billion



Source: Pennsylvania Budget and Policy Center analysis of Governor Wolf's 2021-22 Executive Budget (February 2, 2021) and previous budgets.



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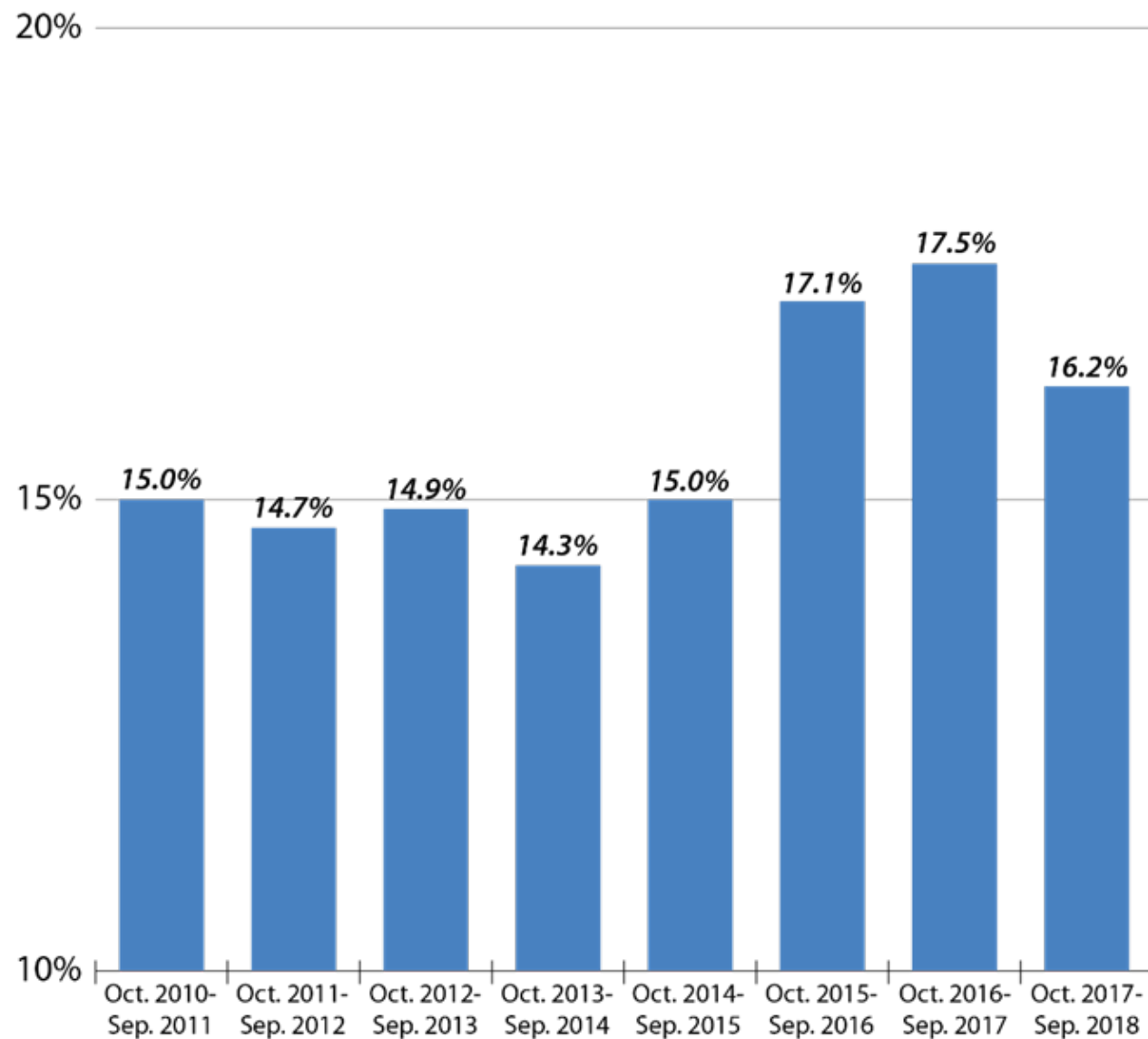


# Human Services Initiatives Proposed by the Governor

- Child care and Child Care Works
- Support for individuals with intellectual disabilities
- Comprehensive training for direct care workers
- Legal services for low-income individuals
- Housing funds and support to ensure family stability and reunification



## Percent of Children in Foster Care Due to Inadequate Housing of Parent and Family, Pennsylvania 2010-2018



Source: Pennsylvania Budget and Policy Center analysis of Kids Count data.



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# American Rescue Plan and the State Budget

- \$7 billion for the state
- What should we do with it? Some options:
  - Spend it to accelerate the recovery!
  - Fill the gaps in providing relief.
  - Embrace the governor's spending plans and enact but delay tax increases.
  - Save some for the next rainy day.



# Thank you!



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