

Budget Breakdown: Wolf proposes \$37.8 billion budget, tax policy changes

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Gov. Tom Wolf announced today his proposal for a \$37.8 billion budget that would direct significant amounts of money to education, workforce development and vulnerable population needs, and would be buoyed by an increase in the state's personal income tax.

The budget represents an 11.1 percent increase over last year's budget, which administration officials say focuses on long-term, sustainable, revenue-increasing measures rather than relying on the one-time federal aid payments that backfilled much of the budget that came out of the 2020 legislative session.

Below, we break down a few of the major wishlist items in the governor's budget proposal.

Tax changes

Wolf's first pandemic-era budget calls for a General Fund spending increase of nearly \$3.8 billion to fund a variety of initiatives, including workforce development programs and a massive increase in basic education funding.

But with each new list of budget-related priorities comes the eternal question of how the state will pay for them. And in Wolf's latest budget proposal, the answer — and increase in the state's personal income tax rate — may be an unpalatable one for some Pennsylvanians.

Wolf is proposing that the state raise the current PIT from 3.07 percent to 4.49 percent to fund the proposed spending increases, however, the Democratic governor is also calling for an expansion of the state's special tax forgiveness credit — a proposal his administration says will result in lower taxes for a large majority of Pennsylvanians.

Under the expansion of the special tax forgiveness credit, exemption levels will be increased to \$15,000 for single filers, \$30,000 for married filers, along with \$10,000 allowances for dependents. As a result of these changes, the Wolf Administration estimates that roughly two-thirds of Pennsylvanians will either see their taxes stay the same or have their tax bills reduced.

Wolf also revived a proposal to implement a severance tax on natural gas, which his administration says could generate \$3 billion for workforce development and re-employment efforts. Wolf previously recommended using severance tax revenue to fund \$4.5 billion in infrastructure improvements, but the approval did not advance in the legislature.

Education

Ahead of the budget address, Wolf [released information](#) about his proposal to increase funding to Pennsylvania schools by \$1.35 billion, and his desire to see the entirety of the state funding for education be distributed through the fair funding formula.

Of that \$1.35 billion, \$1.15 billion will be used for basic education funding. That number, administration officials say, allows the state to use the fair funding formula for the entire pot of basic education funding money without adversely affecting school districts.

The fair funding formula takes into account weights like socioeconomic status and English language learners in funding to make up for systemic resource inequities that occur in economically disadvantaged districts and those with extra learning needs like multilingual education.

Currently, only 11 percent of state funding for schools is distributed through the fair funding formula, despite the eventual goal of all funding using that system. Some legislators have been resistant to that proposal because at current education funding levels, if the formula is used, some schools would see their allocations reduced in order to fund needier districts. The governor's proposed \$1.15 billion fits the state's hold-harmless requirement, which mandates that school districts are guaranteed at least the amount they received in the previous year.

That overall investment would mean an increase from \$6,781,718,000 to \$8,133,774,000 in what the state contributes to basic education funding for schools. Currently, Pennsylvania contributes fewer state dollars than most states in the country to local education agencies, which instead have to rely on local taxes to bolster school budgets. By contributing more state money, administration officials said, localities could have the option to reduce property taxes.

Also in Wolf's education proposal is the reintroduction of the Nellie Bly Tuition Program, which would redirect \$199 million from the state's Race Horse Development Trust Fund to financial aid for full-time PASSHE students.

The proposal also looks to supplement student scholarships by adjusting education tax credit programs like the Educational Improvement Tax Credit (EITC) and the Opportunity Scholarship Tax Credit (OSTC) to reduce the amount of money that participating organizations can use for administrative costs, which they say could allow an increase of \$36 million in scholarships.

Other items included in the budget are reforms to charter school funding, which some education officials have said is the biggest issue in traditional public school finances, and investments into childcare through the use of federal funds.

Workforce development

Wolf is reintroducing an effort to increase the state's minimum wage for the first time in more than a decade from the current \$7.25 an hour to \$12 an hour as early as July 2021 with a path to a \$15 minimum wage by 2027. The plan would also eliminate the tipped wage rate.

Many of Wolf's workforce development proposals were laid out during his [2021 agenda announcement](#)

A keystone of Wolf's budget proposal is his "Back to Work PA" initiative, which proposes using a severance tax on natural gas production to fund workforce development initiatives. Wolf has stressed that the Back To Work PA initiative's focus on job training, career coaching and child care will help revive the state's economy following the economic impacts of the COVID-19 pandemic.

Also included in the proposal is funding for broadband expansion. While the federal government expressed interest in funding rural broadband initiatives in the fall of 2020, that program could be highly competitive,

and the administration would like to see broadband investments sooner, rather than waiting for federal direction.

Fighting COVID-19

With the COVID-19 pandemic still ongoing, administration officials said they will be relying on federal money to support the state's vaccine rollout and other COVID-19 related needs, like increased testing capacity.

In the proposed budget, the administration is looking to put \$8.3 million toward the state's county and municipal health departments, which will max out the existing per capita grant for the ten CMHDs, and support the creation of the Delaware County Health Department in 2022.

Justice system

In a [now-multi year](#) attempt to change the way that the Pennsylvania State Police are funded, Wolf is once again looking to introduce a fair service fee that would charge localities who use PSP resources based on factors like population, income, coverage area, station costs and other factors, rather than a flat fee or a population-alone based fee.

In addition to the funding adjustment, Wolf laid out a number of policy-oriented changes for law enforcement and the criminal justice system that align with major Democratic preferences, including cash bail reform, community policing and police department accreditation.

Also among the policy initiatives is the desire to expand medical release eligibility for incarcerated Pennsylvanians, both because research supports that elderly inmates pose low crime risks and because high prison populations are expensive for Pennsylvania taxpayers. Medical release reform is a recurring issue that advocates for incarcerated individuals have lobbied for, and calls for changes have only increased throughout the COVID-19 pandemic, which has made carceral facilities especially dangerous due to the challenges in mitigating spread.

Other initiatives

Throughout the plan there are smaller investments aimed at meeting needs particularly for vulnerable Pennsylvanians. Some of these initiatives include an additional \$1 million to the Pennsylvania Agricultural Surplus System, which covers the costs of transporting surplus agricultural products to charitable food systems. Another \$1 million would go to expanding legal service assistance to low income individuals and families, and yet another \$1 million would be used to reduce the number of children in out-of-home placements due to inadequate housing. Plus, Wolf would like to see \$1.25 million for the Community Hospital Integration Projects Program (CHIPP), aimed at reducing populations in state hospitals.

Much of the budget is dedicated to pursuing policy interests of the Wolf Administration and, by extension, many state Democrats who have long advocated for increased state funding for high-need areas of the state.

With the exception of the major investments, many departments in the governor's plan would be flat-funded. In the budget documents, it appears that the state is increasing its contributions to many line items, but that has to do with the way that the legislature used federal stimulus money in 2020 to backfill parts of the budget that might have otherwise seen cuts.

Barring further one-time federal dollars or grants, officials say, the state is facing numerous funding cliffs, which is largely their reasoning behind the introduction of a progressive tax structure. Should the state still receive more money from the federal government, the administration still intends to push for their proposal, as they say those federal funds aren't sustainable for long term expenses and could be used to help bolster the shrinking Rainy Day Fund or other areas of aid and need in the state.

Ultimately, Wolf's plan is just a proposal and requires legislators to take up the initiatives laid out. Already, members of Senate Republican leadership have declared Wolf's budget "dead on arrival." Still, some legislators may choose to introduce Wolf-inspired legislation, which will face significant challenges with the Republican-led General Assembly.

Sam Zern contributed to this report.

Wolf's pandemic-era budget proposals met with criticism from GOP lawmakers

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In a virtual budget address, Gov. Tom Wolf outlined his vision for Pennsylvania for the next fiscal year — a vision marked by investments in education and workforce development designed to help the state plot a path out of the COVID-19 pandemic.

Wolf's address was historic on multiple fronts: it was the first address in decades not given to a joint session of the General Assembly, a point Wolf reiterated throughout his address, directing it not to lawmakers, but toward everyday residents. It was also the first in years to directly propose an increase to the personal income tax (PIT), an ask that Wolf said was a difficult one, but one necessary to fund various components of his budget plan.

To offset tax increases from raising the constitutionally-mandated flat tax, Wolf is proposing expansions of the special tax forgiveness credit, which would reduce or keep taxes the same for 67 percent of Pennsylvanians, administration officials say.

"The question isn't whether taxes are unpleasant or necessary. They're both," Wolf said in his pre-recorded budget video. "The real question is whether everybody is paying a fair share — and whether we're all getting our money's worth."

"And the truth is, the answer to both questions right now is 'no,'" Wolf said.

Predictably, House Republicans resoundingly rejected the governor's budget, taking particular issue with Wolf's attempt to circumvent a flat tax and implement a progressive tax structure.

Wolf's proposal says that families of four who make \$84,000 a year or less would see tax cuts. However, other tax forgiveness notwithstanding, those who make above that could see the 1.42 percent increase. With the state's median income hovering around \$63,000, Wolf's administration makes the argument that their tax proposal protects the most in-need families. Republicans disagree, saying that those who make \$84,000 a year are firmly in the middle class and should not see an increase in taxes.

“No one has ever been able to tax himself to prosperity,” House Majority Leader Kerry Benninghoff (R-Centre) said. “Our caucus is about jobs, jobs and more jobs, because we know and we’ve seen that a robust economy, like we had 10 or 12 months ago, allows people to do the American dream: go to work, earn a paycheck and be proudly able to go home and take care of their families, not just wait for other government dollars.”

At their press conference after the governor’s address, Republican leaders leaned on Senate Bill 109 as their preferred form of relief. That bill allocates a total \$900 million in federal and state dollars to housing, education and small business relief efforts needed as a result of the ongoing COVID-19 pandemic. Republicans also touted Senate Bill 2, which proposes a constitutional amendment limiting the governor’s power to enact emergency declarations.

Benninghoff said those two Senate bills represent “short-term relief that helps get us long-term solutions.” While Democrats and Wolf have frequently proposed spending measures aimed at both providing pandemic-related relief and at furthering funding goals, Republicans have argued that getting Pennsylvanians back to work will be enough to drive economic recovery.

“Those long-term solutions must include getting Pennsylvanians vaccinated and ending this longstanding emergency, that the government continues to shut down Pennsylvanians on a whim,” Benninghoff said. “People want to work. They want to provide for their families.”

Senate Republicans were also critical of Wolf’s attempt to increase the personal income tax and levy a tax on natural gas production, arguing that it could hurt families, businesses and the state’s economic competitiveness. They added that Wolf’s plan to increase taxes would be “dead on arrival.”

Sen. Pat Browne (R-Lehigh), the majority chairman of the Senate Appropriations Committee, said increasing the PIT would hurt the state’s economic competitiveness in comparison to other states.

“It’s the one competitive platform we have and that’s our personal income tax,” Browne said. “The governor, with a 46 percent tax increase, is throwing that away.”

Senate Majority Whip John Gordner (R-Columbia) said increasing the PIT would further worsen the exodus of working-age adults from the state, while Senate President Pro Tempore Jake Corman (R-Centre) said Wolf’s proposed tax changes, both to the PIT and the corporate net income tax, would hurt Pennsylvania workers.

“This is not what’s good for our economy, it’s not what’s good for small businesses,” Corman said. “It’s, again, an indicator that the Democratic Party has abandoned the small businessperson, the blue-collar workers, in an effort to meet a more, sort of, national agenda.”

Despite the governor’s budget proposal and legislators’ plans that look to address Pennsylvania’s recovery, the pandemic is ongoing, with daily COVID-19 case counts above what they were during the days of shutdown orders and a vaccine rollout that is struggling to keep pace with demand.

Democrats in the legislature supported the budget proposal, saying that the plan represents a step toward a more equitable Pennsylvania at a time when long-term investments are needed to recover from the pandemic.

“If there is one message I continue to hear from people living in Allentown or South Whitehall, it is their frustration over the ever-widening gap between the haves and the have nots that continues year after year,” Rep. Mike Schlossberg (D-Lehigh) said in a statement. “Pennsylvania’s tax laws make it worse. Underfunded

schools make it worse. A rigged criminal justice system makes it worse. This budget takes a forward-looking view of these inequities and tries to make good on the notion of ‘Liberty and Justice for All.’”

Rep. Morgan Cephas (D-Philadelphia), who sits on the House Appropriations Committee, called the education funding portion of the proposal a “historic investment” and said she is committed to using her committee assignment to push through a budget that addresses both issues brought up in the governor’s proposal and key items that she has advocated for in the past, including reducing gun violence and maternal mortality.

“Since the beginning of this health crisis, we’ve seen firsthand how this deadly virus has adversely impacted children, women, local businesses and working families across the commonwealth,” Cephas said. “The governor’s budget plan would help remove many of these unnecessary barriers by implementing substantial change using an equitable lens, starting with a massive tax break for the working class.”

Democrats looking to introduce legislation that would make Wolf’s budget possible will face a Republican-led General Assembly, where last session, only 2 percent of Senate bills and 8 percent of House bills enacted by the legislature were filed by Democrats, according to legislative data in the PLS Capitol Toolbox.

It’s a reality Wolf acknowledged at the tail-end of his budget address, making a plea directly to Pennsylvanians to contact their lawmakers if they supported his vision for the commonwealth.

“If you agree that your family would be better off in a Pennsylvania with fairer taxes and better schools, raise your voice. At the end of the day, we all work for you,” Wolf said.

“If you’ve had enough of being told why your government can’t solve your problems, make it crystal clear that, this time, you don’t want to hear that anymore; that you won’t accept any more excuses. Call your representatives,” he said. “Help me get this budget through the legislature.”

Justin Sweitzer contributed to this report.

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