OPINION COLUMN

PA Chamber™ of Business and Industry

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Fiscal Challenges Face Pennsylvania as 2017-18 Budget Process Begins

Last month, Gov. Tom Wolf kicked off the official budget process when he unveiled his 2017-18 budget plan to the General Assembly. During his address, the governor struck a decidedly conciliatory tone. And in direct contrast to the last two years, lawmakers were cautiously receptive to many of the broad ideas included in the governor's proposal. With the start of Appropriation Committee hearings in the House and Senate, the General Assembly has begun to delve into the details of the governor's plan as the debate on how to best address the Commonwealth's bevy of fiscal challenges continues.

For the past six months, revenues have continually come in below estimate – leading to a budget deficit that is expected to balloon to $3 billion going in to the upcoming fiscal year. On top of that, the state's Independent Fiscal Office is predicting a continuation of this slow growth pattern leading into the 2017-18 Fiscal Year. When combined with increasing annual mandated costs – most notably the growing pension crisis – this revenue shortfall has created yet another year of tough fiscal choices for Pennsylvania.

The governor's $32.3 billion budget plan – which increases spending by 1.8 percent over the current year – does not address the Commonwealth's No. 1 cost driver – the pension crisis. Increasing pension obligations continue to put additional strain on the Commonwealth's General Fund; diverting tax dollars away from other important state programs and remains the underlying reason behind the threat of increased tax hikes. Additionally, the unfunded liability – which is estimated to be between $62 - $74 billion – has led to multiple credit downgrades for the state. That's why the PA Chamber is calling on elected officials to enact comprehensive pension reform this year.

The governor's plan to address the state's fiscal woes centers on a two-prong approach. First, the administration is looking to increase state revenues by enacting more than $1 billion in new taxes on Pennsylvania employers. The proposed tax increases include: an expanded Insurance Premiums tax, expanding the state sales tax base to a range of currently exempt goods and services, enacting an additional 6.5 percent tax on the natural gas industry and capping Net Operating Losses at 30 percent and making several changes to the way that corporations file their taxes and calculate deductions. We're concerned that, if enacted, these changes to Pennsylvania's tax structure would stifle job creation and hamper our ability to compete – which will only impede the Commonwealth's economic progress.

Additionally troubling is the governor's plan to impose a mandated government wage hike to $12 an hour, which would make Pennsylvania's minimum wage rate higher than any of its neighboring states. Numerous independent studies have shown that government mandated wage increases lead to many unintended consequences – including increased labor costs and job loss – and specifically hurt small businesses. A 2014 report by the Congressional Budget Office found that an increase to $10.10 an hour could lead to the loss of between 500,000 and one million jobs nationwide. A Pennsylvania-specific study by the Independent Fiscal Office showed similar results – with the loss of 31,000 Pennsylvania jobs. Another study showed that a minimum wage increase can create additional burdens on those living in poverty, due to the higher prices on goods and services that result from higher labor costs. There are simply more effective, targeted approaches that can better help low-wage earners, including strengthening workforce development programs and Earned Income Tax Credits – which don't trigger the negative unintended consequences of a mandated wage hike.

While we are uneasy with the governor's tax increase package, we were pleased to see efforts on behalf of the administration to generate cost savings within the budget proposal. The governor's budget plan seeks to more efficiently use taxpayer dollars by consolidating up to four state agencies, downsizing state buildings and eliminating duplicative services. The Wolf administration is saying these efforts will result in a $2 billion net savings to the Commonwealth. However, the governor cannot act unilaterally, as most of these proposals require action by the General Assembly. We're encouraged that the administration has been looking at new and innovative ways to ensure that taxpayer dollars are used as effectively as possible. Looking internally at cost-saving efficiencies should always be a goal for state government, but it's especially important during times of slow-economic growth.

As the budget process moves forward, we will continue to urge our elected officials to enact a responsible budget that includes comprehensive pension reform. Reforming our current pension systems is a necessary step in putting Pennsylvania on a path to financial stability and shifting the risk of further tax increases away from Pennsylvania residents and businesses.

Gene Barr
President and CEO
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