

PACP June Column
May 26, 2017

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Legislature, Governor Face Difficult Budgetary Decisions as Fiscal Year Comes to a Close

The start of June kicks off the final days of the 2016-17 Fiscal Year and as the constitutional budget deadline approaches, the Wolf administration and lawmakers are working towards an agreement on a spending plan for 2017-18. As has become the norm in recent years, this daunting task is made even more difficult by lagging revenues and slow economic growth. Over the next few weeks, lawmakers will yet again have to decide whether to cut more government programs and reduce spending or increase tax revenue in order to have a balanced budget.

Monthly revenues that have come in below estimate have put the Commonwealth in dire fiscal straits. While elected officials were hoping that April – a month that normally sees a large influx of revenue – would bring some positive fiscal news for the state, the opposite in fact happened. April's tax collections came in at 13.5 percent – or more than \$500 million – below estimate. This has increased the year-end budget shortfall to \$1.2 billion – a higher figure than what both the Wolf administration and the state Independent Fiscal Office initially projected. The combination of the budgetary shortfall and mandated cost increases has led to a \$3 billion structural deficit going into the upcoming fiscal year, placing additional pressure on the state's already strained General Fund.

Throughout the budget process, the PA Chamber has been on the front lines protecting the Commonwealth's broad-based business community against punitive proposals that would hurt the state's economic climate and stifle private sector growth.

This includes pushing back on the proposed \$1 billion in new taxes on Pennsylvania's employers that were included in the governor's proposed spending plan. The bevy of new 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, capping Net Operating Losses at 30 percent and making several changes to the way that corporations file their taxes and calculate deductions. Last month, a report by the state's Independent Fiscal Office issued shows that these proposals will largely fail to bring in the revenue the administration is anticipating and will also increase the cost of doing business in Pennsylvania. In fact, the report found that the proposed additional tax on the natural gas industry would be at an effective rate of nine percent – the highest in the nation. 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.

We're also fighting back against government mandated wage hikes – including the Wolf administration's proposal to increase the state's minimum wage to \$12 an hour. As I've noted in previous columns, this plan would make Pennsylvania's minimum wage the highest among other states – increasing the cost of doing business in the Commonwealth and hurting our overall competitiveness. A multitude of non-partisan studies have shown that wage mandates lead to many unintended consequences – including increased labor costs, reduced hours and loss of jobs – and particularly hurt small business. In fact, the recent IFO report showed that the governor's proposal could lead to the loss of 53,000 jobs across the Commonwealth, and could also result in spikes in programs that subsidize child care and in-home care. At a time when the state is already facing revenue shortfalls,

enacting a policy that will have such a negative impact on the state's overall business climate will only serve to exacerbate our fiscal challenges.

As the fiscal year winds to a close, we will continue to advocate for a responsible spending plan that doesn't place the burden of increasing budget obligations exclusively on the shoulders of Pennsylvania's business community. We also continue to push for agreement on a pension reform plan that will reduce the risk that currently faces taxpayers. As budget negotiations begin in earnest, the PA Chamber continues to urge our elected officials to look at ways to improve the state's overall competitiveness – allowing the private sector to thrive and our economy to grow.

Gene Barr
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