

2022 Pa. Budget Checklist

Four Elements of a Good Budget

LIMIT SPENDING TO HELP PENNSYLVANIANS COPE WITH INFLATION

- Record inflation [caused by federal overspending](#) is hitting Pennsylvanians hard. [Inflation is up 8.6 percent](#) from last year and [real earnings are down](#).¹ While states can't raise interest rates or control federal spending, they can protect taxpayers by controlling state spending.
- In June 2021, lawmakers passed a [\\$39.9 billion budget](#) (an 8.8 percent increase after excluding federal relief funds). The total General Fund spending increase for 2022 should not exceed the Taxpayer Protection Act (TPA) limit of 3.46 percent, or \$41.15 billion.
- Likewise, state government spending should not exceed ongoing revenues. For Fiscal Year (FY) 2022–23 the Independent Fiscal Office (IFO) [estimates net revenue at \\$41.0 billion](#), which matches spending under the TPA index.²
- Gov. Tom Wolf's budget proposal spends [\\$43.7 billion](#), six percent more than the TPA limit and \$2.7 billion more than estimated state revenues for FY 2022–23.³
- Record state revenues and a large General Fund balance of \$9 billion are fleeting conditions. As revenues slow, enhanced federal [Medicaid matching funds](#) expire, and the state spends the remainder of American Rescue Plan Act (ARPA) funds, the IFO projects [billion-dollar budget deficits](#) as soon as FY 2023–24.⁴
- Limiting state spending will also allow lawmakers to bolster the rainy-day fund. Pennsylvania's \$2.867 billion could [fund the government for 30.8 days](#), below the national average of 34 days.⁵

USE FEDERAL ARPA FUNDS FOR ONE TIME USES

- A sustainable budget uses one-time funds for one-time uses. Lawmakers transferred \$3.84 billion of ARPA dollars to the General Fund in June 2021. Another [\\$2.1 billion](#) in ARPA funds remains unappropriated.⁶

FOCUS EDUCATION INVESTMENTS ON KIDS INSTEAD OF BUILDINGS

- Public school districts are flush with cash. [School district reserves grew to \\$5.29 billion](#) this year, about twice the size of the state's rainy-day fund. Nearly half of Pennsylvania school districts have reserve funds that exceed 20 percent of their budget, a limit recommended by the former Auditor General.⁷
- The pandemic emphasized the need to empower parents to choose alternatives when their assigned school is not meeting their child's needs. Money should follow the child in two ways:
 - **Enact the Lifeline Scholarship Program.** The Lifeline Scholarship Program offers an Educational Opportunity Account (EOA) to any student assigned to a district school in the bottom 15 percent of performance metrics based on state testing. EOAs are restricted use accounts funded with tax dollars. [House Bill 2169](#) is a revenue-neutral bill that sends the state portion of

per-student funding to an EOA when a student leaves the district school, boosting per-pupil funding at the local level.⁸ The Pennsylvania House passed [HB 2169](#) on April 27, 2022.

- **Expand tax credit scholarships.** Tax credit scholarships have a proven track record of helping over 50,000 parents improve their children’s education. Yet, limits on the Educational Improvement Tax Credit (EITC) and Opportunity Scholarship Tax Credit (OSTC) programs denied scholarships to [over 75,000 applicants in 2020](#). The budget should include a \$150 million increase in available tax credits to end the waiting list, and an [automatic escalator](#) that would expand the scholarship caps by 25 percent when 90 percent of credits are issued in the prior year.⁹

HELP WORKERS BY MAKING PENNSYLVANIA MORE COMPETITIVE

- Pennsylvania—still [down 143,000 jobs](#) from 2019—has [the fourth highest unemployment rate in the nation](#). The IFO predicts the number of payroll jobs will [not recover until 2024 or 2025](#).¹⁰ A good budget creates the conditions for attracting new jobs and gives employers flexibility to raise wages and combat supply chain issues. Policies to make Pennsylvania competitive include:
 - **Reducing the Corporate Net Income Tax (CNIT).** Gov. Tom Wolf, Democratic lawmakers, and Republican lawmakers all agree on the need for a reduction in the CNIT. More than a dozen states recently reduced income taxes. Pennsylvania’s 9.99 percent rate is [second only to New Jersey’s 11.5 percent](#). Just six states have a CNIT of nine percent or higher.¹¹
 - **Small Business Tax Relief.** Small businesses need tax relief too. Businesses with losses cannot [carry them forward](#) and deduct them in future years’ tax filings.¹² This capability is critical to their long-term survival and already available to corporations and small businesses in every other state except New Hampshire.
 - Allowing small businesses to make [exchanges](#) without acquiring tax liability, and raising the limit on tax deductions for [equipment](#) would give small business owners further flexibility to survive.¹³
 - **Right-sizing Regulations.** Regulatory relief is vital for fighting supply chain interruptions that worsen inflation. Pennsylvania’s sweeping [150,000 plus](#) regulations hamper hiring, energy production, and the ability of businesses to move goods.¹⁴ Lawmakers can streamline the [repeal of unhelpful existing regulations, make it easier to track permits](#), and require legislative approval for regulations that cost more than \$1 million a year.¹⁵ Another form of regulatory relief is making the 300 state waived regulations, mostly related to health care access, permanent.

¹ U.S. Bureau of Labor Statistics, “Consumer Price Index Summary,” June 10, 2022, <https://www.bls.gov/news.release/cpi.nr0.htm>; U.S. Bureau of Labor Statistics, “Real Earnings Summary,” June 10, 2022, <https://www.bls.gov/news.release/realer.nr0.htm>. caused by federal overspending.

² Nathan Benefield, “2021 Budget Takeaways,” The Commonwealth Foundation, June 29, 2021, <https://www.commonwealthfoundation.org/policyblog/detail/2021-budget-takeaways>; Independent Fiscal Office (IFO), “Initial Revenue Estimate Fiscal Year 2022–23,” May 2022, http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Revenue_Estimate_2022_05.pdf.

³ Pennsylvania Office of the Budget, “Budget in Brief,” February 8, 2022, <https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20In%20Brief%202022-23.pdf>.

⁴ Matthew Buettgens and Andrew Green, “What Will Happen to Unprecedented High Medicaid Enrollment After the Public Health Emergency,” Urban Institute, September 2021, https://www.urban.org/sites/default/files/publication/104785/what-will-happen-to-unprecedented-high-medicaid-enrollment-after-the-public-health-emergency_0.pdf; Independent Fiscal Office (IFO), “Five Year Economic and Budget Outlook,” November 15, 2021, <http://www.ifo.state.pa.us/releases/500/Five-Year-Economic-and-Budget-Outlook/>.

⁵ Pew Trusts, “Budget Surpluses Push States’ Financial Reserves to All-Time Highs,” May 13, 2022 [Update], <https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2014/fiscal-50#ind5>.

⁶ According to the Treasury Status of Appropriations reports, about \$2.41 billion in federal recovery funds remains unappropriated. Status of Appropriations, Pennsylvania Treasury Department (accessed January 2022), <https://www.patreasury.gov/tabs/>. Act 2 of 2022 appropriates

another \$255 million to health care providers, Act 2, Pennsylvania State Legislature, <https://www.legis.state.pa.us/cfdocs/billinfo/billinfo.cfm?sYear=2021&slnd=0&body=H&type=B&bn=0253>.

⁷ Stefanie Mason, "Pa. Education Funding Soars to All-Time High," The Commonwealth Foundation, June 9, 2022, <https://www.commonwealthfoundation.org/research/pa-education-funding-all-time-high/>.

⁸ Reps. Clint Owlett and Martina White, House Bill 2169, Referred to Education, April 28, 2022 [Senate], Pennsylvania State Legislature, <https://www.legis.state.pa.us/cfdocs/billinfo/billinfo.cfm?year=2021&slnd=0&body=H&type=B&bn=2169>.

⁹ Sen. Mike Regan, Senate Bill 527, Pennsylvania State Legislature, <https://www.legis.state.pa.us/cfdocs/billinfo/billinfo.cfm?sYear=2021&slnd=0&body=S&type=B&bn=0527>.

¹⁰ U.S. Bureau of Labor Statistics, "Local Area Unemployment Statistics," <https://www.bls.gov/web/laus/laumstrk.htm>; Independent Fiscal Office (IFO), Budget Hearing Materials, Senate Appropriations Committee, (February 22, 2022), http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/IFO_Hearing_Materials_Feb_22_2022.pdf.

¹¹ Janelle Fritts, "State Corporate Income Tax Rates and Brackets for 2022," Tax Foundation, January 18, 2022, <https://taxfoundation.org/publications/state-corporate-income-tax-rates-and-brackets/>.

¹² Sen. Camera Bartolotta, Senate Bill 368, Pennsylvania State Legislature, <https://www.legis.state.pa.us/cfdocs/billinfo/billinfo.cfm?year=2021&slnd=0&body=S&type=B&bn=0368>.

¹³ Rep. Jim Cox, House Bill 105, Pennsylvania State Legislature, <https://www.legis.state.pa.us/cfdocs/billinfo/billinfo.cfm?sYear=2021&slnd=0&body=H&type=B&bn=0105>; Rep. Eric R. Nelson, House Bill 333, Pennsylvania State Legislature, <https://www.legis.state.pa.us/cfdocs/billinfo/billinfo.cfm?year=2021&slnd=0&body=H&type=B&bn=333>.

¹⁴ James Broughel, Oliver Sherouse, and Daniel Francis, "A Snapshot Pennsylvania Regulation in 2017," Mercatus Center, April 27, 2017, <https://www.mercatus.org/publications/regulation/snapshot-pennsylvania-regulation-2017>.

¹⁵ Tirzah Duren, "Clear the Red Tape to Rebuild a Stronger Pennsylvania," The Commonwealth Foundation, April 27, 2021, <https://www.commonwealthfoundation.org/policyblog/detail/clear-the-red-tape-to-rebuild-a-stronger-pennsylvania>; Pennsylvania Senate Republicans, "Senate Approves Regulatory Reform Measures to Spur Job Creation," May 28, 2021, <https://www.pasenategop.com/blog/senate-approves-regulatory-reform-measures-to-spur-job-creation/>.