

Protecting Taxpayers: Balancing the Budget with Nontax Revenue

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December 10, 2015

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Balancing the Budget without Taxes

Over four weeks ago, Governor Wolf and legislative leaders announced a framework to end the current budget impasse. Although the details plan have changed as the impasse moved into December, the basic details remain 30.7 billion in spending (6% over last year's budget) with compromises on liquor and pensions. In order to pay for this spending multiple proposals for new tax revenue have suggested including:

- Tobacco taxes
- Sales Tax Expansion
- Business Filing Fees
- Bank Shares
- Elimination of the Vender Discount

All told these taxes were anticipated to bring \$560-\$600 million this fiscal year. Although the framework is predicated on tax increases, it does not require tax revenue to balance this fiscal year. Through various methods of cost savings and nontax proposals, this report found \$759 million available in nontax revenue. This revenue comes from:

- **Additional \$200 million** in lapsed funds available from previous fiscal years. The administration has already found unspent dollars from 2005.
- **\$240 million** from reducing wasteful spending
 - \$90 million from fixing inefficiencies in our healthcare system.
 - \$150 million in cost savings generated by the Governor's Office of Transformation Innovation Management Efficiency.
- **\$250 million** in new revenue from nontax sources
 - \$55 million from improved collection of delinquent taxes
 - \$95 million from allowing convenience stores to sell malt or brew beverages
 - \$100 million from "non-surface impact" or horizontal drilling under state lands
- **\$69.45 million** in Administrative and Legislative savings
 - \$42.5 million in audit savings from the Auditor General
 - 2.08 million in departmental savings from the Auditor General's Office
 - \$24.87 million in savings from bipartisan legislation

As the framework requires \$600 million in revenue to balance the budget, the nontax revenue proposals provide enough revenue to balance the framework budget while providing a surplus of **\$159 million**. Using the fund levels within the House budget, House Bill 1460, which requires \$309 million to balance, these proposals would leave a surplus of **\$450 million**. Due to the large amount of nontax revenue available, the report demonstrates options the General Assembly can use to balance the budget without raising taxes.

Executive Summary

Coming into this fiscal year, the Commonwealth anticipated a structural deficit between \$1.2 - \$1.4 billion over the previous fiscal year's budget of \$29.02 billion. This deficit was reduced throughout the year because of economic growth as revenues outpaced official estimates. As a result, the Commonwealth ended last fiscal year with a \$300 million surplus reducing our structural deficit to between \$900 million to \$1.1 Billion.

On June 30th, the General Assembly passed House Bill 1192 raising state spending to \$30.17 billion and funded 68% of Governor Wolf's proposed budget. This amounted to an increase in spending over last fiscal year's budget by \$1.1 billion without a tax increase. The new revenue generated for House Bill 1192 came from nontax sources including \$250 million from divesting the State Liquor System.

Governor Wolf vetoed House Bill 1192 along with the fiscal code and school code less than an hour after receiving them. In his veto message and subsequent statements, the governor explained his actions as predicated from his desire to pay for additional spending while covering the structural deficit.

Following the repeated attempts by the General Assembly to pass emergency funding, in particular for schools and social services, the governor has worked to block or veto any measure which does not include significant tax increases. As such all frameworks for resolving the current impasse which is over 150 days old have included some type of significant tax increase.

However, the report which my colleagues and I recently released brings into question the need for new revenue from taxes. This report released on December 3rd showed how the Wolf administration wastefully spent \$30 billion without a budget.

In order to protect taxpayers from an unnecessary tax increase we have put together nontax options for new revenue. Under our alternative options, the Commonwealth would increase our investment into the priorities of Pennsylvania above the funding levels in House Bill 1192.

Using current known numbers, these proposals would generate \$759 million, this fiscal year, and over 400 million next fiscal year by utilizing good public policy to reduce costs and generate new revenue.

We conclude by enacting the following proposals, the General Assembly can put a budget on the governor's desk which addresses the state's structural deficit in the current fiscal year. In addition using only revenue from nontax revenue, the Commonwealth can continue to significantly increase our investment into education and other line items without increasing taxes on Pennsylvanians.

Lapsed Funds

Lapsed Funds \$200 million: Left over funds from prior fiscal years to be reapplied for investing in the priorities of the Commonwealth.

- When the General Assembly passed House Bill 1192, the legislature assumed \$23 million in lapsed funding was available for use. The administration recently admitted \$200 million was available in lapsed funding which amounts to an extra \$177 million to be applied towards the budget deficit.
- The December 3rd released by my colleagues and I revealed the Commonwealth on average has spent \$2.3 billion in lapsed funds. However, this year, the Treasury reported \$2.7 billion in available funds for prior years. This means the administration found \$400 million in funds from previous years.
 - Of the \$400 million, the administration has assumed \$200 million available in lapsed funds. This proposal assumes the availability of the other \$200 million.

Cutting Wasteful Spending

GO-TIME: \$150 million in cost savings

On February 5, Governor Wolf issued an executive order which took the Governor's Office of Innovation and reorganized it into the Governor's Office of Transformation, Innovation, Management and Efficiency. Similar to the Office of Innovation, GO-TIME uses lean government to save taxpayer money by improving state government with private sector practices.

When the Governor announced the establishment of GO-TIME the administration estimated \$150 million. The estimate in taxpayer savings from the administration did not change during passage of House Bill 11 which codified the governor's executive order.

Super Utilizer's Pilot Program: \$90 million in cost savings

- Portion of Cost savings for Managed Care Organizations \$30 million

Cable Contracts to the Department of Corrections: Cost Savings Unknown

Known Cost Savings (Reducing Wasteful Spending): \$240 million

Nontax Revenue

Convenient Store Permit Legislation: \$95 million

The commonwealth can generate significant revenue by allowing for the sale of malt or brewed beverages in quantities from the premises of a convenience store. Convenience store permits are limited to one permit for every five thousand inhabitants of the county, with a minimum number of three permits available per county. Although limited in number, the permits would provide new revenue for the state this year with the permits and generate recurring revenue through economic activity in following years.

- In order to prevent alcohol from reaching the hands of underage Pennsylvanians, the convenience stores must use designated register, and a transaction scan device to verify the age of the purchaser

Horizontal Drilling: \$100 million

In 2014 Governor Corbett issued Executive Order 2014-03 which allowed for Horizontal Drilling to take place in the commonwealth. During last fiscal year this generated \$95 million in new revenue for the state. In our proposal we anticipate similar revenues for the current fiscal year. By revoking this executive order Governor Wolf created a \$90 million hole in this fiscal year's budget.

- The ability of this proposal to generate revenue for the commonwealth was seen this fiscal year as the Game Commission saw \$22.1 million last fiscal year. Despite the Executive Order from Governor Wolf, the Commission saw in three deals worth \$1.5 million in new revenue. This excludes the 18% in royalty fees which the companies must pay as part of the agreement.
 - The growth of this industry in Pennsylvania, along with the revenue generated through royalty payments and new permits, led us to assume a slight increase in revenue from last fiscal year.

Improved Collection of Delinquent Taxes: \$55 million

Introduced as a standalone bill last session, the proposal would expand the existing Treasury Offset Program which recoups delinquent taxes from federal income tax returns. Under this new

provision delinquent state and federal vendors would have their returns taken used to pay delinquent taxes. During Finance Committee hearing the legislation was assumed to bring \$55-90 million. For the purposes of this budget proposal, the revenue was estimated to bring in \$55 million.

Subtotal: \$250 million

Examples of Administrative Cost Savings

In order for state government to best serve the people of Pennsylvania, the legislature cannot be the only member of government actively looking at reducing costs. Despite the creation of GO-Time, the Wolf administration needs to increase its efforts to reduce costs to taxpayers. We have provided an example of being a fiscal steward of taxpayer funds while reducing costs.

The Auditor General's Office: In addition to the numerous audits done by the Auditor General of State government which identified state savings last year of **\$42.5 million**, the Auditor General has worked to provide savings by making his department more efficient.

- In a letter on December 8, the Auditor General highlighted how his department reduced their fleet of state vehicles by 90% over the past two years. In addition the department worked to actively reduce transportation and travel costs which would allow This reduction of saved taxpayers **\$830,645**
- Improvement of Human Resources and Financial Operations **\$694,000**
- Eliminating leased office and parking spaces **\$400,000**
- Reduction of printing costs by using existing Commonwealth resources **\$164,000**

Annual Cost Savings: \$2.08 million

- Total Cost savings for this fiscal year **\$44.58 million**

The administration, particularly the Department of Human Services and Corrections and the other State Row Officers should following the example of the Auditor General and his department. Through his hard work we can assume **\$44.58 million** by adopting his recommendations this fiscal year. Similar to the Auditor General, we should expect state agencies and row officers to focus on working accomplish their goals in a manner which provides savings to taxpayers by doing more with less.

Bipartisan Legislation for Nontax Revenue

The proposals listed above are only few among the many that members of both parties in both chambers have introduced which can save taxpayer funds for future budget years. Although many of these proposals have yet to receive a fiscal analysis, the Commonwealth should devote time to investigate proposals like these as good public policy often serves to reduce costs. These proposals include:

- 2015-2016 Session
 - House Bill 119: introduced by Representative Dom Costa, “which doubles fines for all classes of offenses... for individuals who possess or deliver contraband materials to a correctional institution, mental hospital, youth development center or other facility for detention or incarceration pursuant to court order”. At this time a fiscal analysis of this legislation has not been done. However, doubling existing fines would provide increased revenue to line items being funded through these fines.
 - Senate Bill 369: introduced by Senator White, this legislation amends the Public Welfare Code and repeal the provision of Act 121 which requires Department of Human Services “to submit a biennial report to the General Assembly and the Governor”. Although there has not been a fiscal analysis of this legislation, the proposal should provide the department with some cost savings.
 - Senate Bill 452: introduced by Senator Boscola, the legislation “amends the Prisons and Parole Code to discontinue the current policy within the Department of Corrections that provides inmates with postage-paid envelopes for personal use”. The Senator in her co-sponsor memo estimated her legislation would save the Commonwealth **\$2.7 million annually**.
 - Senate Bill 9: introduced by Senator Stefano, would require an individual prove their citizenship to receive public assistance. The aim of the legislation is to “ensure that illegal immigrants residing in Pennsylvania do not receive Medicaid benefits, welfare and unemployment compensation”. This legislation has not received a fiscal analysis, but can save the Commonwealth money by reducing welfare fraud.
 - House Bill 1550: introduced by Representative Cris Dush, prevents “ gift cards/certificates as well as electronic benefit transfer (EBT) cards, administered by the Department of Human Services for public assistance to be used towards alcohol purchases or deposited into inmate accounts”. This legislation has yet to receive fiscal

analysis, but can save the Commonwealth money by ensuring funds go towards helping those in need purchase basic necessities.

- **House Bill 448:** introduced by Representative Saylor, works to meet federal requirements which authorize states to require a drug test to receive unemployment compensation. This legislation would require the drug test be conducted based on suspected drug use by an individual filing for unemployment. Similar to House Bill 1550 this legislation has potential to save taxpayer funds by ensuring public assistance goes to those in need. There has not been a fiscal analysis of this legislation.
- **House Bill 222:** introduced by Representative Regan, would prevent “those convicted of drug distribution crimes from receiving welfare benefits”. As stated in the co-sponsor memo law enforcement often discovers in subsequent searches of these individual’s home that the individual was receiving welfare benefits. Similar to House Bill 1550 and 448, the legislation can reduce costs for the state by reducing welfare fraud and providing resources to those in need.
- **House Bill 251:** introduced by Representative Adam Harris, would require lottery winners to pay any delinquent taxes owed to the Commonwealth from their winnings. This legislation passed unanimously last year as House Bill 1489 and the fiscal note, attached to the bill, estimated the proposal saves Pennsylvania **\$173,000**.

- **2013-2014 Session**

- **Senate Bill 1379:** introduced by Senator Argall and Senator Scarnati, the legislation acts as a comprehensive reform of the states’ welfare system to reduce costs and prevent abuse. No fiscal analysis was provided for the legislation, but proposals included:
 - Requiring lottery winners submit information to “determine ongoing benefit eligibility”
 - Limiting the exemption on vehicles being counted towards benefit eligibility. Under the proposal the exemption was reduced to vehicles which had a value of \$35,000 or less.
 - Establishment of a uniform fee system for replacing lost Electronic Benefit Transfer Cards
 - Increased penalties for welfare fraud.
- **Pennsylvania Smart Card Pilot Program:** This proposal was placed for co-sponsorship by Representative Jordan Harris and Bryan Cutler June 2014. This proposal looked to utilize new technologies to improve the state’s welfare system and reduce welfare costs. Since the proposal was never introduced there was not a fiscal analysis for the proposal. This being said, the bipartisan proposal has the opportunity to reduce costs by preventing abuse by creating an efficient new system.

- House Bill 243: introduced by Representative Petri, improves the state procurement system before contracts are awarded. Although there was never a fiscal analysis provided for the legislation, the proposal can save the commonwealth money by providing state agencies with financial information earlier in the process.
- House Bill 1819: This legislation reduces Act 534 benefits for Department of Human Service employees. Under current law employees of the department hurt on the job by a patient are to receive full pay (without taxes), full health benefits, life insurance, vacation time and pension credit even if they stop working for the rest of their life.
- House Bill 403: This legislation reduces fraud within the Unemployment Trust Fund. From July 1st of 2011 to June 30 of 2012, the state had \$158 million paid out to fraudulent unemployment claims. This was double the national average at the time and considerably higher than surrounding states. The increased the number of penalty weeks for fraud and increased the penalty for fraud itself. The fiscal note for the legislation showed the proposal would save the state \$22 million.

These proposals offered by members of both parties and in both chambers serve as an example of how good public policy can provide natural cost savings for the Commonwealth. These costs savings can be applied to the nontax revenue suggested above to close our structural deficit without increasing taxes.

Revenue for 2015-2016 and Future Years

Lapsed Funds: \$200 million

Cutting Wasteful Spending: \$240 million

Nontax revenue: \$250 million

Administrative and Legislative Cost Savings: \$69.4 million

Total Nontax Revenue for the 2015-2016 Fiscal Year: \$759.4 million

The presence of \$904 million in nontax revenue for this fiscal year makes it abundantly clear; the Commonwealth does not have a revenue problem. Not only do the above proposals provide revenue to solve the current budget impasse they provide revenue for future budget years.

- **Recurring Revenues beyond Fiscal Year 2015-2016**

○ **Revenue from known cost savings \$231 million.**

- **Go-Time:** Similar lean government proposal under Governor Corbett provided the Commonwealth over \$699 million in cost savings over 4 years. This amounts to \$175 million per year. It is safe to say that the annual cost savings from the application of lean government should remain significant in the future.
- **Medicaid Expansion:** Utilizing the other half (\$155 million) in state cost savings from 2016 with half of the estimated cost savings from 2017(\$76 million), Pennsylvania can anticipate \$231 million in cost savings for next fiscal year.
 - These savings were not calculated as part of proposal for Fiscal year 2015-2015 as the administration and leadership had already assumed these cost savings within existing proposals.
- **Lapsed Funds:** On average Pennsylvania spends \$2.3 billion every year from prior years. This means the state needs to undergo a systematic review of all spending as lapsed funds alone are enough to cover future deficits.

○ **Revenue from Known New Nontax Sources: \$250 million.**

- **Liquor Privatization:** As established in House Bill 466, the divesture of the state store system would bring **\$250 million** in nontax revenue. This includes the state recapturing \$100 million lost in revenue from Pennsylvanians purchasing alcohol from stores outside the commonwealth.
- **Horizontal Drilling:** Over the past few years, Pennsylvania has become the second largest producer and exporter of natural gas in the United States. As long as the business climate for natural gas does not deteriorate, the state can continue to anticipate future revenues from natural gas permits.
- **Improving Collection of Delinquent Taxes:** The Commonwealth can anticipate delinquent taxes being owed by vendors and other taxpayers. As result the state will continue to receive additional revenue from this program following the 2015-2016 fiscal year.

- **Total Nontax Revenue for Fiscal Year 2016-2017: \$481 million**

Conclusion

Through a careful examination of nontax revenue, the Commonwealth can end its prolonged budget impasse through reducing wasteful spending, utilizing lapsed funds and generating new revenue from nontax sources. Not only can the Commonwealth balance the budget without increasing taxes it can generate significant revenue with \$759 million in new nontax revenue available for the current fiscal year.

This revenue does not include estimates for proposals which can generate additional revenue. These proposals are not one time fixes, but provide the state with recurring revenue without burdening taxpayers with new taxes.

This is evident in possible nontax revenue for the 2016-2017 fiscal year. Assuming \$400 million (out of 2.3 billion) in lapsed funds, \$150 million from savings through GO-Time and \$94 million from horizontal drilling, \$55 million in delinquent tax collection, the Commonwealth generates \$669 million. This revenue when combined with the \$231 million in initial savings from Medicaid expansion and the \$250 million from liquor privatization provides \$1.18 billion to address the structural deficit next year without raising a single new tax.

These proposals are just a few of the many options the state can utilize to balance the budget as good public policy can provide additional revenue. This revenue allows the state to subsequently increase our Pennsylvania's investment into important line items such as basic education. As Pennsylvanians have the 10th highest tax burden in the United States, elected officials owe it to taxpayers to find new solutions instead of raising taxes.

It is unreasonable to request Pennsylvanians to adjust their spending habits because government refuses to adjust its own spending. With \$759 million, this fiscal year, in available funds from reducing costs and using lapsed funds, the last thing the Commonwealth should be using to balance a budget is tax increases.