



City Council *of* Philadelphia

Finance and Budget Team:
Analysis of Governor's Proposed FY2019-20
State Operating Budget



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Executive Summary

On February 5, 2019, Governor Tom Wolf released his proposal for the 2019-20 State Operating Budget. The State of Pennsylvania's (PA) budget process aligns with City Council's, as both the City and State operate on the same fiscal year calendar. The proposed State budget, which will likely be amended during the State's budget process, details the Governor's continuation of long-term spending goals and notably includes no tax increases.

The Fiscal Year 2019-20 (FY2019-20) projection shows significant improvement in the State's financial position in the past three years, with significant progress left to be made. The State of Pennsylvania began FY2017-18 with a *negative \$1.53 billion* fund balance. If the Governor's proposed budget is adopted, the State will end the FY2019-20 with a *positive \$5 million fund balance*, even after small contributions to the State's "Rainy Day" Fund.

General Fund Financial Statement

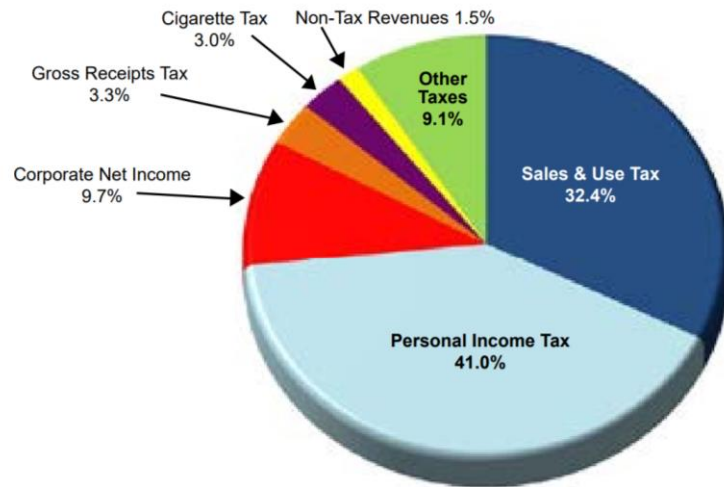
	Dollars in Millions		
	2017-18 Actual	2018-19 Available	2019-20 Budget
Beginning Balance.....	\$ -1,539	\$ 22	\$ 3
Adjustment to Beginning Balance.....	15	-56
Revenues:			
Receipts.....	\$ 34,567	\$ 34,400	\$ 35,296
Less Refunds.....	-1,339	-1,341	-1,343
Prior Year Lapses.....	289	200	200
Funds Available.....	\$ 31,993	\$ 33,226	\$ 34,156
Expenditures:			
Total Appropriations.....	\$ 31,948	\$ 32,724	\$ 34,146
Supplemental Appropriations.....	495
Total State Expenditures.....	\$ 31,948	\$ 33,219	\$ 34,146
Preliminary Balance.....	45	6	10
Transfer to Rainy Day Fund.....	-23	-3	-5
Ending Balance.....	\$ 22	\$ 3	\$ 5

Pennsylvania's revenues are mainly raised through a personal income tax. Pennsylvania's Personal Income Tax is a flat, 3.07% tax on all income, and is anticipated to raise \$14.4 billion in FY2019-20. Pennsylvania's rate is lower than the rate in nearby states: in 2018, a couple earning \$100,000 would pay a marginal tax of 5.525% in New Jersey, 6.6% in Delaware, and 6.57% in New York.¹ Pennsylvania's 6.34% sales tax, which is anticipated

¹ <https://taxfoundation.org/state-individual-income-tax-rates-brackets-2018/>

to raise \$11.4 billion in FY2019-20, is lower than the sales tax in New York (8.49%) and New Jersey (6.6%); Delaware, however, has no sales tax.^{2,3}

General Fund Revenues



General Fund Revenue Sources

Source	Dollars in Millions		
	2017-18 Actual	2018-19 Estimated	2019-20 Estimated
Personal Income Tax	\$ 13,399.0	\$ 13,855.1	\$ 14,443.0
Sales and Use Tax	10,381.4	11,102.5	11,447.1
Corporate Net Income Tax	2,879.5	3,342.5	3,423.3
Gross Receipts Tax	1,149.9	1,117.1	1,177.1
Cigarette Tax	1,198.3	1,119.0	1,064.9
Other Taxes	2,994.3	3,076.1	3,215.7
Non-Tax Revenues	2,563.5	727.4	525.2
Total Receipts	\$ 34,566.9	\$ 34,399.7	\$ 35,296.3
Difference from prior year	2,897.9	-167.2	896.6
Percentage difference	9.2%	-0.5%	2.6%

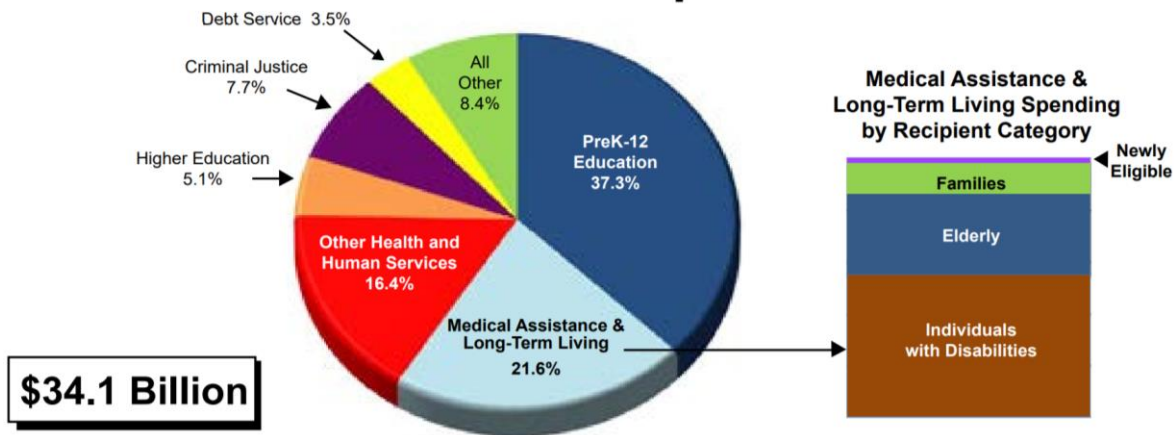
The most notable increase in revenue is not a tax increase, **but a proposed municipal fee for the State police.** This \$25 per-capita fee, which has been proposed unsuccessfully for the previous two fiscal years, would not affect Philadelphia. The fee impacts municipalities that maintain no police force and instead rely on the State Police for protection. Estimates from the Economy League highlights that approximately 50% of Pennsylvania’s municipalities (approximately 2.5 million residents) rely solely on the State Police for protection, yet do not pay specifically for the service. For reference, according to the 12/31/18 Quarterly City Managers Report, the City of Philadelphia is projected to spend \$711.1 million on the Police Department this fiscal year, or approximately \$450 per citizen. **The State Police department, which is projected to spend \$271 million in FY20, would receive approximately \$63.2 million annually from the fee.**⁴

² <https://taxfoundation.org/state-local-sales-tax-rates-midyear-2018/>

³ Since the City has a wage tax rather than an income tax, the City does not piggyback on the State tax.

⁴ Burden of Municipal Police Costs: Highest Expense for Some; Free for Others – The Economy League, 2017

General Fund Expenditures



The proposed State budget includes proposed legislative changes to increase the incomes of the State’s lowest-paid workers: **Governor Wolf’s budget proposes an increase in the State’s minimum wage from the current \$7.25 to \$12 per hour, effective July 1st, 2019.** Thereafter, the minimum wage would increase annually, until 2025, where it would reach \$15 per hour. If adopted, the increase in the minimum wage is projected to save the State \$36 million in FY2019-20 due to decreased utilization of social services, and to move the State in line with many other states in the country – which have already adopted or are considering adopting mandatory increases in the minimum wage.

This proposed State budget plans to mandate and fund an increase in the minimum starting salary for teachers from \$18,500 to \$45,000. Although many districts already start above the legal minimum of \$18,500, this proposal would provide a boost for many municipalities whose starting salaries are below \$45,000. In Philadelphia, District teachers with a bachelor’s degree already begin “Step 1” at \$45,360. The proposed budget also includes expansions in teacher development opportunities, creates a “Keystone Economic Development and Workforce Command Center”, and raises the dropout and compulsory school attendance ages.

Governor Wolf proposes an additional **\$200 million in Basic Education Funding, \$50 million in Special Education Funding, and \$50 million for Pre-K and Head Start over current levels.** The additional funding for *Basic Education* will be distributed using the ‘Fair Funding Formula’, adopted in 2016. This formula determines the distribution of any increases in revenue for Pennsylvania’s school districts that have taken place *after* the adoption of the formula, while maintaining base levels of funding (*hold harmless provision*) from the period before the adoption of the formula. The formula utilizes three steps: The *School District’s Weighted Student Count*, local median incomes and tax burden, and the district’s adjusted student count as a percentage of the State. The *Weighted Student Count* takes into account the 3-year average of student population, the number of students in poverty (higher weighting is used for ‘deep poverty’), the number of ESL (English as a second language) students, as well as the number of students enrolled in charter schools. Philadelphia’s score, which is high due to the concentration of poverty, high numbers of ESL students, and high charter enrollment – entitles Philadelphia to approximately 25% of all new basic education funding, after certain adjustments⁵. **If this proposed State budget were adopted, Philadelphia would receive approximately \$48 million in new funding from the State – \$30.4 million higher than the \$17.6 million increase projected in the School District’s Five-Year Plan.**

⁵ Certain districts determined to be ‘distressed’ temporarily receive an amount above their formula recommendation, which impacts the calculation for non-distressed districts.