City Council of Philadelphia

Finance and Budget Team:
Analysis of Governor’s Proposed FY2020-21 State Operating Budget
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Executive Summary
On February 4th, 2020, Governor Tom Wolf released his proposal for the 2020-21 State Operating Budget. The State of Pennsylvania’s (PA) budget process aligns with City Council’s — both the City and State operate on the same fiscal year calendar — and proposes several spending initiatives pertinent to the City of Philadelphia. Links to the Governor’s budget (e.g. The Budget in Brief, line-item appropriations, etc.) can be found here.

Revenues
Revenues included in the Governor’s proposed budget remain consistent with previous years. The majority (74.2%) of the General Fund’s revenues comes from two taxes, personal income tax (41.5%) and the sales and use tax (32.7%).

The State has experienced the same revenue patterns as the City of Philadelphia, with moderate growth in income and sales taxes. Personal Income Tax revenues are projected to grow by 4.7% from FY20 to FY21, while the Sales and Use Tax is projected to increase 5.1% from FY20 to FY21.

Governor Wolf continues to push for a “severance tax” on natural gas extraction. The tax would be imposed on a sliding scale, from a low of 9.1 cents per thousand cubic feet to a high of 15.7 cents per cubic feet, depending on the market price of the product. This proposal, which is projected to raise $550 million annually, will be contentious: Governor Wolf has been bidding to pass a severance tax since his election in 2014.1

<table>
<thead>
<tr>
<th>State of Pennsylvania General Fund Revenues (millions)</th>
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<tbody>
<tr>
<td>FY19 Actual</td>
</tr>
<tr>
<td>Personal Income Tax</td>
</tr>
<tr>
<td>Sales and Use Tax</td>
</tr>
<tr>
<td>Corporate Net Income</td>
</tr>
<tr>
<td>Gross Receipts Tax</td>
</tr>
<tr>
<td>Cigarette Tax</td>
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<tr>
<td>Other Taxes</td>
</tr>
<tr>
<td>Non-Tax Revenues</td>
</tr>
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<td><strong>Total Receipts</strong></td>
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Figure 1

The State’s Rainy-Day Fund balance2 — the amount representing unappropriated funds in the City’s balance sheet — is projected to end FY21 at $340 million, approximately 1% of annual revenues. For comparison, the City of Philadelphia ended FY19 with a General Fund balance of $438 million, representing 9.1% of annual General Fund revenues.

1 Note: Pennsylvania does have an industry tax on natural gas. In 2013, Governor Corbett signed Act 13, which imposed an annual “impact fee” for the first 15 years of a well’s existence. The majority of the revenue raised through this tax goes to local County governments. In FY19, the fee raised an estimated $252 million, and helps fund a litany of local projects. The proposed severance tax is not included in Figure 1 since it has not been enacted.

2 The State has moved all unappropriated funds in recent years to the Rainy-Day fund. The City has moved funds to the Budget Stabilization Reserve Fund (i.e. the Rainy-Day Fund) on a legal formula and a discretionary basis.
Figure 2

Figure 3

3 Governor’s Budget in Brief, page 22
4 Governor’s Budget in Brief, page 4
Expenditures

As highlighted in Figure 2, the majority of the Governor’s $36.1 billion in appropriations is allocated to a small handful of departments: Human Services ($14.3 billion), Education ($14 billion), Criminal Justice ($2.6 billion), and Treasury/Debt Service ($1.2 billion). These four departments represent $28.4 billion, or 78.8% of the General Fund budget.

The proposed severance tax on the extraction of natural gas would help fund Restore Pennsylvania, a $4.5 billion capital spending plan which expands investments in flood mitigation, broadband expansion, blight remediation, green infrastructure, contaminant remediation, transportation projects, and business development. If the severance tax were not approved, only the projects under the Restore Pennsylvania plan would be unfunded. The remainder of the projects and initiatives described below would be funded through existing revenues and are not dependent on the passage of a severance tax.

The budget proposal includes significant additional investments in our State’s children and workers:

- **Education Initiatives**
  - $100 million in the Basic Education Fair Funding formula
  - $25 million increase in the Special Education Funding formula
  - **Proposes an expansion of full-day kindergarten for all Pennsylvania students**
  - Repurposes $204 million from the Race Horse Development Trust Fund towards higher education assistance
  - Raises the Minimum Wage for teachers to $45,000 per year

- **Anti-Violence Spending**
  - The budget proposal includes a $4 million allocation to the Philadelphia Gun-Violence Taskforce
  - Governor Wolf’s budget address, which can be found here, included an impassioned call for gun reform legislation

- **Charter School Funding Reforms (Proposed)**
  - $280 million in statewide savings will be realized through changes to special education and cyber charter regulations, by applying the Special Education Fund formula to charter schools ($147 million) and establishing a statewide cyber charter tuition rate ($133 million)

The proposed budget includes a series of policies meant to support the remediation of contaminants – principally lead and asbestos – statewide by expanding on the Lead-Free PA program announced in August of 2019. This initiative expanded local response teams in the Department of Health, increased remediation workforce training, and expanded resources for families through Health and Human Services.

The additional initiatives in this proposed budget, which total more than $1 billion dollars in new spending, span the operating and capital budgets and include the following:

- **Expanding the Redevelopment Assistance Capital Program (commonly called “RACP” or “RCAP”) to Schools**
  - Up to $1 billion in grants to be used for lead and asbestos remediation in schools
  - RACP/RCAP grants are for capital projects of significant economic, cultural and historic nature
    - In 2019, Philadelphia-based projects were awarded $61.1 million

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5 The structure of the RACP/RCAP expansion is still to be determined. City Council’s Finance and Budget Team will remain in close contact with the Governor’s Office as details are finalized.

6 Redevelopment Assistance Capital Program: Listing of Candidates and Selection Results for 2019 Round 1
• **Leveraging CHIP Health Services Initiative**
  o The State Children’s Health Insurance Program (CHIP) allows for a small amount of CHIP funding to implement “health services initiatives” focused on improving the health of eligible populations
  o This proposal seeks to leverage a $4 million State investment with $10 million coming from the Federal Government to implement additional lead remediation activities for CHIP eligible populations

• **Transferring PENNVEST Grant Funds**
  o Under new Federal legislation, States may transfer up to 5% of Clean Water State Revolving Fund revenues to the State’s Drinking Water Revolving Fund – currently $90 million.
  o This proposal would redirect the $90 million towards lead service line replacement grants.

• **Convening Lead Based Paint Hazard Reduction Program Grant Recipients**
  o $22.5 million in awards to remediate lead in homes for low and very-low income families with children.

• **Implementing Lead Testing in School and Child Care Program Drinking Water Grant**
  o $1.7 million in funds to develop and implement a lead testing program in schools and childcare facilities.
    ▪ This level of funding would support testing in up to 3,000 facilities, with priority given to facilities with children under the age of 6.

**Conclusion**

The Governor’s proposed budget, which tends to be finalized after City Council passes the City’s budget, is likely to change over time. The Finance and Budget Team will keep City Council informed of the State’s budget process through the upcoming months.