



Policy Position Statement on 2015-2016 State Budget Proposal

BACKGROUND:

On March 3rd, 2015, Governor Tom Wolf presented his budget proposal to a joint session of the General Assembly. The budget would spend \$33.8 billion – a 16% increase from 2014-2015. The proposed budget includes raising taxes by over \$4 billion on income, sales, natural gas drilling, banks and tobacco. In return, it delivers new property tax relief, raises spending in education, human services, corrections, and economic development and eliminates or lowers a number of business taxes.

POLICY POSITION:

The Lancaster Chamber believes that just as businesses are faced with very difficult budget choices, government should be no different. It is the duty of government leaders to build a fiscally responsible budget that aligns revenues with expenses – and looks at cost drivers in the Commonwealth. Outlined below are areas of concern and opportunity regarding the state budget:

Pension Reform - It is irresponsible to further delay making substantial reforms to pension costs for state employees, school employees and legislators. In presenting a comprehensive budget proposal, the proposed tax changes are not sustainable long-term without pension reform.

- Pennsylvania's unfunded pension liability now exceeds \$50 billion and because of past policy decisions, this unfunded liability will continue to grow, even as pension contributions continue to rise. Taxpayer costs for pension contributions have been rising, and that trend will continue over the next few years. In the General Fund, pension contributions were projected to increase from \$1.7 billion to more than \$3.3 billion – an increase of nearly 97% - by 2019-2020.
- Educational institutions, similarly, will face increases in their pension contributions. The costs to fund pensions will be paid by residents of school districts and tuition paying students at state system higher education institutions. The Governor and the Legislature have a responsibility to the families, students and taxpayers of Pennsylvania to address the long-term stability of our public and school pension systems.
- The Commonwealth's bond rating has been downgraded multiple times due to our unfunded pension system and the structural deficit it creates. Continued budgetary structural imbalance, a failure to boost the adequacy of pension funding and an inability or unwillingness to make difficult fiscal decisions have been cited as reasons for the downgrades.

Tax Increases and Decreases – While there are a number of tax changes that could be beneficial to individuals and businesses, studies suggest that individuals at all income levels are likely to be paying more under Wolf's proposal.

- Favorable decreases to business taxes such as the phase-out of the Corporate Stock and Franchise Tax and the reduction of the Corporate Net Income Tax are only sustainable if cost-drivers in the state, such as pensions, are addressed first.
- The Governor's budget proposes increasing the personal income tax 20 percent to 3.7%, a change that could disproportionately affect small business owners.
- The proposal also includes an increase in the sales tax to 6.6% and an expansion of its application to business services and other currently exempt transactions. The expansion may cause businesses to pay more for their products, leading to a higher cost of doing business and translating into higher prices for consumers.
- The reliance on revenue generators that are among the most volatile and fluctuate with the economy to offset property tax reductions creates a lack of financial predictability and consistency for budgeting. Doing so poses major risks for the funding system that could create a significant funding hole in future recessions.

Education Funding - The legislature needs to increase funds directly into classrooms by looking at ways to reduce mandated education costs.

- In addition to reforms in the pension system, reforming the prevailing wage and other cost-driving mandates can better ensure that future tax reform proposals would not negatively impact the quality of education – within both public education and the higher education systems.
- Addressing the school funding formula to ensure school districts are funded equitably, fair and efficiently, is critical for ensuring resources are available to enable every child to meet academic standards, be prepared for post-secondary success and become knowledgeable, engaged adults.

The Chamber is committed to advocating for the Lancaster business community in an effort to create a responsible budget for the Commonwealth; one that is fiscally accountable; one that incorporates innovative ideas and sound practices; and that ultimately supports the most efficient and effective state government.

Approved by the Board of Directors on 5.19.2015.

Mission: To build Lancaster County into a model of prosperity for 21st Century America.