

**SENATE APPROPRIATIONS COMMITTEE**

**March 14, 2007**

**Comments on Governor's Proposed Budget**

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Chairman and members of the committee, thank you for the opportunity to offer my thoughts on the Governor's budget proposals. In the interests of brevity, I will focus on just four items.

A general comment. The Governor's budget is far too aggressive in the amount of increased spending and new taxes it proposes, especially in light of the rapid rise in outlays in recent years. But beyond that, it poses a serious threat to future budgets and substantially raises the likelihood of further tax hikes because of the new programs it envisions. As long as we face the daunting prospect of large jumps in spending to keep the state employee and teacher pensions financially sound and to cover promised retiree health care benefits, it makes no sense to begin new, expensive programs that are virtually guaranteed to cost more than they are projected.

This is especially true of the proposed health care plan. If we know anything it is that the more government becomes involved with health care, the higher the costs go. It is the nature of the beast; it devours whatever funds are available and inevitably needs more. In the Governor's plan, businesses that do not provide health benefits will be assessed a three percent tax on payroll to help pay for the uninsured under the Prescription for Pennsylvania.

This is clearly more evidence of the lack of respect government has for business. Pennsylvania just raised the minimum wage, which will negatively impact the earnings ability of small, low profitability businesses that are providing some jobs and income. Many of these firms might well have to reduce staffs and/or cut back on benefits they offer their remaining staff.

There can be no clearer evidence of the antipathy of the budget preparers toward small businesses than the comment in the budget summary document. "Prescription for Pennsylvania will be funded by assessing "free-rider" businesses that do not offer health care insurance and pass the health care costs of their employees and their families on to everyone else."

Let's think about what the budget preparer is really saying. If you are operating a business in Pennsylvania, no matter how small or precariously and even though you are providing meaningful work and income to your employees for whom the job is their best opportunity, that is not enough, you must also be responsible for their health care. This raises a crucial question. When did it become the responsibility of business to provide health care coverage? Certainly, many firms that are able do offer medical benefits to be competitive. But these benefits are just another form of compensation that is not paid as wages or salary. The benefits must be covered through company revenues in excess of non-employee costs. And as we have seen in recent years the rapidly rising costs of medical insurance have forced many companies to drastically reduce their health care coverage or eliminate it all together.

The point is that government should not force companies to pay wages and benefits they cannot afford or call them free-riders. If they are providing jobs we should be saluting

them. Indeed, we should be focused on making it easier to start and run a business in Pennsylvania without having to dole out an endless stream of subsidies.

Next, I want to say a few words about the transportation section of the Governor's budget plan. There is a proposal to tax oil company profits at a rate of 6.17 percent to raise money for public transit. I would hope this plan is a non-starter for two reasons. One, it will cause the price of gasoline and other oil related products to rise in Pennsylvania as companies try to recover the lost profits. Consumers will pay most of this tax though higher prices. Two, raising a dedicated source of revenue for mass transit before the systems have been forced to adopt money saving, efficiency enhancing steps as proposed in the Governor's Commission on Transportation Reform and Funding would be foolhardy. A bailout before needed cost reductions are in place would simply let the systems off the hook one more time.

In the case of the Port Authority of Allegheny County, there is an urgent need to dramatically reduce costs and raise operating efficiency. Costs per passenger are among the nation's highest; driver pay, adjusted for cost of living, is the highest in the country and, pensions and health care benefits for union and non-union employees are among the most generous in the country. Indeed, legacy costs for retiree health care and increasingly for pensions are pushing the Port Authority's compensation costs skyward at a fantastic rate.

This simply must stop. Pennsylvania's taxpayers should not and cannot be expected to continue subsidizing inefficient and overly expensive transit systems. While the Port Authority is taking steps to address its costs by slashing service, there is much more that can be done through work rule changes and outsourcing that will enable more service delivery for each dollar of subsidy the state provides.

In the meantime, the legislature needs to send a very forceful message that no bailout and no dedicated revenue streams will be forthcoming until there is substantial progress toward fixing the serious problems at the Port Authority.

Third, I would like to comment on the energy component of the budget. The Governor's energy plan foresees the creation of an energy independence fund of \$850 million. A kilowatt hour tax would be used to finance the program. Of the bond proceeds, \$300 million would be spent on loans to "clean energy" companies and another \$200 million spent to jump start solar energy in Pennsylvania. In both cases the state is taking on the role of venture capitalist. That is not an appropriate role of state government. Too much money has been wasted in years past trying to outguess the market about what new technologies will be successful.

Besides, there is no way for taxpayers to capture the "profits" from the development of new technologies arising out of state sponsored research. Energy markets are national and global in scope. R and D spending world wide by national governments and energy firms will dwarf Pennsylvania's efforts. A breakthrough in engine efficiency, generating technology or an oil field find could wipe out any benefits from expenditures here. It is

not an area Pennsylvania ought to involve itself when there are other pressing legitimate, core responsibilities the government should be focused on, such as crime, prisons, roads, etc.

Finally, I believe the plan to raise the sales tax to lower property taxes and fund other programs is seriously flawed. First of all, property tax relief is limited to half of the proceeds of the sales tax hike. That means half will be spent. And as we know with government, spending begets more spending. At the very least, if the sales tax is raised; use it all for tax relief. Second, the property tax relief is limited to homesteads. There is no relief for businesses that will also be hit by the sales tax increase and it adds more burden to renters, who might also be facing a wage tax increase if school district referenda on shifting taxes get passed.

Lowering property taxes is a very important public policy priority. Cutting government to allow tax reductions should be the first step. Creating referenda requirements for any tax rate increase would be critical in preventing the development of the tax squeeze faced by Pennsylvanians. Tax shifting is a last resort. It does not inspire confidence and is easily manipulated and circumvented later.

Thank you for your attention.