



Governor's Budget Proposal Seems to Be a Non-Starter

The budget proposed for fiscal year 2015-16 is facing a lot of skepticism as being too aggressive, too far reaching and ill-considered. In short, it ought to be viewed as a non-starter.

In the first place, it seeks to make far more major structural changes than can possibly be thoroughly analyzed and evaluated by the General Assembly before June 30. These changes include hefty increases to sales and income taxes, levying a severance and per cubic foot tax on the Marcellus Shale industry, cutting corporate net income tax with major changes in factors determining tax liability, altering the operations of the liquor stores, an increase in tobacco product taxes, issuing bonds to fund green energy projects, raising the minimum wage to \$10 and tying it to inflation, major amendments and expansion of health care provided by the state, and setting up funds to distribute income tax revenue to property tax relief. All told, the proposed tax increases when fully implemented in 2016 would generate an expected \$6.5 billion in additional annual revenue.

These changes, not to mention dozens of other smaller ones, will take months to wade through from an economic analysis standpoint and much longer to deal with politically. There is much opposition to many of these proposals. Moreover, there is only a minimal nod toward solving the gigantic pension crisis that will require more than just throwing money at it or kicking the can down the road again. The state's credit rating has been lowered because of the failure to grapple with the monstrous problem. And absent meaningful reforms soon, the credit rating agencies might well lower the rating again.

Writing off the sale of the liquor stores will not sit well with many members of the Legislature. Raising the minimum wage by a third will not sit well with employers and is unlikely to get much traction in the Legislature.

On the spending side, the budget plan calls for huge increases (\$100 million) in pre-K programs and special education as well as a \$400 million rise in basic education funding. Presumably, the severance tax is supposed to cover much of the education spending increase. Enacting a severance tax appears to be very unlikely at this time. Interestingly, the state's normal funding for school pensions is not in the proposed budget. There is however, a \$1.75 billion transfer of funds into a restricted account for school employee pensions.

In a cautionary note, it is important to bear in mind that the economic and employment forecast for the next several years is a matter of concern. The revenue forecasts in the budget are based on a doubling of growth in incomes and employment in 2015 from the 2014 pace. The faster pace would persist through 2016, lifting the state's economic fortunes to a much higher plateau. But as

many have learned to their dismay, economic forecasts can be very unreliable and lead to major shortfalls of predicted revenue.

A key element in the budget is the plan for dramatic changes to education funding. Education is slated to receive sizable increases in appropriations over the next five years in the Governor's proposal. This is in line with, and follows the philosophy of, the educational establishment who suffer from the belief that every academic shortcoming can be fixed by dumping more money on it.

Before the General Assembly considers the proposed major increases in spending, the Governor needs to explain some things to taxpayers. In the first instance, he needs to explain how it is that Peters Township schools spent only \$11,602 per student in 2012-13 (\$3,000 per student less than the state average and merely \$2,608 per student from the state) and had 93 percent of 11th grade test takers in 2013-14 scoring proficient or higher on the PSSA math test and 98.6 percent proficient or higher in reading. These proficiency levels are far above the 70 percent range of scores in the statewide averages. Then too, Greater Latrobe spent only \$11,800 per student (about \$3,000 below the state average) and has almost 30 percent of the students classified as economically disadvantaged. Yet 85 percent of the district's 11th graders scored proficient or higher in math and 93 percent scored proficient or higher on reading.

Consider the Hampton district where per student spending is \$1,000 below the state average but the high school is ranked as the 8th best in the state, even including all the magnet academies. Then there is Mt. Lebanon where per pupil spending is only slightly higher than the state average yet manages to rank consistently among the top tier of academically performing districts in Pennsylvania. Many other examples could be cited but these make the point that hefty spending is not necessary to achieve excellent or very respectable academic outcomes.

Now consider two districts that spend over \$20,000 per student—Pittsburgh and Wilkinsburg. Bear in mind that despite having a fairly high local funding capability, Pittsburgh received \$9,000 per student from the state in 2012-13. Note, in an interesting aside, the North Hills District with PA Education Department aid ratios that are virtually identical to Pittsburgh's received only \$3,411 per pupil.

Notwithstanding its enormous expenditures per pupil, Pittsburgh's academic performance is very weak. Indeed, in the City's high schools, other than a couple of magnets and Allderdice, the PSSA scores are lower than in 2008. At the five non-magnet high schools only 30 percent of 11th graders were able to score at the proficient level on the latest year's math test; in a couple of schools fewer than 20 percent were proficient. The schools' reading proficiency was equally disappointing. Among K-8 PSSA test takers barely 60 percent scored proficient or better in math and only 53 percent in reading. It is a sad but undeniable truth that while not good, the elementary and middle school academic achievement levels are still much higher than the 11th grade performance.

Note that Pittsburgh spends a fifth of its school budget, or about \$100 million, on special education including programs such as pre-K and early intervention—areas where the Governor wants to greatly increase spending.

In Wilkinsburg, despite the \$21,000 per student expenditures, only 8 percent of 11th graders were proficient in math and 13 percent in reading. At the middle school only 24 percent scored proficient in math and 33 percent in reading. The elementary scores were modestly better than

the middle school but still far below a level to create any encouragement that the schools were effectively educating the students in their charge.

It is important to point out that the high schools in Pittsburgh and Wilkinsburg share a common devastating problem—high absenteeism. With official attendance rates hovering at 80 percent (for both districts) that means the average student is absent 36 days per year and some probably out 50 or more. The low attendance rate suggests strongly that a large fraction of students have no interest in education and a woeful lack of commitment to getting one.

How can the General Assembly be asked to spend a lot more money to educate students who have no interest in learning?

The Governor needs to explain why more dollars will not simply feed the maw of ineffective spending when the problem in many schools is a lack of interest on the part of so many students. More spending cannot solve the underlying causes of the poor academic performance, as much as advocates want to believe it will. They need to offer some evidence before the Legislature considers massive increases in spending. Improving third grade or even seventh grade scores is not enough if that fails to translate into 12th graders who are ready to go out into the world as employees or postsecondary students. When large numbers of students are graduating as functional illiterates, the schools have failed regardless of how excited school boards are about third grade scores.

In short, there are very good school districts in Pennsylvania that spend a moderate amount per student and some very poorly performing ones that spend enormous amounts of money. It should be obvious that huge additional dollops of money are not the answer to what is wrong with the poorly performing schools.

Equally disturbing is the continuing claim that the previous Governor cut a billion dollars out of the state's education budget. In fact, it was the previous Governor's predecessor who cut state funds to education. Of course, he had the luxury of using a big chunk of Pennsylvania's "stimulus" money. So, even with the recession and falling state revenue he was able to increase school funding using Federal money.

But as we know, his successor would have no such good fortune. Federal funds fell by well over a billion dollars, and the state was facing a \$3 billion dollar deficit. Nonetheless, the newly inaugurated Governor added back \$250 million in state money to education expenditures. But the loss of a billion Federal dollars simply could not be made up in the economic environment that existed. Unfortunately, the exploitation of that situation by politicians who conveniently forget how the previous Governor had set the whole thing in motion by using up large chunks of the stimulus money has become part of the enduring political narrative.

In sum, the new Governor's first budget is predicated on easily refuted arguments and tired old rhetoric and is unlikely to get very far without substantial modifications.

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