Blueprint for Growing Pennsylvania's Economy

CLEAR

COALITION FOR LABOR ENGAGEMENT AND ACCOUNTABLE REVENUES

REVENUES AND SAVINGS

CLEAR
COALITION FOR LABOR ENGAGEMENT AND ACCOUNTABLE REVENUES

	ESTIMATED ANNUAL SAVINGS AND REVENUE
Raising the Minimum Wage	$140,000,000
Shale Tax	$200,000,000
Corporate Tax Reform/Closing the Delaware Loophole	$332,000,000
Fair Share Plan	$2,200,000,000
Increase Transparency and Maximize the Commonwealth's Buying Power	$50,000,000
End Overpayments of Charter and Cyber Charter Schools	$160,000,000
Right-Sizing State Government Management	$154,000,000
Institute State Contracting Reform	$200,000,000
Scrutinize State Business Incentives and Tax Credit Programs	$35,000,000
TOTAL PROJECTED	**$3.5 BILLION**

For more information, please visit www.clearforpa.org.

A BLUEPRINT FOR GROWING PENNSYLVANIA'S ECONOMY

CLEAR
COALITION FOR LABOR ENGAGEMENT AND ACCOUNTABLE REVENUES

Heading into FY 2019-20, Pennsylvania state government has both an opportunity and an obligation to fundamentally address systemic fiscal challenges and annual budget shortfalls that continue to threaten core services and programs; lift the incomes of more than 1.2 million Pennsylvanians; and fix our tax structure to make it fair for all Pennsylvanians.

The CLEAR Coalition's **Blueprint for Growing Pennsylvania's Economy** seeks to build on the tremendous progress made in the last four years to restore funding to K-12 education; protect important state programs and jobs; and stabilize the Commonwealth's overall financial situation. The Commonwealth in 2018 was able to make a $22 million payment to the state Rainy Day Fund, the first such payment in a decade. Despite this progress, IFO predicts that the budget deficit for fiscal year 2019-2020 is likely to be between $1.5 and $1.7 billion.

The plan would generate more than $3 billion in new revenues, savings, and common-sense efficiencies in state government operations. The Coalition supports continued investments that include: basic education, technical education, and affordable access to college for all Pennsylvania families; vital state and local services including access to quality healthcare and human services; and safe and reliable roads, bridges and transit systems. These investments will help create jobs in every community in the state.

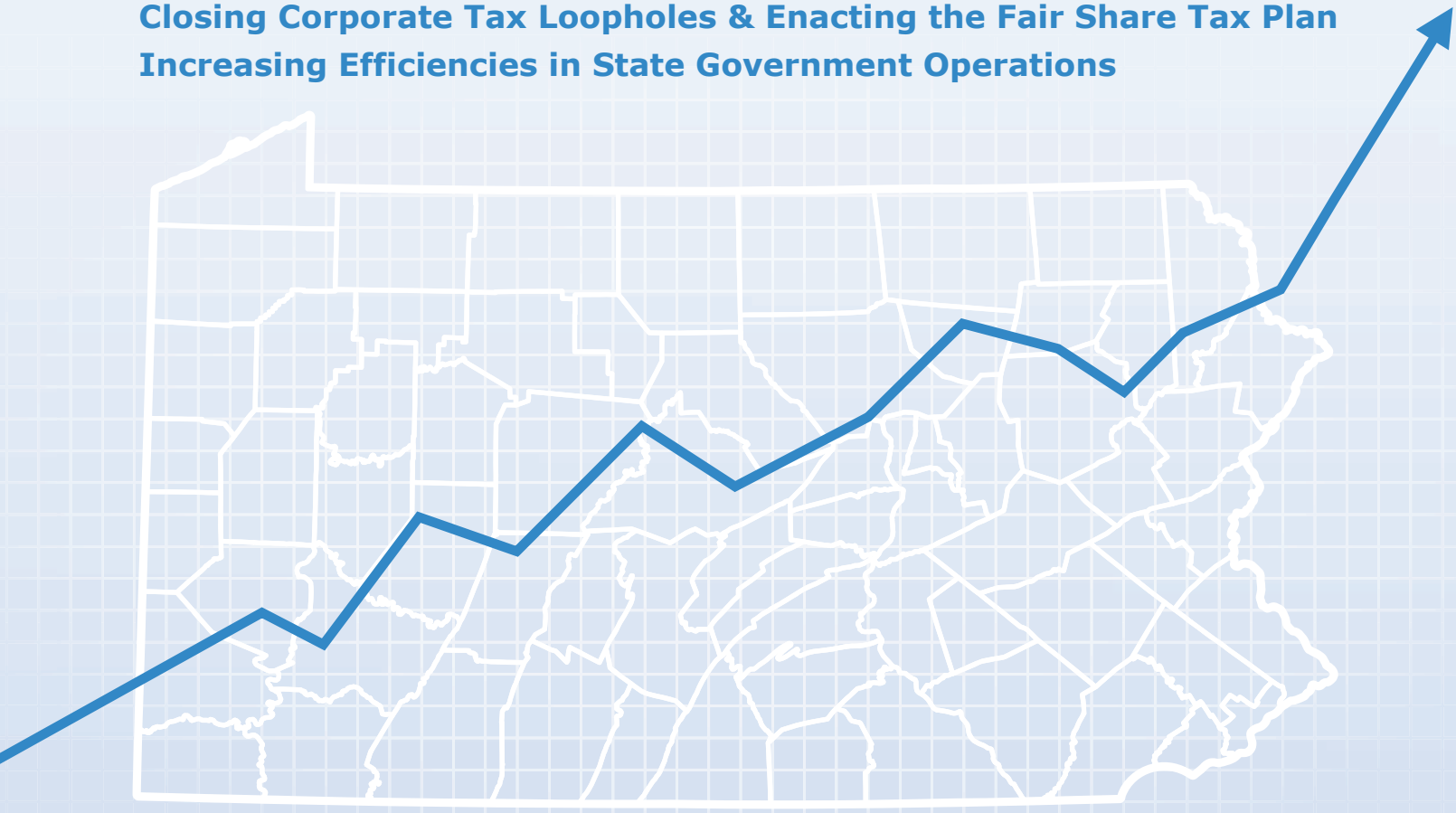
The core components of our Blueprint include:

Raising Wages

Imposing a Statewide Excise Shale Drillers Tax

Closing Corporate Tax Loopholes & Enacting the Fair Share Tax Plan

Increasing Efficiencies in State Government Operations



RAISING WAGES

CLEAR
COALITION FOR LABOR ENGAGEMENT AND ACCOUNTABLE REVENUES

Raising the state's minimum wage to $15 would lift the income of more than 2 million Pennsylvanians; produce significant savings in the state's Medical Assistance program and generate new tax revenues to help close the state's looming budget deficit; and spur spending in communities across the state. In total, wages in Pennsylvania would increase by $9.1 billion.[1]

Raising our minimum wage is long overdue: The state's $7.25 minimum wage has remained flat for more than a decade. Pennsylvania is one of only 20 states that continues to rely on the federal minimum wage.

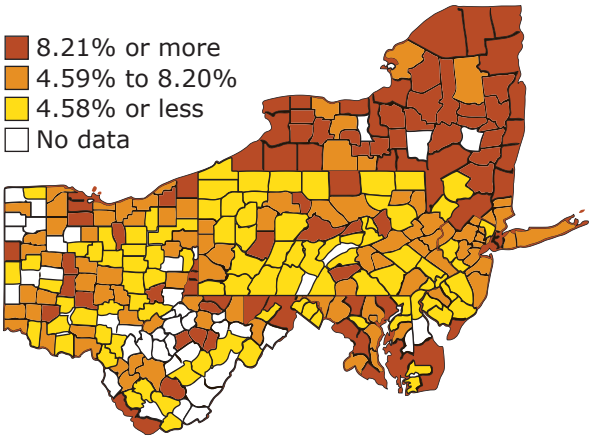
As of January 2019, more than 5 million workers in 20 states and 24 cities and counties around the country will earn a higher minimum wage. All our neighboring states - Ohio, West Virginia, Maryland, Delaware, New Jersey and New York - have a higher minimum wage than Pennsylvania. In four of those states, approximately 614,000 workers earned an increase in January 2019. Those increases include a $0.25 per hour adjustment for inflation in Ohio and New Jersey, a $0.50 per hour increase in Delaware, and a $0.70 to $2.00 per hour increase in New York State—the biggest increase in New York City. In addition, job growth has been stronger in those states than in Pennsylvania, both overall and in industries like food services that are more likely to be affected by a minimum wage increase. Pennsylvania workers cannot afford to lose any more ground.

Pennsylvania's $7.25 minimum wage stands nearly 18% below the wage in Ohio ($8.55); 22% below New Jersey ($8.85); 20.7% below the minimum in West Virginia and Delaware ($8.75), 39.3% below Maryland's wage ($10.10) and 62.8% below the minimum wage in most of New York state. In 1968, Pennsylvania minimum-wage workers earned over half (51%) of what the typical Pennsylvania worker made ($1.60 compared to $3.15).

(continued)

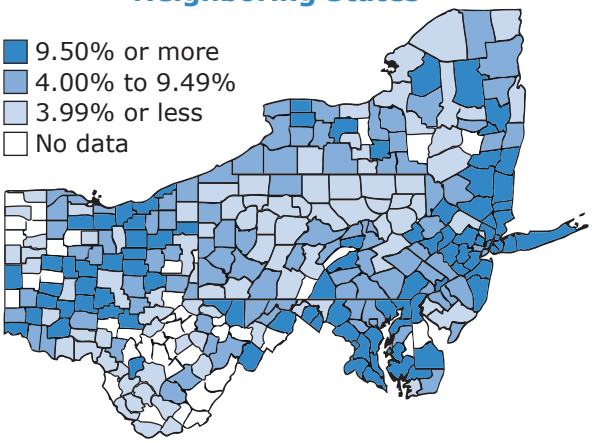
RURAL PENNSYLVANIA WORKERS LEFT BEHIND:

Wage Growth in Food Services Trails Most Counties in Neighboring States



Percent Change in Real Annual Average Weekly Wage: Food Services and Drinking Places, 2012 to 2016*

Employment Growth in Food Services Also Trails Most Counties in Neighboring States



Percent Change in Real Annual Average Employment: Food Services and Drinking Places, 2012 to 2016*

*Source: Keystone Research Center anaysis of Bureau of Labor Statistics Quarterly Census of Employment and Wages (https://www.bls.gov/cew/)

1 The Pennsylvania Minimum Wage 2018, Keystone Research Center, January 2, 2018, https://www.keystoneresearch.org/sites/default/files/KRC_MinWage2018_0.pdf

RAISING WAGES

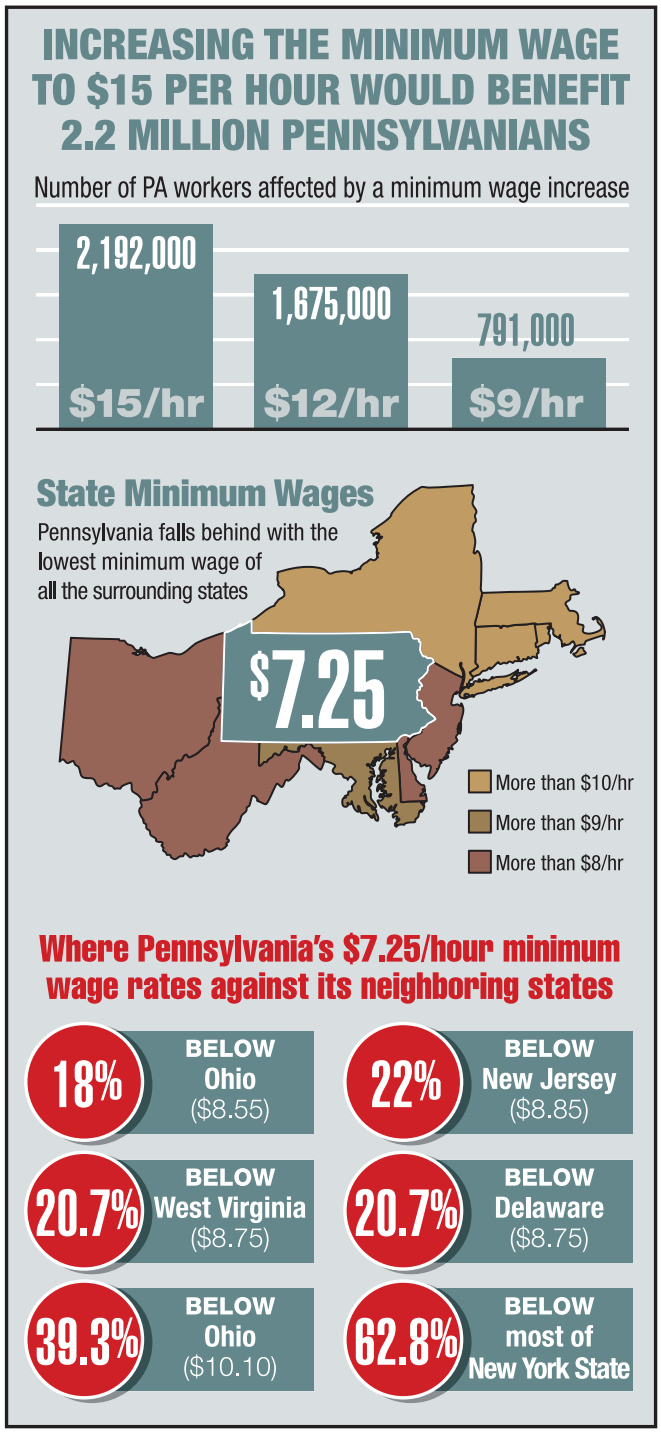
CLEAR
COALITION FOR LABOR ENGAGEMENT AND ACCOUNTABLE REVENUES

(continued)

Today, Pennsylvania minimum-wage earners will earn less than a third (31.9%) of what the typical Pennsylvania worker earns ($22.93 in 2018).

An increase in the minimum wage will lift the incomes of full-time, working adults. The minimum wage is no longer an entry point for young workers. Consider that:

- The majority of workers in the state who would get a raise as a result of a statewide minimum wage increase are adults (89.7%) working full-time (58.5%)
- 90% of the people who would benefit from a minimum wage increase to $15 are age 20 and older; and 42% are over the age of 40
- On average, the workers that would benefit from a minimum wage increase account for half of their family's income
- 59.1% of workers who would benefit from a higher wage are women



Low-wage workers are paying an especially steep price due to legislative inaction, according to an analysis by the Keystone Research Center. In the four years through June 2017, the 10th percentile wage has risen by $1.02 per hour, to $9.73 per hour in the region (defined as Pennsylvania's six neighboring states and Washington D.C.). That increase amounts to $2,104 per year for a full-time, full-year worker. In Pennsylvania, the increase in the 10th percentile has been 33 cents per hour – a third lower. That difference cost full-time, full year workers at this wage level another $1,435 in annual income. As a result, when workers in the 10th percentile and below are included, Pennsylvania workers received $362 million less in their paychecks in the 12 months spanning the second half of 2016 and first half of 2017 as a result of legislative inaction.

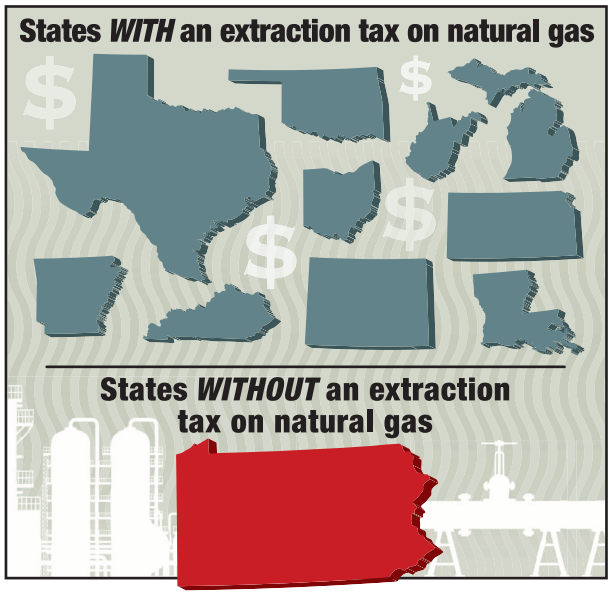
Raising the wage is a critical first step toward a strong and growing state economy; and closing the state budget deficit.

IMPOSING A STATEWIDE EXCISE SHALE DRILLERS TAX

CLEAR
COALITION FOR LABOR ENGAGEMENT AND ACCOUNTABLE REVENUES

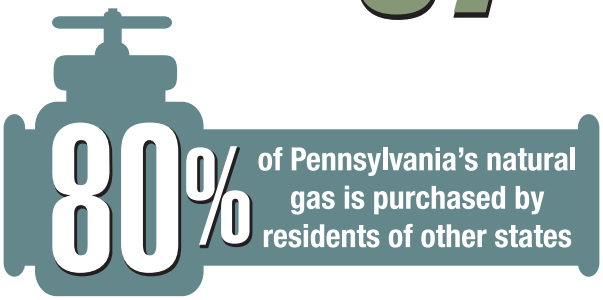
A fair shale tax of 2.4% would generate as much as $200 million in its first year; as much as $400 million in year two and $1.7 billion in new revenues over five years.[2] The Independent Fiscal Office estimates that 80% of the natural gas produced in Pennsylvania is purchased by residents of other states and internationally and, as a result, 80 % of any statewide tax – at any rate - would ultimately be paid by consumers in other states. Imposing a fair tax would also fix Pennsylvania's uniquely and egregiously generous treatment of the shale drillers among every state in the nation that has a significant natural gas production industry.

Pennsylvania, ranking second behind only Texas in natural gas production, remains the only producing state that does not impose a statewide excise tax on natural gas. While current state law mandates that the drillers pay an 'impact fee' for each new gas well, ours is the only major gas-producing state in the nation that allows companies to drill without paying any fees or taxes that increase with the volume of gas extracted. Finally, two-thirds of the gas companies operating in Pennsylvania avoid corporate tax payments by structuring their drilling operations as pass-through entities so that they are only subject to the state's 3.07% personal income tax instead of the 9.99% corporate net income tax rate. Those corporations that are not pass-through entities can lower their state taxable corporate net income using tax loopholes as well as federal and state tax breaks for gas drilling. For example, they can use Delaware holding companies to shift profits to a neighboring state that has no corporate income tax.



Percentage of PA voters who support a natural gas extraction tax **67%**

Center for Opinion Research at Franklin & Marshall, Oct. 2015



This flawed structure costs Pennsylvania hundreds of millions in lost revenue each year, despite the fact that the natural gas industry continues to grow in the state. Since 2011, the volume of gas produced in Pennsylvania has increased by 500%. However, revenues from the impact fee has not kept pace with that growth, hovering around $200 million per year. In 2017, the last full year for which data is available, total revenue from the impact fee was $219.3 million for an effective tax rate of 2.9%.

An analysis of the lifetime ETR demonstrates that the state's current tax/fee structure is skewed to benefit the industry. The lifetime ETR is the average effective tax rate overall of the production years for newly drilled wells. Pennsylvania's current impact fee has a lifetime effective tax rate of 1.6%. Only Ohio has a severance tax ETR below what Pennsylvania's impact fee ETR. If Pennsylvania lawmakers were to support a statewide excise tax of 2.4%, which Governor Tom Wolf called for in his 2018-19 Budget Proposal, and maintain the current impact fee structure, the industry would pay an ETR of 4%, which is in line with tax rates in other major gas producing states.

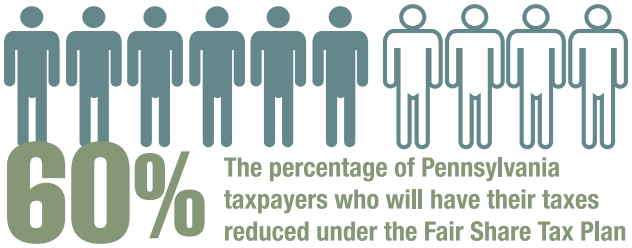
It is time for drillers to pay their fair share.

2 Governor Wolf's 2018 Severance Tax Proposal Could Bring in $1.7 Billion of Revenue Over the Next Five Years, Pennsylvania Budget and Policy Center, June 2018, https://www.pennbpc.org/sites/default/files/Severance_Tax_Brief_Updated_June_2018_0.pdf

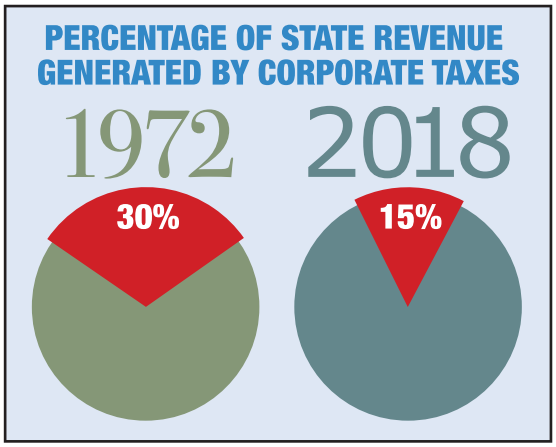
CLOSING CORPORATE TAX LOOPHOLES & ENACTING THE FAIR SHARE TAX PLAN

CLEAR
COALITION FOR LABOR ENGAGEMENT AND ACCOUNTABLE REVENUES

The CLEAR Coalition supports common sense and long overdue proposals to close the Delaware Loophole and institute combined reporting. The Coalition supports The Fair Share Tax Plan, which would reform our unfair tax system and reduce taxes for approximately 60% of Pennsylvania taxpayers.



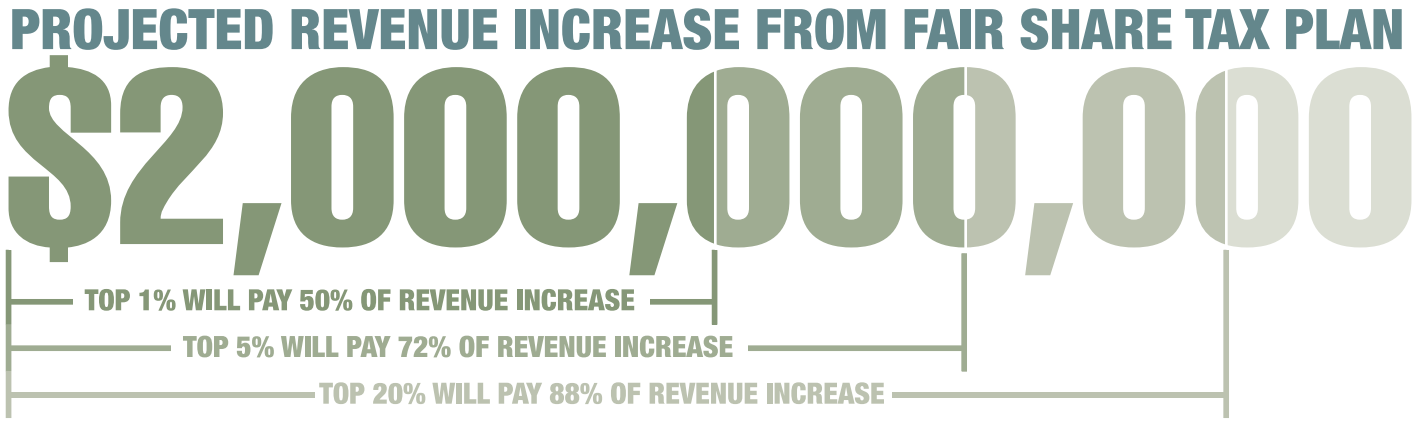
Fixing our tax structure would generate more than $2 billion in new revenues and reverse a decades-long trend of providing tax breaks to corporations – at the expense of all taxpayers. In 1972, 30% of state revenues were generated by corporate taxes. In the last fiscal year, corporate taxes accounted for 15% of total tax revenue. In the last 15 years alone, corporate tax cuts cost taxpayers approximately $4 billion in lost revenues each year, with resulting cuts to core services and programs, including to public education. This dangerous trend was halted by Gov. Tom Wolf. Still, more must be done.



Currently, corporations can effectively transfer profits earned in Pennsylvania to a Delaware holding company, evading state taxes. Combined reporting closes this loophole by requiring corporations to attribute to Pennsylvania the proportion of their total profit that matches the proportion of their total sales that come from our state. Pennsylvania should institute combined reporting to close the Delaware Loophole once and for all. This would generate an estimated $900 million at current rates.[3]

In addition, the CLEAR Coalition supports the core elements of the Fair Share Tax Plan. This plan would cut taxes for almost 60% of Pennsylvania taxpayers and raise taxes on income from wealth including capital gains; net income from rents, royalties, patents, and copyrights; gambling and lottery winnings; and income from estates or trusts.

The Fair Share Tax alone would generate $2 billion in new revenue. Of that $2 billion, 50% comes from the top 1% of families, 72% comes from the top 5% of families, and 88% comes from the top 20% of families. Out-of-state taxpayers will pay 15.6% of the $2 billion increase in revenues.[4]



3 Reform Corporate Taxes, We the People, http://wethepeoplepa.org/issues/
4 A Fair Share Tax to Support Public Investment in Pennsylvania, Pennsylvania Budget and Policy Center, March, 22, 2017, http://www.pennbpc.org/sites/pennbpc.org/files/20170321_FairShareTaxReport.pdf

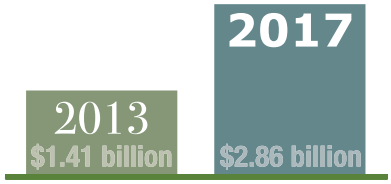
INCREASING EFFICIENCIES IN STATE GOVERNMENT OPERATIONS

CLEAR
COALITION FOR LABOR ENGAGEMENT AND ACCOUNTABLE REVENUES

Increase Transparency and Maximize the Commonwealth's Buying Power

Seventeen different Pennsylvania government programs in nine different state agencies purchase prescription drugs, spending billions annually. According to the Auditor General's Office, Pennsylvania taxpayers paid $2.86 billion to pharmacy benefit managers (PBMs) for Medicaid enrollees in 2017 alone, double the amount in 2013.[i]

Other states are acting to consolidate and negotiate better prices from drug manufacturers. In New York, a state law authorizing state officials to seek bigger discounts saved an estimated $175 million in the 2017-18 fiscal year.[ii] California's governor recently issued an executive order to allow the state to negotiate drug prices.



Auditor General Eugene DePasquale issued a special report last year calling for Pennsylvania to follow other states in requiring greater openness by PBMs about how they operate and greater state oversight to ensure that the state pays PBMs only for services rendered.

By consolidating prescription drug purchasing or increasing transparency and oversight of PBMs, Pennsylvania could conservatively save an estimated $50 million.

End Overpayments of Charter and Cyber Charter Schools

Pennsylvania's Charter School Law is more than 20 years old and in need of a drastic overhaul to increase state oversight, halt unnecessary or wasteful spending by some schools, and better align charter school payments with actual costs.

Charter schools were paid more than $1.7 billion by public schools in the 2016-17 school year. Yet reports indicate that the payment funding formula does not take into account the actual cost of educating the child at a charter school, leading to excessive payments to charters.

The Auditor General's Office estimated in 2013 that Pennsylvania taxpayers were being overcharged $385 million annually for charter school services. The state's charter school payment structure is particularly costly and inequitable for cyber charters, which do not have the brick and mortar costs of traditional schools. Tuition payments for special education students create windfalls for charters while draining school districts. According to the Pennsylvania Association of School Administrators (PASA) 92% of traditional school districts spent $7,000 per student or less for an online special education school program, but the tuition districts pay for a special education student attending a cyber charter school is more than $24,000 per student.[iii]

Reforms including closer oversight of charter and cyber school operations and costs, a uniform charter and cyber school tuition rate that closely tracks reasonable actual expenses, and authority for school districts to take into account costs and economic impact in approval decisions about new charters would strengthen educational accountability and save funds for traditional public schools.

Past charter school reform proposals from Governor Wolf and Rep. James Roebuck, Democratic chairman of the House Education Committee, would generate an estimated $160 million.

(continued)

PA's public schools paid
$1.7 BILLION
to charter schools for the 2016-2017 school year

In 2013, charter school services overcharged an estimated
$385,000,000

92% of traditional school districts spend
$7,000 or less per student
for a special education online program
BUT PAY $24,000 per student
for a special education student to attend a cyber charter school

INCREASING EFFICIENCIES IN STATE GOVERNMENT OPERATIONS

CLEAR
COALITION FOR LABOR ENGAGEMENT AND ACCOUNTABLE REVENUES

(continued)

Right-Sizing State Government Management

Pennsylvania already does more with fewer workers. Pennsylvania has the lowest percentage of state employees in its workforce of any state in the country.[iv] There are fewer Pennsylvania state workers than at any point since the early 1960s, and about one-third fewer state workers than in 1975.[v]

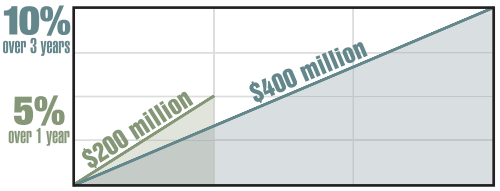
But there is one area where workforce efficiency could still be improved. The 2018 State Government Workforce Statistics report issued by Pennsylvania's Office of Administration[vi] shows that state government has about 13,000 managers overseeing more than 58,000 workers, a staff-to-management ratio of about 4.5 to 1. That means that across all of state government, there are fewer than five nonsupervisory workers for every manager or supervisor.

By increasing that ratio to a level more consistent with other government and private sector workforces, the state can produce significant savings without affecting services. An initiative to increase the ratio across state government, to 5 to 1, would produce as much as $154 million in savings based on current compensation levels of management employees.

Institute State Contracting Reform

Pennsylvania spends $4 billion on state contracts for goods and services. The state's procurement system has been riddled with flaws, leading to the waste of hundreds of millions of dollars annually. The Wolf Administration, through reforms instituted through the Governor's Office of Transformation, Innovation, Management and Efficiency (GO-TIME), has made significant progress, saving $143 million over the past two years. But procurement reform efforts should continue. For example, the use of no-bid contracts for information technology has been growing, increasing the possibility of waste and abuse.[vii]

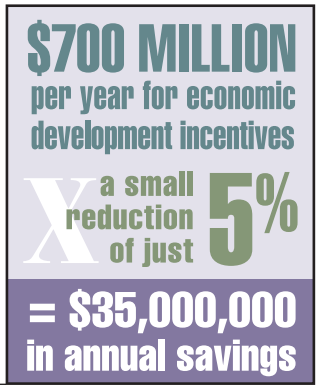
POTENTIAL SAVINGS ON $4 BILLION ANNUAL SPENDING ON STATE CONTRACTS



Studies in other states have found similar inefficiencies in government contracting, suggesting that contracted services and supplies could be reduced by 10% to spur greater procurement innovation and transparency. An in-house performance review of state government contracting should be conducted immediately, with the goal of reducing state contracting of services and supplies by 5% within one year and 10% over three years, with projected annual savings of $200 million to $400 million.

Scrutinize State Business Incentives and Tax Credit Programs

Pennsylvania spends more than $700 million a year for economic development incentives, including tax credit programs, but lacks a consistent process for studying their effectiveness or monitoring business performance in complying with the requirements of incentive programs. Pennsylvania should conduct a new assessment of business incentives and tax credit programs with the goal of retaining those that are most effective, eliminating those that are not, and reducing those that are underutilized. It should also establish stronger monitoring and accountability to ensure that businesses follow through on their job creation commitments. Saving just a small percentage of these expenditures – such as 5% – could return more than $35 million in savings.



i Bringing Transparency and Accountability to Drug Pricing, Office of the Pennsylvania Auditor General, December 2018, https://www.paauditor.gov/Media/Default/Reports/RPT_PBMs_FINAL.pdf
ii California Adds Its Clout to States Battling High Drug Prices, Katie Thomas, New York Times, Jan. 11, 2019, https://www.nytimes.com/2019/01/11/health/drug-prices-california.html
iii Cost Analysis: Cyber Charter Schools and Public School District Cyber Learning Programs, PASA, June 19, 2018, https://www.pasa-net.org/Files/SurveysAndReports/2018/CyberCharterRPT06-19-18.pdf
iv These are the states with the most (and fewest!) government workers, Pennlive, May 23, 2017 https://www.pennlive.com/opinion/2017/05/these_are_the_states_with_the.html
v 2018 State Government Workforce Statistics, Pennsylvania Office of Administration, viewed January 10, 2019, http://www.oabis.state.pa.us/SGWS/2019/SGWS_MAIN.html
vi 2018 State Government Workforce Statistics, PA Office of Administration – Human Resources, 2018, http://www.oabis.state.pa.us/SGWS/2018/SGWS_MAIN.html
vii Pennsylvania's no-bid I.T. work keeps growing briskly, Philadelphia Inquirer, Joseph N. DiStefano, August 3, 2018, http://www.philly.com/philly/blogs/inq-phillydeals/it-pennsylvania-contracting-no-bid-optimal-solutions-apps-whistleblower-20180803.html