



## Budget plan tuned to times

Published: Thursday, February 05, 2009

Gov. Ed Rendell's proposed budget is realistic, given economic conditions, in that it proposes no new general taxes or total spending increase. It's optimistic in that it seeks to maintain progress in areas that will be important to the state's long-term health once the economy improves.

Particularly important in that regard is that the governor did not back away from the most vital of that progress — a six-year plan, begun in the current budget year, to substantially increase the state's share of public education funding. Under the original proposal, the state would have increased public school funding next year by \$430 million. Instead, the governor proposed \$300 million, a lesser amount that acknowledges economic problems while maintaining the initiative.

In a foray from optimism into fantasy, Mr. Rendell also called for a new wave of school district consolidations that would reduce the statewide number of districts from 500 to 100, although he did not tie that to any budgetary requirements. The governor is right, of course — Pennsylvanians simply cannot afford to continue paying for needless duplication of services by adjacent small school districts.

The governor noted as well that local property tax reductions will continue as more casinos come on line this year. He estimated that the state's share of the casinos' take this year will fund \$800 million worth of local property tax reductions statewide, up from \$660 million last year.

### Covering the deficit

This year's budget deficit is projected at about \$2.3 billion, which could rise or fall by the end of the fiscal year on June 30. Wage and hiring freezes, restricted purchasing and other means have been employed to reduce the total by about \$700 million. Mr. Rendell proposes to close the rest through an array of program cuts, the elimination of 2,600 state jobs and targeted tax increases, along with drawing \$625 million from the Rainy Day Fund for this year and next, and demanding that the Legislature turn over more than \$175 million of more than \$200 million in surpluses from its operating funds.

Locally the biggest impact appears to be elimination of \$8.2 million in funding for Scranton State School for the Deaf in Green Ridge. A plan is being developed to keep the school open under the auspices of the Northeast Educational Intermediate Unit and the independent Western Pennsylvania School for the Deaf.

The majority of the savings are projected through administrative changes for Department of Welfare programs, eventually up to \$146 million a year through pharmaceutical purchasing management alone.

Mr. Rendell would increase the cigarette tax by 10 cents, and impose taxes for the first time on snuff, pipe tobacco and cigars — all of which are taxed by most other states.

The governor also proposed a new tax that should be imposed regardless of economic conditions — an extraction or “severance” tax on natural gas drilling. The Marcellus Shale formation has made Pennsylvania a major gas producer, but it is alone among 40 states that produce gas in not having an extraction tax. Mr. Rendell’s proposal is modeled on that in West Virginia, a roughly 5 percent tax.

### **Cost drivers**

The \$29 billion proposal is about 2.5 percent greater than the original budget for the current year, but that includes the state’s anticipated \$3.5 billion share of the federal stimulus package, which would be used primarily for road repairs.

That stimulus money would have to be used for specific projects over a two- to three-year time frame, and cannot be used to cover any other state expenses.

Major mandated cost increases in the budget include 2,400 new prison beds, the increased education funding and the proposed expansion of health coverage for low-income workers.

The governor’s proposal is the first step in a long process, and the proposal certainly will not become the final document. Yet in its approach it is a good template. It broadly distributes pain that is inevitable because of the struggling economy, but maintains long-term initiatives to prepare for a broader recovery and does not intrude too heavily into private economic activity.