

## **COST-SAVINGS IDEAS FOR PENNSYLVANIA**

**Testimony of Nathan A. Benefield**

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**PENNSYLVANIA SENATE GOVERNMENT MANAGEMENT AND COST STUDY COMMISSION**

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Good afternoon. I am Nathan Benefield, Director of Policy Research for the Commonwealth Foundation. We are a nonprofit, independent public policy research and educational institute based in Harrisburg. I would like to thank the members of this commission for inviting me to speak on ways to reduce and prioritize state spending.

First—and most of you know this but it needs to be repeated over and over again in this building—government has no money of its own to spend; it only has that which it first takes out of the pockets of working Pennsylvanians in the form of taxes or out of our children’s future paychecks in the form of debt. Every dollar you tax, borrow and spend is a dollar that cannot be spent, saved, or invested by the people who earned it. Therefore, examining how each dollar of the \$66 billion state budget is spent, prioritizing programs, identifying waste, and finding greater efficiency is critical to restoring Pennsylvania’s prosperity. Let me identify some of the most important areas we have identified:

**Start with Transparency and Accountability.** Creating a publicly accessible online spending database, such as that proposed in House Bill 1880, would discourage the misuse of tax dollars by identifying areas of waste or duplicative programs. The database would also better inform both lawmakers and the public during budget debates. HB 1880 unanimously passed the House in December, and remains in the Senate State Government Committee.

Evidence shows state spending databases cost little and save money in the long run. A 2009 study by the Mercatus Center found the average state database costs \$140,000, and nine states created sites without any new appropriations.

Twenty-nine states have passed spending transparency bills since 2007. Texas saved over \$5 million by putting spending online. Watchdogs using Missouri’s MAP portal questioned over \$1.5 million in spending.

Indeed, the work of this Commission over the past few months would have been greatly aided if state spending was searchable online, instead of relying on budget experts to highlight unknown areas of spending. The people of Pennsylvania deserve the ability to examine state spending regularly, rather than wait on a special commission report every 14 years.

**Eliminate Corporate Welfare.** Pennsylvania doles out the 2<sup>nd</sup> highest amount of “economic development” in the nation, \$754 million in FY 2010. These grants and loans to politically-connected special interests—such as Harley Davidson, alternative energy companies, and Hollywood filmmakers—have hindered, rather than helped, job growth in Pennsylvania. Reducing handouts to politically-selected corporations would enable the state to lower taxes on *all business and residents*.

State Economic Development Spending and Economic Growth 2002-2009						
	Job Growth	Rank	Personal Income Growth	Rank	Population Growth	Rank
Avg - Ten Highest Spending States	-1.18%	33.20	33.58%	31.40	3.65%	35.20
Avg - Ten Lowest Spending States	2.72%	24.00	38.94%	25.20	5.28%	29.40
United States	0.30%		36.12%		6.64%	
Pennsylvania*	-0.11%	32	31.54%	41	2.43%	39
* 2nd Highest Spender in Economic Development						
Source: Council for Community and Economic Research, Bureau of Labor Statistics, Bureau of Economic Analysis, Census Bureau						

**Privatize State-Run Businesses.** Taxpayers are burdened by the operation of a variety of enterprises that could be run by the private sector, including museums, parks, and liquor stores. The private sector has already achieved success in establishing and running historical and natural sites. One company, Recreation Resource Management (RRM), has offered to lease state parks from Arizona, including six that the state was planning on closing this year.

Likewise, competitively contracting all state liquor stores could produce a one time influx of \$1.7 billion, increase future revenues through corporate and property taxes, and provide better service to consumers. Furthermore, evidence from 48 states over time shows no link between state control of liquor and social outcomes like driving under the influence, underage drinking, or alcohol abuse. Divestiture of Pennsylvania's state liquor stores would represent a financial windfall to the state, while posing no threat to public safety, as it would not result in the social ills many opponents of privatization fear.

**Reduce Advertising Budgets.** Taxpayers shell out \$37 million annually for lottery advertising, over \$5 million to promote tourism, and millions for numerous other programs to promote the state to businesses and residents or to market state programs. Much of this advertising is self-serving (i.e., promoting politicians), some of it is harmful to residents (e.g., persuading residents that the lottery is a good way to spend their nest egg), and none of it does much to improve the state's economy—which would itself, absent taxpayer-funded advertising, attract residents and businesses.

**Medicaid Reform.** Over the last 25 years, Pennsylvania's Medical Assistance spending increased approximately 8% annually, and has doubled as a share of state spending. At the current rate of growth, Medicaid will consume 94% of the state budget by 2075. At the same time, Medicaid is a low-quality provider of health care. The program delivers episodic treatment, provides poor preventive care, and offers low-quality services to many beneficiaries.

Furthermore, recent reviews by the Auditor General found upward of \$1 billion of ineligible Medicaid payments.

Creating a voucher system—in which those enrolled in Medicaid receive actuarially-adjusted credits to purchase coverage from competing providers—would give individuals more control over their health care spending and reduce waste and fraud. It would also improve the quality of coverage for Medicaid recipients. This has been the model adopted, by applying for a federal waiver, by states like Florida, Louisiana, and South Carolina.

**Corrections Reform.** Corrections costs continue to skyrocket, with a \$137 million increase in this year's proposed budget. Absent reform, the state will be 11,000 beds short by 2011. Probation and parole should be used more often for non-violent offenders, such as drug users and geriatric inmates. The state should also consider contracting prison services or privatizing the prisons themselves. Texas has been a model for corrections reform that reduces costs without jeopardizing public safety.

**Pension Reform.** Beginning in 2012-13, taxpayer contributions to state and public school employee pensions will increase dramatically, resulting in state and school property taxes rising by as much as \$1,360 per household. Newly hired teachers and state workers should be put into a defined-contribution plan, similar to a 401(k).

Alaska and Michigan already have defined-contribution plans for all state workers (and in the case of Alaska, for all school employees), and states like New Jersey and Illinois are beginning to make moves in this direction. SB 566 (sponsored by Sen. Browne) would create a defined-contribution plan for all new state, school district, and municipal employees, with a taxpayer matching contribution of 6% of salary. The costs associated with defined-contribution plans are more affordable for taxpayers and predictable for policymakers.

**Repeal Prevailing Wage Laws.** Prevailing wage laws make government construction contracts more expensive by forcing contractors to pay higher wages than those paid by the private sector for the same job. This inflates costs by upward of 30% and will increase spending by Pennsylvania state and local government on projects approved in 2007 by an estimated \$9 billion.

Repealing prevailing wage mandates, exempting school districts, or adjusting the method of calculation has been on the agenda for many years. Revising the prevailing wage law was one of the recommendations which was never implemented from the 1996 IMPACCT report. Exempting schools from prevailing wage mandates on their construction projects is a priority of the Pennsylvania School Boards Association. SB 695, sponsored by Sen. Brubaker, would suspend the prevailing wage regulations until 2012. Currently, 18 states have no prevailing wage law.

Thank you for the opportunity to testify. I am happy to answer any questions. I know we don't have the time today to go into depth on all of these issues, but I, as well as all of our staff and scholars, am happy to follow up on any of these areas.