

Overcoming the Budget Impasse

A Plan for a Fair Compromise

A Common Sense Proposal to pass a state budget, deal with the structural deficit, increase funding to public education, and deliver on School Property Tax Relief

By

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I. INTRODUCTION

This proposal seeks to explain the nature of the current stalemate in Harrisburg and present a common-sense compromise plan to pass a budget, increase funding for public education, address the state's structural deficit, and deliver meaningful school property tax relief. It also includes a section on how to attain these goals by gaining legislative approval on this compromise through a strategic shepherding of the package of bills through the legislative process and onto Governor Tom Wolf's desk for his signature.

II. BACKGROUND

A. Pennsylvania's Current Political Culture

The effects of changing Political Culture and statewide elections verses legislative elections.

The current inability to pass a budget to address the needs of the citizens of our Commonwealth is the result of a number of factors that both the national political scene and the structural nature of Pennsylvania politics has exacerbated.

The dominance of the Republican Party by the Tea Party or those Republican politicians sympathetic to the Tea Party message has diminished the ranks of the moderate Republican wing and rendered the traditional Main Street, small-businessman Conservative middle-of-the-GOP less influential in the face of a better organized and energized right wing.

The gerrymandering of legislative districts has created super GOP and super Democratic districts where winning the primary is the key to serving in the legislature and playing to the base (right-wing activists for

the GOP, left-wing advocates in many Democratic districts in urban areas) is perceived as the only way to get elected.

Few truly swing districts exist anymore in the world of sophisticated computer software that allows incumbents to select their voters rather than voters selecting their legislators.

Pragmatic, long-serving legislators with a long institutional history are rapidly disappearing. Past Speakers such as K. Leroy Irvis, Matt Ryan, and Jim Manderino were “institution men” who believed in their party’s philosophy but were pragmatists who, at the end of the day, made policy concessions to pass a budget or other significant legislation to make state government function and deliver services. To them compromise was not a dirty word but the essential glue that held government function together in our balance of power structure of government.

Those days are long gone and even Keith McCall and Sam Smith, who wanted to fill the “institutional men’s” shoes were unable to do so due to the makeup of leadership teams and growing need to satisfy the more extreme wings of their caucuses to remain relevant. To retain their leadership posts they had to walk a fine line and not be out flanked.

The shifting nature of political culture in the southwest part of Pennsylvania, in particular, has left many western Democrats (outside of Pittsburgh) vulnerable to changing voting patterns as the New Deal, labor union, mining and industrial economic base of that part of Pennsylvania has vanished and the social conservative political culture of the west trumps economics. When the Democratic Party abandoned the philosophy of FDR, LBJ, and Hubert Humphrey and embraced international free trade deals, the power base of the party shifted to a centrist-oriented Democratic Leadership Council (DLC) typified by social

liberalism but dominated by business interests in policy decisions, [read Tom Frank's, What's the Matter with Kansas for a more detailed analysis of this paradigm shift in the two parties]. These western Democratic legislators felt as if they had been left out in the cold without a home.

Western voters voted their social conservatism by flocking to a GOP that, although even more dominated by big business and wealthy individuals like the Koch brothers, espoused right-wing populist social rhetoric on guns, religion, immigration, abortion, gay rights, and anti-big government feeling to gain a following with alienated traditional blue collar Democratic voters. The rapidly shrinking ranks of western Democrats left them stranded on an island where their belief in traditional New Deal Democrat "working people's issues" has been supplanted by an increasing Tea Party-oriented base of voters. Western Democrats are loyal to the ideals of the 20th Century Democratic Party but have to win elections in a political culture hostile to the Democratic brand in that part of the state in the 21st Century.

Governor Wolf won a clear mandate to fulfill his promises on a Severance Tax to fund education, fix the structural deficit, and deliver school property tax reform but the wrinkle in his win is he won it in a statewide election and the GOP legislators feel the need to represent their gerrymandered, more right-wing districts. Western Democrats feel the same pressure to do just that as well. The result is divided government, stalemate, and the same sort of Washington, DC gridlock that has made state government dysfunctional, on a smaller scale, along the banks of the Susquehanna River.

B. Historical Perspective

Lessons to be learned on how to shepherd a budget through the uncharted waters of a politically polarized sea.

We live in a time where the political parties are terribly polarized and have entirely different world views. There have been even more extreme cases of polarization in American political history, such as the antebellum period leading up to the crisis of the American Civil War. North and South rapidly polarized into different views of the role of government and what the Founders intended the U.S. Constitution to mean.

The issue of slavery divided the nation, as, to a lesser extent, perceptions of race and racial relations dominate world views among certain groups of Americans today.

As in the 1850s, the issue of immigration has provided yet another divisive and influential dimension to modern political culture. In the 1840s and 1850s it was the wave of German and Irish immigrants who were perceived to be taking away the jobs of nativist Americans, because, like today's immigrants, they were willing to do the tough and dirty jobs native-born Americans, who had risen to a certain level of professional attainment in their craft, were no longer interested in doing. This mirrors the same reaction that has confronted today's wave of Latino, Middle Eastern, and Asian immigrants. And, as in the 1850s, today a lot of the tension between immigrants and nativists is the result of economic change and technological advancement displacing groups of workers and their livelihood.

The "Compromise of 1850" passed by Congress to stave off the Civil War for another ten years is illustrative of how this year's budget, funding package, and school property tax issues need to be approached in the legislative process here in Harrisburg to achieve a sustainable state budget.

Senator Henry Clay, “The Great Compromiser” is credited as the architect of the Compromise of 1850. He was the original sponsor of the bill that included some things for the North and some things for the South to appease both sides and pass one big omnibus bill to achieve a compromise settlement of the nation. His mistake was putting all of the provisions in one omnibus bill [see Michael Holt’s, The Political Crisis of the 1850’s].

Clay failed abysmally in his efforts as the provisions included for the South were detested by the North, and those included for the North were unacceptable to the South. Clay left DC to summer in Newport, R.I. that year.

It was left to the skilled Senator from Illinois, Stephen Douglas, to shepherd the compromise bill through Congress by breaking it down into separate bills. Those provisions favored by the South received overwhelming southern support in Congress with just a handful of Northern Congressional votes to pass those bills. Those provisions favored by the North received overwhelming Northern support with just a handful of Southern Congressional votes (mostly from border slave states, the swing districts of their day) to pass them into law.

The end result was that Clay’s compromise was enacted into law but through a piecemeal process taking advantage of the political realities regarding the Congress of 1850 and its identifiable voting blocs that had emerged in each region.

The proposal contained in this position paper outlines a similar legislative strategy to achieve passage of a state budget, revenue package, and School Property Tax Relief and offer a pathway to ending the current gridlock and political dysfunction.

III. LEGISLATIVE PACKAGE

Like the Compromise of 1850, a series of bills are needed to achieve a budget compromise. They deal with budgets, tax bills, and School Property Tax Relief. A true compromise can only be achieved if all of the bills in this package are passed by the General Assembly and signed into law by the governor.

A. Budget Bills

There needs to be two budget bills this fiscal year to reach a compromise and produce a workable overall budget for fiscal year 2015-2016.

1. Stop-Gap Budget

This Stop-Gap Budget would cover the period from July 1, 2015 until December 31, 2015. It is pretty much along the lines of Rep. Gene DiGirolamo's original stop-gap budget proposal, unlike the stop-gap "month-to-month" budgets GOP House leadership had proposed that would have put off a final settlement by drawing out the crisis into next year. Month-to-month Stop Gaps would have made any sort of revenue increase an impossibility in an election year and replicated Congress' continuing resolution chaos and dysfunction.

This Gap Budget would pretty much resemble the budgets of the last four years but would be utilized only for the first half of the fiscal year.

Results:

- a. Buys time to properly negotiate the final budget for the remaining half of the fiscal year.
- b. A reasonable compromise given where we are at this point in the budget process.
- c. Would ensure that state funding for school districts and human services programs is not disrupted due to the lack of a budget.

2. Final Budget

This budget would cover the period from January 1, 2016 until the end of the fiscal year on June 30, 2016. Basically, we split the difference between the governor and GOP leaders in the General Assembly over budget priorities by having two half budgets instead of one whole budget for the fiscal year.

Results:

- a. Again, gives the governor leverage to set his priorities for the last half of the fiscal year.
- b. Again, a reasonable compromise given where we are at in the budget process.

B. Revenue Bills

I know it is counterintuitive to have two tax increase bills to vote on in a single fiscal year. Conventional thinking has always been to put all of the taxes in one bill for one tough tax vote. However, the conventional rules of the process no longer apply. Just as with the Compromise of 1850, we need to follow the lead of Senator Stephen Douglas, not Henry Clay to achieve our objectives. By fashioning two separate tax bills, both of which must be passed into law, they can each appeal to a coalition of voting blocs that will put each bill over the top. The last effort to pass an omnibus tax bill with multiple items in it failed because there was something in the omnibus bill that members could point to that they didn't like and explain their 'no' vote to their constituents.

1. Personal Income Tax (PIT) Bill

a. Provisions regarding the PIT Rate

- 1) A PIT increase from 3.07% to 3.5% for the period of October 1, 2015 until the end of March (March 31, 2016). This **increase is only temporary** and should have a provision in the legislation that drops the PIT to 3.25% on April 1. This 6-month PIT rate increase would only be 0.43, less than half of one percent. It would raise

approximately \$860 million in new revenue. A significant infusion of money to start addressing the structural deficit.

- 2) After March 31 the new PIT rate will drop to 3.25%, an increase of only 0.18 over the current rate of 3.07%. At 3.25% it will raise approximately \$180 million in new revenue for the remainder of the fiscal year (April 1 to June 30, of 2016). Bringing the total PIT increased revenue to \$1.04 billion.
- 3) The new PIT rate of 3.25% should generate approximately \$720 million in new revenue for fiscal year 2016-2017, not counting for increased revenue from a potentially improved economy that will bring in more PIT revenue as wages rise.

b. Special Provision/Poverty Exemption expansion

- 1) While the last attempt to raise revenue included an increase in the SP/Poverty Exemption it did not go far enough. Instead of raising the exemption to \$8,700 per individual to provide a total exemption for a family of four at \$36,400, a family of four should be exempt from paying the PIT up to \$40,000. To achieve this the following table needs to be adopted for the 100% Poverty Exemption category. See below:

Each individual should be able to claim an exemption of \$10,000 (for father, mother, or individual senior citizen) instead of the current \$6,500. The exemption for each dependent should rise from \$9,500 to \$10,000 for the first four dependents and the last 7, 8, and 9th dependents. Dependents 5 and 6 would count as a \$5,000 deduction for each. The ripple effect with partial SP claims of 10% increments from 90% to 100% would continue at the \$250 step levels that are currently used in the existing law.

- 2) The result of this new structuring of the SP/Poverty Exemption would mean more relief for seniors and families of up to 6 dependents while the two \$5,000 segments in between creates a leveling off at about \$65,000 for remaining dependent categories. Below \$65,000 more relief for seniors and working families, above \$65,000 pretty

much the same level of relief proposed in Governor Wolf's original changes to the SP.

- c. A portion of the PIT increases is to be set aside for School Property Tax Relief.
 - 1) For both the 3.5% and 3.25% PIT rates, 0.075 will be dedicated to School Property Tax Relief. This raises \$300 million annually and would be added to the School Property Tax Relief to be raised by a 1 percent increase in the Sales Tax from 6 cents to 7 cents per dollar (see below).
 - 2) With this set aside, the actual increases of 3.5% and 3.25% to the PIT for revenue raised for the General Fund would only be 3.425% and 3.125%, respectively. The final PIT rate of 3.25%, for General Fund revenue purposes, would be only a 0.055 increase over the current rate of 3.07%.

Objectives & Results:

- a. The PIT is our fairest tax as it is based on the ability to pay.
- b. The increased SP/Poverty Exemptions would make it even fairer for working families and seniors, building a measure of progressivity into our flat rate PIT.
- c. This raises needed revenue for the structural deficit and Property Tax Relief.
- d. For seniors whose pensions, Social Security, principal investments, and savings are not subject to the PIT, it exempts practically all of their interest earning income. Stocks, savings, CDs and annuities on investments and savings of \$1 million in principal at a rate of 1% interest yields interest income of just \$10,000, which would be exempt from the PIT. So a senior with a nest egg of \$1 million in principal investments, interest income of \$10,000, a Social Security check of say \$1,500 a month (\$18,000 yearly) and a \$750 monthly pension (\$9,000 yearly) would be exempt from paying any Personal Income Tax. In addition, their home mortgage is probably paid off by retirement age so they would have the equity of their home to draw on for financial needs as well. That single senior would have an income of

\$28,000 a year for Property Tax rebate purposes. That would entitle them to a rebate of \$300 from the state, a sum often matched by local school districts for homeowners only.

- e. The PIT with its increased poverty exemption would benefit not only seniors but low- to moderate-income working families who predominate in our state's urban core areas, the rural northern tier, western, and southwestern PA where the median income is around \$35,000 a year.
- f. Even middle-class and upper middle-class income brackets would be held relatively harmless for the following reasons: At an income of \$50,000 a year they would pay only \$215 more in PIT a year at a rate of 3.5%, roughly \$4 a week more. At a PIT rate of 3.25% they would pay roughly \$90 more a year or less than \$2 a week more in PIT. The \$100,000 a year income bracket person would pay \$430 more a year or \$8 a week more at a rate of 3.5% while at a rate of 3.25% it would amount to \$180 a year more or just over \$3 a week more in PIT. In addition, with the 0.075 PIT portion set aside for School Property Tax Relief, they will see some reduction in their School Property Tax bill. On top of that, most people in the \$50,000 and above income brackets tend to own a home with a mortgage. They therefore itemize on their federal income taxes. The itemization provision of the federal income tax form allows an offset against your federal income tax liability for mortgage interest, property taxes and **all state and local income taxes**. What that means is that in most cases they will be held harmless on their overall taxes, and instead of more of their tax dollars going to Washington, DC it will remain here in Pennsylvania for state programs and services. States like New York, which has a graduated and relatively high PIT rate, have realized this benefit for years.
- g. At a permanent PIT rate of 3.25% PA would still have the lowest state income tax among its neighbors and one of the lowest in the country.

2. Sales Tax Bill

- a. Provisions regarding the Sales Tax rate.

Increase the PA state Sales Tax from 6 cents on the dollar to 7 cents.

This would raise \$1.7 billion annually. Dedicate the entire amount raised from this 1 percent increase to School Property Tax Relief. A Sales Tax of 7 cents on the dollar is comparable to the sales tax rate of our bordering

states and Pennsylvania would still have the advantage of exempting such essential items as food and clothing. Although a sales tax is not as progressive as an income tax and does not have the same tax off sets that the PIT offers against federal income tax liability, it is a popular tax with much of the population because seniors and those of lesser means spend most of their consumer dollars on basic necessities that are not subject to the tax, PA realizes sales tax revenue from residents of other states who come to Pennsylvania to shop, and the one-cent-on-the-dollar increase is not even noticed at the time of purchase by most consumers.

- b. Remove the current exclusion on the following items which would then make them subject to the 7 percent sales tax. These items were recently identified by a noted Philly newspaper columnist in a column of his. The items that would now be subject to the sales tax would be as follows:
 - 1) End the vendor discount on the collection of the sales tax (currently retailers get a modest penny-per-dollar kick back for collecting the sales tax but with practically universal electronic filing of sales tax receipts this is no longer necessary).
 - 2) Cable TV and Dish TV
 - 3) Gum and Candy.
 - 4) Spa treatments, tattoos, tanning and hair removal.

These four categories alone should raise somewhere in the neighborhood of \$600 million a year. Dedicate this entire sum to public education to make up for the four years of education cuts under Gov. Corbett. Since all of these items, with the exception of the vendor discount (which amounts to around \$90 million out of the \$600 million raised), pertain to items popular with teenagers, in particular, it is appropriate, and in many respects, the most ideal list of sales tax items to dedicate to education.

- c. Exclude all hardcover and paperback books from the sales tax. Books were not subject to the sales tax until the late 1970s. Rep. Steve Samuelson has been a big proponent of this for years. This would be the only item to be added to the sales tax bill that would be a new exclusion.

While we would make a separate carve out on books, all other retail items sold in bookstores these days would still be subject to the sales tax, including electronic books such as Nook and Kindle (including their downloads), all café food and drink items, children's toys and puzzles, CDs and DVDs, stationary, cards and other miscellaneous items, which would continue to be subject to the sales tax. For large bookstore chains like Barnes & Noble, books might be the retail item that draws people into the store but it is all of the other non-hardcover and paperback book items that generates the highest sales and revenue for the store. This is particularly true for the newer electronic books.

By excluding books the state only loses about \$24 million in sales tax revenue for this fiscal year (2015-2016) and around \$48 million in sales tax revenue for fiscal year 2016-2017. A drop in the bucket. However, exempting books sends a marvelous message on reading and public policy. It promotes not only literacy and a love of reading in children, but also in people of all ages. It makes books more affordable to families of lesser means. And, importantly from an economic growth and economic development standpoint for Pennsylvania, it holds out the potential for shoppers from neighboring states to buy their books in Pennsylvania, helping overall retail sales in that sector of the economy. While out-of-state shoppers are getting that latest book on the top-ten list of book reviews, they are likely to get a coffee and a snack, perhaps pick up the latest DVD or CD, or a toy or puzzle for their child or grandchild. Those are all items covered under the sales tax and with Pennsylvania becoming a Mecca for bookstore shoppers, the bump in taxable retail items will more than make up for the minimal loss in revenue from excluding hardcover and paperback books. If anyone doubts the economic benefits of this particular proposal for a border region of our state, one has only to talk with the legislators from the Erie area who can tell you of the large number of Canadian shoppers who come in droves by chartered bus to Erie every August and September to do their children's back-to-school clothes shopping in Pennsylvania where clothes are not subject to the sales tax.

- d. One final thought. The effective date of all the changes in the sales tax should be December 1, 2015, except the exclusion of books which

should be January 1, 2016. The Christmas season is the biggest money maker in retail so by having the increase start before that season and the exclusion after that season the state would maximize their collection of the 7 percent sales tax revenue.

C. School Property Tax Relief Bill

This is the easiest lift of the five bills identified in the legislative package so far. Property Tax Reform has been a topical issue for years and had its best hope of being adopted during the Casey Administration when another Democratic Chairman of the House Local Government Committee showed tremendous skill and expertise in shepherding through the legislature the most comprehensive approach to property tax reform attempted in recent history. That individual was Rep. David Sweet. The School Property Tax issue is a hot topic in every school district outside of Philadelphia and although this proposal does not abolish school property taxes in their entirety, it goes further in reducing school property tax bills than any effort since Rep. Dave Sweet's effort. It is the one bill that should garner the overwhelming support of legislators from all caucuses and is a key item in Governor Wolf's legislative agenda.

1. Provisions:

- a. The one percent increase in the Sales Tax will raise \$1.7 billion in revenue and the 0.075 dedicated provision of the PIT will provide an additional \$300 million in revenue for a grand total of \$2 billion, all of which would be dedicated to School Property Tax Relief.

2. Strategic Implications:

- a. By having School Property Tax Relief provisions in both revenue bills, it will make both bills more palatable to legislators to support. The Sales Tax Bill should pass overwhelmingly and even the PIT increase in the PIT bill, which is bound to be a tighter vote, will pick up pockets of

unexpected support due to the dedicated 0.075 PIT provision for School Property Tax Relief.

3. Driving out the dollars:

- a. The Wolf formula for driving property tax relief out is by far superior to the House GOP plan in that it would drive those dollars out first to relieve the property tax burden on home owners by meeting the Homestead Exemption levels and directing the bulk of dollars to those of lesser means, such as seniors on a fixed income, before providing any across-the-board reduction in school property taxes. The GOP plan would reverse the order of priority thereby favoring big-box retailers over residential taxpayers. Every effort should be made to go with some version of the Wolf formula for driving dollars out to taxpayers. If a compromise between the two plans has to be made, this can be accommodated and, to some extent, the retailers are charging a slightly higher price on items due to the increased sales tax that sort of compensates for their drop in property taxes. Unfortunately, sales tax costs are passed onto the consumer so the only thing retailers are giving up is the modest vendor discount for collecting and submitting sales tax collections.

4. Results:

This bill is a win-win for everybody. The Governor and all four caucuses will be able to take credit for this monumental achievement that has eluded governors and the General Assembly for decades. Most importantly, property taxpayers will finally get some substantial property tax relief on school property taxes, particular those on fixed or limited income such as our state's senior population.

D. Other Possible Legislation

It is far better to focus solely on the legislation outlined above in order to overcome the budget impasse and to provide a quick and reasonable resolution to the current funding issues that are at the heart of the budget crisis. Introducing other legislation into this process such as pension reform, privatization of the state store system, or an expansion of gambling are far too divisive given the current polarized political lay of the land in Harrisburg. Instead of serving to help resolve the budget impasse, they are more likely to unravel any cobbled-together coalition of voting blocs in the General Assembly that are needed to address the core problem and enact into law this reasonable and fair budget compromise. It is far better that they be left to either separate votes in next year's session or serve as issues to be raised and debated in the course of the 2016 elections. If they are absolutely necessary to nail down an essential bloc of votes to pass the above package, then the following suggested approach may make the injection of such issues more palatable and acceptable to members of all four caucuses.

1. Pensions

Governor Wolf's first recommended compromise on this issue is reasonable and actually helps shore up the financial picture of the two state pension funds. All public employees and teachers would continue to be under the Defined Benefit (DB) system for salaries under \$100,000. Those employees earning \$100,000 and above would still continue to contribute to the (DB) funds but would not receive any pension return on those contributions above that level. Those would go solely to shore up the existing funds. Those earning at this higher level would be able to contribute to a Defined Contribution (DC), 401k type retirement option. Any changes to the pension systems should only affect new employees as touching on existing employees will only result in costly litigation due to past court rulings pertaining to contractual obligations.

2. Severance Tax

This is one legislative proposal that should be included in a budget agreement. It is long overdue. Governor Wolf's proposal would levy a severance tax on natural gas from unconventional wells at 3.5% of the value of the gas, plus 4.7 cents per thousand cubic feet of gas extraction, which is similar to West Virginia's tax model. This is a modest and very reasonable proposal that leaves Pennsylvania's local impact fee in place. With an effective date of January 1, 2016, the proposal would generate \$67 million for the 2016-2016 fiscal year and \$389 million in fiscal year 2016-17. The revenue raised could go to education or be used to reduce the structural deficit. Such a proposal should garner enough votes from Democrats and southeastern Republicans in both chambers to pass the General Assembly.

3. Gambling

Expansion of gambling is more trouble than it is worth in terms of return. The best and least negative new gambling options might be sports betting and newer lottery games. A sports betting option should be run solely under the current state lottery system with proceeds benefiting senior citizens. In addition, every state store should sell lottery tickets to enhance sales and boost revenues.

4. Liquor

It is foolish to sell off the state store system. Privatization initiatives in other states, such as Washington state, have resulted in less selection for consumers and higher prices. The current system contributes revenue to the state and offers improved selection with the right balance of control and access. If raising revenue is the aim, it is foolish to sell off this asset for a one-time infusion of cash. Once you sell

the hen you don't get any more eggs. If increasing revenue from the sale of wine and spirits is the aim, then modernizing the system is the best option. Increased evening hours and Sunday afternoon hours for all money-making state stores makes sense and will enhance revenue from the system. The opening of wine specialty shops in all urban areas would add a new dimension to state store options and could be used as an effective urban revitalization tool in our cities and boroughs. Such specialty wine shops should only be located in urban locales and could serve as a catalyst for the growing trend in urban restaurant development throughout Pennsylvania.

If convenience and easier access is the issue, then allow all grocery stores of 10,000 square feet or more to have a section of their store where just wines can be purchased, not spirits. However, these locations should be secured in such a way that they are in these stores but separate. The persons staffing these sites should be state store clerks whose salary will be paid for by the grocery store owners but whose pension and benefits are paid for by the state store system. These sites would be limited to no more than 20 hours of operation a week, but the grocery store owner would choose those 20-hour periods to be open any time between the hours of 10 AM and 10 PM, but only for a total of 20 hours in any given week.

By following these restrictions we prevent late night purchasing of wine and problems that can arise from such late-night purchases but each grocery store can pick the 20 hours of operation that best suits their customer base to maximize the benefit of having wine for sale in their store. For most, it will likely be Thursday and Friday peak hours after work (such as 3 PM until 8 PM on these two week days), a longer period on Saturdays from say 10 AM until 10 PM and Sunday hours of Noon until 5 PM.

By having state store clerks controlling the point of sale you cut down on potential abuse. By requiring such grocery stores to purchase their wine from the state store system, the way bars and restaurants currently do, their pricing benefits from the buying power of the system but the profits realized in the wholesale purchase of products remains as a positive cash flow for the system and, ultimately, for the General Fund.

Finally, a reasonable recurring license fee would need to be purchased by participating grocery stores. This license would not become the property of the store but remain as an annual license that would need to be renewed and paid for annually. This ensures better control over the sale of wine than privatization would be able to guarantee. Such a license could be revoked easily for violations and would guarantee the Commonwealth a reliable cash flow to the General Fund since the fee would have to be paid for every year, rather than a one-time purchase.

E. Other Sources of Revenue

Other possible sources of revenue can be explored to round out the funding package but they are more appropriately determined in detailed budget negotiations. A 25-cent-a-pack cigarette tax, taxing cigars and smokeless tobacco, and addressing the Bank Shares Tax issue have all been raised from time to time and are best dealt with at the negotiating table.

IV. The Strategy to Ensure Enactment of this Proposal

The success of this proposal will hinge on a couple of strategic factors. First, the plan should not be associated with either the leadership of any of the caucuses or the governor at this point. To do so would likely engender a default reaction of opposition from those who have blocked the governor. It is an independently developed proposal that I have come up with on my own and is not the work or proposal of any caucus or the administration. Second, the success of the plan

requires the cobbling together of sufficient blocs of votes for the passage of each bill in the package. The most difficult one to get support for will be the PIT bill but, as outlined below, it is doable.

A. Getting the Package Enacted into Law

The Stop-Gap Budget Bill and School Property Tax Relief bills are easy lifting. They should pass the legislature overwhelmingly. The Final Budget will be the product of engaged negotiations from now until the end of December, but should also pass comfortably. The Sales Tax bill should pass by a comfortable margin, perhaps 120 to 83 in the House and 30-20 in the Senate because it is the main funding stream for the School Property Tax Relief bill. The challenging one is the PIT bill. However, there is a path to getting it through both houses of the General Assembly by slim margins. In the Senate you need every Democrat and six moderate-to-pragmatic Republicans. At the end of the day, you may end up with 9, resulting in a 29 to 21 vote in favor of the proposal.

In the House it will probably receive somewhere between a 103 to 100 vote upwards to a 105 to 98 vote in favor of the bill. There is the potential to get all 84 Democrats because having that 0.075 of the PIT earmarked for property tax relief, the temporary nature of the 3.5% PIT rate, and the higher SP/Poverty eligibility level (which probably exempts 75% of their constituents from the PIT) gives every Democrat (especially the western Democrats) the rationale they need to defend and properly explain their vote in their district, something the administration's omnibus bill did not offer them. The property tax relief feature, offset of state income tax against the federal tax liability, and the temporary nature of the 3.5% rate should get anywhere from 19 to 21 moderate-to-pragmatic House GOP votes, mostly from the southeast, voting for the bill.

V. Conclusion

A. Summary of Revenues Raised

1. The PIT rate increases (3.5% & 3.25%), both temporary and permanent, would raise a total of \$1.04 billion for the period from October 1, 2015 to June 30, 2016. It is difficult to calculate the cost of increasing the poverty exemption, but it would probably be in the neighborhood of \$125 million. The set aside for the School Property Tax Relief effort would amount to \$300 million. Subtracting those two sums from the total raised leaves \$615 million for the General Fund to address budget needs and, although not eliminating the structural deficit entirely, it would reduce it significantly, making a resolution of next fiscal year's budget (2016-2017) far easier.
2. The Sales Tax bill would raise \$2.3 billion if the 1 percent increase and ending of exclusions on certain items is combined. Deducting the \$600 million set aside for public education and the \$48 million exempting of books results in a total sales tax revenue amount of \$ 1.652 billion to be used for School Property Tax Relief.
3. This breaks down as follows for the three areas that this increased revenue will be used for:
 - a. \$615 million for the General Fund with a focus on reducing the structural deficit.
 - b. \$1.952 million (almost \$2 billion) to reduce School Property Taxes.
 - c. \$600 million increase in funding for public education.

B. Last Thoughts

The proposal that I have crafted offers a fair and reasonable proposal to settle this year's budget and raise much-needed revenue as fairly as possible with as little impact on the

average taxpayer while delivering School Property Tax Relief, a much-needed increase in funding for public education, and a sizeable reduction in the structural deficit that makes dealing with next year's budget considerably easier. It is a win-win proposal for Pennsylvania and should be adopted.