

CLEAR Coalition

A Better Way for PA: Restoring Pennsylvania's Fiscal Health through Fairness, Efficiency and Innovation

EXECUTIVE SUMMARY

Pennsylvania state government must take action to face its current fiscal challenges and balance its budget. There are some steps that Pennsylvania should clearly *not* take: divesting in Pennsylvania's future by continuing to slash investments in schools and vital services; privatizing government services, an approach that actually costs more and can undermine quality and efficiency; and cutting corporate taxes, which reduces state revenues while doing little to create jobs. Instead, Governor Corbett and the General Assembly have more responsible and fiscally sound options to balance the state's budget.

Restoring Fairness to Pennsylvania's Tax System

The first is to take action on some fair and long overdue improvements to the state's tax structure, including:

- Imposing a fair excise tax on the big oil and big gas companies. Setting rates comparable to or lower than those in states like Texas and West Virginia and dividing revenues fairly between local and state government could generate up to \$562 million in a full-year, with \$247 million directed to the state general fund.
- Closing the tax loophole that allows large national and international corporations to shift profits from Pennsylvania to Delaware could produce \$550 million a year.
- Closing a sales tax loophole that rewards companies for sending the sales taxes they collect from all of us to the state on time would generate \$74 million a year.

Improving State Government Operations to Improve Efficiency and Produce Cost-Savings

Pennsylvania should undertake a series of state government performance reforms that can save hundreds of millions of tax dollars while improving the efficiency of state government. Most of these suggestions are not new, but have been recommended already by officials and experts here in Pennsylvania and across the country. Many are bipartisan, drawn from disparate sources such as a joint State Senate commission, the House Republican and Senate Democratic caucuses, Auditor General Jack Wagner, and the Pennsylvania Budget and Policy Center. Together, they have the potential to help close any potential budget gap without cutting vital services.

A. Demand Greater Efficiency from State Government

Moving Away from Top-Heavy State Government: Right-Sizing the Management – Worker Ratio.

Across all of state government, there are fewer than five nonsupervisory workers for every manager or supervisor, fewer than many other states and the private sector. An initiative to increase the ratio across state government by just one worker per manager, to 5.58 to 1, would produce as much as \$214 million in savings based on current compensation levels of management employees. An eventual adjustment to an average ratio of 9.58 to 1 could save as much as \$625 million once fully implemented.

Institute State Contracting Reform. Pennsylvania's \$4 billion state contracting system is rife with flaws that waste hundreds of millions of dollars annually. 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.

Maximize the Commonwealth's Buying Power: Consolidate Prescription Drug Purchases. Seventeen different Pennsylvania government programs in nine different state agencies purchase prescription drugs, at a total price tag of more than \$2 billion each year. But by consolidating prescription drug purchasing, the state can increase its price negotiating leverage and reduce its administrative costs, saving as much as \$50 million.

Strike the Right Balance on Long Term Care Services. Pennsylvania's costs to serve older Pennsylvanians in long term care is higher than the national average, primarily because it does not invest enough in home- and community based settings, which are more cost-effective and allow clients to remain in their homes and neighborhoods. Reforms to shift more care to home and the community could reduce costs and draw down more federal dollars, saving \$200 million to \$248 million.

Efficiently Manage the Pennsylvania Vehicle Fleet. There have been consistent and bipartisan calls for the state to make efficiency improvements to the state million vehicle fleet by structuring the system to strike the most efficient balance of state-owned vehicles, use of rental cars, and mileage reimbursement. A 15% savings could produce close to \$11 million.

Use More Cost-Effective Payment Methods. Procurement reforms relating to Purchase Cards, E-purchasing and increased competitive bidding, proposed by both parties, could save \$50 million or more.

B. Cut Wasteful Spending

More Aggressively Pursue Medicaid Provider Fraud and Abuse. Aggressive action to stop Medicaid provider fraud and abuse, including investments in electronic fraud detection systems and a False Claims Act to encourage whistleblowers, could save \$60 million each year for the state.

Halt Wasteful Spending on Cyber and Charter Schools. Payments to cyber and charter schools do not take into account the actual cost of educating the child, leading to overpayments. Closer oversight and payment reforms could save produce \$175 million that could be directed to traditional public schools.

Reduce Prison Costs While Ensuring Public Safety. Bipartisan calls for common sense corrections reforms have included sentencing reform to strengthen intermediate punishment alternatives and improvements to parole and reentry services to cut down recidivism, which collectively could generate \$60 million to \$75 million in annual when fully implemented.

Improve State Tax Credit Programs. Retaining tax credits that are most effective, eliminating those that are not, and reducing those that are underutilized could return \$30 million.

C. Maximize Revenues

Improve Tax Collections. Studies at the federal level and in other states show a gap between taxes that are owed and taxes that are actually collected, ranging from 5% to as high as 21%. An analysis to identify the shortfall in Pennsylvania, combined with investments in staff, technology and collection methods and an increased focus on collecting the state use tax from out of state retailers and on reducing tax refund errors, could generate \$231 million.

Modernize, Rather than Privatize, the Pennsylvania Liquor Control Board Wine and Spirits System. The Pennsylvania Liquor Control Board's Wine and Spirits Shop network returned more than \$500 million profits and tax revenues to the state's General Fund. Instead of privatizing the system, which would jeopardize those revenues, the state can generate as much as \$75 million more annually by allowing the PLCB to modernize its operations, including expansion of Sunday hours and greater flexibility to pursue market-based pricing.

Increase Collections under Pennsylvania's Unclaimed Property Laws. State Treasurer Rob McCord reports that, through the Unclaimed Property program, the state Department of Treasury has returned \$288 million to Pennsylvanians since 2009 and has generated \$300 million more for the General Fund over the same period. Stronger enforcement of the unclaimed property laws and changes to the current law could produce \$50 million by increasing the funds returned to the state by holders of property.

Process Supplemental Security Income (SSI) Payments for Other States. Pennsylvania processes its own Supplemental Security Income (SSI) payments, saving itself \$35 million. If Pennsylvania processed SSI payments for other states at a reasonable fee, it could generate an estimated \$50 million.

Leverage More Federal Dollars through the Hospital In-Patient Assessment. In 2010, the state enacted a statewide hospital assessment on net operating revenue for most acute care hospitals, which is leveraging \$500 million in federal Medicaid funding. This was expanded this year, but could be taken even further. Additional expansion could leverage another \$50 million.

**Fairness, Efficiency and Innovation to
Improve Government Performance and Balance the Budget**

Tax Fairness	
Recommendation	Estimated Annual Savings
Fair Oil and Gas Drilling Statewide Excise Tax	\$247 million
Close the Delaware Corporate Tax Loophole	\$550 million
Close the Sales Tax Discount Loophole	\$74 million
Greater Efficiency	
Recommendation	Estimated Annual Savings
Right-Sizing the Management – Worker Ratio	\$214 million
State Contracting Reform	\$200 million
Consolidate Prescription Drug Purchases	\$50 million
Rebalance Long Term Care	\$200 million
Vehicle Fleet Efficiencies	\$11 million
Cost-Effective Payment Methods	\$50 million
Spending Reforms	
Recommendation	Estimated Annual Savings
Cut Medicaid Provider Fraud and Abuse	\$60 million
Halt Wasteful Charter and Cyber School Costs	\$175 million
Reduce Prison Costs While Ensuring Public Safety	\$60 million
Improve State Tax Credit Programs	\$30 million
Maximize Revenues	
Recommendation	Estimated Annual Savings
Improve State Tax Collections	\$231 million
Modernize, Not Privatize, the PLCB	\$75 million
Increase Collections under Pennsylvania’s Unclaimed Property Laws	\$50 million
Process Supplemental Security Income (SSI) Payments for Other States	\$50 million
Leverage More Federal Dollars through the Hospital Assessment	\$50 million
TOTAL PROJECTED SAVINGS	\$2.377 billion