CLEAR Coalition

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

Confronted with a sluggish economy, increased demand for vital services, and the essential need to invest in its future to stay competitive in the global economy, Pennsylvania faces a difficult fiscal situation. Yet the extent of the state's fiscal problems remains in question. The Governor's Budget Office recently projected that the state is facing a possible $500 million revenue shortfall in the 2011-12 Fiscal Year. But through December 2011, state revenues are actually running $171 million higher than last year's levels, an indication that the gap could end up being more manageable.

Nevertheless, though it remains uncertain how tight the budget picture truly is, it is clear that Pennsylvania's leaders must take on the state's budget challenges with balanced, prudent fiscal policies, founded not on ideology but on sound solutions.

There are two roads that Pennsylvania can take. One is the road it has followed over the last year, a mix of painful cuts affecting our most vulnerable, reduced commitment to investments that will make us a stronger Commonwealth, and shortsighted tax breaks for many corporations who need it the least. The other road is one to a more just and robust Pennsylvania. It can be reached by pursuing a tax structure that is fair to all Pennsylvanians and a state government that works smarter and more efficiently, in ways that improve the return that Pennsylvanians get for their tax dollars.

I. The Road We Should Not Take: Investment Cuts, Tax Breaks and Privatization

There are some steps that Pennsylvania should clearly *not* take. But unfortunately, that is exactly the direction that the Corbett Administration is going.

Disinvesting in Pennsylvania's Future

If recent history is a lesson, the Corbett Administration will continue trying to slash its way to prosperity. That means our students will face larger classrooms with fewer teachers, fewer tutors and aides and less academic support overall. Programs that work, like high-quality pre-K education, will be decimated. More young people will find the promise of a college education out of reach as our state and public universities will be targeted for another round of cuts.

We know that because of the 2011-12 budget enacted last summer. It slashed public schools by $900 million and cut funds to support workers seeking training to restart their careers, parents needing help with child care, and young people pursuing a college degree. The Corbett Administration is now using its dismal mid-year budget projections to justify another round of harmful budget cuts that could slash important education, health care and other services. The next round of pain has already begun: a $156.6 million spending freeze that cuts back funding for early childhood education, health care for children and pregnant women, literacy programs, services for women victimized by rape and domestic violence, and support for college education. Still more cuts are promised for the next fiscal year.

But with Pennsylvania still struggling to recover from the economic downturn, build a strong foundation for future job growth, and improve its competitiveness, disinvesting in the state's future workforce sends Pennsylvania in the wrong direction. In the short-term, these cuts are putting a further drag on the state's economy, since they reduce consumer spending and other economic activity. As one recent report noted, "When states cut spending, they lay off employees, cancel contracts with vendors, reduce payments to businesses and nonprofits that provide services, and cut benefit payments to individuals."[1] That is exactly what is happening in Pennsylvania as a result of state and local spending cuts; the state lost 21,000 public-sector jobs, including 13,000 teaching and other education jobs over the last year.[2] With these job losses, and their ripple effect on the rest of the economy as these laid-off workers reduce their consumer activity, our state went from the top ten in job growth to the bottom ten in just a year.

The long term effect of significant and sustained cuts is equally damaging. Reducing our investment in Pennsylvania's most important natural resource – its people – undercuts our future productivity and competitiveness.

Privatization: Fool's Gold

Equally shortsighted and wrongheaded is the quest for the "Fool's Gold" of privatization, which some claim can improve government services and save tax dollars. But studies show that privatization of government services actually cost more and can undermine quality and efficiency.

Indeed, proponents of privatization promise to fix budget woes by saving the government money. But numerous examples in a variety of sectors show that projected savings rarely materialize. Cost overruns combined with hidden and indirect costs, such as contract monitoring and administration, can make privatization more expensive than in-house services for governments. In fact, the Government Finance Officers Association estimates that hidden and indirect costs can add up to 25% to the contract price.[3]

The Government Accountability Office has found that methods by which agencies and privatization consultants conduct projections and report contract costs can make cost savings appear greater than they actually are.[4] According to a 2007 survey by the International City/County Management Association, 52% of governments that brought services back in-house reported that the primary reason was insufficient cost savings.[5]

One study found that contracting of federal services cost billions of dollars more than using government workers; on average, contract billing rates were 1.83 times more paying employees in total compensation.[6] Other research concluded that privatized prisons cost more than government operated prisons.[7] Privatization of school lunch programs have produced more highly processed, less healthy foods with no real savings.[8]

Here at home in Pennsylvania, state and local governments have been burned by privatization of school bus services, county nursing homes and prison health care services, which have all failed to deliver promised savings and increased efficiency. Analyses of HB 11, the original bill to privatize wine and spirit sales in Pennsylvania, found that privatization would have increased taxes and prices, cost thousands of jobs, cut millions in revenues for the state and intensified alcohol-related health and safety risks, while providing no improvement in consumer convenience.

Governor Corbett's appointment of a privatization panel "studded with major political donors and executives of companies that could see financial gain if the state spins off government services to the private sector,"[9] and staffed through a $50,000 a month government contract to the investment banking firm Greenhill and Company, which could also benefit from privatization, is therefore a disturbing development.

Business Tax Cuts

Corporate tax breaks are putting a further strain on the state's fiscal condition. Business tax cuts allowing accelerated depreciation, enacted in 2011, may be contributing to the current revenue shortfall, and upcoming cuts in the capital stock tax this year will cost the state even more. And in his budget guidance to state agencies, Governor Corbett announced his intention to cut the Corporate Net Income Tax, the Capital Stock and Franchise Tax, and the State Inheritance Tax, none of which benefit Pennsylvania's working families who need help the most.[10] There is even an attempt in the legislature to exempt the sale of private or corporate aircraft from the state sales and use tax, a tax break of up to $14 million for wealthy individuals who buy airplanes for their personal use and corporations who buy or upgrade jets for their executives.[11]

State tax cuts, particularly for corporations, will further exacerbate the state's fiscal situation while doing little to create jobs. There is little evidence that state business tax cuts create jobs, lead to economic growth or even pay for themselves.[12] Research actually shows the opposite; by requiring cuts in public services, tax cuts "may retard economic and employment growth."[13]

Tax cuts for business will have a particularly limited economic impact here in Pennsylvania. A recent study of Pennsylvania's tax structure by Good Jobs First bears this out. That study found that tax cuts are "crude tools for economic development" that are "low-impact but high-cost," since they have little influence on company's investment decisions and take resources away from more effective state investments in an educated, skilled workforce, a strong transportation infrastructure, and other important long-term needs.[14] Based on "overwhelming" evidence that Pennsylvania's current tax rates and incentives do *not* put the state at a competitive disadvantage compared to its neighbors, the report recommends against cutting corporate tax rates or creating costly tax breaks for companies.

II. The Better Way: A Fairer Tax Structure and a More Efficient State Government

It is equally clear that Governor Corbett and the General Assembly have more responsible and fiscally sound options, other than draconian cuts, 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:

- A fair excise tax on the big oil and big gas companies reaping hundreds of millions in revenue in the state's Marcellus shale play. Pennsylvania is the only significant gas producing state without such a tax. Numerous proposals have been put forth, varying in terms of rate, timing and targeting of revenues among local government, dedicated funds and the state general fund. A state gas severance tax proposed by Republican State Representatives Murt and DiGirolamo has levels lower than rates in states like Texas and West Virginia and divides revenues fairly

between local and state government. This could generate up to $562 million in a full-year, with $247 million directed to the state general fund.[15]

- Closing the tax loophole that allows large national and international corporations to shift profits from Pennsylvania to Delaware. The Delaware loophole allows major corporations to avoid state taxes and shifts the burden to thousands of Pennsylvania-based small businesses that follow the rules and pay their fair share of taxes. Up to $550 million a year could be generated for Pennsylvania by closing the loophole.[16]
- Close an archaic sales tax loophole that rewards companies for sending the sales taxes they collect from all of us to the state on time. For merely transferring money that belongs to the state treasury, these businesses earn a 1 percent discount. This fix would generate up to $74 million a year in new revenue.[17]

These are just three fair, reasonable options that lawmakers and Gov. Corbett should embrace to close any budget gap and spare Pennsylvania families from more painful cuts.

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

The second option is to undertake a series of state government performance reforms that can save hundreds of millions of tax dollars while improving the efficiency of state government. These measures will improve state government service delivery, increase efficiency, cut down on waste, and give Pennsylvanians a better return on their tax dollars.

Most of these recommendations are not new, but have been proposed already by officials and experts here in Pennsylvania and across the country. Many are bipartisan. Many do not require legislation. They focus on common sense and innovation, rather than ideology. Together, they have the potential to help close any potential budget gap without cutting vital services.

A. Demand Greater Efficiency from State Government

Before taking a machete to important government services, Pennsylvania should aim to first ensure that it is getting the most from every tax dollar. Whether one believes in a strong and activist government or a minimalist one, everyone can agree that the government services should be delivered efficiently and effectively.

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

State and local government in Pennsylvania is already lean. Pennsylvania has the lowest percentage of state employees in its workforce of any state in the country.[18] Even when factoring in local government workers, Pennsylvania has the lowest share of public workers compared to total workers of any state.[19]

But there is one area where workforce efficiency could be improved. The 2012 State Government Workforce Statistics report issued by Pennsylvania's Office of Administration[20] shows that state government has more than 13,231 managers overseeing just over 60,643 workers, a management-to-staff of 4.58 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. In fact, by reducing bureaucracy and clearing away layers of management and decision-making, service performance should actually improve.

Analyses in states that have tracked management span of control demonstrate that Pennsylvania's manager-to-worker ratio of 4.58 to 1 is particularly low. A 2010 report to Utah's governor determined that state's ratio to be 6.7 to 1, recommending further analysis to adjust the ratio to perhaps as high at 10 to 1.[21] A 2011 study in Oregon, recommending an increase in that state's ratio, found a management to staff ratio of 5.87 to 1, [22] while a similar analysis in Michigan showed that state's ratio to be 5.86 to 1.[23] The Michigan report also noted that Texas and Iowa have set goals to increase their ratios to 11 to 1 and 14 to 1, respectively. A Connecticut Commission recommended moving to a ratio of 10 to 1 in social service agencies, up from the current 6 to 1, and urged consideration of a similar ratio across state agencies.[24]

Pennsylvania's ratio also is considerably lower than the standard private sector ratio, which generally ranges from 11:1 to 14:1.[25]

Pennsylvania should establish a state government-wide management-staff ratio goal that is comparable to the higher ratios in some other states and in the private sector. Since one size does not fit all, the management-to-worker ratio could differ between, for example, the Department of Corrections and the Department of Aging. Nevertheless, given the extremely low current ratio, we recommend that the Corbett Administration should increase the overall ratio over time, starting with an increase of one worker per manager, to 5.58 to 1, which 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.

2. Institute State Contracting Reform

One reason why Pennsylvania has the nation's leanest state employee numbers may be the significant amount of work it contracts out. But Pennsylvania's $4 billion state contracting system is rife with systemic problems that waste hundreds of millions of dollars annually.

Yet instead of taking steps to reduce costly private contracting, the Corbett Administration is going in the other direction, with a privatization task force charged with examining new ways to turn over government responsibilities to corporate interests. In a telling illustration of this approach, the Corbett task force has contracted with Wall Street investment company Greenhill & Co. to help find privatization opportunities, at a cost of at least $150,000 over just three months.

There is no dispute that there is an important role for the state to contract out for certain expertise, as long as it is reasonable, judicious and coupled with strong oversight. But Pennsylvania must learn to contract smarter. For example, reviews by the Office of Auditor General Jack Wagner revealed that state government awarded 511 sole-source contracts and 272 emergency contracts worth more than $250 million over a two and a half year period ending in December 2010.[26]

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.[27] In Pennsylvania, that could generate annual savings of as much as $400 million. Auditor General Jack Wagner, based on his agency's audits of the state procurement process, believes that

reforms to tighten the state procurement process, heighten competition and increase transparency could generate savings of $200 million a year with just 5% efficiency savings.[28]

In 2010, the bipartisan Senate Government Management and Cost Study Commission noted the fragmented, inefficient state procurement systems. It recommended a "system-wide study of the procurement process in state government." 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.

3. 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.[29] But by consolidating prescription drug purchasing, the state can increase its price negotiating leverage and reduce its administrative costs.

Pennsylvania has taken steps in recent years to improve its purchasing leverage, including pursuing some purchasing pool arrangements, but needs to more aggressive in driving down its prescription drug costs. A study conducted by Auditor General Jack Wagner found that consolidating prescription drug purchases could generate savings of at least $50 million annually; if Pennsylvania purchases were consolidated with those of New Jersey and New York, savings could reach $200 million.[30] The Senate Democratic caucus has estimated that even modest efficiencies would reap considerable savings of at least $25 million.[31] The General Assembly should direct state agencies to take more aggressive and innovative action with the goal of saving at least $50 million annually, without any diminution in eligibility, services, quality or benefits for Pennsylvanians receiving prescription drugs through state programs.

4. Strike the Right Balance on Long Term Care Services

Pennsylvania lags behind many states in controlling long term care costs because we have not shifted our system from costly facility-based care to more cost effective home and community-based services. Medicaid reimburses nursing home providers upwards of $60,000 per year for each person served; community services cost roughly one third of that. Numerous polls have shown that seniors and people with disabilities overwhelmingly prefer to receive long term supports at home, yet Pennsylvania continues to serve the majority of consumers in institutional settings, and spends nearly 80% of its long term care dollars there.

Federal incentives, including enhanced Medicaid matching for states that are shifting to community care, make "rebalancing" of services a timely investment that can save Pennsylvania hundreds of millions this year while improving the quality of life for older Pennsylvanians.[32]

5. 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. For example, overuse of rental cars even when rental costs exceed the mileage reimbursement for personal vehicle use is inefficient and increases travel costs.

Estimated annual savings range from $10 million[33] to as high as $36 million.[34] However, since the state should be seeking to achieve savings without undermining government service delivery and workforce efficiency, the state should approach the vehicle fleet efficiency reforms carefully. Nevertheless, even a 15% savings could produce close to $11 million.

6. Use More Cost-Effective Payment Methods

Purchase Cards (or P-Cards) are similar to debit cards, streamlining state government purchases without some of the costly and time consuming requisition, purchasing, and payment processes involved in government procurement. P-cards provide state government with rebates on purchases and help companies selling to the state get more on a timelier basis, encouraging them to offer better prices.

Savings from expanded use of P-cards and similar forms of electronic purchasing have been estimated to be as much as $62 million to $219 million annually, depending on how many total transactions are paid through P-cards.[35] A Senate Democratic proposal estimated savings from procurement reforms relating to P-cards, E-purchasing and increased competitive bidding at a more conservative $50 million.[36] Taking a more conservative projection, an aggressive effort should bring the state savings of at least $50 to $60 million.

B. Cut Wasteful Spending

1. More Aggressively Pursue Medicaid Provider Fraud and Abuse

Medicaid is one of the largest single programs in Pennsylvania state government. But across the country, the Medicaid program is a major target for fraud and abuse by providers.[37] It has been estimated that fraud, abuse and improper payments could account for three to ten percent of Medicaid expenditures.[38] Some estimates are even higher: a Florida study estimated the proportion of such spending to be 5% to 20% of that state's Medicaid budget.[39] Pennsylvania, in particular, can do more to stop it. According to the U.S. Department of Human Services Office of the Inspector General, Pennsylvania has the fourth largest state Medicaid budget, more than $19 billion in total expenditures, but ranks only 18th in the U.S. in Medicaid civil recoveries, capturing just $29 million in FY 2009-10.[40]

Reducing Medicaid costs by cutting down provider fraud and abuse would save hundreds of millions of federal and state dollars, with Pennsylvania retaining about 55% of those savings. Pennsylvania should take the following actions to crack down on Medicaid provider fraud and abuse:

- As most other states have done, enact a False Claims Act, which allows whistleblowers to file fraud claims against providers and sets stiff penalties for offenders.

- Invest in electronic fraud and abuse detection systems and allow for and enhance systems to cross-check Medicaid databases with those in the Department of Labor and Industry and other state agencies.
- Permit asset forfeiture by those convicted of insurance fraud, as is done with certain drug offenders.
- Expand the state's anti-fraud unit to more aggressively pursue fraud cases.

The Senate Democratic Caucus estimates that more aggressive provider fraud and abuse enforcement could recover $60 million each year for the state.[41]

2. Halt Wasteful Spending on Cyber and Charter Schools

The Republican leadership and the Corbett Administration are pushing to enact legislation to expand cyber and charter schools in Pennsylvania, ignoring concerns about lack of state oversight, uneven charter school performance, evidence of wasteful spending by some schools, and a flawed state funding formula.

Charter schools were paid more than $835 million by public schools in the 2009-2010 school year. Yet reports indicate that the payment funding formula does not take into account the actual cost of educating the child at the cyber or charter school. As a result, payments to charters can differ from $6,000 to $16,000 per student, irrespective of the actual cost to educate them or the performance of the school. This is particularly egregious for cyber schools, which do not have the bricks and mortar costs of traditional schools. As a result, some cyber schools have amassed large reserve funds because of the current inequitable funding process. Further, an April 2011 study by Stanford University's Center for Research on Education Outcomes concluded that Pennsylvania charter schools make smaller learning gains in reading and math than traditional public schools. In 2010-2011, just two of the 11 cyber charters to take the Pennsylvania System of School Assessment tests met the state benchmarks for reading and math.

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, a cap on charter and cyber school unreserved, undesignated fund balances, and authority for school districts to take into account costs and economic impact in approval decisions about new charters would strengthen accountability and free up significant funds for traditional public schools. Savings generated by these and other steps that could be directed back to public schools could range from $187 million, as estimated by House Education Committee Minority Chairman Representative James Roebuck, to $225 million, as estimated by Auditor General Jack Wagner. Even assuming a more conservative estimate like $175 million would produce a significantly more efficient Pennsylvania school funding system.

3. Reduce Prison Costs While Ensuring Public Safety

Pennsylvania's prison population has increased by an estimated 500% between 1980 and 2010. The state correctional system is projected to continue its rapid growth, with an estimated $1 billion in additional costs by 2016 for five new prisons. There are currently more than 51,000 inmates in state institutions and another 35,000 under state supervised probation or parole supervision. Our top priority must be public safety, with violent and other serious offenders remaining incarcerated. But there are some reforms that can improve the correctional system's efficiency without jeopardizing public safety.

Some other states that are toughest on crime, such as Texas, have made similar changes to reduce prison costs. Here in Pennsylvania, calls for common sense corrections reforms have been bipartisan.[42]

Several steps have been recommended in the legislature, by Auditor General Jack Wagner, and by independent groups, including:

- Enacting sentencing reform to strengthen intermediate punishment alternatives such as
    - Adopting a risk and needs assessment for judges to identify which offenders need to incarcerated in prison and which can receive alternative sentencing.
    - Creating a graduated sanctions process for nonviolent parole violators.
    - Establish alternative sentencing for nonviolent offenders, including use of state motivational boot camps, intensive electronic monitoring, and risk reduction inventive programs and other tools.
- Improve parole and reentry services to cut down recidivism, including improved pre-release guidelines, more efficient processing of paroled inmates who have served their sentences, pre-release centers for inmates moving back into the community.
- Expand specialty courts, such as drug courts, to more efficiently and effectively deal with specific types of cases or offenders.

Taken together, these corrections and probation and parole improvements could generate close to $60 million to $75 million annually when fully implemented.[43]

4. Improve State Tax Credit Programs

The Pennsylvania Legislative Budget and Finance Committee analyzed the state's tax credit programs and found that the state had inadequate oversight and reporting requirements, unclear goals for some programs, and underutilization of several tax credits.[44] Some tax credit programs have been scaled back in recent years. But the state should conduct a new assessment of tax credit programs with the goal of retaining those that are most effective, eliminating those that are not, and reducing those that are underutilized.

Saving just a small percentage of tax credit expenditures could return more than $30 million of the more than $300 million in available tax credits.

C. Maximize Revenues

1. Improve Tax Collections

The foundation of any government taxation system is fairness. One aspect of tax fairness is ensuring that all taxpayers do their part, follow the rules, and pay their taxes in full and on time. That is why an efficient tax collection system promotes fairness and helps keeps tax rates low by maximizing the revenues generated under the existing tax structure.

Pennsylvania can take steps to ensure fairness and make the most of the taxes already on the books. There is no recent in-depth study of the gap between state taxes owed and collected in Pennsylvania, but a 2001 study of the federal tax gap estimated that 16% of total taxes owed were not collected. More recently, the IRS has reported that the gap may be as high as 21%. Other states conducting tax gap studies found tax gaps ranging from 5% to nearly 16% of taxes owed, amounting to billions of dollars uncollected in the larger states.[45] Some steps that could be taken in Pennsylvania include:

- **Identify the state's tax collection shortfall**. An exhaustive, systematic analysis of the state's tax collections should be done to identify how much revenue is being lost because of state tax delinquency or evasion, including how much is being reported but not collected, how much is going unreported, and which taxes and types of taxpayers have the highest non-compliance rates. Being able to identify the sources of the tax gap and target resources based on that information can help boost the tax collection rate.
- **Increase state tax collection efforts**. Investing in staff, technology and collection methods to enforce existing taxes can more than pay for itself. Minnesota, after analyzing its tax collection shortfall and increasing enforcement through investments in technology and staff, collected $7 for each $1 spent. After expanding its staffing, Wisconsin estimated that it would generate a six to one return on its investment. Coupling similar investments with higher fines and heavier promotion of the state's top tax delinquents list should close the tax collection gap here in Pennsylvania. Based on the experience of other states, a $15 million investment in enforcement could return $90 million to $105 million in revenues, which is likely to be a small portion of outstanding tax collections.
- **Continue efforts to pursue uncollected state use tax**. Part of efforts to improve tax collection should be increased enforcement of uncollected state use taxes. The Department of Revenue has proposed that the 6% use tax, which applies to purchases subject to the state's sales tax that are bought from out-of-state retailers, including purchases made online. An estimated $350 million is lost each year in unpaid out-of-state tax revenues. Aside from hurting the state's bottom line, this puts home grown PA businesses at a disadvantage competing with their out-of-state and online competitors. Creating a requirement to report use taxes owed on state income tax returns and having Pennsylvania join a multi-state consortium to push businesses to collect and remit sales and use taxes to customers' home states can increase compliance with state law. A state House Republican proposal recommends adopting the National Conference of State Legislatures (NCSL) Voluntary Streamlined Sales and Use Tax Agreement, in which more than 1,200 remote sellers across 23 states would voluntary collect sales tax for Pennsylvania and would alone take in $21 million. If steps can be taken to even return one in three dollars not collected, they could generate $116 million a year.
- **Improve processing of tax refund errors**. It has been estimated that the state has a 10% to 12% error rate in processing two million refund checks annually. Upgrading technology, beefing up staffing, expanding information sharing across agencies and even with other states, and improving the quality assurance process on refunds could reduce errors. A recent Republican House projected savings of $50 million if the error rate was eliminated. A complete elimination of errors may be unrealistic, but even cutting the error rate in half could save $25 million each year.

2. Modernize, Rather than Privatize, the Pennsylvania Liquor Control Board Wine and Spirits System

The Pennsylvania Liquor Control Board's Wine and Spirits Shop network generated close to $2 billion in sales last fiscal year; returned more than $500 million profits and tax revenues to the General Fund; and employs 5,000 Pennsylvanians.

The House Liquor Control Committee correctly gutted HB 11, a bill that would have cost the state of millions of dollars by privatizing the Pennsylvania Liquor Control Board (PLCB) wine and spirit

operations. The revised bill remains flawed, however, and is likely to still diminish PLCB sales revenues, in turn reducing what the PLCB can transfer to the state General Fund.

Rather than making drastic changes to the state wine and spirit shops, an effort that few Pennsylvanians see as a priority, the state should take action to increase revenues generated from the system by allowing the PLCB to modernize its operations even further, including:

- Allowing more stores to be open on Sunday and expand their Sunday hours.
- Giving the PLCB more flexibility to pursue market-based pricing so it can apply different markup rates for different products based on local demand.
- Converting to a bailment system, in which wine and spirit distributors would maintain ownership of their products while they sit in the PLCB's distributions centers.

These and other modernization steps should generate as much as $75 million more in annual revenues to the state, with the conversion to a bailment system estimated to generate additional one-time savings of as much as $80 million.[46]

3. Increase Collections under Pennsylvania's Unclaimed Property Laws

Assets such as abandoned bank accounts, uncashed checks or unclaimed refunds that are left with a "holder," (e.g., a bank, local government, university, insurance agency, or other business or organizations) is deemed to be "unclaimed property" and required to be turned over to the state Treasury Department. The Department works to return these assets to their owners. But though there is no deadline for recovering unclaimed property, if the property cannot be returned the state and its taxpayers reap the benefit.

State Treasurer Rob McCord reports that the Department has returned $288 million to Pennsylvanians since 2009 and has generated $300 million more for the General Fund over the same period. The key to a successful unclaimed property program – for both Pennsylvania citizens trying to recover money and for the state to be able to retain unclaimed funds – is strong compliance by companies in turning over unclaimed property.

It has been estimated that compliance with the unclaimed property law is only about 50%. Providing the Department with more resources for stronger enforcement of the unclaimed property laws could generate as much as $50 million to $80 million dollars each year.[47] In addition, adjustments to current law, such as reducing the period that unclaimed property must be turned over (currently a five-year period for most forms of property) and imposing a deadline for recovering unclaimed property, rather than leaving the right to claim property open forever, as Pennsylvania does now, could produce additional revenues, particularly in the first year.

4. Process Supplemental Security Income (SSI) Payments for Other States

Pennsylvania processes its own Supplemental Security Income (SSI) payments, saving itself $35 million. Many other states pay the federal Social Security Administration to process their SSI payments. Pennsylvania should offer its SSI processing to other states for a reasonable fee. The House GOP estimates that could generate $50 million to $152 million annually for the state. [48]

5. Increase the Hospital In-Patient Assessment

In 2010, the state enacted a statewide hospital assessment on net operating revenue for most acute care hospitals to leverage more than $500 million in new federal resources. Senate Democrats had recommended that this health care provider assessment could be expanded further to generate more dollars.[49] An expansion was enacted in the current budget, but could be taken even farther. Further expansion could generate $50 million in additional state savings, which could be used to help stave off further health care cuts.

III. Conclusion

Efforts to restore tax fairness and improve the efficiency of government operations should be carried out even when the state's fiscal outlook is rosy. But in times such as these when Pennsylvania's fiscal condition is under strain and its economy struggling to recover, these reforms are even more important. This series of steps must be pursued in order to set the state on a course toward fiscal stability and economic revitalization while protecting its families and its most vulnerable citizens from the effects of continued harmful service cuts.

Acting on this report's recommendations will require leadership, innovative thinking, and effective implementation skills. But the potential rewards in terms of cost savings, increased efficiency, and improved state government service delivery make it essential that they be pursued.

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
Increase the Hospital Assessment	$50 million
TOTAL PROJECTED SAVINGS	**$2.377 billion**

ENDNOTES

[1] *State Budget Cuts in the New Fiscal Year Are Unnecessarily Harmful; Cuts Are Hitting Hard at Education, Health Care, and State Economies*, Erica Williams, Michael Leachman and Nicholas Johnson, Center on Budget and Policy Priorities, http://www.cbpp.org/cms/index.cfm?fa=view&id=3550

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[3] *Government for Sale: An Examination of the Contracting Out of State and Local Government Services*, AFSCME, Eighth edition.

[4] *Department of Labor, Better Cost Assessments and Department-wide Performance Tracking Are Needed to Effectively Manage Competitive Sourcing Program,* United States Government Accountability Office, November 2008. GAO-09-14.

[5] International City/County Management Association. See: http://icma.org/en/results/surveying/survey_research/whats_new

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