



Pennsylvania State Transportation Advisory Committee

Pennsylvania State Police Funding Options

White Paper

December 15, 2016



About the Transportation Advisory Committee

The Pennsylvania Transportation Advisory Committee (TAC) was established in 1970 by Act 120 of the State Legislature, which also created the Pennsylvania Department of Transportation (PennDOT). The Advisory Committee has two primary duties. First, the Committee "consults with and advises the State Transportation Commission and the Secretary of Transportation on behalf of all transportation modes in the Commonwealth." In fulfilling this task, the Committee assists the Commission and the Secretary "in the determination of goals and the allocation of available resources among and between the alternate modes in the planning, development, and maintenance of programs, and technologies for transportation systems. The second duty of the Advisory Committee is "to advise the several modes (about) the planning, programs, and goals of the Department and the State Transportation Commission." The Committee undertakes in-depth studies on important issues and serves as a valuable liaison between PennDOT and the general public.

The TAC consists of the following members: the Secretary of Transportation; the heads (or their designees) of the Department of Agriculture, Department of Education, Department of Community and Economic Development, Public Utility Commission, Department of Environmental Protection, and the Governor's Policy Office; two members of the State House of Representatives; two members of the State Senate; and 18 public members—six appointed by the Governor, six appointed by the President Pro Tempore of the Senate, and six appointed by the Speaker of the House of Representatives.

Executive Summary

1 Study Objectives
and Scope

2 Background

3 The National
Experience

4 Funding Gap
Closure Options

5 Conclusion

Contents

The Funding Challenge

The Commonwealth's Motor License Fund currently provides revenue for PennDOT and the Pennsylvania State Police; however, the MLF cannot adequately fund both agencies.

Two Vital State Missions

The Pennsylvania State Police (PSP) budget currently comes from a combination of State General Funds and transfers from the Motor License Fund (MLF).

The FY 2016-17 transfer from the MLF to the PSP is \$802 million. The transfer, which has increased substantially in recent years, supports PSP's mission to patrol Pennsylvania highways, but significantly limits PennDOT's mission to maintain and improve those highways and bridges.

Each organization has safety as a core element of its mission, thus both qualify for MLF funding.

Legislative Action

Recognizing the need to preserve transportation funding, language in the Fiscal Code, enacted as part of the FY 2016-17 state budget, reduces the MLF transfer to the PSP over the next decade, ultimately capping it at approximately \$500 million per year.

Funding the PSP

With limits placed on the MLF transfer, alternative revenue must be identified to adequately fund the PSP. Although the transfer reduction would be phased in over 10 years, options for meeting the funding gap should consider funding levels that will be needed when the \$500 million cap is fully in effect.

Projected PSP Funding Gap

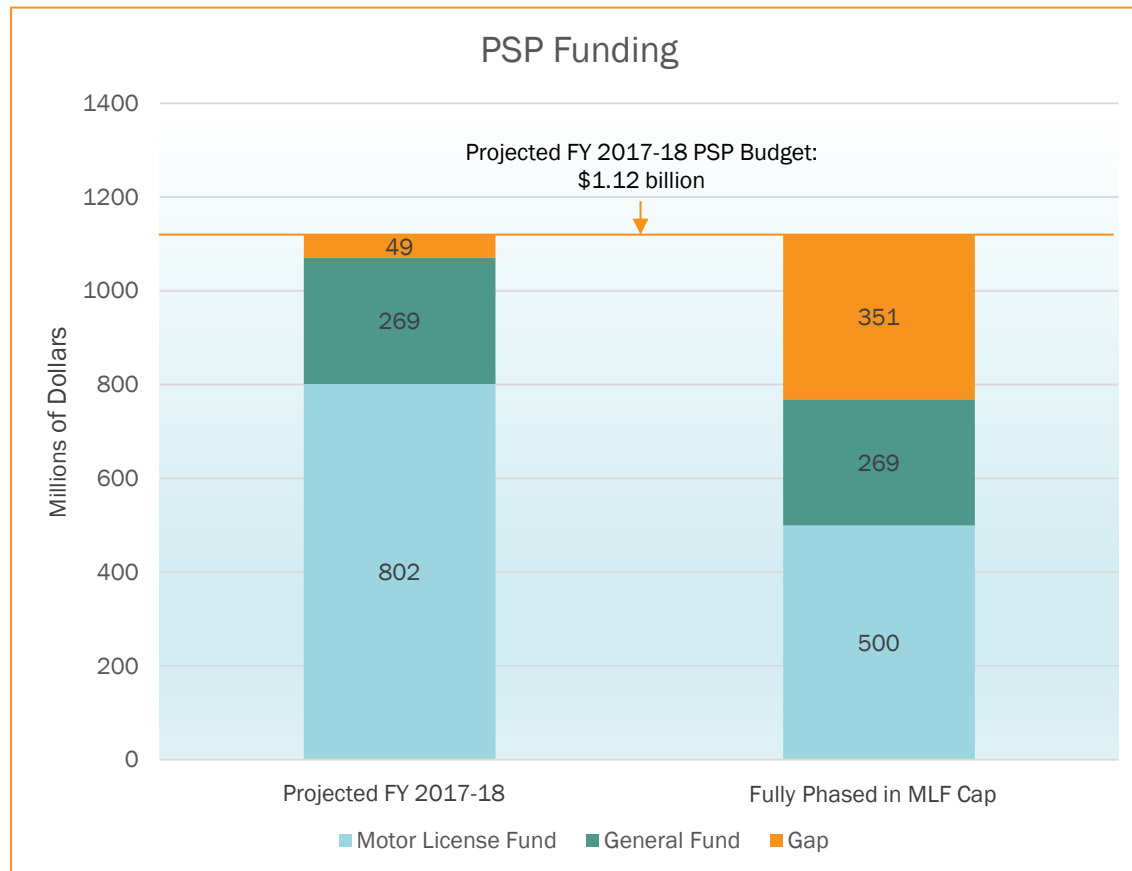
Assuming a \$500 million MLF transfer cap, and using the PSP total budget projected for FY 2017-18, the Commonwealth would face an estimated \$350 million gap in PSP funding, as illustrated by the chart on the following page.

This report therefore uses \$350 million as a target or estimate for purposes of identifying potential funding options.

The actual funding gap would vary: The MLF transfer steps down gradually (making the gap less severe over the next few years). The PSP budget, however, can be expected to grow over time (ultimately resulting in a gap that could exceed \$350 million).

Estimating a Replacement Funding Target Amount

This report uses \$350 million as an estimated annual amount of replacement dollars needed for the State Police.



The bar on the left illustrates a projected funding gap of \$49 million in fiscal year 2017-18, the initial year in which the MLF transfer limit goes into effect under present budget language.

The bar on the right illustrates the expected funding gap if the limit on the MLF were at \$500 million (at current PSP budget and General Fund dollar levels).

By the time the MLF funding cap would be fully phased in (FY 2027-28), the PSP budget and funding gap would likely be much higher than the \$351 million shown in the bar on the right.

Nevertheless, \$350 million is a useful order-of-magnitude target for evaluating replacement funding options.

Note: The PSP budget and General Fund contribution were escalated by 4.6% from the current year, which is the rate of increase from FY 2015-16 to FY 2016-17. The MLF contribution is shown at the same amount as in FY 2016-17, as specified in the fiscal code schedule.

Options for Closing the Funding Gap

A sustainable, dedicated revenue source might be achieved through a combination of seven funding options.

Study Scope and Objectives

The Pennsylvania Transportation Advisory Committee (TAC) has prepared this report to:

- (1) identify potential options for replacing the Motor License Funding (MLF) that would no longer be transferred to the State Police; and
- (2) evaluate a shortlist of funding options against key considerations.

This report offers no recommendations; it provides funding options as a starting point for policymakers, consistent with TAC's advisory function.

Funding Options

The study determined that the following sources of revenue warrant further analysis to close the PSP funding gap:

1. Personal Income Tax Rate Increase
2. Sales Tax Rate Increase
3. Municipal Policing Fee
4. Sales Tax Base Expansion
5. Natural Gas Severance Tax
6. Excise or Other Targeted Taxes
7. Gaming Fund Allocation

The tables on the following three pages highlight each option. This does not preclude identifying other options in the future.

The Challenge

PennDOT and the PSP carry out essential functions that require sustainable and substantial revenue. Some states facing the same funding challenge have moved away from supporting their state police with dedicated highway funds (p.21).

Closing the PSP MLF funding gap will not be easy in any respect. A sustainable, dedicated revenue stream to close the funding gap might be best achieved through a combination of options. TAC has identified four illustrative funding scenarios (p.58).

Funding Options (page 1 of 3)

1. Personal Income Tax (PIT) Rate Increase

Current Status	Revenue Potential	Pros	Cons
<ul style="list-style-type: none"> PIT rate is currently 3.07%. Revenues are approximately \$13 billion. Relatively low compared to neighboring states. 	\$430 million for every tenth-of-a-point increase.	<ul style="list-style-type: none"> High revenue potential. Broad-based, like PSP services. 	<ul style="list-style-type: none"> No certainty of long-term funding stream dedicated to PSP.

2. Sales Tax Rate Increase

Current Status	Revenue Potential	Pros	Cons
<ul style="list-style-type: none"> Rate is currently 6%. Revenues are approximately \$10 billion. Compared to neighboring states, rate is similar but Pennsylvania's overall tax burden is lower. 	\$180 million for every tenth-of-a-point increase.	<ul style="list-style-type: none"> High revenue potential. Broad-based, like PSP services. 	<ul style="list-style-type: none"> More modest growth forecast than PIT. Sales tax in general tends to be regressive.

Funding Options (page 2 of 3)

3. Municipal Policing Fee

Current Status	Revenue Potential	Pros	Cons
Approximately 1,280 municipalities rely solely on PSP for local policing at no cost to the municipality.	\$100 per capita fee on municipalities with no full-time police would generate up to \$250 million if assessed on all, or \$138 million if assessed only on municipalities with population > 3,000.	<ul style="list-style-type: none"> Restores some equity for allocating PSP costs (with all benefitting communities having to pay some cost for the benefit received). 	<ul style="list-style-type: none"> Link of fee assessment to service cost and benefit is difficult to make with any precision. How municipalities will get the revenues to pay the fees is an issue. Some are constrained by limited taxing authorities. Can't predict revenues because some municipalities may opt to provide/contract for municipal police service. Possibilities for fee avoidance.

4. Sales Tax Base Expansion

Current Status	Revenue Potential	Pros	Cons
Some products, and most services, are exempted from sales tax.	\$268 million from a tax on Amusement and Entertainment. \$86 million from a tax on candy and gum.	<ul style="list-style-type: none"> High revenue potential. Broad-based, like PSP services. 	<ul style="list-style-type: none"> No certainty of dedication to PSP—the feasibility/legality of statutory earmarking would have to be considered.

Funding Options (page 3 of 3)

5. Natural Gas Severance Tax

Current Status	Revenue Potential	Pros	Cons
<ul style="list-style-type: none"> PA assesses an impact fee on natural gas extraction but no severance tax. Other states assess a severance tax, and have higher effective tax rate than PA. 	\$517 million revenue estimated for a 6.5% tax.	<ul style="list-style-type: none"> High revenue potential. Much of tax burden falls outside of PA. 	<ul style="list-style-type: none"> Long-term revenue sustainability is uncertain. Arguably, a more appropriate dedicated funding source for other purposes (e.g., environmental protection, rural economic development).

6. Excise or Other Targeted Taxes

Current Status	Revenue Potential	Pros	Cons
<ul style="list-style-type: none"> Malt beverage tax, for example, is among lowest of all states. Has been 8 cents/gallon since 1947. Other products or services could be considered. 	\$40 million for an increase to 20 cents per gallon (national median rate).	<ul style="list-style-type: none"> Readily dedicated to a specific state police expenditure category. 	<ul style="list-style-type: none"> A fixed fee, so tax grows only as fast as product sales, unless fee would be indexed.

7. Gaming Fund Allocation

Current Status	Revenue Potential	Pros	Cons
Out of \$1.04 billion in disbursements, PSP receives \$27 million for services directly related to legalized gambling.	\$760 million residual after mandated disbursements are transferred to the Property Tax Relief Fund.	<ul style="list-style-type: none"> A relationship to the PSP function: protection of property. 	<ul style="list-style-type: none"> Tax burden falls on residential property. No change in tax burden for non-residential property owners.

Executive Summary

**1 Study Objectives
and Scope**

2 Background

**3 The National
Experience**

**4 Funding Gap
Closure Options**

5 Conclusion

Study Objectives

Pennsylvania needs resources for transportation investment. The Pennsylvania Department of Transportation (PennDOT) and the Pennsylvania State Police (PSP) partner on many of the Commonwealth's transportation initiatives and safety measures, thereby sharing much of its funding. Pennsylvania's Transportation Advisory Committee (TAC) has prepared this report with two guiding objectives:

Objective #1

Identify all known possible revenue options to replace a portion of the Pennsylvania State Police (PSP) budget derived from the Motor License Fund. (See full options list beginning page 26.)

Objective #2

Evaluate a shortlist of funding options against six considerations. (See refined options list beginning page 30.)

Study Scope

This study focuses on alternative revenue sources to replace some of the PSP funding that is presently transferred from the Motor License Fund.

Background on PSP funding sources and levels is provided for context beginning on page 14, with a chart illustrating funding gap projections shown on page 18. A \$350 million funding replacement target is used to identify and evaluate options.

The TAC conducted an initial identification, analysis and filtering of potential revenue sources.

Seven funding sources for Pennsylvania that appear to be most sustainable are presented starting on page 30. They are evaluated in light of six considerations that typically shape funding and policy decisions. Summary charts are provided along with more detailed analysis to inform the next phases of planning and decision-making.

This report provides options for further consideration.

This report includes no recommendations. Rather, screened options and relevant context are included to provide policymakers a range of alternatives for consideration as a starting point for addressing this challenging funding problem. Illustrative funding scenarios are included as examples only. The report also highlights how other states fund their state police and their experiences in addressing this budget challenge.

Executive Summary

1 **Study Objectives
and Scope**

2 **Background**

3 **The National
Experience**

4 **Funding Gap
Closure Options**

5 **Conclusion**

The Funding Context

Both the Pennsylvania State Police and PennDOT require adequate funding to fulfill their vital missions.

The PSP provides safety and security services including:

- Patrolling state and local highways.
- Investigating crime and reducing criminal activity.
- Responding to emergency incidents.
- Providing investigative services to all law enforcement agencies.
- Establishing and maintaining training standards for Municipal Police Officers and certifying municipal police officers.

PennDOT provides for the safe, efficient, and reliable movement of people and goods throughout the multimodal transportation system by:

- Planning with partners, stakeholders, and the public for necessary improvements.
- Designing projects, new initiatives, and programs with targeted investment strategies to support long-term growth.
- Constructing new projects vital to economic growth and the quality of life in Pennsylvania.
- Maintaining and funding the state's vast multimodal transportation system.

12-15-2016

Why is Motor License Fund revenue used for the PSP?

All proceeds from motor fuels taxes and other transportation fees are dedicated to the Motor License Fund. Pennsylvania's Constitution restricts the expenditure of these monies by stating that they be "used solely for construction, reconstruction, maintenance and repair of, and safety on public highways and bridges and costs and expenses incurred thereto."

The word "safety" has historically been the basis for using Motor License Fund revenues for PSP purposes.

The \$802 million currently provided from the Motor License Fund accounts for more than 75% of the PSP annual budget.

This payment (transfer) significantly limits the extent of improvements to state highways and bridges throughout the Commonwealth.

PSP funding from the MLF has increased dramatically

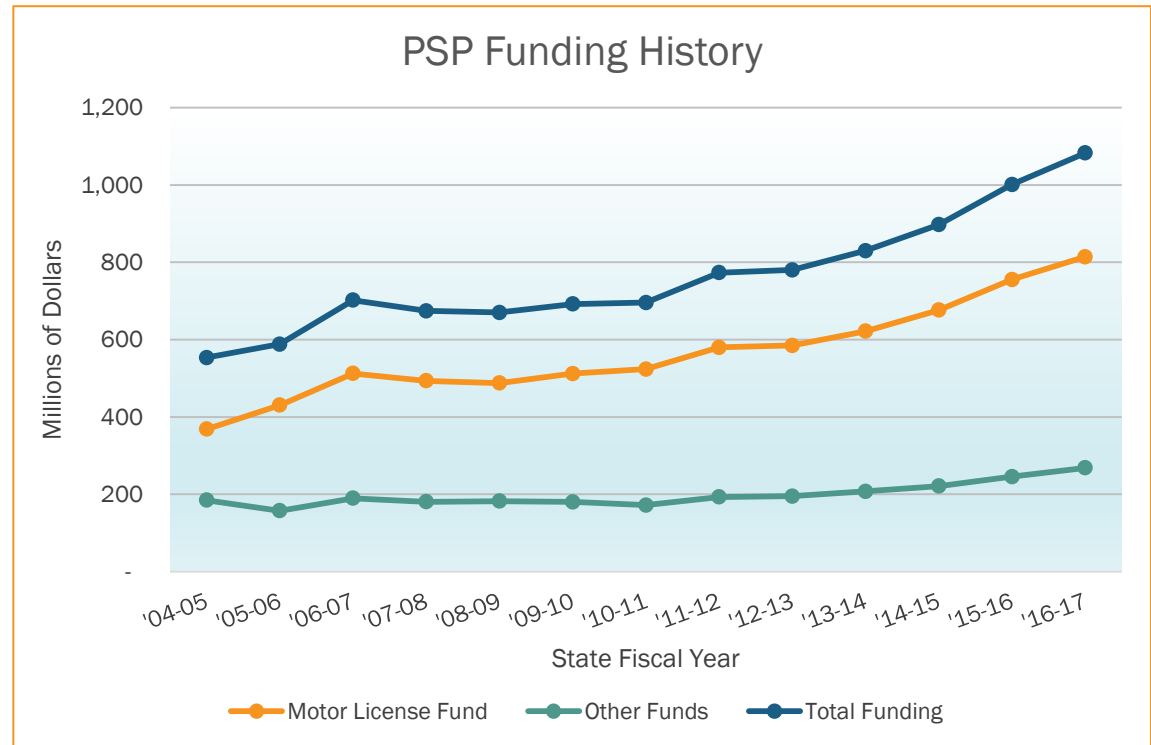
The Motor License Fund has been a concern in PA for several years.

PSP funding from the Motor License Fund increased from \$368 million in FY 2004-05 to \$802 million in FY 2016-17. During this period the percentage of the PSP budget from the Motor License Fund grew from 66% to more than 75%.

From FY 2015-16 to FY 2016-17, the total PSP budget grew 6.2%.

If past funding trends were to continue unabated, the MLF transfer for PSP would increase and exceed approximately \$1 billion within five years, severely constraining funding available for transportation improvements.

The PSP budget currently comes from a combination of State General Funds and transfers from the Motor License Fund.



Note: Other small funding amounts for specific services (e.g., Troop T for the PA Turnpike) are not included in the amounts shown.

In 2016 the General Assembly enacted two measures addressing MLF funding for PSP

As part of the 2016-2017 budget, the legislature enacted the Fiscal Code provisions summarized in the table below.

Fiscal Year	Appropriation Cap as % of FY 2016-17
2017-18	100%
2018-19	96%
2019-20	92%
2020-21	88%
2021-22	84%
2022-23	80%
2023-24	76%
2024-25	72%
2025-26	68%
2026-27	64%
2027-28	60%, or \$500 million, whichever is greater
Section 1798.2-E of the Fiscal Code	

Also, H.R 622 directs the Legislative Budget and Finance Committee to examine “the appropriate and justifiable level of Motor License Fund support under the PA Constitution.”

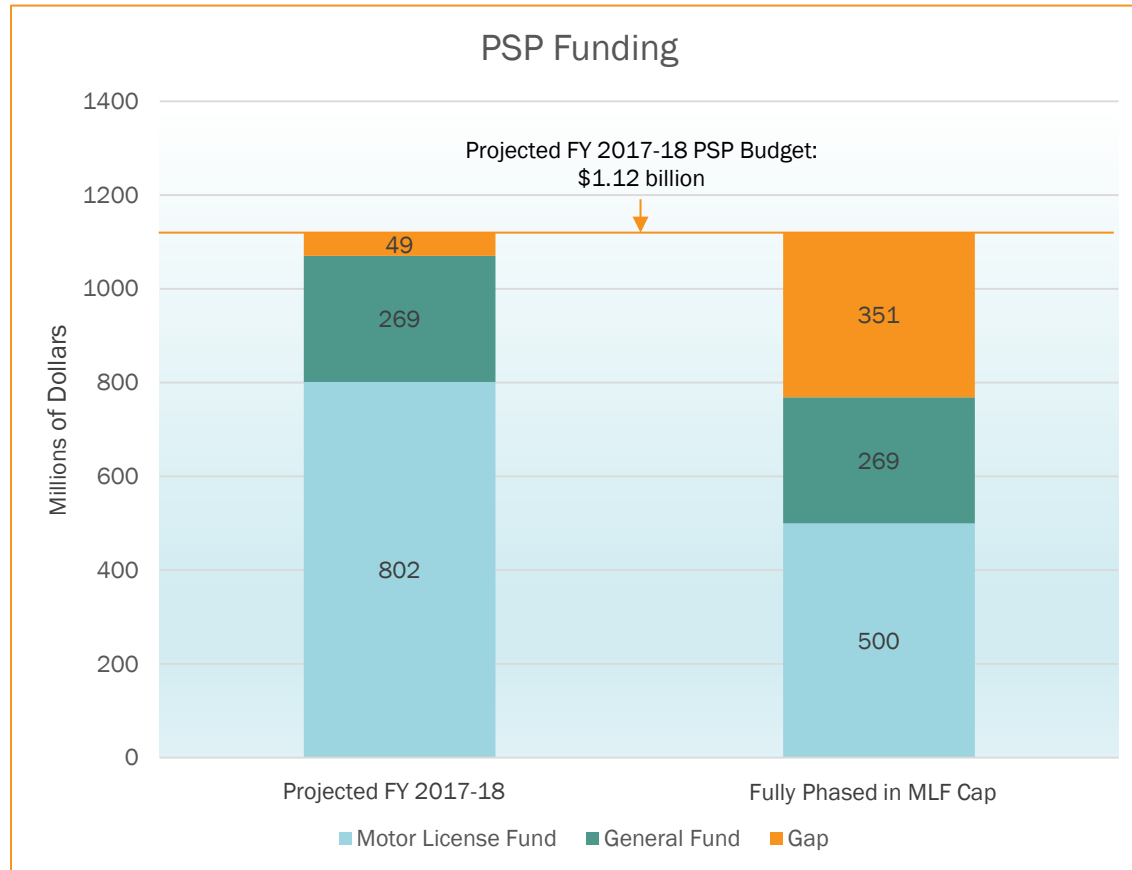
Results of the LB&FC study may result in future changes to these new Fiscal Code provisions by providing a fact-based method for determining the appropriate amount of funding.

Assuming the budget cap provision is fully implemented, PSP appropriations from the MLF would be capped at \$802 million in FY 2017-18, and would decrease by \$32 million each year until FY 2027-28, when the amount would reach its \$500 million floor—and remain at that level in perpetuity.

Note that this provision in the most recently passed state budget could be changed or negated by future legislation (including future budgets).

Estimating a Replacement Funding Target Amount

This report uses \$350 million as an estimated annual amount of replacement dollars needed for the State Police.



The bar on the left illustrates a projected funding gap of \$49 million in fiscal year 2017-18, the initial year in which the MLF transfer limit goes into effect under present budget language.

The bar on the right illustrates the expected funding gap if the limit on the MLF were at \$500 million (at current PSP budget and General Fund dollar levels).

By the time the MLF funding cap would be fully phased in (FY 2027-28), the PSP budget and funding gap would likely be much higher than the \$351 million shown in the bar on the right.

Nevertheless, \$350 million is a useful order-of-magnitude target for evaluating replacement funding options.

Note: The PSP budget and General Fund contribution were escalated by 4.6% from the current year, which is the rate of increase from FY 2015-16 to FY 2016-17. The MLF contribution is shown at the same amount as in FY 2016-17, as specified in the fiscal code schedule.

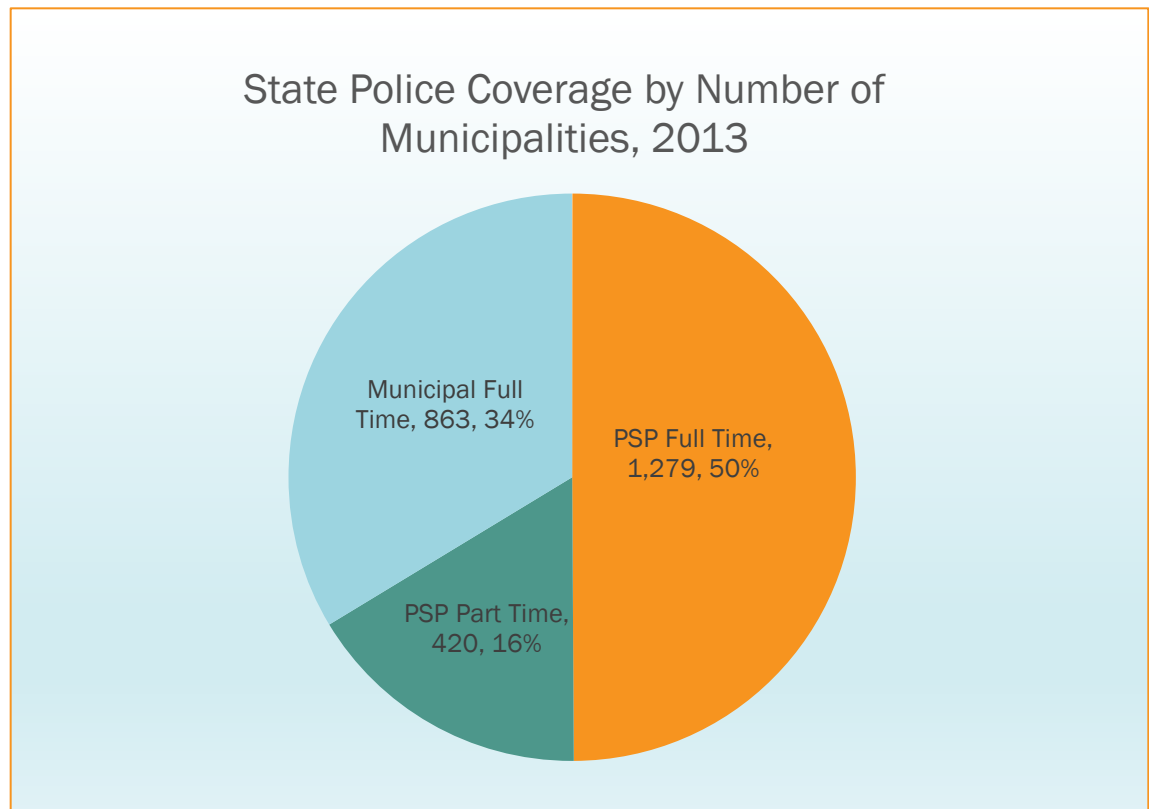
Municipal Police vs. PSP Coverage in PA

A related concern facing PA is that the Pennsylvania State Police is the de facto local police force for many of the Commonwealth's municipalities.

Approximately half of Pennsylvania's municipalities have no police force other than the PSP.

As local government resources become strained and police costs increase, more municipalities are dismantling their police departments and relying on the PSP for law enforcement.

PSP coverage of municipalities results in the rest of the state effectively subsidizing these communities. This raises a legitimate equity consideration that must be kept in view as revenue solutions are sought.



Source: PA Legislative Budget and Finance Committee. *Police Consolidation in Pennsylvania*. September 2014.

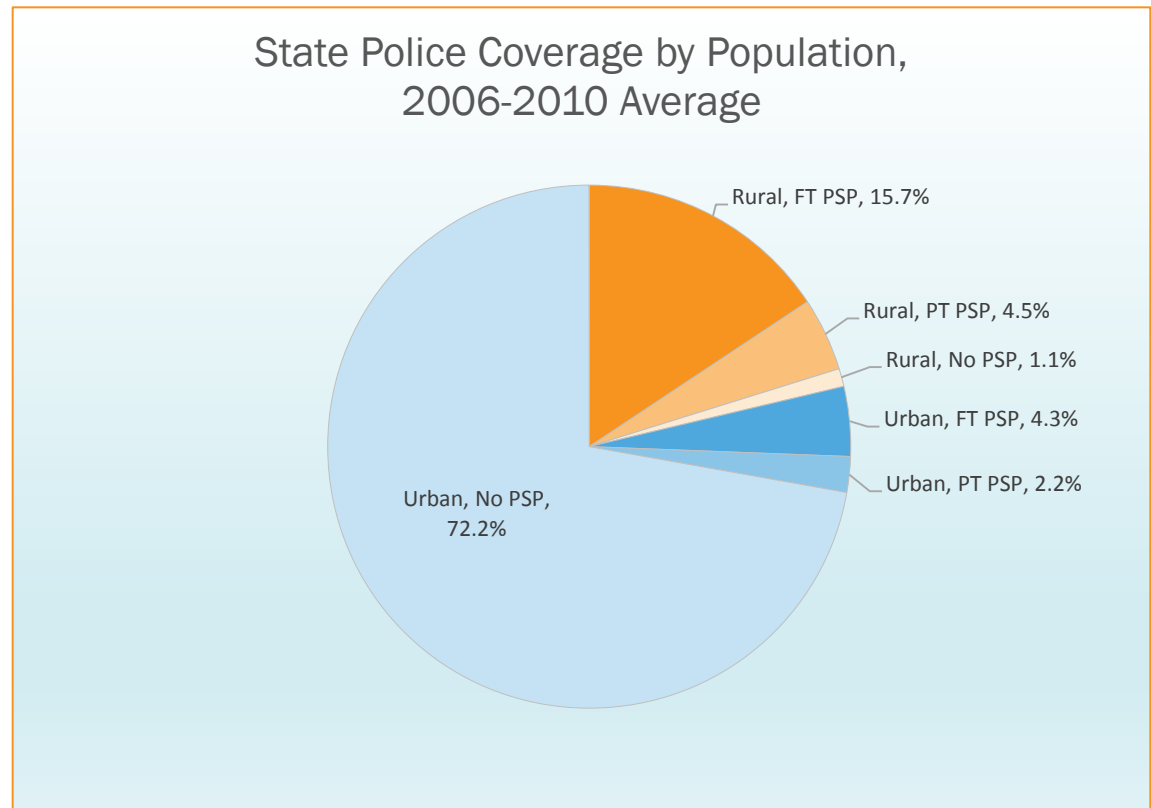
Pennsylvania State Police Coverage by Municipality Type

Lack of local police coverage is greatest in Pennsylvania's rural areas.

Far more rural residents depend on PSP coverage than do urban residents. The trend is most prevalent in the Northern Tier and Central Pennsylvania.

As of 2012, of Pennsylvania's 2.7 million rural residents, nearly 2 million (nearly $\frac{3}{4}$ of rural residents) had no local police protection.

Overall, one in five Pennsylvanians lived in municipalities with no local police services and another seven percent lived in municipalities providing only part-time local police services.



Source: Justice Center for Research, Pennsylvania State University, *An Examination of Pennsylvania State Police Coverage of Municipalities*, April 2012.

Executive Summary

1 **Study Objectives
and Scope**

2 **Background**

3 **The National
Experience**

4 **Funding Gap
Closure Options**

5 **Conclusion**

How do other states fund their state police?

Slightly more than half use some Highway Funds for state police.

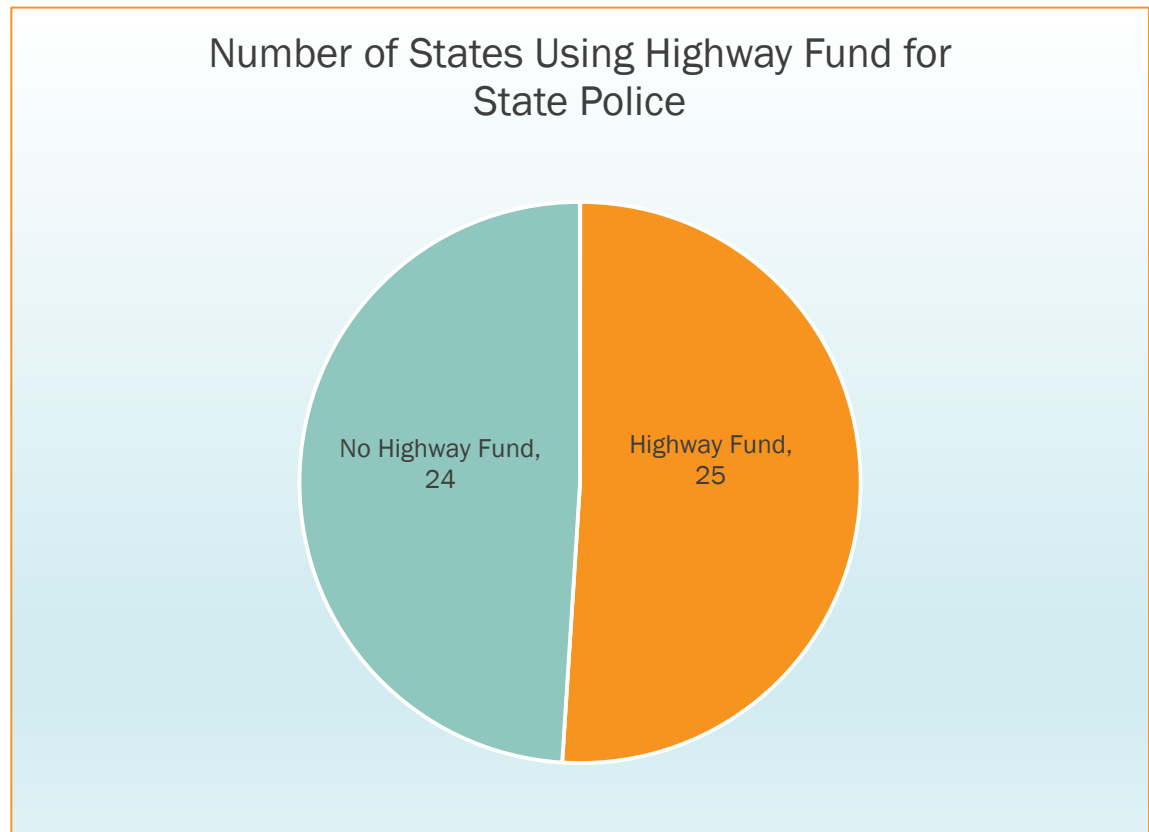
Eight states have eliminated or reduced the use of Highway Fund dollars.

National Council of State Legislatures Survey Results

Out of the 49 states with a state highway patrol of some form, 25 distribute restricted highway fund dollars to the state patrol with the rationale of transportation safety. Many of the other 24 states do direct other transportation-related revenues to their state patrols.

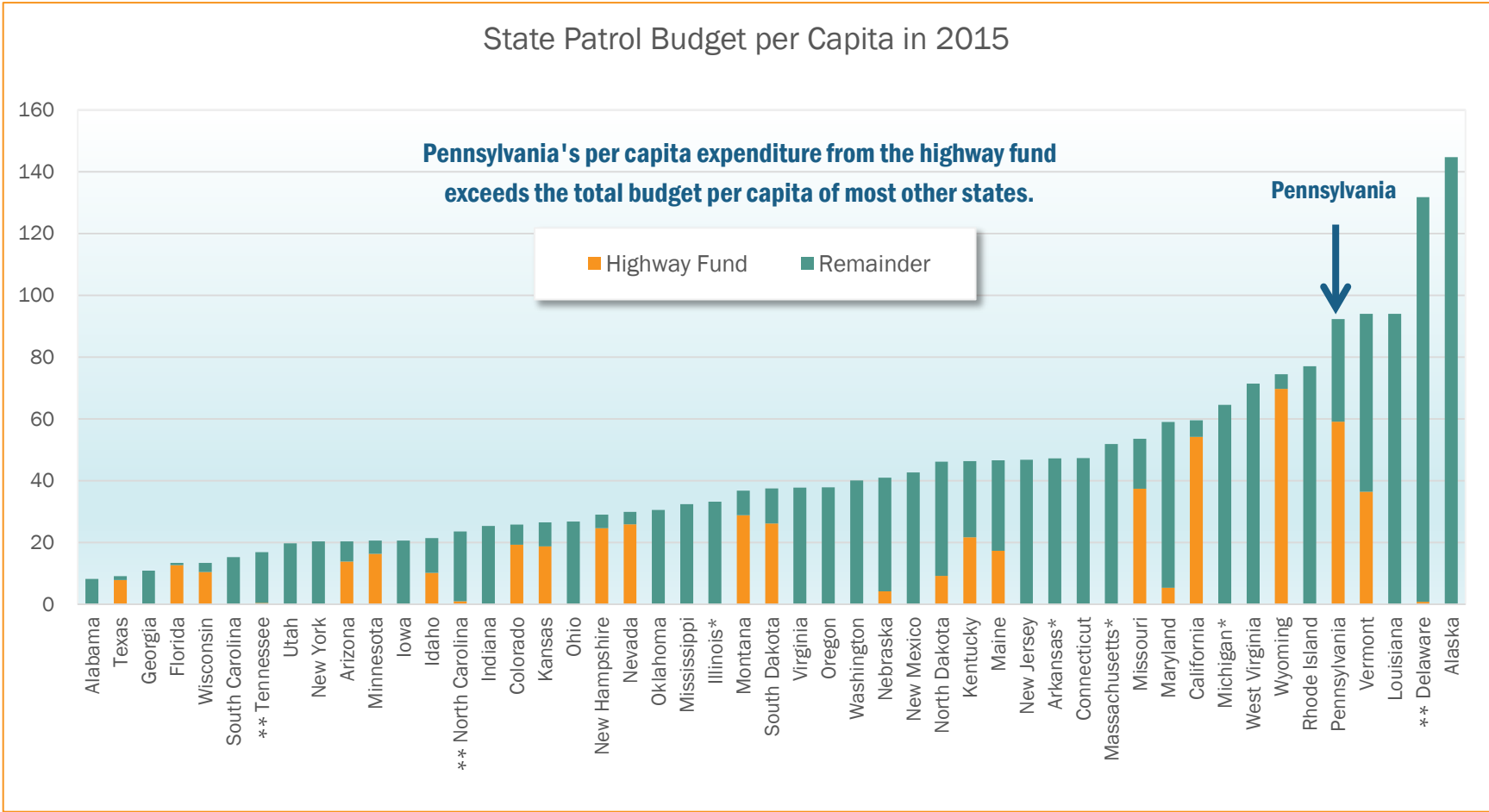
NCSL survey respondents were asked to identify any changes to their state police funding sources:

- Three states have entirely eliminated Highway Fund distributions to their state police.
- Five states have limited or reduced the use of the Highway Fund.
- Two states considered but did not enact proposals to reduce or eliminate use of the Highway Fund.



Source: National Conference of State Legislatures. *State Highway Patrol Funding: FY 2015*. Draft October 2016.

State Police Budgets by State



Source: National Conference of State Legislatures. *State Highway Patrol Funding: FY 2015*. Draft October 2016.

Survey asked states to provide expenditures only for highway patrol functions.

*State provided budgets for comprehensive state police functions.

**Portion derived from the Highway Fund is negligible and not readily visible on chart.

Experiences of Other States



Ohio

An FY 2004-05 budget bill phased out usage of gas tax proceeds for the Ohio Highway Patrol (\$185 million in FY 2003-04).

The budget bill instituted two measures intended to make up \$174 million of the lost funding:

- \$12 increase in driver license fee
- \$5 increase for temporary tags

By 2013, the Ohio Highway Patrol had a projected deficit of \$101.2 million per year. To address the deficit, the Ohio Highway Patrol reduced expenditures, and commercial vehicle registration and other minor fees were increased.



Oregon

Through a 1980 ballot initiative, voters eliminated gas tax revenue as a funding source for the Oregon State Police.

Since then, there have been several unsuccessful attempts to establish replacement funding. Leading ideas were:

- Beer and wine tax
- Surcharge on auto insurance premiums

The Oregon State Police has suffered a decline in funding. The state now employs less than half the troopers it did in 1981.



Idaho

In 2011, the state examined alternative funding options to the gas tax. These included:

- Vehicle insurance surcharge
- Vehicle registration fee increase
- Local and wireless access line surcharge
- Tire fee
- Dedicated sales tax on transportation items

As of October 2016, Idaho had not passed any of the proposed bills that would end state police funding from the Highway Fund.

Half of Idaho citizens polled supported a \$1-2 surcharge on auto insurance premiums to fund the Idaho State Police.

(2011 telephone survey of 315 residents) 23

Implications for Pennsylvania



Pennsylvania Needs to Find Workable Funding Solutions

Based on the NCSL survey and additional research, nearly all of the state police funding sources considered by other states involve taxes and fees related to motor vehicle transportation—sources that are already used in Pennsylvania for transportation purposes.

There are a few other extremely narrow measures (e.g., surcharges on citations, fee collections for criminal background checks) that are dedicated to specific state police expenses. These measures, too, are already substantially employed in Pennsylvania.

A Dedicated Funding Source is Essential

The experience of other states confirms that Pennsylvania needs to establish a dedicated funding source for the PSP to replace the amount no longer coming from the Motor License Fund. Otherwise, the PSP will be under continuous budget pressure as it competes with many other demands for General Fund dollars.

Further, in light of the experiences of other states and Pennsylvania's substantial transportation network and improvement needs, it would be prudent to avoid transportation-related fees if possible.

Executive Summary

1 **Study Objectives
and Scope**

2 **Background**

3 **The National
Experience**

4 **Funding Gap
Closure Options**

5 **Conclusion**

Introduction to Funding Options

Options for funding the Pennsylvania State Police were considered in relation to the study approach highlighted below:

1. Investigate how other states fund their state police as well as measures they have considered.
2. Examine Pennsylvania's existing taxing system as well as recent budget and fee proposals.

Research on Other States

Ultimately, nearly all of the funding sources implemented or considered by other states are already used in Pennsylvania.

Budget Proposal Reviews

Governor Tom Wolf's last two Executive Budget Proposals identified potential funding sources. The supporting data in the proposals included revenue history and projections for every state revenue source, the costs in terms of lost revenue of various tax credits, and the assignment and disbursement of monies among many special funds in the Commonwealth Budget.

The budget plans also included proposals for additional revenues.

It bears noting that a primary objective of the Governor's additional revenue proposals was to enhance the Property Tax Relief Fund, not to replace MLF monies for the PSP.

Municipal Police Coverage

Finally, the identification of funding options included examining a potential funding source that has been proposed at least since the late 1990s: assessing a fee upon municipalities that use the PSP for primary police coverage.

Full list of funding options initially considered (page 1 of 3)

Type of Tax	Description	Revenue in Millions	Advanced for Further Consideration?
Personal Income Tax	3.07% of income.	\$12,561	Yes
Business Taxes			Increases in existing business taxes were not considered because of the prevailing interest in enhancing Pennsylvania's competitiveness.
Corporate Net Income	9.99% of net income.	\$2,843	
Gross Receipts	A percentage of sales of electricity, telecommunications, and intrastate freight shipments.	\$1,301	No
Insurance Premiums	A percentage of gross value of insurance premiums. Base is 2%.	\$63	No
Financial Institutions	A percentage of the taxable amount of capital stock.	\$331	No
Utility Property	An annually variable millage rate on the value of real property owned by utilities.	\$40	No
Severance Tax on Natural Gas	No tax in place. Various proposals have been made.	NA	Yes

Full list of funding options initially considered (page 2 of 3)

Type of Tax	Description	Revenue in Millions	Advanced for Further Consideration?
Consumption and Related Taxes			
Sales and Use Tax	6% on most goods and selected services	\$9,842	Yes
Cigarette Tax	Recently raised by \$1.00 to \$2.60 per pack	\$916	No. No room for further increase at this time.
Liquor Tax, including wine	18%	\$346	No. Already highly taxed, and sold almost exclusively through the State Store system.
Malt Beverage Tax	8 cents per gallon, same as in 1947	\$25	Yes
Tire Fee	\$1.00 per tire, dedicated to Public Transportation Assistance Fund (PTAF)	\$116 from the Tire Fee, Motor Vehicle Lease Tax, and Motor Vehicle Rental Fee combined.	No. Already earmarked
Motor Vehicle Lease Tax	3%, dedicated to PTAF	\$116 from the Tire Fee, Motor Vehicle Lease Tax, and Motor Vehicle Rental Fee combined.	No. Already earmarked
Motor Vehicle Rental Fee	\$2.00 per day, dedicated to PTAF	\$116 from the Tire Fee, Motor Vehicle Lease Tax, and Motor Vehicle Rental Fee combined.	No. Already earmarked

Full list of funding options initially considered (page 3 of 3)

Name of Fund	Description	Revenue into Fund (\$ millions)	Advanced for Further Consideration?
Special Funds			
Lottery Fund	Lottery proceeds. Disbursed to programs that benefit older Pennsylvanians.	\$1,881	No. Sustainability of Lottery Fund for meeting projected program needs is in question. Also, “benefits older Pennsylvanians” is an integral part of the Lottery brand.
Gaming Fund	Taxes on games revenues and licensing fees. Various operations and programs have disbursements set-aside. Most revenues to Property Tax Relief Fund.	\$1,030 total \$760 to Property Tax Relief \$27 to PSP	Yes
Motor License Fund	Oil Company Franchise Taxes, Registration and License Fees	\$2,655	No. Does not preserve MLF for transportation projects.
State Stores Fund	Net income on sales at State Stores Liquor Taxes	\$742 after funding LCB \$30 to PSP \$700 to General Fund	Yes

Options Summary

Seven options for closing the PSP funding gap appear to warrant further analysis.

1. **Personal Income Tax Rate Increase**
2. **Sales Tax Rate Increase**
3. **Municipal Policing Fee**
4. **Sales Tax Base Expansion**
5. **Natural Gas Severance Tax**
6. **Excise or Other Targeted Taxes**
7. **Gaming Fund Allocation**

Highlights of each option are presented in the summary tables beginning on the next page, with more detailed discussion following.

Note that the revenue estimates, much like the \$350 million estimated target for the funding gap, are somewhat rough approximations. For this early and exploratory investigative review, general estimates of revenues and funding needs are sufficient to assess the merits of the various funding options.

Options Summary

1. Personal Income Tax (PIT) Rate Increase

Current Status	Revenue Potential	Pros	Cons
<ul style="list-style-type: none"> PIT rate is currently 3.07%. Revenues are approximately \$13 billion. Relatively low compared to neighboring states. 	\$430 million for every tenth-of-a-point increase.	<ul style="list-style-type: none"> High revenue potential. Broad-based, like PSP services. 	<ul style="list-style-type: none"> No certainty of long-term funding stream dedicated to PSP.

2. Sales Tax Rate Increase

Current Status	Revenue Potential	Pros	Cons
<ul style="list-style-type: none"> Rate is currently 6%. Revenues are approximately \$10 billion. Compared to neighboring states, rate is similar but Pennsylvania's overall tax burden is lower. 	\$180 million for every tenth-of-a-point increase.	<ul style="list-style-type: none"> High revenue potential. Broad-based, like PSP services. 	<ul style="list-style-type: none"> More modest growth forecast than PIT. Sales tax in general tends to be regressive.

Options Summary

3. Municipal Policing Fee

Current Status	Revenue Potential	Pros	Cons
Approximately 1,280 municipalities rely solely on PSP for local policing at no cost to the municipality.	\$100 per capita fee on municipalities with no full-time police would generate up to \$250 million if assessed on all, or \$138 million if assessed only on municipalities with population > 3,000.	<ul style="list-style-type: none"> Restores some equity for allocating PSP costs (with all benefitting communities having to pay some cost for the benefit received). 	<ul style="list-style-type: none"> Link of fee assessment to service cost and benefit is difficult to make with any precision. How municipalities will get the revenues to pay the fees is an issue. Some are constrained by limited taxing authorities. Can't predict revenues because some municipalities may opt to provide/contract for municipal police service. Possibilities for fee avoidance.

4. Sales Tax Base Expansion

Current Status	Revenue Potential	Pros	Cons
Some products, and most services, are exempted from sales tax.	\$268 million from a tax on Amusement and Entertainment. \$86 million from a tax on candy and gum.	<ul style="list-style-type: none"> High revenue potential. Broad-based, like PSP services. 	<ul style="list-style-type: none"> No certainty of dedication to PSP—the feasibility/legality of statutory earmarking would have to be considered.

Options Summary

5. Natural Gas Severance Tax

Current Status	Revenue Potential	Pros	Cons
<ul style="list-style-type: none"> PA assesses an impact fee on natural gas extraction but no severance tax. Other states assess a severance tax, and have higher effective tax rate than PA. 	\$517 million revenue estimated for a 6.5% tax.	<ul style="list-style-type: none"> High revenue potential. Much of tax burden falls outside of PA. 	<ul style="list-style-type: none"> Long-term revenue sustainability is uncertain. Arguably, a more appropriate dedicated funding source for other purposes (e.g., environmental protection, rural economic development).

6. Excise or Other Targeted Taxes

Current Status	Revenue Potential	Pros	Cons
<ul style="list-style-type: none"> Malt beverage tax, for example, is among lowest of all states. Has been 8 cents/gallon since 1947. Other products or services could be considered. 	\$40 million for an increase to 20 cents per gallon (national median rate).	<ul style="list-style-type: none"> Readily dedicated to a specific state police expenditure category. 	<ul style="list-style-type: none"> A fixed fee, so tax grows only as fast as product sales, unless fee would be indexed.

7. Gaming Fund Allocation

Current Status	Revenue Potential	Pros	Cons
Out of \$1.04 billion in disbursements, PSP receives \$27 million for services directly related to legalized gambling.	\$760 million residual after mandated disbursements are transferred to the Property Tax Relief Fund.	<ul style="list-style-type: none"> A relationship to the PSP function: protection of property. 	<ul style="list-style-type: none"> Tax burden falls on residential property. No change in tax burden for non-residential property owners.

Considerations at a Glance

See the following page for a detailed key to the six considerations.

Strength of option with regard to consideration: Stronger    Weaker

Funding Option	Revenue Potential	Revenue Growth	Revenue Certainty	Tax Burden	Relationship to Function	Administration and Compliance
1. Personal Income Tax Rate Increase	Stronger	Stronger	Medium	Stronger	Medium	Stronger
2. Sales Tax Rate Increase	Stronger	Medium	Medium	Medium	Medium	Stronger
3. Municipal Policing Fee	Medium	Weaker	Medium	Medium	Stronger	Medium
4. Sales Tax Base Expansion Amusement & Recreation, Candy & Gum	Stronger	Medium	Medium	Medium	Medium	Medium
5. Natural Gas Severance Tax	Medium	Stronger	Weaker	Stronger	Weaker	Stronger
6. Excise Tax on Beer	Weaker	Medium	Medium	Medium	Medium	Stronger
7. Gaming Fund Allocation	Medium	Medium	Medium	Medium	Medium	Stronger

Interpreting the Ratings

The color-coding on preceding chart interpreted more completely:

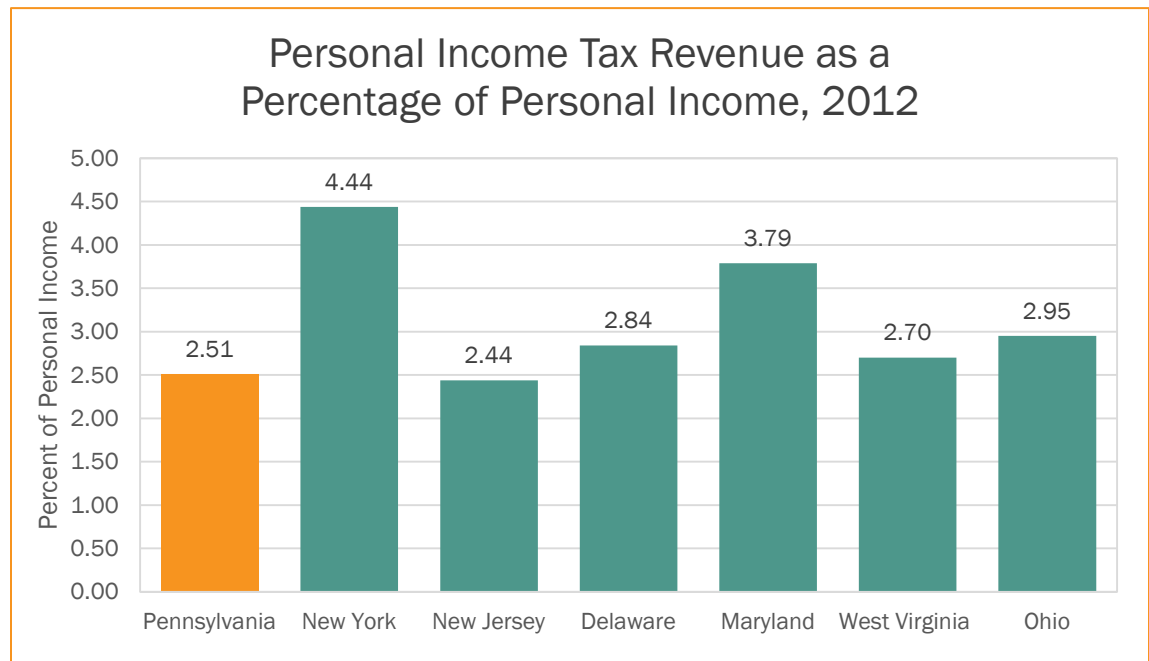
Revenue Potential	Revenue Certainty	Relationship to PSP Function
Can feasibly meet the funding gap in its entirety while keeping a tax increase/reallocation within a reasonable bound.	A reliable funding stream for the PSP. Natural fluctuations are minimal and dedication to PSP funding is reasonably secure.	The amount paid bears a close relationship to the amount of service received from and/or cost incurred by the PSP.
Could meet most of the funding gap, or could meet all of the funding gap if used to its extreme capacity.	Some natural fluctuations due to market and economic variations and/or reasonably secure dedication to PSP funding.	The amount paid bears some relationship to the service received and/or cost incurred by the PSP.
Useful to dedicate to one or a few specific functions, or as part of a package of options.	Considerable uncertainty due to market volatility, uncertainty of fee-paying basis, or inability to dedicate funding.	The amount bears little to no relationship to the service received and/or cost incurred by the PSP.
Revenue Growth	Tax Burden	Administration & Compliance
Inherent growth potential to keep up with reasonable increase in PSP costs.	Tax/fee is paid most by those with most ability to pay or is largely borne outside of Pennsylvania.	Can be administered with minimal to no changes in existing system. Minimal to no compliance concerns.
May keep up with reasonable increase in PSP costs.	The tax is moderately regressive but no more so than the existing state sales tax system.	A moderate additional administrative effort is required to implement the funding source.
Not likely to grow at rate of increase of PSP costs.	The tax particularly affects those with least ability to pay or ability to adjust purchasing patterns to minimize the tax.	Significant administration burden and/or concerns with non-compliance.

Options Analysis

1. Personal Income Tax Rate Increase

Background

The personal income tax (PIT) is levied against the taxable income of resident individuals, estates and trusts, partnerships, S corporations, business trusts, and limited liability companies that are not taxed as corporations for federal purposes. Pennsylvania taxes eight classes of income: (1) compensation; (2) net profits; (3) net gains on income from dispositions of property; (4) net gains on income from rents, royalties, patents, and copyrights; (5) dividends; (6) interest; (7) gambling and lottery winnings; and (8) net gains on income derived through estates or trusts. Pennsylvania does not tax pension or social security income. Tax forgiveness provisions exist for low wage earners.



Source: Pennsylvania Independent Fiscal Office, *State and Local Taxes: A Comparison Across States*, March 2015.

Revenue data are for FY 2012-13 and income data are for calendar year 2012. Local personal income tax payments are included.

“Personal income” for this analysis includes net capital gains income, as well as pension and IRA distributions. It excludes employer contributions to pension plans and imputed interest.

Options Analysis

1. Personal Income Tax Rate Increase, continued

Revenue Potential

The personal income tax has very high revenue potential. Each tenth of a point increase in the PIT rate could generate approximately \$430 million in additional tax revenue, which exceeds the targeted funding gap by nearly \$80 million.*

When measured in terms of total revenue as a percentage of total personal income, Pennsylvania's income tax burden as of 2012 was lower than that of all neighboring states except New Jersey; 20 U.S. states had higher income tax burdens. An increase of one or two tenths of a percentage point is unlikely to change this relative ranking.

Revenue Growth

Personal income tax revenue grows in step with population and economic growth. For this reason, it could, on average, over the long term keep up with PSP costs, provided those costs do not increase faster than the rate of growth of the state economy.

Revenue Certainty

As a small percentage increase to an existing tax, revenues from a PIT increase can be projected with reasonable certainty, particularly for the near term. However, revenues fluctuate with economic conditions. Raising a broad tax such as the personal income tax provides no assurance that future revenues will continue to be dedicated to funding the PSP.

Tax Burden

An increase in the personal income tax would affect earners in the middle income brackets the most. High earners are more likely to itemize deductions and therefore be able to deduct the state tax from their federal taxable income. Tax forgiveness provisions for low-wage earners and exemptions for social security and pension payments shield low-wage earners and many older Pennsylvanians from the full effects of a personal income tax increase.

*Based on Independent Fiscal Office analysis of Governor's 2015/2016 Budget Proposal.
Source: Matthew Knittel, Independent Fiscal Office Testimony Before the Senate Finance Committee. June 10, 2015.

Options Analysis

1. Personal Income Tax Rate Increase, continued

Relationship to Function

As a broad-based tax levied on nearly all Pennsylvanians, the personal income tax bears a very general relationship to the public safety and protection services provided by the PSP.

Administration and Compliance

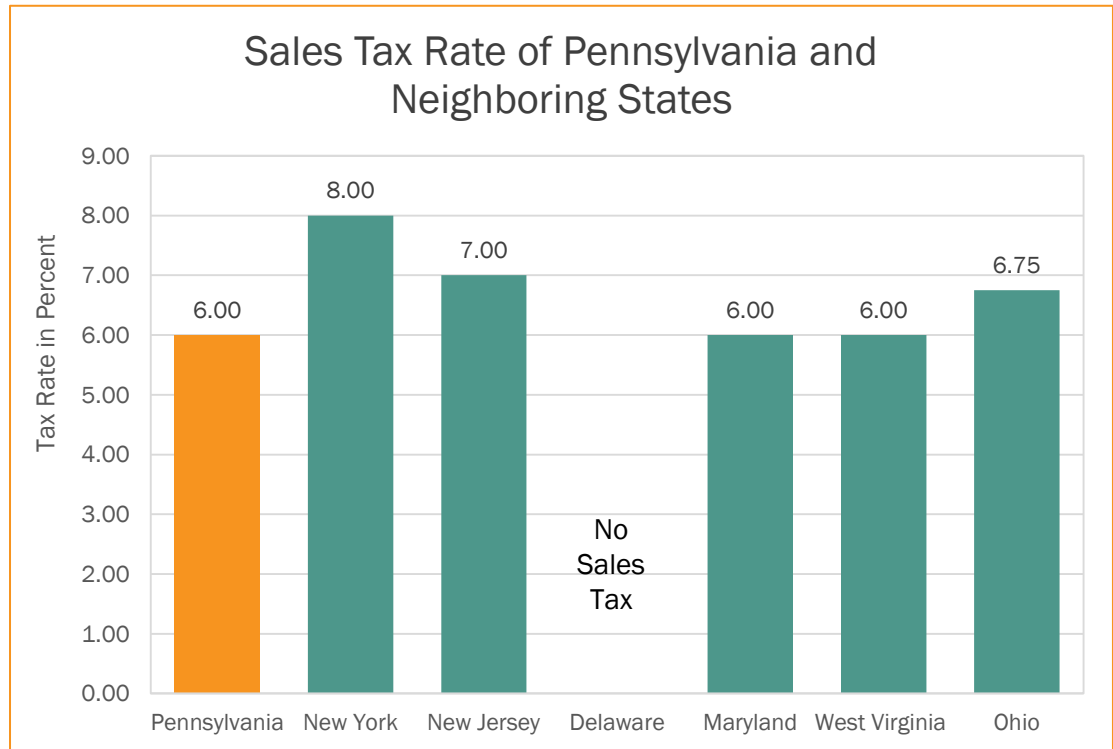
There are essentially no administration and compliance concerns with raising the personal income tax rate since it changes no procedures and it produces at most a negligible increase in the incentive for tax avoidance.

Options Analysis

2. Sales Tax Rate Increase

Background

Pennsylvania levies a 6% tax on the value of certain goods and services sold in Pennsylvania or purchased by Pennsylvania residents for use in Pennsylvania. In most cases the tax is collected by the vendor at the place of purchase. Pennsylvania exempts many purchases that are regarded as basic to living, including food for home consumption, clothing, personal hygiene products, and prescription and non-prescription drugs.



Note: Allegheny County levies a 1% and Philadelphia levies a 2% tax. The sales tax in New York City is 8.875%. In two neighboring West Virginia counties it is 7%, and in two neighboring Ohio counties it is 7.25%.

Options Analysis

2. Sales Tax Rate Increase, continued

Revenue Potential

There is significant revenue potential from a small percentage increase in the sales and use tax. In 2015 the PA Independent Fiscal Office estimated that every tenth of a point increase in the sales tax would generate approximately \$180 million in tax revenue.* An increase to 6.2% from the current 6.0% could be expected to more than fill the \$350 million PSP funding gap.

Pennsylvania's sales tax rate is roughly comparable to its neighboring states, as shown on the preceding chart.

The chart on the following page displays a comparison across neighboring states of total sales tax revenue as a percentage of total personal income. The tax revenues reflected in the percentages include local sales taxes.

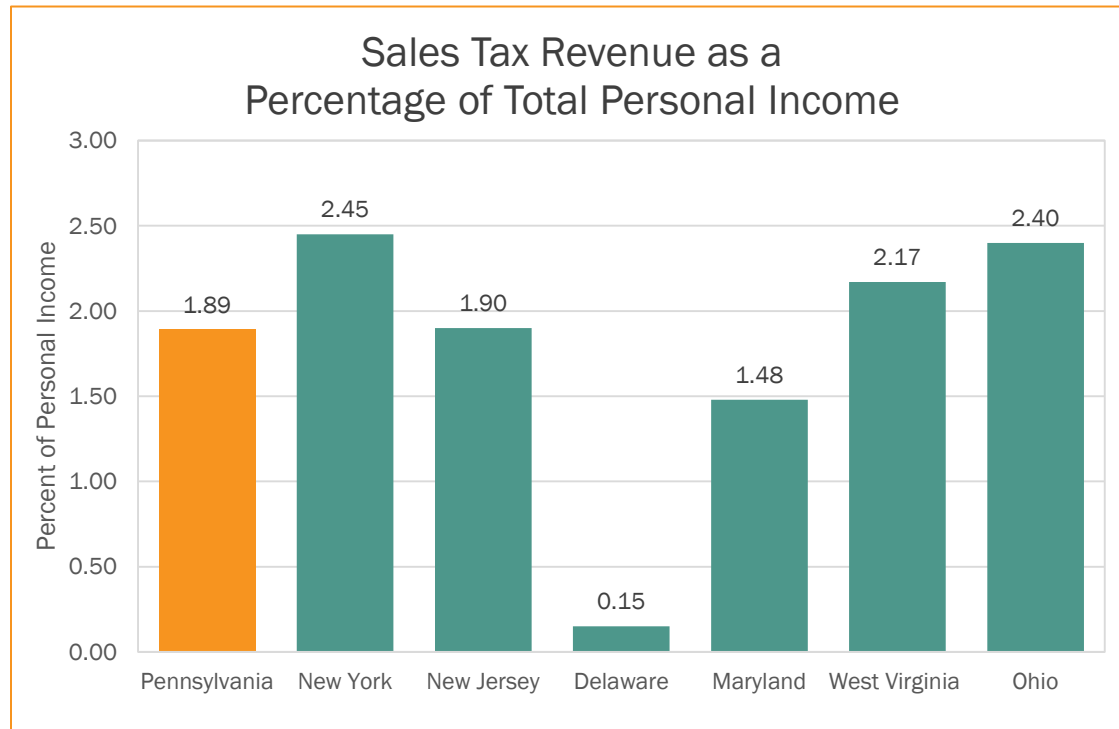
Partly because Pennsylvania exempts many categories of products and nearly all services, its sales tax burden is lower than that of all neighboring states except Maryland and Delaware.

Pennsylvania's sales tax burden ranks 11th-lowest of all states in the U.S. An increase of two-tenths of a percentage point would have little to no effect on this relative ranking.

*Based on Independent Fiscal Office analysis of Governor's 2015/2016 Budget Proposal.
Source: Matthew Knittel, Independent Fiscal Office Testimony Before the Senate Finance Committee. June 10, 2015.

Options Analysis

2. Sales Tax Rate Increase, continued



Source: Pennsylvania Independent Fiscal Office, *State and Local Taxes: A Comparison Across States*, March 2015.

Note: Tax revenues used in computing percentages include local sales taxes. Some other states also have local sales taxes.

Revenue Growth

The sales tax has a built-in tendency to increase because it is tied to population and economic growth. However, sales tax revenue growth could be constrained by changes in purchasing patterns—such as increased shopping online and avoidance of use tax—and by a potential decline in the share of income spent on taxable items. The Pennsylvania Independent Fiscal Office’s (IFO) near-term revenue projections for sales tax revenue indicate approximately 3.3% annual growth, less than the 4½+% growth projected for personal income tax revenue.

Options Analysis

2. Sales Tax Rate Increase, continued

Revenue Certainty

As a small percentage increase to an existing tax, revenues from an increase in the sales tax rate can be projected with reasonable certainty, particularly for the near term. However, revenues fluctuate with economic conditions and consumer preferences. New legislation could require that a certain percentage of all sales and use tax revenues be reserved for a State Police Fund. There is precedent for such a set-aside in the form of the Public Transportation Trust Fund, which receives 4.4% of sales and use tax revenues.

Tax Burden

The sales tax burden falls disproportionately on persons in lower income brackets who generally spend a larger proportion of their income on the purchase of goods. Pennsylvania does mitigate this tendency somewhat by exempting purchases that are regarded as basic to living.

Relationship to Function

As a broad-based tax levied on a large proportion of retail spending in Pennsylvania, the sales tax bears some general relationship to the public safety and protection services provided by the PSP. However, the distribution of the tax burden bears no particular relationship to the costs incurred by the PSP.

Administration and Compliance

There are essentially no administration or compliance concerns with raising the sales tax rate because it changes no procedures, and a two-tenths-point increase in the rate should produce little incentive for tax avoidance.

Options Analysis

3. Municipal Policing Fee

Background

Approximately half of Pennsylvania municipalities, encompassing 20% of the state's population, rely solely on the PSP for police coverage. Another 16% of municipalities and 7% of the population rely on the PSP for part-time police coverage. With increasing municipal policing costs, more municipalities are considering dropping or reducing their police departments and increasing their reliance on the PSP. The issue has been a topic of government inquiry and proposed legislation for many years. In the late 1990s Governor Ridge proposed assessing a \$102 per capita fee on municipalities with more than 9,000 residents that rely on the PSP.

Partly in response to this fee proposal, House Resolution 167 of 1997 established a Task Force to study the cost, effectiveness, and equity of alternative means of providing law enforcement within Commonwealth municipalities.*

In recent years, Representative Mike Sturla introduced legislation in multiple sessions that would assess a per-capita fee of \$156 on municipalities with no local police and \$52 on those that rely on the PSP part time.

A review of police budgets for 11 sampled municipalities found a range of \$187 to \$421 in budget per resident. Seven of the 11 sampled were in the range of \$350 to \$421 per resident.

These costs provide context for viewing proposed fee levels. They reflect costs of what is presumably a much higher level of service than what is enjoyed by citizens without their own local police force.

As a partial measure to redress the imbalance in PSP service costs and cost recovery, SB 237 of FY 2011-12 changed the distribution of fine revenues to make municipalities ineligible for fine-sharing if they had a population greater than 3,000 and provided less than 40 hours per week of local police services. The new revenues were originally designated for training new PSP cadet classes, but they have since been allocated to the General Fund.

*PA Local Government Commission. *Report of the House Resolution 167 Task Force: Recommendations on Improving Local Policing*. September 1999.

Options Analysis

3. Municipal Policing Fee, continued

According to the PA Local Government Commission, a service fee schedule for policing services, such as a fee per incident, would be unworkable and inequitable, leaving a per-capita fee as the only practicable recovery mechanism.* Imposing a fee on municipalities does not actually create a revenue stream; it merely shifts the funding burden to the local level. Many municipalities may be constrained in their local tax-enabling authority to raise the taxes to cover these fees.

An increase to the authorized Local Services Tax maximum from the current \$52 could be considered as a parallel action along with instituting a per-capita PSP coverage fee.

*PA Local Government Commission. *Report of the House Resolution 167 Task Force: Recommendations on Improving Local Policing*. September 1999.

Revenue Potential

A fee of \$100 per capita was used to calculate potential revenue, primarily because the revenue results are simple to extrapolate to other fee levels. Using the current population of municipalities without their own full-time police, a fee of \$100 per capita would yield approximately \$250 million. If limited to those municipalities larger than 3,000 residents, the revenues would be about \$138 million.

Revenue Growth

Revenues from a fixed fee per capita have no potential to keep up with PSP cost increases; an indexed fee would be required to allow revenue growth.

Revenue Certainty

It is difficult to predict how many municipalities would continue to use the PSP full time if a fee were levied. For example, some might conclude that the benefits of having a fully functional local police presence are worth the cost. Some municipalities might elect to avoid the fee by contracting for or establishing some minimal police service that is just sufficient to meet the fee threshold.

Options Analysis

3. Municipal Policing Fee, continued

Tax Burden

Assessing a fee for local PSP coverage would help balance the current inequity in which all Pennsylvanians support the PSP while those without local police coverage enjoy more of the benefits and drive up the costs of the PSP. Exempting municipalities with less than 3,000 residents follows a precedent established with the fine-sharing provisions of SB 237. However, there is no clear equity basis for not asking residents of those municipalities to also share in the costs.

Relationship to Function

The general concept of such a fee is highly linked to the functions of the PSP, and far exceeds all the other funding options as measured against this consideration. In practice and at a finer level, it is inherently difficult to tie a fee to the amount of service provided. Some municipalities will receive more service than others yet all will pay the same fee per capita. Assessing a fee for part-time service is especially problematic, as there is a great range among local police departments in how much coverage they provide at different hours of the day and days of the week.

Administration and Compliance

A per-capita fee would be straightforward to administer. In the strictest sense, compliance is not a concern. However, assessing a fee sets up strong incentives for avoidance, in both positive and negative ways. While more municipalities may decide that it is worth the cost to establish or expand their local police, some municipalities may attempt to meet the absolute minimum requirements in order to avoid the fee. It is very challenging to set up a fee schedule that fairly allocates costs and also provides incentives for desirable decisions by municipal leaders regarding resources to devote to local policing.

Options Analysis

3. Municipal Policing Fee, continued

Unintended Consequences

Municipalities that pay the fee may begin to see themselves as “customers” of the PSP, with an expectation of a particular level of service that a customer–supplier relationship often entails.

A municipality may establish a minimal local police presence to avoid the fee, yet have substantial coverage gaps (insufficient staff, minimal hours) that impose a continued elevated burden on PSP to fill in those gaps.

Options Analysis

4. Sales Tax Base Expansion

Background

A number of goods, as well as most services, are exempt from the sales and use tax.

Revenue Potential

The Pennsylvania Independent Fiscal Office (IFO) analyzed the sales tax base expansion proposals in the Governor's proposed FY 2015-16 budget. The budget proposal would have extended the sales tax to a number of goods, including candy and gum, personal hygiene products, and non-prescription drugs. It estimated FY 2016-17 tax revenues from non-prescription drug sales of \$147 million, followed by \$86 million on candy and gum sales.

Another expansion possibility not included in the Governor's proposal is to tax footwear and clothing over a certain price, to distinguish luxury clothing from necessity clothing. New York exercises this distinction in its sales tax exemption.

The revenue potential from relaxing the clothing exemption is unknown. The estimated total revenue foregone due to the exemption of all clothing and footwear is \$784 million.

The Governor's budget also proposed to extend the sales and use tax to a large number of services. The IFO estimated the sales tax revenues from the base expansion to each of the services, as shown in the table on the following page.

The Budget Act of 2016 did extend the state sales tax to basic cable. Taxing Amusement and Entertainment services is projected to yield nearly \$270 million, which would meet a substantial portion of the PSP funding gap of \$350 million. As a discretionary expenditure, this category makes a far better option for taxing than the other top revenue source, Nursing and Home Health Care. The small revenue sources are undesirable options because the added administrative burden of taxing previously untaxed transactions is large relative to the revenue gained.

Options Analysis

4. Sales Tax Base Expansion, continued

Some categories (personal care services such as hair care) are challenging for tax imposition because they involve a very large number of small businesses and there is considerable ease of tax avoidance. It should be noted that the amusement tax is one of a limited number of revenue tools available to local jurisdictions, and many of them do make use of it, particularly those that host a major regional attraction.

Source: PA Independent Fiscal Office. *Analysis of Revenue Proposals, FY 2015-16 Executive Budget*. April 2015.

Note: IFO estimates used a 6.6% tax rate; estimates are adjusted to a 6% tax rate.

Estimated Revenue from Expanding Sale Tax to Services

Service Type	Category	Projected Revenue (\$ million)
Nursing and Home Health Care	Health Services	392
Amusement and Entertainment	Recreation	268
Basic Cable (newly taxed as of FY 2016-17)	Recreation	217
All other recreation	Recreation	186
Real Estate Agent and Related	Professional	180
Legal	Professional	150
Meals and Activity Fees for Education	Misc Services	129
Day Care	Health Services	108
Waste Management and Remediation	Misc Services	102
Personal Care	Personal	98
Social Assistance	Health Services	82
Veterinary Fees	Professional	57
Parking Facilities	Personal	45
Other Personal (haircut, diet)	Personal	43
Agents and Promoters	Professional	41
Funeral Parlor and Cremation	Personal	40
All other professional services	Professional	40
Accounting, Auditing, and Design	Professional	36
Dry Cleaning and Laundry	Personal	34
Administrative	Business	29
Investment Services	Professional	14
Scenic, Sightseeing, and Towing	Misc Services	10
Advertising and Public Research	Business	5

Options Analysis

4. Sales Tax Base Expansion, continued

Revenue Growth

Most of the categories have inherent potential to grow along with the state's economy in general. In fact, IFO near-term projections (up to FY 2019-20) for the sales tax revenues from these categories show higher growth rates than for the existing state sales tax revenue.

Revenue Certainty

Sales tax revenues can be allocated on a percentage basis to a particular fund (the Public Transportation Trust Fund is an example). However, it is not possible to tie a taxable item or category of items to a particular fund. Therefore, sales tax base expansion by itself offers no future funding certainty to the PSP.

Tax Burden

Candy and Gum and Amusement and Entertainment are selected for further initial consideration because the expenditures are highly discretionary. Nonetheless, taxes on these categories would still be regressive because persons of lower income spend a relatively greater proportion of their income on these purchases.

Relationship to Function

The goods and services that are currently exempted bear no particular relationship to the functions of the PSP. Tax base expansion is regarded as neutral with respect to this consideration.

Administration and Compliance

Candy and gum are readily added to the sales tax rolls with essentially no administration and compliance concerns. Likewise for amusement and entertainment. Many such establishments would already be collecting and remitting sales taxes since they are likely selling food and beverage for on-premises consumption. Any other service category additions could require considerably more administrative resources.

Options Analysis

5. Natural Gas Severance Tax

Background

Act 13 of 2012 established impact fees assessed to drillers of natural gas wells in the Marcellus shale regions of Pennsylvania. The fee is assessed on a per-gas-well basis. Collections were projected to be approximately \$187 million in FY 2015-16. Unlike nearly all of the other large gas-producing states, Pennsylvania does not levy a severance tax on the production of the resource. A severance tax is typically levied on some measure of the quantity and/or value of the resource produced. Governor Wolf proposed a severance tax on natural gas in the last two executive budgets. The most recent proposal was for a 6.5% tax on the value of production. Impact fees would remain; the impact fee collections would be credited against the producer's severance tax bill.

Revenue Potential

The Pennsylvania Independent Fiscal Office (IFO) estimated that the 6.5% severance tax would yield a net revenue gain of approximately \$517 million in the first full year, after accounting for impact fee credits and a decrease in production due to the higher price. The IFO also estimated lifetime effective tax rates for Pennsylvania and other gas-producing states and found that a 6.5% severance tax would cause Pennsylvania to go from being the state with the lowest severance tax rate to the state with the highest severance tax rate. A tax rate lower than 6.5% would have less impact on Pennsylvania's competitive position and would in turn yield less than the estimated \$517 million.

Revenue Growth

The IFO severance tax analysis conducted in April 2016 projected rising production and prices for Pennsylvania natural gas through 2021. The compound annual growth rate for 2017 through 2020 was approximately 23%. This rate well exceeds the growth of other revenue sources and the recent historical growth in the PSP budget.

Revenue Certainty

There is considerable uncertainty in revenues from a tax that depends on volatile natural resource markets.

Options Analysis

5. Natural Gas Severance Tax, continued

Tax Burden

In the long run as markets adjust, the severance tax will be largely passed on to consumers of the gas. IFO's analysis estimated that approximately 80% of the gas will be consumed out of state.

Relationship to Function

Gas production and consumption bears virtually no relationship to the functions of the PSP. A severance tax on a natural resource would arguably be more appropriate for targeting to functions such as rural economic development and environment and resource conservation. On the other hand, to the extent that a severance tax would be dedicated to such functions, it could free up General Fund or other funding sources for allocation to the PSP budget.

Administration and Compliance

There are no particular administration or compliance concerns associated with a severance tax on natural gas production.

Options Analysis

6. Excise and Other Targeted Taxes

Background

Pennsylvania levies a variety of taxes and fees specific to a good or service, including cigarettes, liquor and wine, malt beverages, tires, and leasing and renting motor vehicles. In addition there are the taxes and fees dedicated to the Motor License Fund. The cigarette tax was recently raised a substantial amount, to \$2.60 per pack. Liquor and wine are taxed at 18% and are sold through the Liquor Control Board, which also generates operating income. The taxes and operating income are deposited into the State Stores Fund. The PSP received approximately \$30 million from this fund for the enforcement of the Liquor Code. Approximately \$600 million is transferred from the State Store Fund to the General Fund. The tire fee and the lease and rental fees are earmarked for the Public

Transportation Assistance Fund. The malt beverage tax is the one existing tax that offers the most potential as an additional funding source for the PSP. The current tax rate of 8 cents per gallon is among the lowest in the nation and is the same rate as it was in 1947.

Revenue Potential

An increase in the malt beverage tax to the national median tax rate of 20 cents per gallon could generate up to \$40 million. Neighboring states' tax rates range from 9 cents per gallon in Maryland (which also levies a 9% sales tax on beer) to 18 cents per gallon in West Virginia and Ohio. These differential tax rates are not sufficient to put Pennsylvania beer vendors near state borders at a competitive disadvantage under a 20 cents per gallon (40 cents per case) tax rate.

Another potential excise revenue source is a reallocation within the State Store Fund of some of the monies currently allocated to the General Fund. While not a new revenue source, the dedication of a larger amount of State Store Funds to the PSP would add a measure of certainty to future PSP funding streams. There is sufficient annual revenue flow from the State Store Fund into the General Fund (\$600 million) to cover the \$350 million funding gap, or even to also take on the existing \$257 million General Fund allocation to the PSP.

While by no means proposed and not even evaluated in this study, an apparent national trend toward the legalization and taxation of cannabis suggests that it may emerge as a potential PSP funding source at some time in the future.

Options Analysis

6. Excise and Other Targeted Taxes, continued

Revenue Growth

The malt beverage tax, as a dollars-per-unit tax rather than an ad valorem tax, has growth potential limited to the growth in volume of beer sold in the state. As ad valorem taxes, liquor and wine taxes should continue to grow roughly along with the economy, and in fact are expected to get a boost through the new legislation in 2016 that liberalizes the sale of wine.

Revenue Certainty

Malt beverage tax revenues can readily be dedicated to a State Police Fund. Tax receipts are fairly predictable.

Tax Burden

Beer and alcohol excise taxes are approximately as regressive as general sales taxes.

Relationship to Function

A case can be made linking the consumption of alcoholic beverages to a portion of PSP costs and to a portion of the benefits of PSP services.

Administration and Compliance

No new tax collection mechanisms would be required. There are no rate changes substantial enough to increase the incentives for non-compliance.

Options Analysis

7. Gaming Fund Allocation

Background

Proceeds from gambling sales tax revenues and license fees amount to more than \$1 billion per year. There are a number of mandated disbursements to various beneficiaries and funds from the Gaming Fund. The PSP currently receives approximately \$27 million to offset expenses incurred specific to enforcement and police protection at gambling establishments. The Gaming Act specifies that the balance after mandated disbursements is to be deposited into the Property Tax Relief Fund. Approximately \$760 million was deposited into this fund in FY 2015-16.

One option is to simply add to the disbursement already allocated to the PSP. A more extreme change to the current scheme would be to establish a certain disbursement to the Property Tax Relief Fund and allocate the excess to the PSP; in this way, the PSP would yield the growth over a baseline. For example, if a new gaming funding stream were added, such as Fantasy Sports, the PSP would essentially yield the revenues from the taxes and fees on this new activity.

Revenue Potential

It is difficult at this stage to estimate the potential funding that could be allocated from the Gaming Fund. The \$760 million transferred to the Property Tax Relief Fund delineates an extreme upper bound.

Revenue Growth

The growth potential would depend on how the allocation was set up.

Revenue Certainty

The certainty of the revenue stream would depend on how the allocation was set up. It could range from highly certain to highly uncertain.

Options Analysis

7. Gaming Fund Allocation, continued

Tax Burden

By reducing the allocation to the Property Tax Relief Fund, the reallocation to the PSP essentially imposes the funding burden on residential property owners and renters. This funding source has the same tax burden concerns as a property tax, namely, that the tax is not closely linked to the resident's ability to pay. Non-residential property owners would not be affected because the Property Tax Relief fund is not used to reduce taxes on non-residential properties.

Relationship to Function

Reallocation of Gaming Funds from the Property Tax Relief Fund is tied to the law enforcement and crime prevention functions of the state police to the extent that it is related to the value of property that is protected.

Administration and Compliance

There are essentially no administration and compliance issues with transferring monies among different state funds.

Executive Summary

1 **Study Objectives
and Scope**

2 **Background**

3 **The National
Experience**

4 **Funding Gap
Closure Options**

5 **Conclusion**

Perspectives for Policymakers

Transportation funding is essential for providing an infrastructure supporting Pennsylvania's economy and the personal safety and mobility needs of millions. Likewise, the Pennsylvania State Police also perform an essential function. Policymakers are faced with the leadership challenge of meeting both needs.

- Phasing PSP funding out of the Motor License Fund will help ensure additional resources for investing in our aging and extensive transportation system.
- The PSP funding need is clear. This is also an opportunity to better align PSP funding to non-transportation sources.
- If new sources are not identified for the money that will no longer be transferred from the Motor License Fund to the PSP, it will likely create additional pressure on the General Fund.
- A lack of dedicated funding for the PSP could lead to budget erosion, potentially weakening the safety and security services that can be provided.
- This report provided funding options as a starting point for policymakers, consistent with TAC's advisory function.
- A sustainable, dedicated funding source may require a **combination of options**, such as the illustrative options that follow.

Illustrative Funding Scenarios

There are myriad ways to combine the various options for funding the Pennsylvania State Police. Following are four scenarios illustrating how options might be combined into viable funding sources.

Note, however, that none of the revenue enhancements have meaning for funding the State Police unless there is also legislation creating a dedicated State Police Fund, similar to other Funds such as the Public Transportation Assistance Fund, and specifically identifying what revenues will be allocated to the Fund.

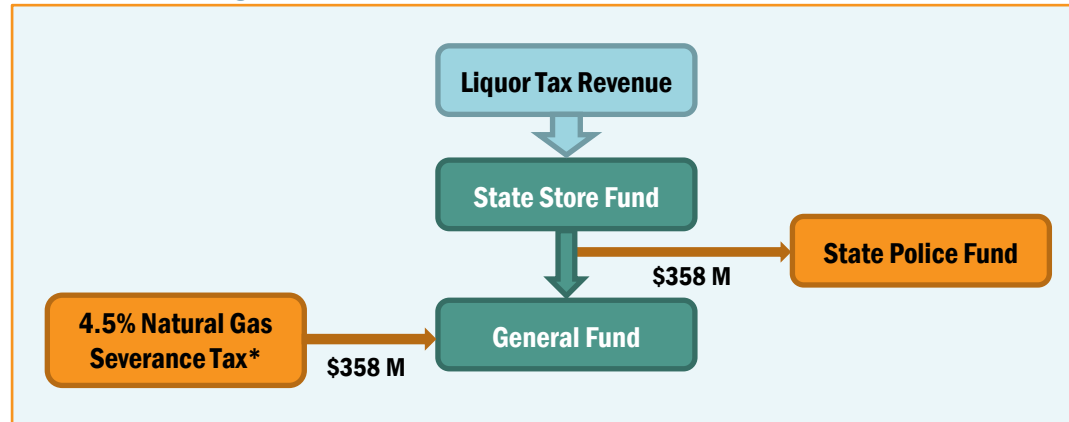
Illustrative Funding Scenario #1

Source	Projected Revenue
Sales tax on candy and gum	\$86 million
Increase in malt beverage tax by 12 cents per gallon	\$40 million
\$90 per capita municipal policing fee	\$226 million
TOTAL	\$352 million

Illustrative Funding Scenarios, continued

Scenario #2 illustrates how the gas severance tax might be used in combination with allocating to a State Police Fund some of the liquor revenues currently flowing to the General Fund (after passing through the State Store Fund). This scenario would yield \$358 million for a State Police Fund.

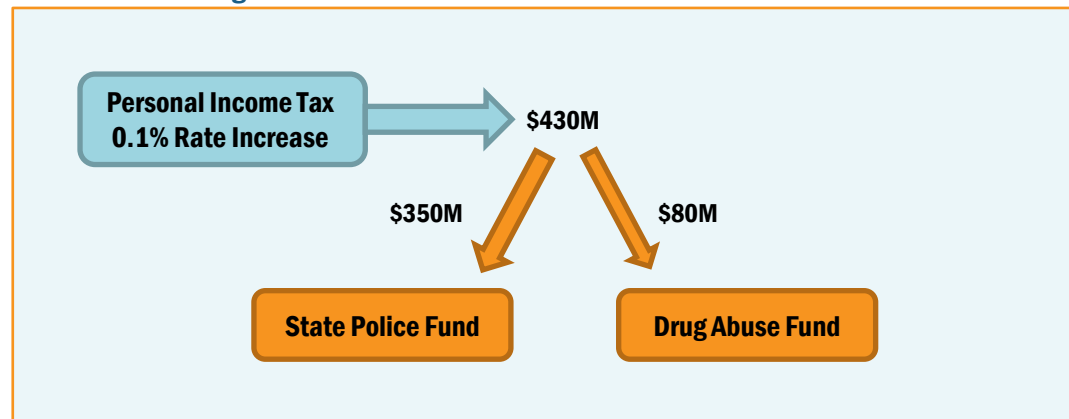
Illustrative Funding Scenario #2



*calculated by simply pro-rating IFO estimate for 6.5%; revenues should be higher due to more competitive price

Another example would be to raise the income tax for revenues for both a State Police Fund and a Drug Abuse Fund to address the opioid epidemic. A one-tenth of a percentage point increase in the Personal Income Tax rate would raise \$430 million, which could cover the \$350 million dollar gap plus provide \$80 million for a Drug Abuse Fund.

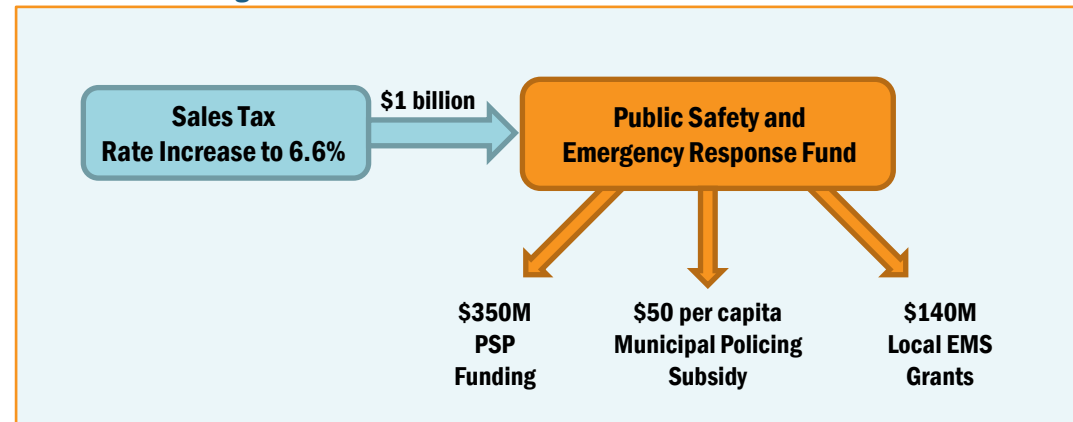
Illustrative Funding Scenario #3



Illustrative Funding Scenarios, continued

Another example would be to broaden the notion of the State Police Fund to a Public Safety and Emergency Response Fund. This fund could provide monies for the PSP and could provide disbursements to municipalities for local emergency response departments. The fund could also provide operating subsidies to municipalities that provide full-time police services. The subsidies would address the inequity in the current arrangement whereby many municipalities receive state police coverage while the others pay for their own local police. Further, by reducing the cost to field a local police force, the subsidies would encourage municipalities to provide for local policing.

Illustrative Funding Scenario #4



Sources

- Camp, Shannon. "Colonel Says Funding Cut Would 'Devastate' Idaho State Police." KTVB. February 5, 2016.
<http://www.ktvb.com/news/local/capitol-watch/colonel-funding-cut-would-devastate-isp/33476998>
- Department of Revenue, Commonwealth of Pennsylvania. *Tax Compendium December 2014*.
- Headlee, Paul. "Other States' Experiences with Raising Revenue for Their State Police." Presentation to Task Force to Identify Alternative Funding Sources. Idaho Legislative Services Office. August 11, 2009.
- Independent Fiscal Office. *Quarterly Revenue Estimates: Fiscal Year 2016-17*. August 2016.
- Independent Fiscal Office. *Analysis of Revenue Proposals: FY 2015-16 Executive Budget*. April 2015.
- Independent Fiscal Office. *Analysis of Revenue Proposals: FY 2016-17 Executive Budget*. April 2016.
- Independent Fiscal Office. *State and Local Taxes: A Comparison Across States*. Special Report 2015-01. March 2015.
- Joint Legislative Task Force to Identify Alternative Funding Sources for the Idaho State Police and the Idaho Department of Parks & Recreation, State of Idaho. *Idaho State Police Alternative Funding Recommendations*. January 2011.
- Knittel, Matthew, Director, Independent Fiscal Office. Testimony before the Senate Finance Committee. June 10, 2015.
- Legislative Budget and Finance Committee. *Police Consolidation in Pennsylvania*. September 2014.
- Local Government Commission, Pennsylvania General Assembly. *Report of the House Resolution 167 Task Force: Recommendations on Improving Local Policing*. September 1999.
- Office of the Governor, Commonwealth of Pennsylvania. *Governor's Executive Budget 2015-2016*. March 3, 2015.
- Office of the Governor, Commonwealth of Pennsylvania. *Governor's Executive Budget 2016-2017*. February 9, 2016.
- Ohio State Highway Patrol Funding Task Force. *Final Report: Task Force Recommendations*. June 2008.
- PennLive Editorial Board. "It's time for towns with free State Police protection to pay up." September 14, 2016.
http://www.pennlive.com/opinion/2016/09/its_time_for_towns_with_free_s.html
- Quinn, Katie. *State Highway Patrol Funding: FY 2015. DRAFT*. National Conference of State Legislatures. Denver, Colorado. DRAFT October 2016.
- Richards, Leslie S., Secretary, Pennsylvania Department of Transportation. Testimony Before the Senate Transportation Committee. February 16, 2016.
- Shickner, Neil. *Preliminary Report to the Legislature on the Allocation of Traffic Safety Enforcement Costs*. Vermont Joint Fiscal Office. November 2012.
- Zajac, Gary, and Lindsay Kowalski. *An Examination of Pennsylvania State Police Coverage of Municipalities*. Justice Center for Research at Pennsylvania State University. January 2012.