Achieving a sustainable budget for the Commonwealth of Pennsylvania

Pre-Decisional & Confidential

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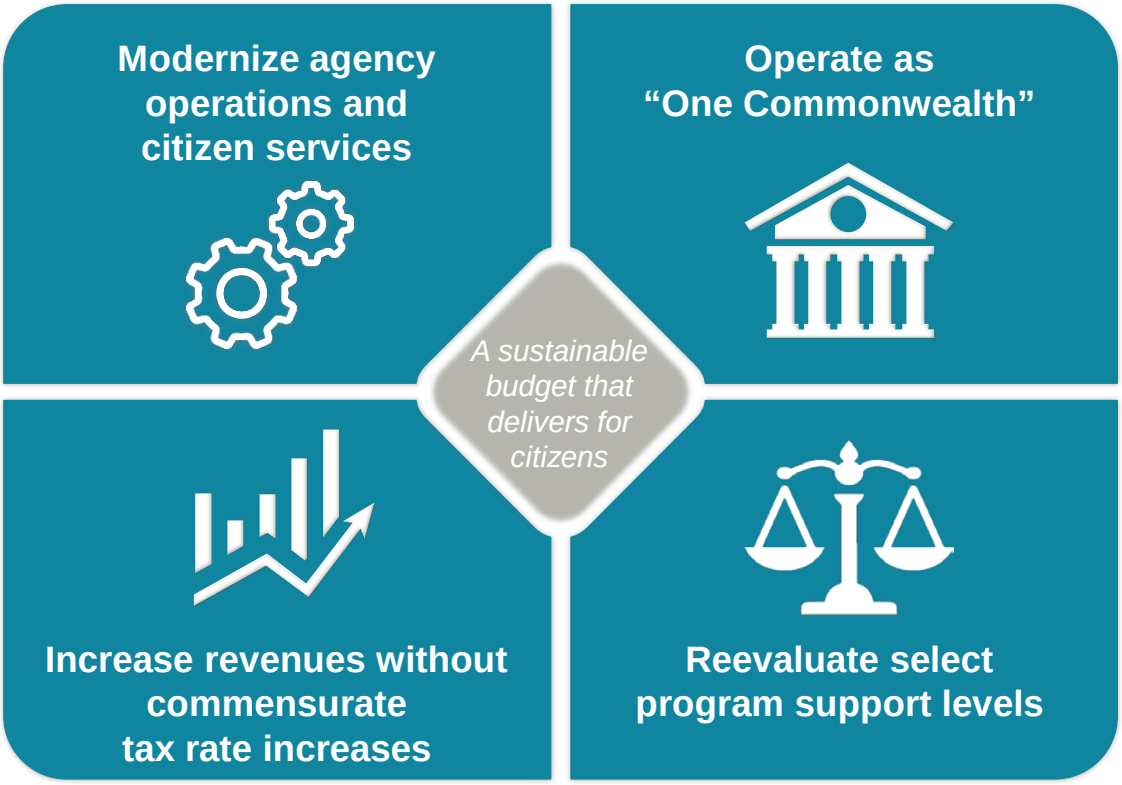
Contents

List of Exhibits

Sustainable budget improvement through government modernization



1 Executive Summary

1.1 INTRODUCTION

The Commonwealth of Pennsylvania commissioned this report to address a budget deficit driven by historically rising costs and revenue shortfalls in Pennsylvania's General Fund. The Commonwealth aims to close the budget deficit in the near-term, while modernizing government and moving toward a sustainable budget position in the long-term. This objective includes preserving high-value programs and improving services available to citizens. To achieve these goals, the Commonwealth seeks ways to modernize service delivery models and agency operations to improve efficiency and customer service simultaneously.

This report proposes options to reduce expenditures across management, administration, and operations, including third-party spending, real estate, facilities, assets, and labor. This report also offers ideas to increase revenue without commensurate increases in tax rates. In addition, this report provides external benchmarking information for select programmatic expenditures and makes reference to legislative and financial proposals put forward by the Administration or agency leadership. In some of these cases this report provides additional information and analysis to inform decision-making by the Administration but does not make explicit policy recommendations. This report builds on but does not independently assess management decisions the Administration has already made. The ideas put forward in this report were guided by the Commonwealth's objectives, including maintaining or improving service levels and minimizing furloughs. The report prioritizes cost-saving and revenue-generating ideas that could have an impact in FY17-18, but also examines longer-term and larger potential run-rate benefits. The report also focuses on clear returns associated with up-front investments.

Several sources inform this report, including: benchmarks of cost and staff productivity with peer states and comparable federal government or private sector organizations, best practices from other states and agencies, internal agency data, and interviews with agency leaders.

This report identifies initiatives across four themes that could reduce the deficit while enhancing service:

1) Modernize agency operations and citizen service through organizational and process improvements so that the Commonwealth can maximize programs and services delivered with available funds.
2) Operate as "One Commonwealth" through increased use of shared services (e.g., HR and IT), portfolio management of assets across agencies (e.g., facilities, fleet), and deployment of procurement best practices as led by a center of excellence.
3) Increase state revenue without commensurate increases in tax rates by improving Department of Revenue operations and by deploying best practices in state enterprises.
4) Reevaluate the level of Commonwealth support for select programs for private institutions and other public entities with respect to benchmarks and alternative funding models.

Taken together, these initiatives could result in ~$1.3 billion in deficit reduction in FY17-18 and FY18-19, potentially growing to ~$1.6 billion over the longer-term. To capture these opportunities, the Commonwealth could consider a three-phased approach. The initial phase could begin with immediate action to deliver near-term savings, while also setting a foundation for broader redesign of government services. To capture savings in FY17-18, the initial phase would need to: manage the costs of contracts for goods and services, manage attrition in roles that may be affected by service redesign and process improvements, and

monitor the implementation of operational changes in the revenue-generating organizations. Subsequent phases could further detail the vision for modernizing government services, as well as pilot and scale those initiatives to reduce the cost of administering services. The Commonwealth will want to consider all options identified while balancing the potential for savings with improving services for citizens.

Initiatives and estimates in this report reflect collaboration across the Governor's Office, the Office of the Budget, and agency leadership. Agency leaders were engaged to develop ideas and estimates in order to rapidly align on a set of initiatives that could be implemented in the next 1-2 years. The initiatives presented for consideration in this report have been selected for feasibility and level of impact. These initiatives are not intended to be detailed designs or implementation plans. Further review of feasibility and planning for implementation would be necessary to refine savings estimates and capture savings.

1.2 IDEAS TO REDUCE THE BUDGET DEFICIT AND IMPROVE SERVICE

The Commonwealth of Pennsylvania could pursue initiatives across the following themes to reduce the budget deficit while improving services to citizens:

- **Modernize agency operations and citizen service** – Help agencies modernize their operations to improve efficiency and service delivery while maximizing the positive impact of programs. This could encompass actions such as: resetting workforce size (e.g., by eliminating long-unfilled positions, managing attrition), simplifying programs and processes, providing digital self-service options on common platforms, reducing inefficient processing activities, merging program administration teams, closing underused facilities, and adjusting fee schedules in line with external benchmarks.
- **Operate as "One Commonwealth"** – Enhance the Commonwealth's ability to achieve greater economies of scale in administrative functions such as HR and IT, building on existing progress toward truly shared services. Optimize the Commonwealth's real estate, facilities, and fleet portfolio through a more centralized "master planning" approach. Further, consolidate purchasing activities and build expertise and discipline in contract design, vendor negotiation, and demand management. Deploy capital strategically, for instance through closely managing lapsed funds across agencies.
- **Increase Commonwealth revenue without commensurate changes to tax rates** – Implement actions to help the Commonwealth collect revenue more efficiently and effectively within current policy guidelines and in response to forthcoming policies, with a focus on the Department of Revenue's ability to identify and collect unpaid or underpaid taxes. Maximize the value of state enterprises through best-in-class operations in the Pennsylvania Liquor Control Board and the Pennsylvania Lottery.[1]
- **Reevaluate select program support levels against benchmarks** – Use external benchmarks to help ensure that grants, transfers, and subsidies meet best practices. Reconsider type and level of support where there are alternate funding sources available for programs or more innovative funding models.

The initiatives related to each theme are summarized in Table 1 and provided in detail in Table 2. The estimates associated with each initiative are subject to change during detailed design and implementation phases; while this report provides point estimates for simplicity, they are not meant to imply a sense of precision, and a range of outcomes around each number should be expected.

[1] Profitability improvement in the Pennsylvania Lottery may not have General Fund impact

Table 1: Summary of potential initiatives and General Fund impact

Dollars, millions		FY17-18	FY18-19	Run-rate
Total of preliminary estimates (Note: figures are rounded)		**1,327**	**1,317**	**1,585**
Modernize agency operations and citizen services		**420**	**399**	**438**
	Reduce costs through process improvements, facility closures, mergers, and fee structures:	253	276	315
	Health and human welfare services	87	100	117
	Criminal justice operations	111	127	148
	Law enforcement services and operations	34	34	34
	Veterans' homes operations	13	8	8
	Inspections operations	7	7	8
	Reset workforce size across agencies	129	85	85
	Capture additional GO-TIME savings	38	38	38
Operate as "One Commonwealth"		**469**	**297**	**337**
	Enhance use of shared services	10	10	10
	Optimize real estate, facilities, and physical asset costs	10	17	15
	Reduce cost of procured goods and services	40	73	115
	Monetize Farm Show Complex & Expo Center	200	(12)	(12)
	Raise bond funds for select discretionary grant programs	109	109	109
	Redeploy lapsed current and prior year appropriations	100	100	100
Increase state revenues without commensurate changes to tax rates		**333**	**516**	**705**
	Enhance Department of Revenue operations and capture revenue from current & potential policies	258	416	538
	Improve profitability of state enterprises	75	100	167
	Liquor Control Board	75	100	167
	Pennsylvania Lottery[2]	40	56	62
Reevaluate selected program support levels		**105**	**105**	**105**
	Reset support levels for grants to individuals and institutions	*43*	*43*	*43*
	Reset support levels for grants to other levels of government	*62*	*62*	*62*

[2] Note: Estimated savings from Pennsylvania Lottery profitability improvement not included in General Fund savings estimate. Savings would accrue to the Lottery Fund, and it is beyond the scope of this report to determine potential General Fund impact.

1.2.1 Modernize agency operations and citizen services

Commonwealth agencies have been engaged in a continuous improvement and cost reduction initiative called GO-TIME, which has reported over $150 million in savings in recent years.[3] Agencies could continue to build on GO-TIME efforts and increase collaboration on such efforts across agencies to modernize their operations. In particular, there are several best practices the Commonwealth could use to enhance customer service and drive down the cost of operations simultaneously. This report identifies initiatives based on these practices:

- **Simplifying customer-facing service delivery**: Fragmentation of programs and services across multiple agencies, bureaus, and facilities can result in lower service levels and more administrative burden for customers, as well as increased expenses. By focusing on faster, simpler, and more accessible end-to-end customer experience, and using one-stop-shop digital platforms, call centers, and physical facilities, the Commonwealth could improve services and lower costs. In some cases, greater integration or even agency mergers could help enable these improvements.
- **Providing enhanced digital services**: Pennsylvania currently has a digital presence for many services, though digital adoption for some services is lower than in peer states. By focusing on improved digital services, the Commonwealth could rationalize the physical footprint across agencies to both reduce costs and provide better, more integrated services to customers. The Commonwealth could consider pairing digital services with physical kiosks and concierge staff, or using trained community partners to provide services in more locations than the state could reach through fully staffed, large footprint centers. The Commonwealth also has additional opportunities to improve digital services for small business owners in Pennsylvania.
- **Employing "Lean Management" operating practices**: as high-performing government agencies redesign their processes, they often work back from identified customer needs, ensuring that their most important processes serve citizens more effectively and efficiently. This includes Lean Management practices such as eliminating redundancy, limiting waste in repetitive processes, and consolidating back-office support to achieve scale benefits. Several processing activities occur in agencies across the Commonwealth that could benefit from process optimization, including call center operations, application review, and document management.

Given time constraints, this report focused on potential opportunities in several of the largest agencies (by potential General Fund impact and non-grant spending), as well as initiatives that could apply across agencies. Review of agency operations in light of these best practices suggests the following initiatives:

[3] Source: Office of Administration GO-TIME reports

Reduce costs through process improvements, facility closures, mergers, and fee structures in agencies that provide health and human welfare, criminal justice, law enforcement, veterans', and inspections services.

Health and human welfare services provided by the Departments of Health, Human Services, Aging, and Drug & Alcohol Programs **(Section 2.1)**	Customer service and the cost to administer programs could be improved by simplifying programs and management oversight across several agencies. Digitization of benefit application and eligibility reviews, consolidation of processing centers, and process improvements could reduce costs associated with the County Assistance Offices. Utilizing local health clinic infrastructure and private and non-profit partnerships could increase access to services currently provided by State Health Centers, while reducing costs. The Department of Human Services (DHS) has also identified an opportunity to reduce the cost of the pharmacy benefit program, and the Department of Health (DOH) has identified opportunities to reduce its cost of operations. One structural opportunity the Commonwealth could consider is merging the agencies into a single Department of Health & Human Services to encourage more effective and efficient collaboration and service delivery. There may be additional long-term opportunities to consolidate physical footprint across these agencies and to modernize the operating models of contracted private and non-profit provider services.
Criminal justice operations across the Department of Corrections and Pennsylvania Board of Probation and Parole **(Section 2.2)**	The Department of Corrections (DOC) and Pennsylvania Board of Probation and Parole (PBPP) have many initiatives underway to improve outcomes and realize costs savings. These initiatives have resulted in a 2,211 (~4%) reduction in the prisoner population over the past three years, a 3% reduction in recidivism for DOC in the past three years, and an 8% decline in the recidivism rate over the past six years for PBPP.[4] These agencies could continue to build on cost savings from existing initiatives such as the Justice Reinvestment Initiative II (JRI II), closing underused facilities, and continuing to improve operations (e.g., reduce overtime, expand use of advanced analytics to customize programming). These agencies could also consider the potential for additional savings and increased collaboration from merging operations and management.
Law enforcement services and operations at the Pennsylvania State Police (Section 2.3)	There are several opportunities the Pennsylvania State Police (PSP) could consider in addition to their ongoing service improvement and cost reduction efforts. PSP could consider maintaining fewer barracks for essential, non-trooper staff while developing a more mobile and agile trooper cadre based out of vehicles, who are increasingly able to complete ancillary tasks and communicate with barracks leadership through mobile technology. The Commonwealth could also consider instituting a cost-sharing model for municipalities that currently use PSP as their primary police force. In addition, benchmarking of PSP services to peer states indicates an opportunity for the Commonwealth to review and update its fee schedule for background checks.

[4] Note: Prison population figure reflects total population under jurisdiction of the Department of Corrections. Source: Department of Corrections (DOC) Appropriations Testimony and Monthly Population Reports, www.cor.pa.gov

Veterans' homes facilities and operations at the Department of Military and Veteran's Affairs (Section 2.4)	The Department of Military and Veterans Affairs (DMVA) operates six veterans' homes. The DMVA could build on current cost reduction initiatives to further reduce the cost of operating these homes while maintaining service levels to veterans, as benchmarking shows that these veterans' homes have higher average operating costs per veteran than facilities in peer states. The Commonwealth could consider reducing costs by contracting for some or all services at the facilities and by reducing underutilized facility space through closing wings, leasing out space to private care organizations, and selling unused or underutilized state-owned land.
Inspections operations across the Departments Labor & Industry, Environmental Protection, and Agriculture (Section 2.5)	The Commonwealth employs a range of inspectors to ensure safety, legal, and regulatory compliance across Pennsylvania. In order to improve ability to conduct inspections in a timely manner and to reduce the cost of operations, the Commonwealth could consider improving training, scheduling, and management, adopting new technology to reduce time-consuming paperwork, optimizing the geographic spread of inspectors, and cross-training inspectors. Additionally, some of the Commonwealth's inspection fees are below benchmark as compared to peer states. In the longer-term, there could be further opportunities to deploy new technology to simplify customer-facing processes, such as scheduling and billing.
Reset workforce size across agencies (Section 2.6)	The Administration is pursuing a number of initiatives to manage the complement size across agencies, including reducing vacancy funding and resetting agency complement ceilings. The Commonwealth could also consider managing supervisory span of control and offering an early retirement program to reduce the workforce complement. As agencies pursue modernization efforts, the Commonwealth could continue to review each agency's authorized complement with respect to number of positions, the skills required for those positions, and the number of supervisory positions given the nature of the work. In some cases, reduction in complement may require an operational change, such as a process redesign or automation, to reduce workload in the agency.
Capture additional GO-TIME savings (Section 2.7)	The GO-TIME program has reported cost avoidance and productivity gains of ~$150 million[5] in recent years. The Commonwealth may have additional opportunities to accelerate and expand past and present initiatives to deliver further savings. Within the GO-TIME program, the Commonwealth has also refinanced its debt service, from which it estimates immediate savings.

[5] Source: Office of Administration GO-TIME reports

1.2.2 Operate as "One Commonwealth"

The Commonwealth currently has 43 agencies, independent boards, and bureaus that together deliver services to the citizens of Pennsylvania. A number of central teams play a role in coordinating agency activities across administrative functions, though to varying degrees. These central functions include human resources (HR), information technology (IT), budget and finance, legal, policy, legislative affairs, press, procurement, and real estate and facilities. The Governor's Budget Office and the Treasury also provide central financial capabilities. The Commonwealth could build on the work of these central teams to better manage resources as a portfolio across agencies, both through increasing sophistication and services offered centrally, as well as further incentivizing agency cooperation.

Enhance use of shared services (Section 3.1)	The Commonwealth's HR employee levels are ~10% higher than public sector benchmarks and ~60% higher than private sector benchmarks, while IT spending per employee is ~33% higher than public sector benchmarks.[6] In the near-term, the Commonwealth could create cross-agency delivery teams for HR and IT services and further consolidate print services. Over the longer-term, the Commonwealth could pursue additional centralization of HR and IT support staff, increase the use of the HR shared service center for transactional activities, increase talent management and workforce planning support offered centrally, further consolidate data centers and application development and maintenance teams, and further centralize print, mail, and imaging.
Optimize real estate, facilities, and fleet portfolio (Section 3.2)	Over time, the Commonwealth has developed a footprint of ~2,400 owned and leased facilities and ~5,000 non-police passenger vehicles. Analysis of leased and owned office space suggests the Commonwealth currently has an average square footage per employee higher than federal GSA standards and a significant amount of vacant space available. To make best use of state resources and to provide the best service to customers, Pennsylvania could consider developing a Commonwealth-wide facilities masterplan that consolidates administrative space, uses teleworking and mobile working arrangements to reduce demand for space, creates multi-agency service centers, and expands presence through kiosks and community partnerships. Additionally, the Commonwealth could improve central management of its fleet through demand management and standardizing reimbursement policies across agencies, and of its wireless tower assets, which could be worth more as a portfolio than individual sites managed by each agency.
Reduce cost of procured goods and services (Section 3.3)	Procurement managers at the Department of General Services (DGS) and within other agencies could reduce costs through vendor management approaches and demand management approaches. This report identifies opportunities in several categories for near-term action, and there may be additional opportunity in other categories and over the longer-term. To capture these opportunities, the Commonwealth could

[6] Source: Office of Administration, Filled & Vacant Positions, November 2016; Proprietary public and private sector HR and IT operational metrics dataset; Commonwealth of Pennsylvania FY15-16 IT expenditures dashboard; Gartner 2016 IT key metrics data: Government – state and local analysis

	consider improving central spending visibility, increasing group purchasing and strategic sourcing, and enhancing governance and compliance. To pursue savings from demand management, DGS and agencies could work together to set goods and services volume reduction targets to complement any price reductions negotiated with vendors.
Monetize Farm Show Complex & Expo Center (Section 3.4)	The Administration has proposed monetizing the Pennsylvania Farm Show Complex & Expo Center by engaging a private entity to make an up-front payment in return for annual lease payments from the Commonwealth.
Raise bond funds for select grant programs (Section 3.5)	The Administration has identified select grant programs to bond fund. There may be further opportunity in improving cash management practices across state agencies to ensure cash is available in a timely manner to pay down debt and avoid interest, or make investments.
Redeploy lapsed funds (Section 3.6)	The Administration has identified an opportunity to redeploy lapsed appropriations from current and prior year budgets.

1.2.3 Increase state revenues without commensurate increase in tax rates

The Commonwealth could increase revenues without commensurate tax rate increases by achieving the full potential from tax revenue collection and by enhancing the performance of state enterprises, particularly the Pennsylvania Liquor Control Board. The Commonwealth could also improve Pennsylvania Lottery profitability, but funds may not accrue to the General Fund. This report identifies sustainable operational improvements to achieve projections and to increase revenues over time, working primarily within the current policy framework.

Enhance Department of Revenue operations (Section 4.1)	Recent tax collections and audit performance history, as well as comparing Commonwealth performance to other states, indicate a near-term opportunity to improve processes to maximize capture of revenue. The Department of Revenue could consider increasing productivity of staff by ensuring employees have the necessary tools, training, and skills to be most effective. In the longer-term, the Commonwealth could invest in modernization efforts such as extensive data matching systems, advanced analytics and machine learning to prioritize efforts, automation of manual processes, and redesign of customer experience in reporting and filing of taxes to support voluntary compliance. The Department of Revenue has also put forward legislative proposals that are beyond the scope of this report, but that are intended to enable it to more effectively pursue non-compliant taxpayers. The Administration has also estimated the revenue potential from suspending select tax credits and increasing the minimum wage.
Improve profitability of Commonwealth enterprises (Section 4.2)	The Pennsylvania Liquor Control Board (PLCB) has lower operating margins than peer states with state operated liquor stores, driven by procurement costs, pricing practices, and warehousing and store operating costs. In the near-term, the PLCB could improve profitability through more strategic supplier negotiations and full implementation of pricing flexibility, along with some improvement in warehousing, logistics and store operations. The Pennsylvania Lottery has had strong sales performance over the past five years, but compared to peer states may have additional opportunity to increase per capita sales through expanding its retail presence, increasing sales channels, and enhancing its online platform.

1.2.4 Reevaluate selected program support levels against benchmarks and alternative funding models

The Commonwealth could review program support levels, subsidies, and policies that govern the disbursement of these funds to assess whether grants, transfers, and subsidies are in line with approaches used in other states, whether they fully utilize alternative funding models, and whether they encourage operational efficiency. This report does not put forward a perspective on the support level or program design for any given program but rather provides reference points and alternate models for the Commonwealth's consideration in select program areas. The Governor's Budget Office, in consultation with the Governor's policy team, has put forward potential savings estimates for select programs.

Reevaluate support levels for grants to individuals and institutions (Section 5.1)	The Commonwealth currently provides funding for several higher education programs that could be reviewed with respect to practices in other states, other potential funding models, and alternative operating models.
Reevaluate support levels for grants to other levels of government (Section 5.2)	The Commonwealth currently provides support to local government entities, for instance county courts and local education departments. The Commonwealth could review funding levels with respect to practices in other states, other potential funding models, and alternative operating models.

1.3 CONSIDERATIONS FOR IMPLEMENTATION

A phased approach, starting now, could enable savings in FY17-18, and over the longer-term. To meet the dual goals of improving customer service and achieving a balanced budget, both in FY17-18 and over the long-term, the Commonwealth could consider a three-phased approach. While immediate action would be necessary to achieve FY17-18 savings estimates in this report, the Commonwealth could pursue activities focused on the broader goal of modernizing government and improving services throughout each phase:

- *Phase 1 (e.g., January – June 2017):* Pursue leaner government operations by accelerating cost-savings initiatives that could provide impact within the next 6-9 months, including managing upcoming procurement contract negotiations, lease extensions, shared services transitions, and attrition to ensure opportunities are captured, and by accelerating operational improvements across agencies. In addition, this phase could focus on ensuring implementation of process changes at the Department of Revenue and Commonwealth enterprises. During this phase, the Commonwealth could also build long-term, customer-focused agency operations strategies, a real estate master plan, and a digital strategy to guide modernization efforts. These high-level design efforts could encompass a broader set of agencies, programs, and services than were considered in this report, and could result in additional savings opportunities.
- *Phase 2 (e.g., July – December 2017):* Refine organizational and operational designs, including: running pilots that test proposals to create multi-agency service centers; building more integrated online citizen and small business portals; optimizing customer-facing and processing operations through expanded Lean Management programs; and consolidating and digitizing processing of a wide range of documents and transactions.
- *Phase 3 (e.g., 2018 and beyond):* Ramp up service modernization efforts including physical footprint and online channels to integrate services across current agency silos; scale up Lean Management programs across all agencies; and fully transition front-line and support staff to new roles.

Central leadership, agency leadership, and rigorous management and tracking of initiatives could help maximize impact. Given the degree of change required, a focused, centralized program management approach would be beneficial to support execution. Leadership at all levels of government, as well as extensive communication, coordination, and accountability from the Governor's Office, would help the Commonwealth capture these opportunities. The Commonwealth could consider the following measures:

- Establishing a core team focused on ongoing tracking and financial analysis to ensure that savings and revenue initiatives are on time and target, and that the limited funds available for investment go to the highest value activities,
- Setting up a small, but dedicated program management team and cross-agency working teams to launch major service re-design initiatives,
- Developing and measuring a simple set of customer service and cost improvement performance metrics to hold agencies accountable and to inform decision-making,
- Establishing a consistent communications approach for both internal employees and external stakeholders, and
- Integrating ongoing organizational and cultural change initiatives at the agency-level into the broader effort.

1.4 DETAILED LIST OF POTENTIAL INITIATIVES

This Executive Summary concludes with Table 2, a detailed list of potential initiatives, and their estimated impact on the General Fund; each will be detailed in the body of this report.

Table 2 – Detailed list of potential initiatives and General Fund impact

Dollars, millions		FY17-18	FY18-19	Run-rate
Total of preliminary estimates (Note: figures are rounded)		**1,327**	**1,317**	**1,585**
Modernize agency operations and citizen services		**420**	**399**	**438**
	Reduce costs through mergers, process improvements, facility closures, and fee structures:	**253**	**276**	**315**
	Health and human welfare services	87	100	117
	• Merge Human Services/Health/Aging/DDAP	4	5	5
	• Optimize pharmacy benefit program	45	45	45
	• Modernize Department of Human Services County Assistance Office system	10	16	32
	• Close a Department of Human Services care facility	0	4	5
	• Increase Department of Human Services child abuse background check fee	3	3	3
	• Modernize Department of Health State Health Center program	15	16	16
	• Modernize Department of Health Chronic Renal Disease Program	7	7	7
	• Reduce Department of Health leased space	0	1	1
	• Increase certain Department of Health fees	4	4	4
	Criminal justice services and operations	111	127	148
	• Close State Correctional Institutions	85	100	100
	• Reduce overtime spending in Department of Corrections	18	18	18
	• Merge Department of Corrections and Board of Probation and Parole	9	9	9
	• Capture JRI II projected savings after reinvestment	0	0.5	21
	Law enforcement services and operations	34	34	34
	• Consolidate the footprint of State Police stations	0.4	0.2	1
	• Cost-share with local governments receiving service	27	27	27
	• Increase fees for background checks	7	7	7

	Veterans' homes operations	13	8	8
	• Contract for select veterans' homes services	4	4	4
	• Close and contract out underutilized wing	5	5	5
	• Sell excess land	5	-	-
	Inspections operations	7	7	8
	• Modernize inspections operations	0.2	1	1
	• Increase building inspection fee to market rate	7	7	7
	Reset workforce size across agencies	**129**	**85**	**85**
	Reset agency complement	110	65	65
	Offer Early Retirement Incentive Program	15	16	16
	Right-size management span of control	2	2	2
	Reform Acts 632/534	2	2	2
	Capture additional GO-TIME savings	**38**	**38**	**38**
	Refinance current debt	28	28	28
	Accelerate and scale select GO-TIME initiatives	10	10	10
Operate as "One Commonwealth"		**469**	**297**	**337**
	Enhance use of shared services	**10**	**10**	**10**
	Consolidate HR and IT into cross-agency delivery teams	9	9	9
	Complete mail & print centralization	1	1	1
	Optimize real estate, facilities, and fleet portfolio	**10**	**17**	**15**
	Consolidate real-estate footprint	(1)	3	3
	Divest unused property	10	13	11
	Rationalize the fleet across agencies	1	1	1
	Reduce cost of procured goods and services	**40**	**73**	**115**
	Information technology	18	35	41
	Non-IT professional services	10	19	38
	P-card purchases	3	6	13
	Facility maintenance	3	4	5
	Utilities	2	4	7
	Construction building products	1	2	4
	Office supplies and equipment	1	1	2
	Freight and postage	0.5	1	2
	Marketing	0.3	0.6	1

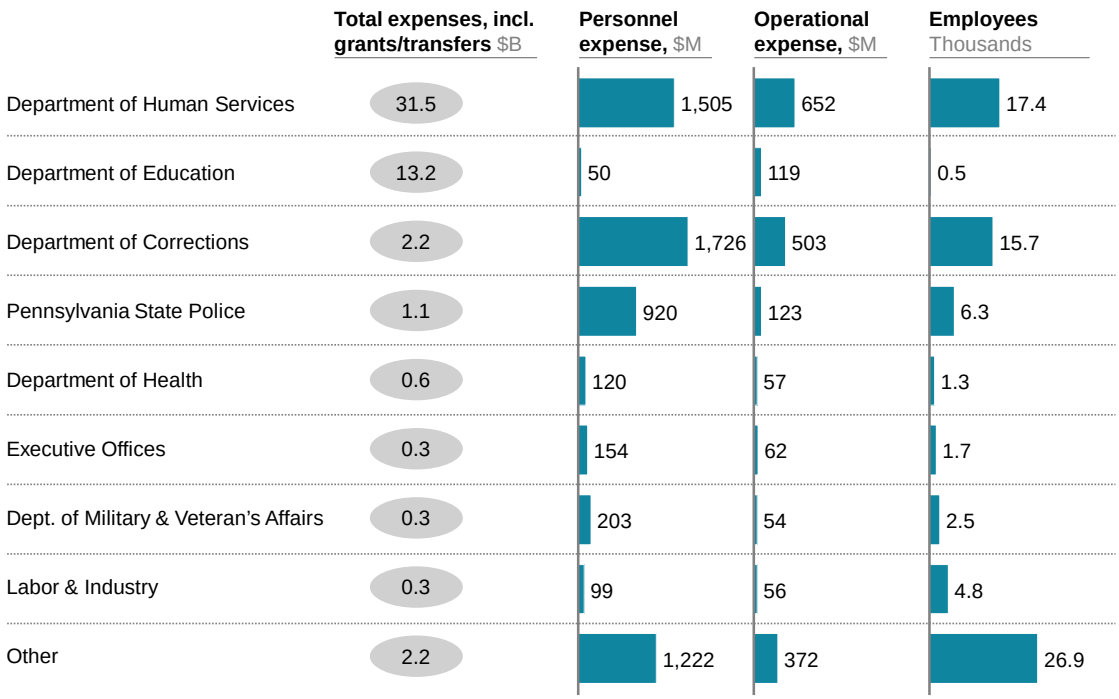
	Pharmaceuticals	0.2	0.4	1
	Medical and lab equipment	0.1	0.2	0.3
	Travel and fuel	0.1	0.2	0.3
	Monetize Farm Show Complex & Expo Center	**200**	**(12)**	**(12)**
	Raise bond funds for discretionary grant programs	**109**	**109**	**109**
	Redeploy current and prior year lapses	**100**	**100**	**100**
Increase state revenues without commensurate changes to tax rates		**333**	**516**	**705**
	Enhance Department of Revenue operations and capture revenue from current & planned policies	**258**	**416**	**538**
	Increase productivity of current staff	12	129	179
	Increase use of data and integrated systems	12	6	6
	Augment productive staff	38	74	106
	Increase support for the tax appeals process	(1)	3	14
	Consider Department of Revenue's proposed legislative changes	3	7	33
	Capture additional revenue from Administration's proposed potential changes to tax credits	100	100	100
	Capture additional revenue from Administration's proposed potential minimum wage increase	95	98	100
	Improve profitability of state enterprises	**75**	**100**	**167**
	Liquor Control Board	75	100	167
	Pennsylvania Lottery[7]	40	56	62
Reevaluate selected program support levels		**105**	**105**	**105**
	Reset support levels for grants to individuals and institutions	**43**	**43**	**43**
	Reset support levels for grants to other levels of government	**62**	**62**	**62**

[7] Note: Estimated savings from Pennsylvania Lottery profitability improvement not included in General Fund savings estimate. Savings would accrue to the Lottery Fund, and it is beyond the scope of this report to determine potential General Fund impact.

2 Modernize agency operations and citizen services

This report identifies opportunities across several agencies, focusing on those that comprise the majority of the Commonwealth's personnel and operating expenses made from the General Fund and from agency augmentations such as revenue collected for services (Exhibit 1). For instance, while the Department of Education receives significant General Fund appropriations, most are spent as grants and transfers; therefore its operations were not a primary focus of this report. Initiatives in this report include the Department of Human Services, Department of Corrections, Pennsylvania State Police, Department of Health, Department of Military & Veteran's Affairs, and the Department of Labor & Industry. Detailed review of all programs and operations across all Commonwealth agencies is beyond the scope of this report.

Exhibit 1: Agencies by expenses and complement size[8]



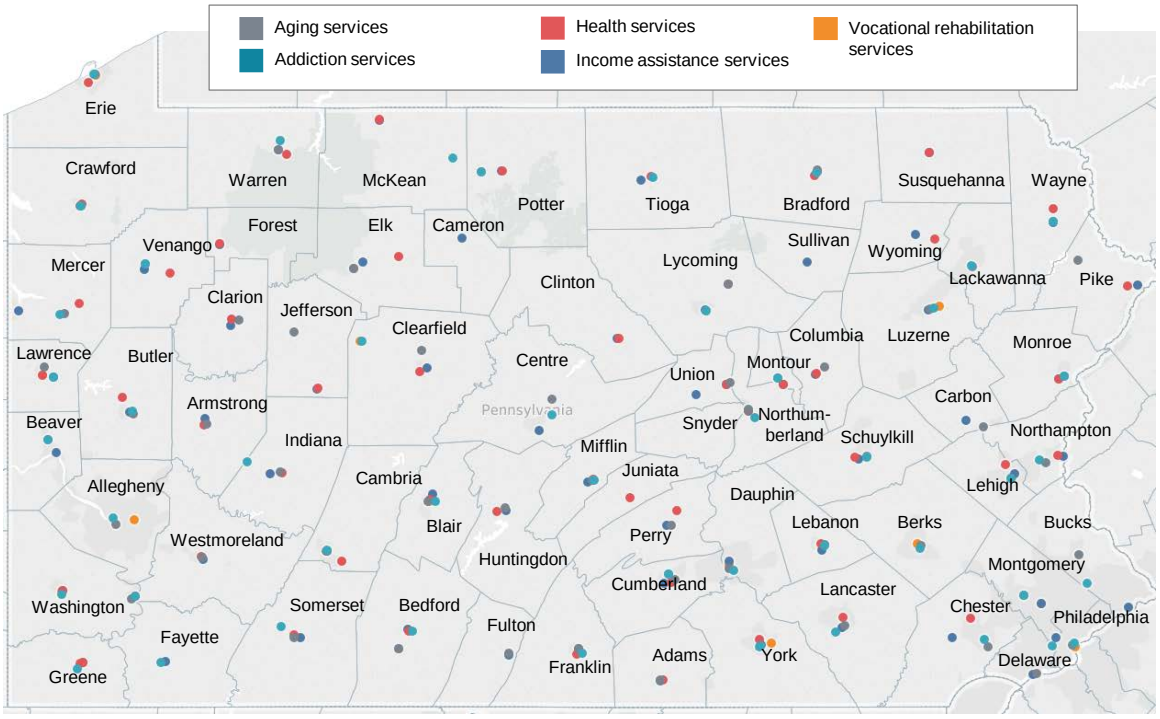
Before detailing individual initiatives across agencies, this report first introduces three mutually reinforcing best practices that the Commonwealth could apply to drive down the cost of operations in these agencies while preserving or enhancing citizen delivery and customer service: a) streamlining customer-facing service delivery, b) providing enhanced digital services, and c) employing Lean Management practices.

a) Streamlining service delivery through program mergers and multi-channel service offerings. The Commonwealth currently has 43 distinct agencies and commissions serving the citizens of Pennsylvania, which have some overlapping or related missions and

[8] Note: Figures include expenses made from General Fund appropriations, agency augmentations, and federal funds (excludes special state funds such as Lottery Fund) in FY15-16. Source: Governor's Budget Office, Major spend by agency by Commonwealth of Pennsylvania fund, FY15-16; Office of Administration, Filled and Vacant Positions, November 2016

programs as well as physical sites (Exhibit 2)[9], websites, and call centers. Some agencies also provide services through local nonprofit or government entities (e.g., drug and addiction centers, local health departments, Area Agencies on Aging). This fragmentation could result in lower service levels for customers, who have to work with multiple agencies, as well as increased expenses for the state. Instead, by focusing on end-to-end citizen experience and satisfaction, the Commonwealth could provide services that better meet the needs of its citizens.

Exhibit 2: Sample of citizen service locations across Pennsylvania[10]



Program teams that serve similar customers could work together to ensure each customer receives the appropriate suite of programs and coordinated services, while reducing the direct costs and administrative overhead of those programs (Exhibit 3). For instance, instead of having a citizen reach out to multiple state office buildings, websites, and call centers for service, the Commonwealth could offer streamlined touchpoints such as a consolidated one-stop retail outlet, mobile caseworkers, or community partners that could provide specialized programs catered towards all possible needs of the citizen. Instead of having separate eligibility reviewers and processes, there could be streamlined eligibility reviews to increase efficiency. Furthermore, on the back-end, infrastructure support such as call centers and vendor contracts could support multiple programs or agencies. The Commonwealth could review opportunities to work with counties and municipalities that receive state funding to streamline and scale operations similarly.

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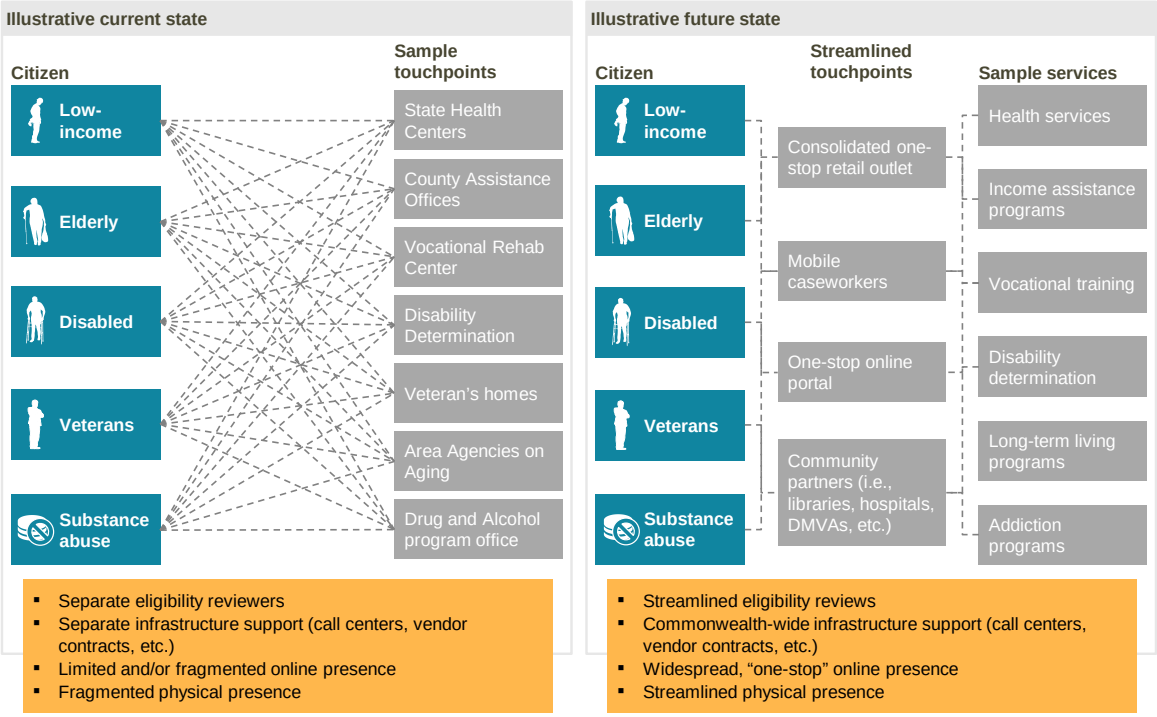
[9] Source: Department of General Services, Land & Building Inventory, November 2016; Department of General Services, Lease Report, November 2016

[10] Note: Not comprehensive of all citizen service locations (e.g., PennDOT license centers, DHS Family Centers, and others not shown); included on the map are Addiction services: county offices, funded in part by the Department of Drug and Alcohol Programs, run by counties; Aging services: Area Agencies on Aging (AAAs), funded in part by the Department of Aging; Health services: State Health Centers (SHCs) funded and run by the Department of Health; Income assistance services: County Assistance Offices (CAOs), funded and run by the Department of Human Services; Vocational rehabilitation services: Offices of Vocational Rehabilitation, funded and run by the Department of Labor & Industry; Source: Agency websites

Exhibit 3: Modernizing service delivery through streamlined touchpoints for citizens



b) Providing enhanced digital services. The Commonwealth could also consider the balance of in-person, phone, web, and mobile support provided by each program to meet customer needs. The Commonwealth currently has a digital presence for many services, though, for some of them, digital adoption is lower than in peer states (e.g., the income assistance online application rate in the Commonwealth is ~30% vs. 95% in Florida).[11]

The physical footprint could potentially be rationalized across agencies to both reduce costs and provide better, integrated services to customers, while digital services could be improved or better advertised to increase adoption. Other states have paired digital services with physical kiosks (computer stations) and concierge staff, or trained community partners, to provide services in more locations than the Commonwealth could reach through fully staffed, large footprint centers.

There may be additional opportunities to improve digital services for small business owners in the Commonwealth. It is important to note that expanding and improving digital services could require a rapid review of current digital platforms and underway IT projects as well as an evaluation of additional investments needed.

c) Employing Lean Management practices. In addition to simplifying and digitizing citizen-facing services, there could be opportunities to enhance Lean Management practices in Commonwealth agencies. There are several processing activities occurring in agencies across the Commonwealth that could benefit from process optimization, including call center operations (e.g., information lines across different services, radio dispatch for state police), application review operations (e.g., Medicaid eligibility reviews), and document management (e.g., the shared service center at the Department of Revenue, inspection reporting across agencies).

[11] Source: http://www.oppaga.state.fl.us/Reports/pdf/0813rpt.pdf; Department of Human Services

While this report outlines some initiatives across these three best practices that the Commonwealth could consider in the near-term, a larger effort would be required to fully identify opportunities to reduce cost while improving services. This section of the report provides detail on potential initiatives and is organized by type of service provided (e.g., health and human welfare, criminal justice). Within each section, potential cost reduction initiatives are explored first, followed by revenue enhancing initiatives. This report also summarizes ongoing initiatives regarding workforce complement.

2.1 HEALTH AND HUMAN WELFARE SERVICES

2.1.1 Merge Departments of Human Services, Health, Aging, and Drug and Alcohol Programs

The Commonwealth could consider the potential benefits of merging the Departments of Health (DOH), Human Services (DHS), Aging, and Drug & Alcohol Programs (DDAP) to encourage more effective collaboration and service delivery, enhance program effectiveness, reduce administrative costs, and eliminate duplicate positions. Initial review of offices that could be affected by a merger indicates potential of ~$3.7 million General Fund savings in FY17-18 and ~$4.8 million ongoing General Fund savings from removing overlap in administrative and management positions. Further analysis is required to estimate potential facilities, contract, and program savings.

In order to realize the opportunities identified over FY 17-18 and FY 18-19, the Commonwealth could consider the following:

- Identify overlapping services and additional savings from program mergers.
- Review organizational structure to identify overlapping positions and opportunities to improve span of control.
- Review and plan for consolidation for IT, data systems, and vendor contracts.
- Develop a facilities plan to optimize use of space across agencies.
- Manage attrition in redundant positions and offer incentive programs.
- Track efficiency resulting from the DHHS merger.

2.1.2 Optimize pharmacy benefit program

The Department of Human Services projects that there could be a savings opportunity from realigning fees and costs associated with the PACE program to mirror similar pharmaceutical reimbursements in other health and human service programs. The Governor's Budget Office, in collaboration with DHS, estimate that these changes could result in ~$45 million General Fund savings in FY17-18 and onwards.

2.1.3 Modernize County Assistance Office system

The Commonwealth currently has 96 County Assistance Offices (CAO), serving ~2.9 million Medicaid recipients[12] and ~1.9 million SNAP recipients[13], as well as other Pennsylvania

[12] Source: https://www.medicaid.gov/medicaid, November 2016

[13] Source: United States Department of Agriculture Food and Nutrition Service, https://www.fns.usda.gov/sites/default/files/pd/29SNAPcurrPP.pdf, October 2016

residents in need of public assistance. The CAO operating model could be modernized to make better use of digital application and eligibility review (some of which is provided by the COMPASS website), to use Lean Management practices to reduce processing time, and in the long-term, to potentially provide services through CAO processing centers or to merge the physical footprint with other state sites. In the near-term, the Commonwealth could consider:

- **Improving case distribution.** Currently, each CAO works largely independently from other CAOs, receiving and processing applications and cases of residents of the county. Employees receive and process applications and cases, as well as engage in both in-person interaction and back-end processing transactions. As a result, cases are not distributed evenly across counties, and the caseload per employee (both caseworkers, who process applications, and clerk typists, who receive applications and support general CAO operations) at each CAO is variable across counties, as shown in Exhibit 4 and Exhibit 5.

Exhibit 4: Distribution of average monthly caseload per caseworker across CAOs

Nov 2013 - Oct 2014

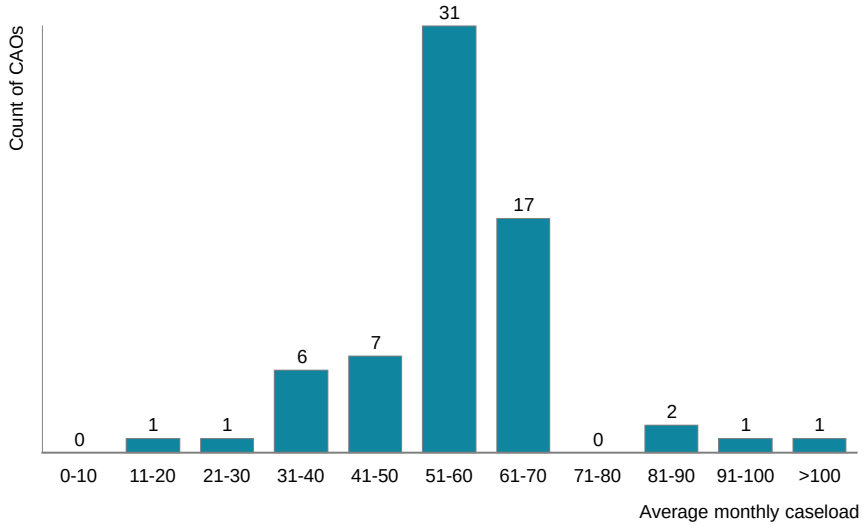
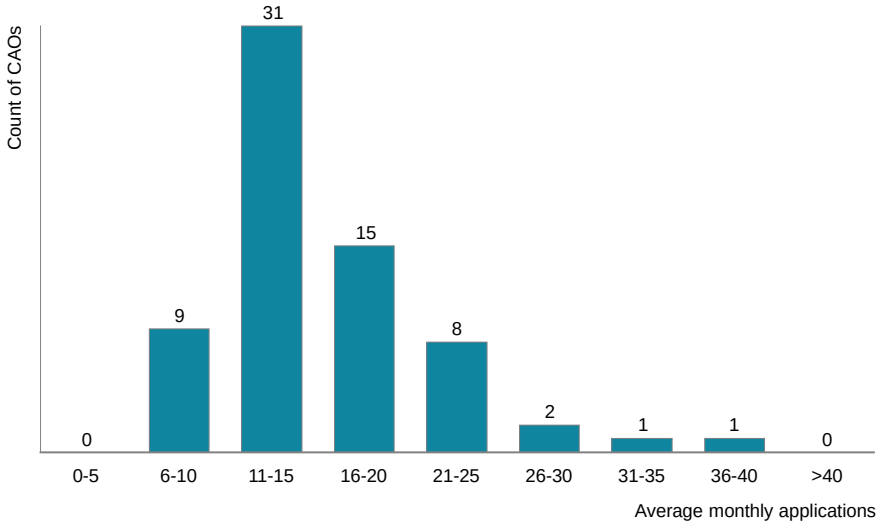


Exhibit 5: Distribution of average monthly applications per clerk typist across CAOs

Nov 2013 - Oct 2014



- **Consolidating processing activity.** CAO employees currently handle cases in person and also do back-end processing and transaction work. While the Commonwealth currently operates 11 processing centers, these centers only process overflow work from CAOs, instead of operating as centralized hubs for processing work. By centralizing back-end processing work to processing centers, CAO staff at local sites could focus on face-to-face interactions, while processing centers could use Lean Management practices to more efficiently process applications.
- **Increasing digital interactions.** Most applicants mail in applications to the CAO in their county or submit them in person. As of December 2016, only 30.7% of applications are submitted online.[14] Increasing adoption of the online application, whether through system upgrades or improved communication and education, could result in decreased demand for in-person service.

Examples from other jurisdictions. The Florida ACCESS program went through a similar modernization in 2003 – 2008. In 2003, Florida's Department of Children and Families (DCF) began developing a single point-of-entry system for its three economic self-sufficiency programs - Medicaid, cash assistance, and Supplemental Nutrition Assistance Program (SNAP, formerly food stamps). Measures taken included streamlining processes to improve productivity, consolidating non-customer-facing processing work to centralized processing centers, and improving the online application rate. Within two years of launching online applications, Florida DCF achieved 81% online adoption and currently has greater than 90% online adoption.[15] From 2003 to 2008, Florida reduced staff size by 43% and achieved $83 million run-rate program savings despite a 20% annual increase in the number of applications.[16]

Service New South Wales (Service NSW), an Australian government initiative to deliver "one-stop access" to government services, also serves as an example (Exhibit 6). Service NSW has established a network of Service Centers across the state, a single 24x7 phone service, and a consolidated digital presence to provide comprehensive (omni-channel) access to government services. Service NSW offers more than 800 New South Wales Government transactions including driver's licenses, birth certificates, seniors cards, and fair trading licenses.[17]

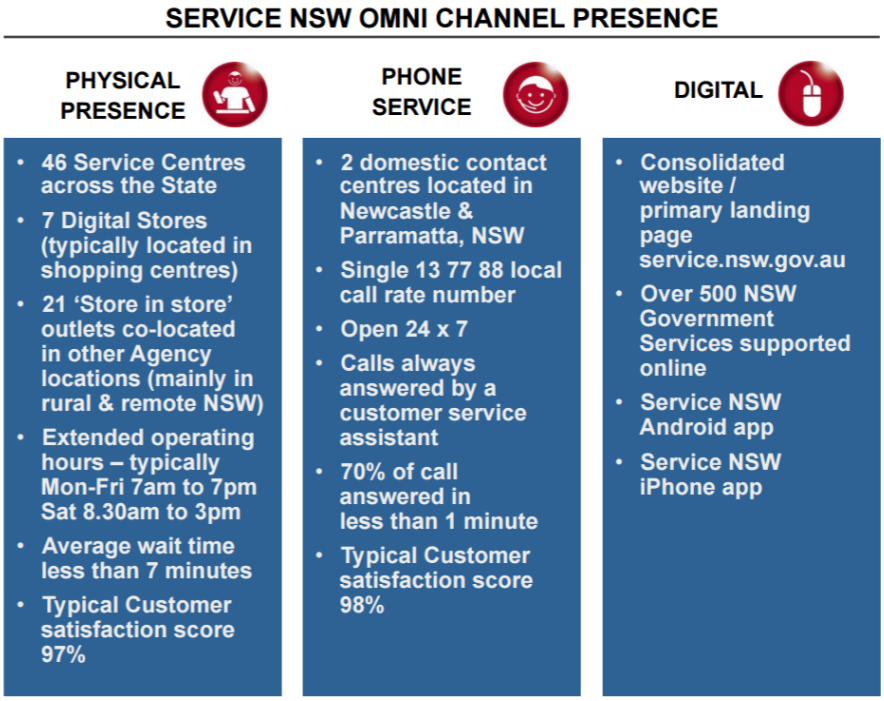
[14] Source: Department of Human Services

[15] Source: http://www.oppaga.state.fl.us/Reports/pdf/0813rpt.pdf

[16] Source: http://www.oppaga.state.fl.us/Reports/pdf/0813rpt.pdf

[17] Source: Internal Consulting Group, Service New South Wales case study, November 2015

Exhibit 6: Example of Service NSW touchpoints[18]



Potential impact in Pennsylvania. Modernizing the CAO system could improve service levels and produce ~$88 million in General Fund savings at run-rate but would require several years to fully implement and would require some up-front investment in facilities. While the Department of Human Services could potentially make use of existing vacant or underutilized office spaces, establishing processing centers could incur an upfront investment cost for space outfitting, utilities, and IT infrastructure. Investment cost would vary based on the condition of the existing CAOs affected by consolidation and the locations and condition of the potential processing centers. Depending on the amount of furniture, equipment, and renovation required, the investment cost for consolidating processing centers could vary from $2-$12 million in FY17-18 and $3-$18 million in FY18-19. Additionally, there could be investment cost to improve COMPASS in FY19-20 in order to increase online applications. Further analysis is required to determine if upgrades are necessary and to estimate the additional cost.

In total, and net of estimated investment costs, General Fund labor and facilities savings from implementing these initiatives could total ~$10 million in FY17-18, ~$13M in FY18-19, ~$32 million in FY19-20, and ~$88 million over the longer-term.

In order to realize the opportunities identified over FY17-18 and FY18-19, the Commonwealth could consider the following steps:

- Determine target workload for each CAO and identify positions affected as a result of initiatives.
- Provide training to staff to increase efficiency and optimize caseload.
- Identify investment required to support the consolidating of processing centers, including targeted improvement of current IT and data systems, renovation of office space, relocation of workforce and training of personnel.
- Track productivity across CAOs and consolidated processing centers.

[18] Source: Internal Consulting Group, Service New South Wales case study, November 2015

- Identify strategies and potential investment required to improve online application rate.

To continue to improve, the Commonwealth could also consider the following in the longer-term:

- Consider additional services that could use the CAO processing center infrastructure.
- Collaborate with other programs and agencies to establish multi-program service outlets.
- Develop seamless digital service for both customer-facing and back-end support systems.

2.1.4 Close a Department of Human Services care facility (Hamburg Center)

The Department of Human Services (DHS) has proposed shifting from institutional care to community-based care for its programs for intellectual disabilities and mental health. The Commonwealth currently operates five centers for intellectual disabilities, which received $142 million in General Fund budget appropriations in FY16-17. As of 2016, centers for intellectual disabilities had 3,239 employees[19] serving 905 people. Nationally, the number of such people living in state-operated centers peaked in 1967. Since then, the number of state-operated centers and people living in them has steadily declined. Eleven states have closed all of their state-operated centers.[20] The Department of Human Services believes that shifting towards home and community-based care could improve outcomes while reducing costs; assessing outcomes is beyond the scope of this report.

The Department of Human Services announced the closure of Hamburg Center in January 2017. Hamburg Center currently has 186 certified beds and 353 state employees, serving 80 individuals.[21] According to the estimate from Department of Human Services, closing Hamburg Center could incur a cost of ~$3.6 million in FY2017-18[22], and result in savings of ~$4.0 million in FY18-19, ~$4.2 million in FY19-20, with run-rate savings of ~$5.2 million in General Fund.[23] Further analysis is required to refine and validate the estimated savings.

2.1.5 Increase child abuse background check fees

The Commonwealth requires individuals who work or volunteer with children to obtain a Pennsylvania Child Abuse History Background Check, Pennsylvania State Police Criminal Record Check and Federal Bureau of Investigation Criminal Background Check. According to the Department of Human Services, individuals who need child abuse clearances include employees having contact with children, foster/adoptive parents, school employees governed by the Public School Code, school employees not governed by the Public School Code, as well as volunteers.

Starting July 2015, background check fees for volunteers were waived and the cost of clearances for employment purposes was reduced from $10 to $8. However, benchmarks suggest that the child abuse background check fee in Pennsylvania is lower than in other

[19] Note: Refers to number of filled, full-time equivalent positions. Source: Office of Administration, Filled and Vacant Positions, November 2016

[20] Source: http://ncd.gov/publications/2012/DIToolkit/Institutions/inBrief

[21] Source: Department of Human Services

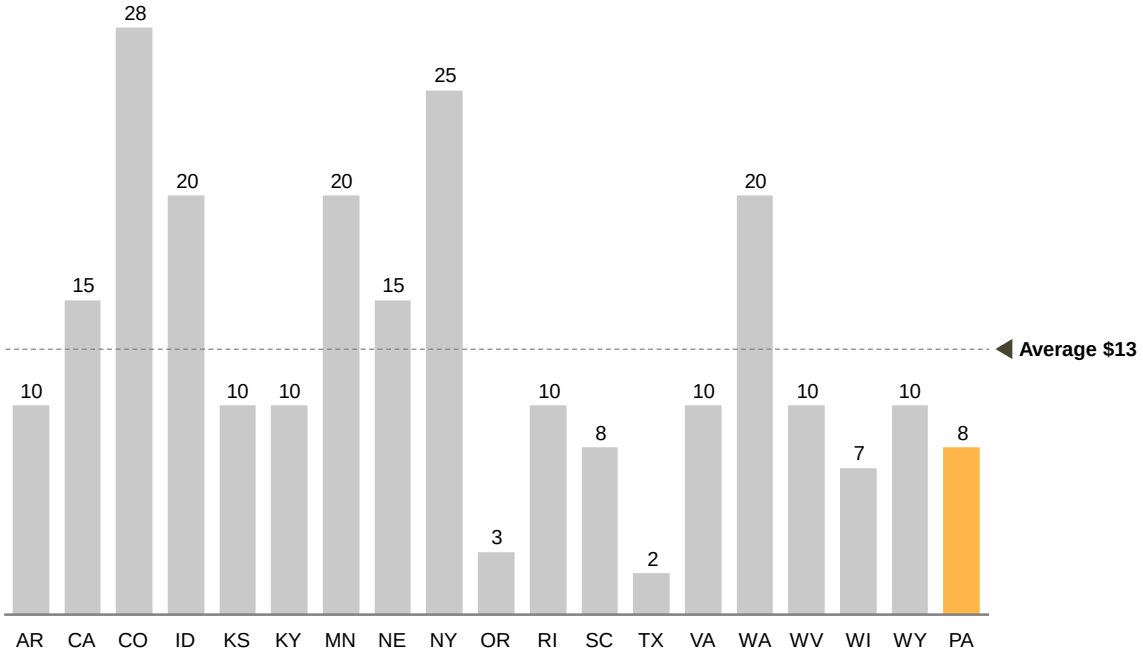
[22] Note: Investment cost already accounted for in FY17-18 budget proposal, and therefore not reflected in net savings estimate for this initiative.

[23] Source: Department of Human Services

states (Exhibit 7). If the Commonwealth were to increase the fee from $8 to the average fee of $13, it could lead to General Fund impact of ~$3 million.

Exhibit 7: Child abuse background check fees across states[24]

Dollars



2.1.6 Modernize State Health Centers (SHC) system

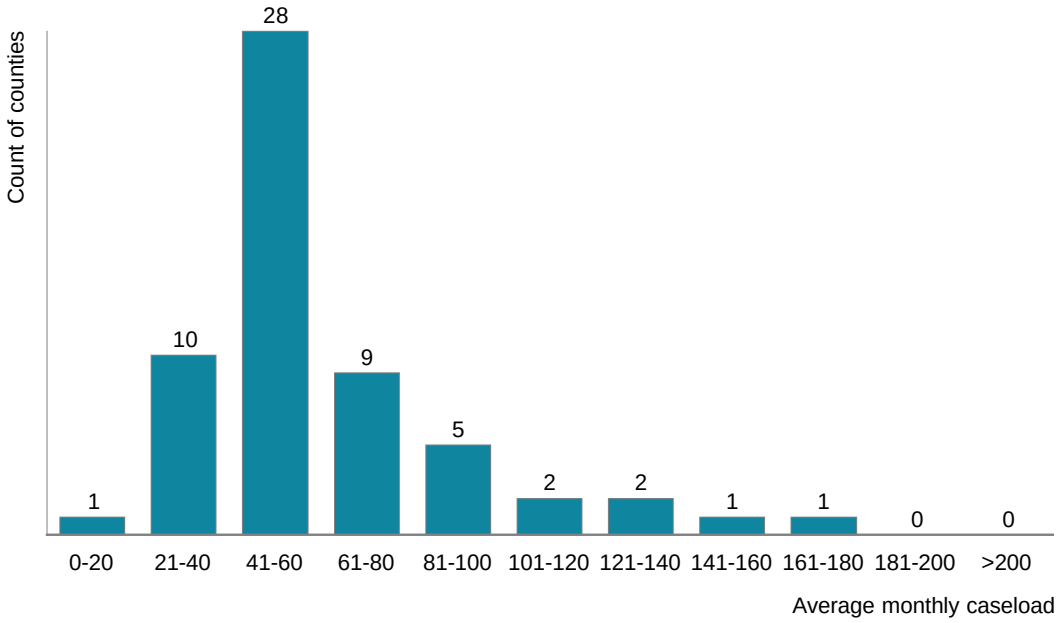
The Bureau of Community Health Systems (BCHS) of the Department of Health (DOH) currently operates a network of District Offices and State Health Centers (SHC). The main functions of SHCs are delivery of clinical services for uninsured and underinsured clients (e.g., vaccines for influenza, pneumococcal, shingles, tetanus), counseling, testing, and treatment for STD/HIV/Tuberculosis, referral of constituents to appropriate agencies to obtain assistance regarding housing, utilities, insurance, medical needs, investigation of reportable diseases and outbreaks, as well as delivering educational presentations on public health topics.

According to the Department of Health, the SHC system has remained unchanged since 1992, and analysis shows that the utilization of nurses across counties is variable (Exhibit 8).[25]

[24] Source: http://www.ccld.ca.gov/res/pdf/Revised_AW_Contact_List.pdf; https://www.childcareaware.org; State government websites

[25] Note: Analysis includes data reported for 59 counties for 2015; Source: Department of Health

Exhibit 8: Distribution of monthly caseload per community health nurse across counties



The Commonwealth could consider operational changes such as rationalizing staff presence to match demand, mobilizing staff members to be home-headquartered to increase flexibility, or offering SHC services through local health departments, community partners and primary care providers to better match supply to demand and use existing, complementary infrastructure. In the latter case, the Commonwealth could redistribute some public health functions to existing equivalent service providers. The Commonwealth could set service levels and funding agreements for transferred services. Because SHCs may also serve clients who qualify for Medicaid, Medicare, and other forms of assistance, transferring services provided by SHCs could potentially allow providers to claim federal reimbursement. Services that have no equivalent provider would be maintained by BCHS.

DOH estimates General Fund savings potential from modernizing the SHC system to be ~$14.8 million in FY17-18 and ~$16.2 million from FY18-19 onwards. The Department of Health estimates that cost savings would come from labor costs, as well as the leasing cost of field office locations.

In order to realize these savings, the Commonwealth could consider the following steps:

- Analyze design options for the SHC program, including transferring functions to other private or public service providers (including preparing and providing training as needed).
- Identify leases affected for buy-out and negotiate with lessors, as well as plan for any additional IT systems integration or support needed.

To continue to improve, the Commonwealth may also consider the following in the long-term:

- Work with local partners to identify additional programs and services that could benefit from increased collaboration.

2.1.7 Modernize the Chronic Renal Disease Program

The Department of Health has proposed a revision of the Chronic Renal Disease Program (CRDP) as a potential opportunity for cost saving. The program currently has ~$7.9 million in the FY16-17 General Fund budget appropriation. It pays for medical, pharmaceutical, and transportation services to individuals who meet eligibility requirements. Payments are made to dialysis facilities, hospitals, physicians, pharmacies, and transportation providers. Currently, individuals enrolled in the program may have other insurance, including Medicare, Medicaid, and private insurance, and may have an income of up to 300% of the Federal Poverty Income Guidelines (FPIG). In addition, with the Affordable Care Act and the Medicaid expansion, services covered by the CRDP could be covered by an individual's other insurance coverage. As a result, the remaining population needing CRDP coverage could be reduced. Revising CRDP to continue to provide transportation services to individuals with end-stage renal disease could result in savings. According to the Department of Health, the revised CRDP is estimated to require ~$1.3 million in budget, resulting in cost saving of ~$6.6 million.

2.1.8 Eliminate certain Department of Health leases

The Department of Health has proposed a plan to either move to another location or to transition employees to telework at several sites. Estimates in this report include only leased locations for which there is a plan to transition staff to telework. This could require an investment of ~$0.2 million in FY17-18 but provide cost savings of ~$0.6 million in FY18-19 and over the longer-term.

2.1.9 Increase certain Department of Health fees

The Department of Health (DOH) has proposed raising fees for various services, including fees for death certificates, quality assurance, labs, bathing places, and J-1 Visa Applications. DOH estimates a General Fund impact of ~$4.2 million for FY17-18, FY18-19, and run-rate from fee increases.[26]

2.2 CRIMINAL JUSTICE OPERATIONS

Given the significant costs of running correctional operations, and the public safety outcomes that the system supports, the Department of Corrections (DOC) and Pennsylvania Board of Probation and Parole (PBPP) have measured performance on both cost reduction and outcome improvement. These agencies have realized costs savings and a 3% reduction in the prison population in the past three years, a 3% reduction in recidivism for DOC in the past three years, and an 8% decline in recidivism over the past 6 years for PBPP.[27] This budget and outcomes improvement has come from recent efforts such as using technology to improve the Office of Population Management, switching to outcome-based contracts for private community correctional facilities, and optimizing food purchasing at State Correctional Institutions (SCI).

There may still be additional opportunity to reduce the cost of correctional institutions in Pennsylvania while maintaining or improving outcomes, as benchmarking shows a high cost per inmate compared to other states (Exhibit 9). These opportunities could include closing select State Correctional Institutions, completing a merger between DOC and PBPP,

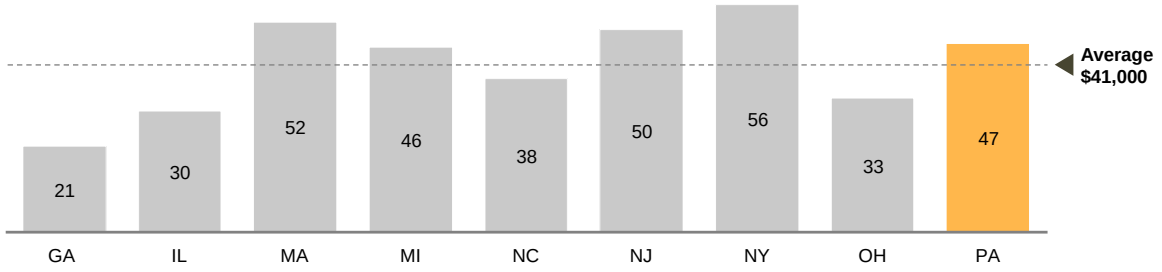
[26] Source: Department of Health

[27] Source: Department of Corrections, FY16-17 Budget Testimony

optimizing and reducing overtime expenses, and capturing savings from JRI II policy initiatives.

Exhibit 9: Benchmarking Department of Corrections costs per inmate[28]

Dollars, thousands



Additionally, DOC and PBPP could consider expanding the use of analytical tools to customize programming and operations to match the individual needs of inmates, potentially leading to improvement in efficiency and lower costs. For instance, the Commonwealth could employ technology that identifies the most important criteria in selecting a community corrections facility for a parolee to optimize assignments. In addition, the Department of Corrections may be able to reduce the residential community corrections population, which it estimates could improve outcomes and save costs.[29] PBPP has also begun to take other steps, including digitizing the case notes of parole officers through its ON-BASE system, which could lead to cost savings and continued reduction in back-office staff; equipping parole officers with mobile technology, which could allow them to add case notes from the field and reduce the need for physical space at parole offices; and considering the use of electronic signatures in the hearing process to reduce waiting time.

This section of the report focuses on the potential cost savings from ongoing and planned initiatives across DOC and PBPP.

2.2.1 Close State Correctional Institutions

The Department of Corrections has announced that it will close one State Correctional Institution in FY17-18. The Commonwealth may be able to close portions of or entire additional facilities in the future if it makes improvements to the inmate housing management system and can further optimize the layout of individual correctional facilities. Future policy changes could also affect capacity needed, analysis of which is beyond the scope of this report. Further analysis is required to understand the potential to shut down cellblocks, buildings, and correctional institutions if there were a change in one or more of these areas in order to calculate the corresponding cost savings.

The Governor's Budget Office estimates a net savings of ~$85 million in FY17-18 and ~$100 million in FY18-19 and over the longer-term stemming from planned and potential future facility closures, whether partial or full.

In order to realize the savings estimates, the Commonwealth could consider the following:

- Plan for monetizing closed SCI assets (e.g., equipment, facilities).

[28] Source: 2015-2016 state budgets, total appropriations for correctional institutions

[29] Source: Department of Corrections press release, January 6, 2017

- Review current SCI capacity and configuration to create a roadmap for optimization of future facility use.
- Conduct scenario planning analysis for potential policy changes.
- Monitor impact of initiatives such as JRI II to project future prison capacity needs.

2.2.2 Reduce overtime spending in Department of Corrections

In FY15-16, the Commonwealth spent over $265 million on overtime, 43% of which was driven by the Department of Corrections (DOC).[30] DOC estimates that it could reduce overtime expenses, leading to an estimated ~$8.6 million in savings for FY16-17, and an estimated ~$17.8 million in savings in FY17-18.

2.2.3 Merge Department of Corrections and Board of Probation & Parole

The Department of Corrections (DOC) and the Board of Probation & Parole (PBPP) could collaborate more effectively or be merged to eliminate overlapping processes and duplicative spending. As both departments aim to serve the same constituents, there could be increased efficiency and improved outcomes from working more closely together. DOC has proposed several strategies to maximize use of resources and improve service to constituents, which could result in savings of ~$10.3 million,[31] of which ~$1.8 million is already accounted for in the shared services initiative. Therefore, the merger could result in a net saving of ~$8.5 million from eliminating administrative redundancy and maximizing field supervision through the "Swift, Certain, & Fair" method.

To realize the opportunities identified over FY17-18 and FY18-19, the Commonwealth could consider the following steps:

- Create detailed plans for the organizational merger, including identifying potential overlap in positions and beginning to manage attrition as appropriate.
- Design a joint space plan to accommodate any physical movement of employees and consolidate space where possible.
- Determine how specific programs across DOC and PBPP could be consolidated, if appropriate.

Longer-term, the Commonwealth could consider the following:

- Streamline inmate management systems to better transition inmates from SCI's to parolee programming.
- Explore opportunities to enhance the use of data analytics to tailor treatment and programming ranging from intake through parole based on an inmate's risk assessment.

2.2.4 Capture savings from implementing Justice Reinvestment Initiative II

The Justice Reinvestment Initiative (JRI) working group has developed recommendations on criminal justice reform to improve outcomes in Pennsylvania.

The second phase of the Justice Reinvestment Initiative makes six recommendations:

- Support public safety for victims by serving more people, more effectively.

[30] Source: Office of Administration, Overtime Data, FY15-16

[31] Source: Department of Corrections

- Improve pretrial decision-making to increase public safety and decrease county prison costs.
- Revise polices to guide sentencing decisions to reduce recidivism.
- Increase the use of effective probation interventions to reduce recidivism.
- Make short prison sentences more predictable and less expansive.
- Reduce recidivism in parolees by targeting resources and responses.

The Justice Center estimates that these initiatives could result in potential ~$3.7 million in savings in FY18-19 and run-rate savings of ~$41.5 million per year from averted costs. Correspondingly, there would be a reinvestment cost of ~$3.25 million in FY18-19 and ~$20.25 million run-rate, resulting in net savings of ~$0.45 million in FY18-19 and ~$21.3 million over the long-term.[32]

2.3 LAW ENFORCEMENT OPERATIONS

This report considers opportunities to reduce costs of Pennsylvania State Police (PSP) operations while adhering to the six pillars of PSP's 21st Century Policing program 1) building trust and legitimacy, 2) policy and oversight, 3) technology and social media, 4) community policing and crime reduction, 5) training and education, and 6) officer wellness and safety). In particular, PSP could consider optimizing facilities and fleet usage to reduce the PSP footprint to one station per county while still maintaining PSP's capabilities to carry out its public safety mission. There may also be additional opportunities to develop a cost-sharing model for PSP services provided to municipalities and to bring fees for PSP services in line with models used by peer states.

2.3.1 Consolidate the footprint of PSP Police Stations

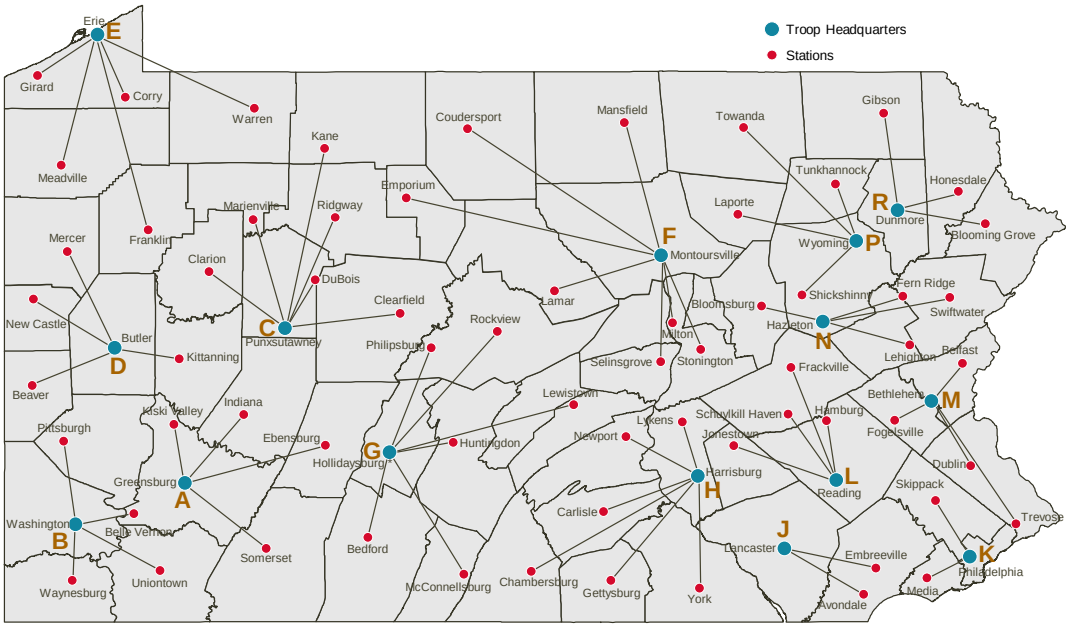
The Pennsylvania State Police (PSP) currently operates 16 troops out of 81 State Police stations throughout the Commonwealth. There are 13 counties with more than one station (Exhibit 10). Two factors suggest the PSP could reduce the number of stations while maintaining service levels:

- The current trooper patrol model dictates that troopers are typically in their patrol zones and not in the local PSP station. Therefore, there may be no negative impact on the level of public safety coverage PSP could provide if it reduced its station footprint to one per county.
- As technology continues to advance, troopers are more able to complete administrative duties from their patrol vehicles, and therefore may have less need for physical space in stations.

Consolidating the number of stations could be facilitated by transitioning from a shared-vehicle model, to a model where each patrol trooper is assigned his or her own patrol vehicle, reducing the need to visit a station before and after each shift. While this could require an upfront capital investment to purchase additional vehicles, it could decrease maintenance costs and improve the longevity of patrol vehicles. Further analysis is required to evaluate the potential costs and benefits of this model, and a pilot program may be useful in determining the impact of such an initiative.

[32] Source: Justice Center, Justice Reinvestment in Pennsylvania, http://www.pccd.pa.gov/Documents/Justice%20Reinvestment/PA%20Presentation%205%20Final.pdf

Exhibit 10: Pennsylvania State Police stations[33]



If stations were merged to achieve one station per county, the General Fund impact could be ~$0.44 million in FY17-18, ~$0.16 million in FY18-19, and ~$0.62 million per year in run-rate savings based on lease savings, auxiliary savings,[34] savings from the sale of owned stations, and investment costs. Assessing the public safety impact of any of these changes is beyond the scope of this report. Further analysis is necessary in order to determine if it is feasible for PSP to consolidate stations without increasing the size of the station that will remain open or building a new station to accommodate the consolidation. There may be additional savings if consolidating physical stations across counties is considered as well.

In order to realize the opportunities identified over FY17-18 and FY18-19, the Commonwealth could consider these steps:

- Further analyze the utilization of each PSP station, both for patrol officers and administrative personnel, as well as its physical condition.
- Map the potential PSP station consolidation for counties with more than one station and assess potential for cross-county consolidations, including assessment of facility maintenance and lease costs.
- Conduct cost-benefit analysis on physical footprint savings with and without additional investment in patrol vehicles.
- Assess savings opportunities from divesting assets not needed given consolidation, as well as potential overlap in management or administrative positions if facilities are consolidated.
- Redesign and pilot processes to ensure consistent service delivery from station consolidations and test changes to patrol vehicle model.

Longer-term, the Commonwealth could consider the following:

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[33] Source: https://www.psp.pa.gov/troop%20directory/Pages/default.aspx

[34] Note: Examples of auxiliary costs include leased property real estate taxes, furniture and fixtures, and office supplies.

- Consider additional operational changes to increase efficiency, including administrative processes.

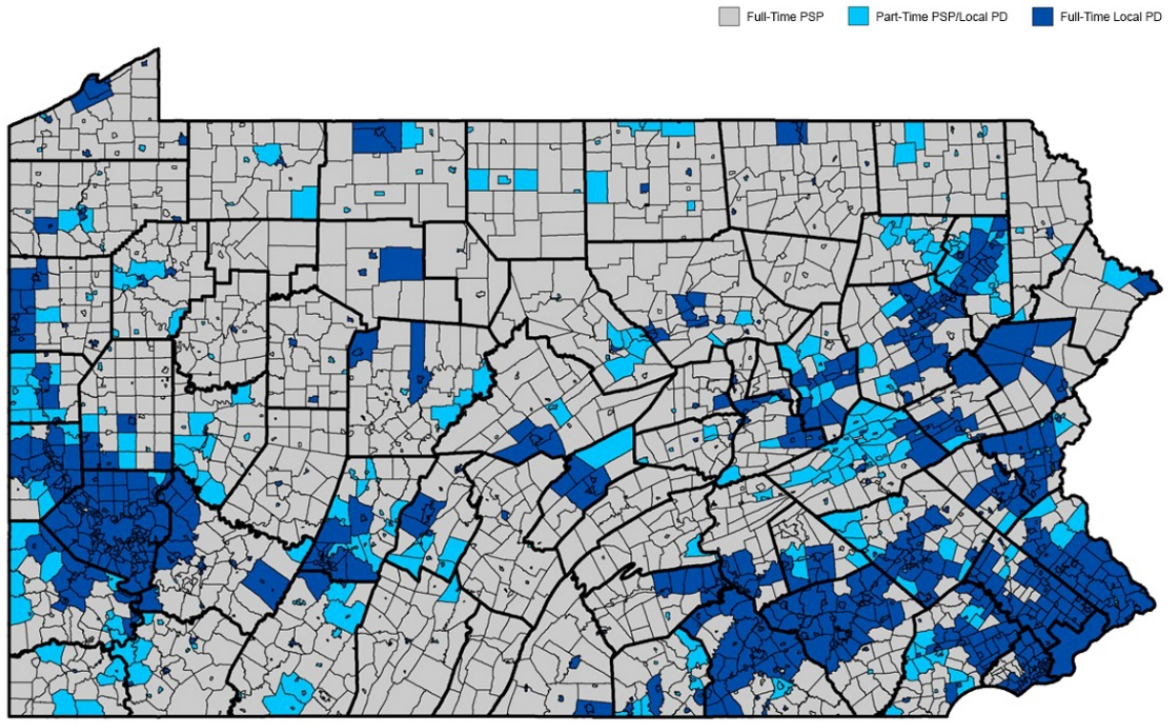
2.3.2 Collect fees from municipalities with no local state police coverage

Currently, 67% of the 2,562 municipalities in the Commonwealth have either part-time or no local police coverage, relying on Pennsylvania State Police for coverage at no cost to the municipality.[35] Municipalities have the right but not the obligation to provide or contract for local police services, and could elect to:

- Employ local full or part-time police officers.
- Be a participant in a regional police force agreement.
- Contract police services from other nearby localities.

When local police coverage is not sufficient, the Pennsylvania State Police provides coverage to these localities free of charge (Exhibit 11). While the PSP does not uphold city ordinances, it fills gaps in local police service to ensure public safety to all municipalities in the Commonwealth. While many of the communities with no local police services are rural and have low median incomes, there are some wealthy municipalities that rely on PSP as well. A 2014 report by the Pennsylvania Legislative Budget and Finance Committee on police consolidation in Pennsylvania estimated that the cost of State Police coverage to municipalities without full-time local police coverage is ~$540 million per year.[36]

Exhibit 11: Map of municipalities with local police coverage



Over the years, the Pennsylvania legislature has attempted to enact fees for coverage, both as a flat rate for all municipalities above a minimum population threshold, as well as proposals

[35] Source: Pennsylvania Department of Community & Economic Development, Municipal Statistics, December 2016

[36] Source: Legislative Budget and Finance Committee, "Police Consolidation in Pennsylvania", September 2014

that attempted to recoup the full cost of the police service (Exhibit 12). Other states in the northeast and mid-Atlantic have also attempted to address this cost. In 2010, New Jersey prohibited additional municipalities from relying on state police services. Connecticut tries to recoup some cost of coverage by stationing a state police trooper in the municipality in exchange for 70% coverage of the trooper's cost and 100% of overtime costs. Other states such as Delaware use a county policing model for areas with low levels of local service.

Exhibit 12 shows a number of approaches the Commonwealth could consider. Charging a fixed fee of $25-100 per resident for coverage in areas with no local coverage could generate $63-$252 million annually. Instituting a blended fee based on the median income of the town for coverage in areas that have no local coverage could generate ~$49 million in FY17-18, ~$99 million in FY18-19, and a ~$149 million run-rate.

The specific cost sharing levels and parameters (e.g., household median income, population density) for a pricing model are beyond the scope of this report. To estimate the potential impact of instituting a fee model, this report takes the midpoint of the $25 fixed fee revenue potential and the run-rate revenue from blended approach, resulting in potential revenue of ~$106 million, ~$27 million of which could accrue to the General Fund.[37]

Exhibit 12: Potential models for fees to municipalities with no full-time coverage[38]

		Potential models				
	Current PA system	NJ model	CT model	Fixed fee	Blended approach	Cost of coverage
Fees type	No Fees	No Fees	Fee per officer assigned	Fixed fee per resident	Fee per resident covered	Base fees on cost of coverage, ramp up over 3 years
Model	Do not charge for state police services provided to municipalities without local police coverage	Forbid additional municipalities from dropping coverage in order to opt-in to State Police coverage	"Resident state trooper" program where a state police trooper is stationed in the town in exchange for 70% coverage of expenses and 100% of OT expenses	Charge $25 - $100 per resident annually for localities without police coverage	Charge a gradual fee schedule to municipalities without any coverage; adjust charge based on median income in municipality; ramp over 3 yrs	Progressive fees over the first 3 years settling at $156 per resident which have some exceptions for part-time coverage and distressed municipalities
Where it has been done	PA	New Jersey (2010)	Connecticut	Previously, the Commonwealth proposed a model for charging $100 per resident annually for localities with over 10,000 population: House bill 2563 (2008)	-	Proposed in House bill 1500 (2009) and House bill 709 (2015)
Potential impact	-	-	Not reported	$63M - $252M	$49M - $149M	$450M

To realize the opportunities identified over FY17-18 and FY18-19, the Commonwealth could consider the following steps:

- Establish a central database and map each municipality's local full and part-time police coverage.
- Analyze different funding models for setting fees for municipalities (e.g., based on median income, population density, crime rate).

[37] Note: General Fund share estimated at 25%.

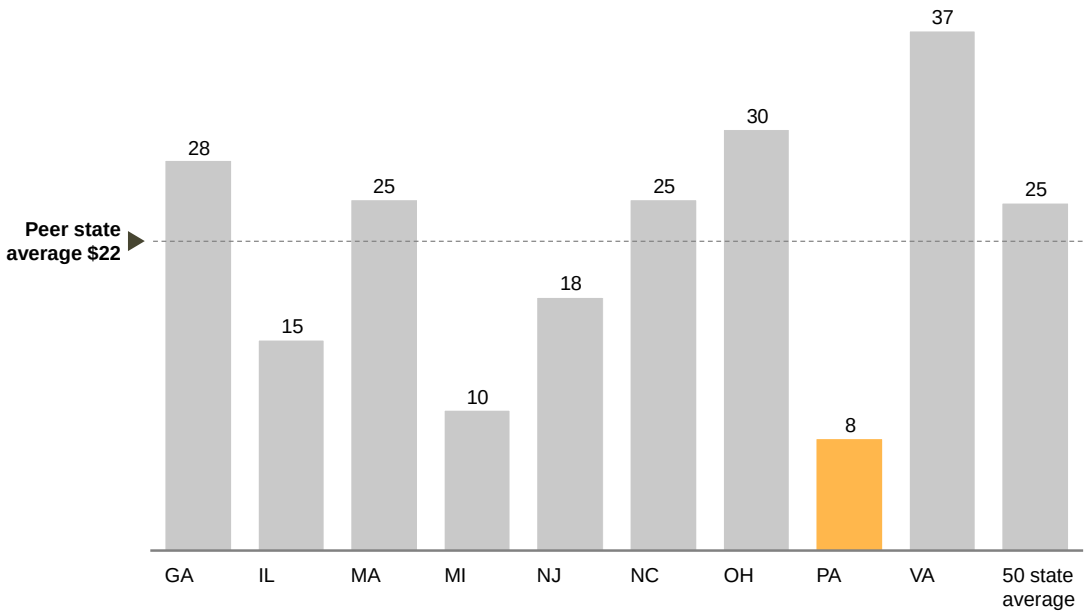
[38] Source: State reports; House Bill 2563; House Bill 1500; House Bill 709

2.3.3 Increase fees for background checks

The Pennsylvania State Police administers PATCH (Pennsylvania Access to Criminal History) checks to better enable the public to obtain criminal history record checks. Currently, PATCH fees are below both the national average for background checks and the average fee charged by peer states. The current fee for a standard PATCH check is $8. Pennsylvania does not charge fees for background checks for volunteers and certain fee-exempt individuals[39] and charges $10 for "access and review" checks for individuals who seek their own records (and may not use the record in a job application). The $8 fee for a regular background check is lower than both the national average and the average of a set of peer states (Exhibit 13). If the fees for regular and "access and review" checks were increased to peer state levels, the Commonwealth could receive an additional ~$28 million in revenue per year, of which ~$7 million per year could accrue to the General Fund.[40]

Exhibit 13: Criminal background check fees across states[41]

Dollars



In order to realize the opportunities identified over FY17-18 and FY18-19, the Commonwealth could further engage stakeholders to align on a revised fee schedule.

2.4 VETERANS' HOMES OPERATIONS

2.4.1 Contract for select veterans' homes services

The Department of Military and Veterans Affairs (DMVA) operates six veterans' homes across the Commonwealth. These homes have on average 9% higher operating costs per veteran than facilities in peer states (Exhibit 14).

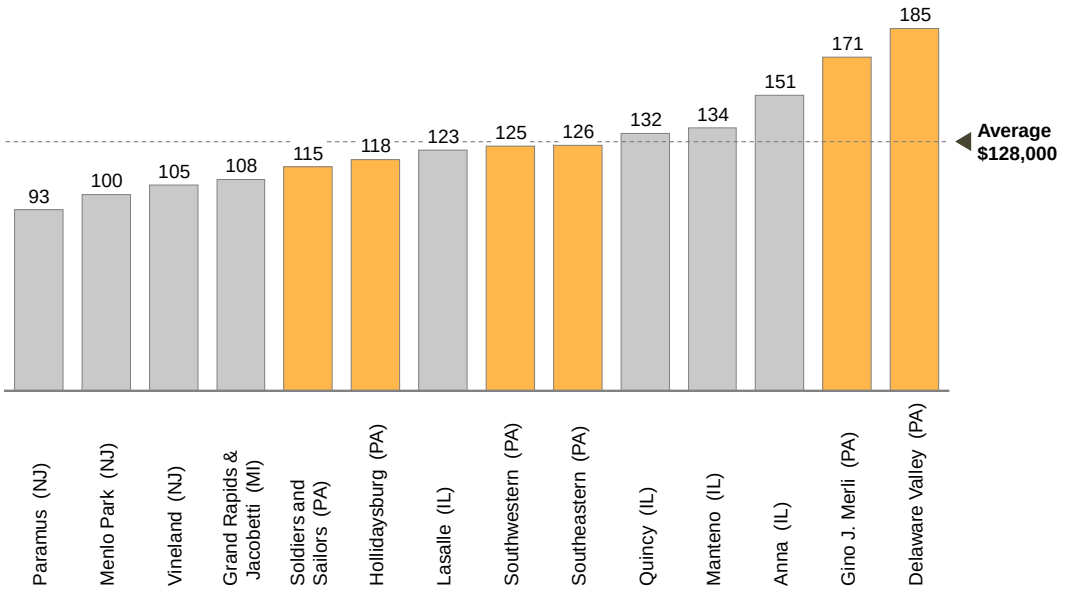
[39] Note: There are no fees for checks for volunteers as well as for certain exempt individuals pursuant to Title 18, Chapter 91 or as designated.

[40] Note: General Fund share estimated at 25%.

[41] Source: State websites

Exhibit 14: Benchmarking of average annual veterans' home cost per veteran[42]

Dollars, thousands



One method various states have employed to lower their veterans' homes costs while maintaining or increasing service levels is contracting for some or all services (Exhibit 15). Some have fully contracted services (while still receiving federal reimbursements), while others have done so only partially.

Exhibit 15: State veterans' homes models[43]

Partially contracted services

State	Functions Privatized
MI	Nursing Assistants
MT	Laundry services
UT	Skilled nursing care, long-term care, rehabilitation therapy, hospice care, behavioral health programs, Alzheimer's and dementia care, and therapeutic recreation

Fully contracted services

State	Functions Privatized
OR	Food and housekeeping services Management services
SC	All daily operations
TX	Full management services
GA	Full Management services
AL	Full management services
MD	Full management services

[42] Source: State budgets; state government websites; http://www.va.gov

[43] Source: State government websites; press releases

The DMVA is considering piloting the contracting of food services at one veterans' home and housekeeping at another. If the DMVA were to accelerate contracting for food and housekeeping services at all six homes, Commonwealth may be able to realize ~$3.6 million in General Fund savings each year. Estimates would need to be refined pending outcomes of the pilot.

In order to realize the opportunities identified over FY17-18 and FY18-19, the Commonwealth could consider the following steps:

- Initiate and track proposed pilot of contracting out food and housekeeping, measuring both cost reduction and service level provided.
- Explore potential opportunity to roll out the pilot on food and housekeeping across all State Veterans' Homes.
- Analyze contracting opportunity for additional services (e.g., nursing, laundry).

2.4.2 Monetize underutilized building space and land at State Veterans' Homes

Initial analysis on the utilization of land and facility space of Commonwealth veterans' homes suggests that the Commonwealth may be able to reduce overall veterans' home costs by (1) closing part of a care building at one veterans home and leasing the space to a private care organization, and (2) selling excess underutilized land.

Closing a wing of a care building. In March 2016, there were a reported 236 vacant beds at the state veterans' facilities.[44] Additionally, the number of veterans aged 65 and older living in the Commonwealth is projected to decrease by 36% over the next 20 years.[45] Initial analysis suggests that the Commonwealth could consider closure of a wing of one of the veterans' homes to right-size capacity. Further analysis is needed to more closely assess the impact of closing the wing on the Commonwealth's ability to meet demand for beds. Such a closure could result in ~$4.0 million in General Fund cost savings from the decrease in nursing, maintenance, and dietary expenses. If the DMVA were able to lease the space to a private care contractor, it might be able to generate ~$600,000 in additional General Fund revenue.[46]

Further analysis is needed to assess whether an entire facility could be closed in the near-term or in the future if the demand for beds drops further. If this were done and the home leased to a private care provider, this could benefit the General Fund by ~$9.3 million per year.

Sell excess land at a State Veterans' Home. The Commonwealth may have an opportunity to sell some of the underutilized land at one veterans' home. In-depth analysis is necessary to assess how much of the land associated with the veterans' home is excess, and at what price that land could be sold given potential uses. Estimating the potential amount of excess land and using market rates for land in that area results in a range of ~$5.3 - $16 million in General Fund impact.[47] The value achieved would be dependent on timing of the sale, activities on nearby properties, and availability of a suitable buyer.

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[44] Source: Bureau of Veterans, November 2016

[45] Source: Legislative Budget and Finance Committee. "Pennsylvania's Current and Future Needs for Long-term Care Services for Veterans"; May 2016

[46] Note: Assumes 49% General Fund share, specific to the veterans' home considered in the analysis.

[47] Note: Assumes 51% veterans' homes General Fund share, the total veterans' homes funding from the General Fund.

In order to realize the opportunities identified over FY17-18 and FY18-19, the Commonwealth could consider the following steps:

- Complete a review of veterans' homes current and forecasted future demand to identify the optimal number of veterans' homes beds to serve Pennsylvania veterans.
- Explore potential opportunities to reduce veterans' homes bed capacity to match projected demand (i.e., close a wing or care building at one facility).
- Explore opportunities to monetize select wings or buildings at state veterans' homes including leasing space to a private nursing home provider.
- Further analyze potential value of unoccupied land at state veterans' homes.

2.5 INSPECTIONS OPERATIONS

2.5.1 Improve efficiency of inspections operations across agencies

The Commonwealth employs a range of inspectors across several agencies including Agriculture (DOA), Environmental Protection (DEP), and Labor & Industry (L&I), to ensure safety, legal, and regulatory compliance across Pennsylvania. To increase productivity and promote efficiency of all inspectors, the Commonwealth could consider a series of operational improvement initiatives. Any cost-saving initiatives would have to be considered with respect to backlogs and necessary level of service to ensure public safety. In addition to near-term operational improvements, these agencies could develop or expand initiatives to implement new technological systems that would both enhance employee productivity and improve customer service (e.g. credit card payments, outward facing forms).

In the near-term agencies could consider:

- **Cross-training inspectors** to increase the flexibility of the workforce. By giving inspectors, who often visit the same facilities, the ability to do different types of inspections, agencies could improve their productivity and yield cost savings after investments in FY17-18 and beyond.[48] The Commonwealth may consider expanding on several initiatives undertaken by the Department of Community and Economic Development (DCED) and Department of Agriculture (DOA) to cross-train employees.
- **Reexamining geographic spread** to ensure that it matches workforce size to workload. For example, the east and west regions of L&I's Bureau of Occupational and Industrial Safety (BOIS) have an equal number of boiler inspectors, yet the east does over twice as many inspections as the west. While some variation in workforce can be expected due to geographic differences, variation between and within regions suggests an opportunity to optimize workload across inspectors.
- **Investing in and rolling out mobile technology** for inspectors could help increase productivity by avoiding ancillary work. For example, with similar initiatives, the Department of Transportation (PennDOT) and DEP have seen productivity improvements.[49]
- **Addressing variances in inspections completed per inspector**. Initial analysis showed that among some inspector types there is significant variation in inspections completed per year; in some cases the most utilized employees complete three times more inspections than the least utilized. Further analysis is required to determine how much opportunity there is to improve utilization across inspectors, as some variation is to be expected given differences in geography and the nature of the sites being inspected.

[48] Note: Estimate net of estimated investment costs for cross-training L&I BOIS inspectors.

[49] Source: Office of Administration, GO-TIME reports, November 2016

While approaches may vary from agency to agency, some combination of these initiatives could help agencies address inspection backlogs and achieve cost savings. Assuming a six-month ramp-up period to deploy new technology and train staff in the beginning of FY17-18, these initiatives may produce FY17-18 savings of ~$0.1-0.3 million, potentially growing to ~$0.9 million in FY18-19 and ~$1.4 million over the longer-term .

To realize the opportunities identified over FY17-18 and FY18-19 the Commonwealth could consider the following steps:

- Conduct additional analysis within each agency to identify specific opportunities to cross-train inspectors, address geographic differences in workload, and improve utilization across inspectors.
- Assess current state of technology for reporting and document management, and consider options in use at other agencies.

To continue to improve, the Commonwealth may also consider the following in the long-term:

- Continue making necessary IT investments that will both improve employee productivity and customer service (e.g., outward facing forms, credit card payments).

2.5.2 Increase Department of Labor & Industry building inspection fees

The Department of Labor & Industry (L&I) may be able to raise revenue, realize savings, and improve workforce productivity through a combination of short- and long-term initiatives.

In the short term, L&I may be able to increase revenue by raising building inspection fees to market levels. Currently, the fees charged by L&I for building inspections are about one third of those charged by municipalities and third-party agencies (Exhibit 16). By modernizing the fee schedule and bringing it to the average market level, the Commonwealth could generate an estimated ~$7 million in additional revenue.[50] The Commonwealth could also consider collecting fees from state-related universities, but additional analysis is required to develop an estimate and assess feasibility.

[50] Source: Department of Labor & Industry, Inspection Data

Exhibit 16: Benchmarking Labor & Industry building inspection fees[51]

Longer term, L&I may also consider making investments in technology to improve both revenue collection and workforce productivity. Specifically, L&I's IT office is currently planning changes in the way it collects payments (i.e., credit-card enabled and emailed invoices), as well as the way it enters, stores, and shares data (e.g., outward facing forms, online applications, cloud-enabled storage, .net platforms and more). While L&I's IT office has made progress in the past six months to implement such initiatives, there may be an opportunity to accelerate these changes if additional investment and support is provided. L&I may also consider instituting an expedited inspection process and associated fee, which customers have requested.

In order to realize the opportunities identified over FY17-18 and FY18-19 the Commonwealth could consider the following steps conduct an in-depth comparative analysis of fee schedules (third party, municipality, and L&I) to confirm precise fee schedule) and provide additional cost-benefit analysis for proposed investments in modernizing systems.

2.6 RESET WORKFORCE SIZE ACROSS AGENCIES

2.6.1 Reset authorized agency workforce complement

As of December 2, 2016, the Commonwealth had 80,925 authorized positions across all agencies and had established 77,176 positions as the ceiling. Filled positions made up 92% of total authorized complement (74,507). For 2017-2018, the Administration recommended an authorized complement reset of 3,227 positions from the original 80,925. The Governor's Budget Office estimates vacancy funding to lead to ~$39 million in General Fund savings in FY17-18. In addition, a complement freeze from adjusting the complement ceiling is expected to provide General Fund savings of ~$26 million in FY17-18. The Governor's

[51] Note: represents fees from 1,036 municipalities. Source: Center for Rural Pennsylvania. "Impact of the Uniform Construction Code in Rural Pennsylvania" (2010)

Budget Office also estimates savings from FY16-17 at ~$45 million from budgetary reserves. In total, eliminating vacancy funding is projected to provide ~$110 million in General Fund savings[52] in FY17-18 and ~$65 million in General Fund savings for FY18-19 and onwards.

Over the longer-term, the Administration could establish routine reviews of complement size such that authorized complement, both in size and composition (i.e., skill requirements, grade level), reflects ongoing operational improvements and realized and projected changes in demand.

2.6.2 Reduce Span of Control

The Office of Administration (OA) conducted an analysis of a revised supervisory span of control policy across agencies. OA estimated that if supervisors were required to have five or more direct reports, and given several years to transition the policy in, there could be ~$3 million in General Fund savings in FY17-18. Accounting for potential overlap with other initiatives in this report, the FY17-18 savings could be ~$2.4 million.

Over the longer-term, the Office of Administration could consider working with agencies to tailor span of control targets by position type to ensure the span of control of the supervisor reflects the nature of the work; in some cases best practice span of control could be as high as ten or more direct reports, while in other cases best practice would be closer to five, or even as low as three.

2.6.3 Offer Early Retirement Incentive Program

The Administration has designed an Early Retirement Incentive Program (ERIP) as a mechanism to right-size the workforce. The program would provide full annuity at 30 eligibility points regardless of age. The Administration has assumed a 50% participation rate, 80% backfill rate, 16 weeks on average to backfill, and backfilling positions at 75% of the retirees' rate, to estimate ~$24.5 million in total FY17-18 General Fund savings, and ~$25.1 million in recurring annual General Fund savings across all agencies. As the program is rolled out, the Administration could consider adjusting backfill targets, both in terms of number of positions and pay grade at which to backfill, to reflect operational needs agency by agency.

Other initiatives estimated in this report could use ERIP as a mechanism to reduce complement; as such, the ERIP savings estimate presented here has been reduced to avoid double-counting savings, resulting in ~$15.2 million in FY17-18 General Fund savings, and ~$15.8 million in recurring annual General Fund savings.[53]

While ERIP is one approach to managing complement, OA could also consider developing additional processes for managing attrition to bring complement in line with targets over time.

2.6.4 Reform Act 632/534

Act 632/534 provides payment of salary, medical and hospital expenses for employees injured in the performance of their duties. By reforming these laws related to work-related injuries (limiting benefits to three years after injury), the Governor's Budget Office has estimated that

[52] Source: Governor's Budget Office

[53] Note: These estimates are based on the Office of Administration's assumptions of 50% participation rate, 80% backfill rate, 16 weeks on average to backfill, and backfilling positions at 75% of the retirees' rate

the Commonwealth could save $1.6 million annually. The estimate is based on analysis showing 131 open cases are at least three years old. Employees would continue to be eligible for salary continuation benefits in accordance with the PA Workers' Compensation Act.

2.7 CAPTURE ADDITIONAL GO-TIME SAVINGS

The GO-TIME program has reported cost avoidance and productivity gains of ~$150 million in recent years.[54] The Commonwealth may have additional opportunities to accelerate and expand past and present initiatives to capture those not factored into agency budget proposals for FY17-18. If the Commonwealth is able to act on some of these, it could realize additional savings of ~$10 million in FY17-18.

To capture additional GO-TIME savings, the Commonwealth could consider the following list of potential initiatives that are either not incorporated into agency proposed budgets or are past initiatives that could be expanded to other departments. The Governor's Budget Office has estimated the following opportunities:

- Capture opportunities that have not been factored into budget proposals:
  - Department of Corrections: electronic healthcare records (~$0.71 million).
- Expand past GO-TIME projects:
  - Department of Corrections: Consolidate medical-related transport (~$0.5 million). The Department of Corrections could further consolidate transportation services to increase efficiency.
  - Various: Power purchasing for institutions (~$7.5 million). The Department of Health, the Department of Military and Veterans Affairs, and others could expand on the recent Department of Corrections power purchasing effort to contract out food services for various facilities.
  - Office of Administration: Streamline redundant software including Geographic Information System (~$1.3 million).

By acting on these opportunities, agencies could potentially generate additional savings of ~$10 million in FY17-18. Together with current debt refinancing efforts worth ~$28 million, expanding GO-TIME initiatives could be worth $38 million in FY17-18. Further discussion with each agency may be needed to understand potential limitations in expanding or pursuing these GO-TIME initiatives (e.g., refining investments costs, understanding staff capacity). There are also additional ideas that require further analysis to quantify but could be pursued by the GO-TIME team and relevant agencies (e.g., encouraging adoption of bring-your-own-device programs at the agency level).

In order to realize the opportunities identified over FY17-18 and FY18-19 the Commonwealth could consider the following steps:

- Identify relevant agencies with the highest opportunity initiatives and prioritize the GO-TIME team's support.
- Work with agencies to develop detailed implementation plans, identify potential limitations, and escalate issues through routine tracking processes.

To continue to improve, the Commonwealth may also consider developing a mechanism by which agencies are rewarded for setting and reaching savings targets over the longer-term.

[54] Source: Office of Administration GO-TIME reports

3 Operate as "One Commonwealth"

The Commonwealth currently has 43 agencies, independent boards, and bureaus that together deliver services to the citizens of Pennsylvania. A number of central teams currently play a role in coordinating agency activities across administrative (back-office) functions to various degrees. These central functions include human resources (HR), information technology (IT), budget and finance, legal, policy, legislative affairs, press, procurement, and real estate and facilities. The Commonwealth could build on these central teams to capture economies of scale for shared services, manage assets as a portfolio, and employ procurement best practices across agencies. Prior to describing the specific initiatives under the "One Commonwealth" theme, this report offers a general discussion of the types of opportunities in this area.

Expanding and enhancing shared services. The Commonwealth's HR employee levels are high compared to peer benchmarks (Exhibit 17).[55] Each HR staff member currently serves 85 employees, which is lower than both public sector and private sector benchmarks of 94:1 and 206:1 respectively. Additionally, Pennsylvania's IT spending per employee is ~33% over public sector peers (Exhibit 18), potentially due to the historical fragmentation of IT systems investments and employee support.

Exhibit 17: Benchmarking Commonwealth HR support staff to employee ratio[56]

Ratio of total employees to HR staff

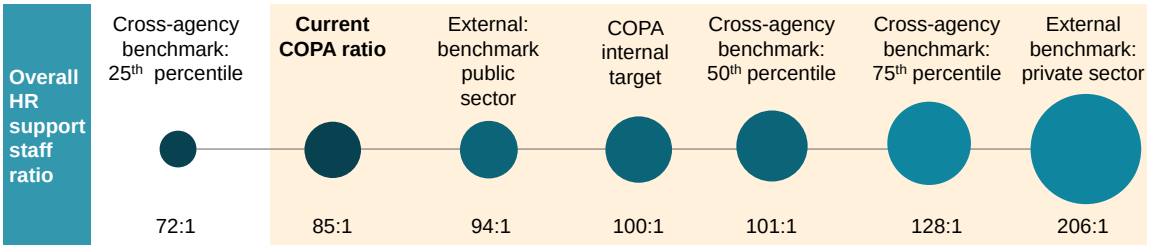
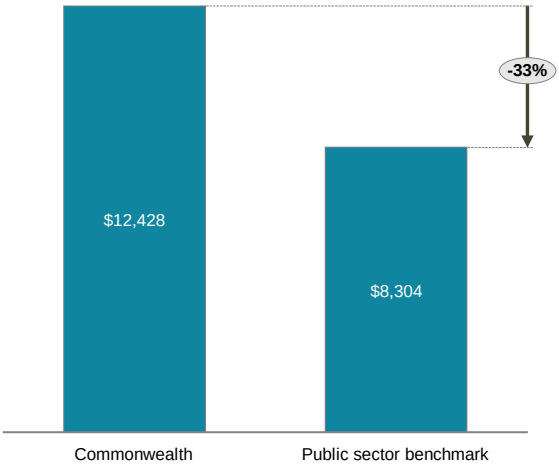


Exhibit 18: Benchmarking Commonwealth IT spending per employee[57]

Dollars per employee



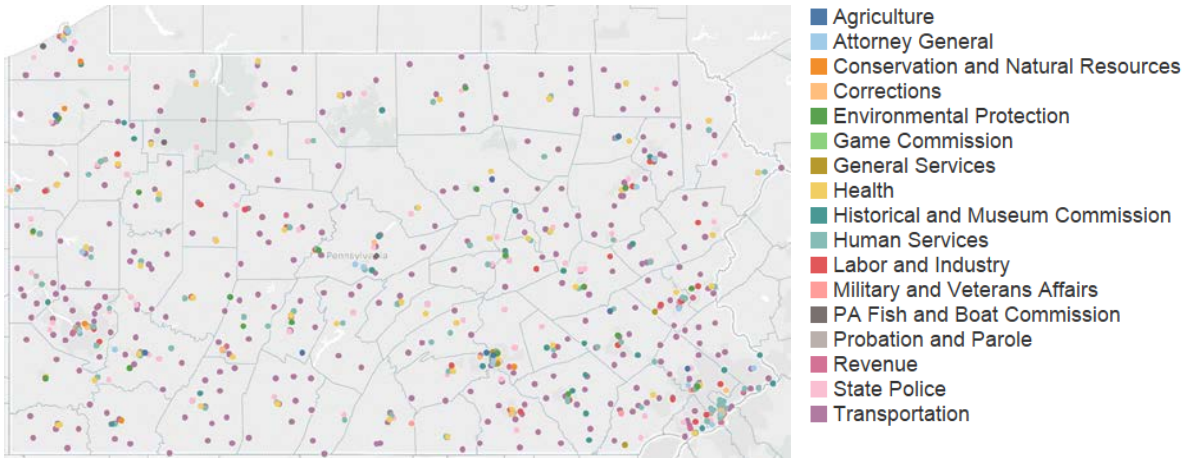
[55] Source: Office of Administration, Filled and Vacant Positions, November 2016

[56] Note: External benchmarks developed based on a peer set of organizations with similar total budget and employee size. Source: Proprietary public and private sector HR operational metrics dataset

[57] Source: Commonwealth of Pennsylvania FY15-16 IT expenditures dashboard; Gartner IT key metrics data: Government – state and local analysis, 2016

Managing assets as a portfolio. Although the Department of General Services (DGS) assists in arranging leases for facilities, each agency has autonomy in planning its real estate and facility needs. Over time, this independence has resulted in the footprint of 2,400 owned and leased facilities (Exhibit 19). Each county in Pennsylvania has multiple agency field sites. In the Harrisburg area alone, there are 115 facilities and 14.3 million square feet of space. Building utilization data is not comprehensive and transparent at the state level; as such it is difficult to assess the current expenditure per employee on real estate and facilities. Initial analysis of usage of leased office space suggests that several agencies have underutilized space, resulting in an average square footage per employee higher than federal GSA standards of 190 sq. ft. per person, potentially costing the Commonwealth $3-$5 million per year.

Exhibit 19: Sample of leased and owned properties by agency[58]



To make best use of state resources and to provide the best service to customers, the Commonwealth could consider:

- **Consolidating administrative space** into the minimum number of buildings required, using teleworking and mobile working arrangements to provide employees flexibility and reduce square footage needed. Such a consolidation and reduction in demand for office space could reduce lease costs, make better use of owned space, and reduce facilities expenses such as utilities, snow removal, security, and custodial services.
- **Creating multi-agency service centers** both to provide a "one-stop-shop" experience for customers and to reduce the number of square feet needed in leased space across the state. To reduce costs, agencies could enter into multi-agency building leases or share owned buildings. This could be particularly advantageous when agencies also share customers (e.g., if services for income assistance, disability, and aging could be provided from one location).
- **Expanding presence through kiosks and co-locating with local governments and community partners**. In order to ensure customers have access to government services, and that government employees at state and local levels are able to work closely together, state agencies could locate "kiosks" or computer terminals at existing sites with high citizen contact (e.g., Department of Motor Vehicles driver's license sites) or partner sites across the state, potentially staffed by concierge staff to offer assistance. In addition,

[58] Note: Properties shown include owned and leased sites across 17 agencies for which data reported shows at least 10 properties. Excludes properties reported as forests, lakes, parks, and game lands. Data is not comprehensive of all owned and leased properties. Source: Department of General Services

agencies could consider sharing offices, clinics, and other service spaces with other agencies already operating in an area.

In addition to facilities, the Commonwealth could continue to improve central management of its ~5,000 car fleet (not including law enforcement and non-passenger vehicles). Particularly if agencies co-locate over time, and if they offer employees more flexible working options, they could further benefit from careful management of pooled and individual vehicles. The Commonwealth also has access to state-wide resources such as wireless tower sites; currently, agencies control access to these assets, which could limit monetization, but there could be revenue-generating opportunities available.

Employing procurement best practices. Best-in-class procurement organizations often seek to reduce expenditures by conducting clean-sheet analysis to help negotiate supplier costs, minimizing rate differentials, and capturing additional value through contract right-sizing. Organizations also attempt to reduce third-party spending through demand management. Procurement managers at DGS and within other agencies could reduce third-party spending using a number these practices, but doing so consistently may require improving the following capabilities and practices:

- **Spending visibility.** Improving the availability of detailed data on contracts and their use (e.g., itemized lists of purchases, detailed lists of contingent workforce, specifications demanded across agencies) would empower central procurement teams to be more effective. For example, detailed information on SKU purchasing is unavailable.
- **Group purchasing & strategic sourcing.** The Commonwealth may be able to establish additional group contracts with suppliers across agencies by using its scale to ensure the best rates and suppliers across spending categories. Furthermore, central procurement teams could be even more effective in applying strategic sourcing best practices such as total-cost-of-ownership analysis, product market analysis, supplier market analysis, design-to-value, clean sheets, and advanced negotiation techniques. While some of these approaches are already in use, there may be opportunity to further utilize DGS's expertise and to continue to build their skillset.
- **Governance and compliance.** Up to 50% of negotiated savings can be lost due to lack of supplier compliance, price compliance, and specifications compliance.[59] In addition, strong pay-to-procure (P2P) processes can help to enhance spending visibility. Using P2P category channels to segment spending and develop tailored efficiency and effectiveness compliance approaches across these channels (e.g., catalogues, professional services, specialized services) may improve savings capture.
- **Demand management.** Agencies may be able to further control their expenditures by selecting lower cost products or employing services more effectively. Analyses suggest that in spending categories ranging from professional services to office supplies, there may be scope to reduce the Commonwealth's expenditures by shifting to lower-cost resources and reducing the total demand.
- **Group IT Management** – The Commonwealth may also have opportunities to improve the cost and quality of IT applications by eliminating non-essential applications, reducing reliance on custom development, and moving to industry standard technologies. Achieving this outcome may necessitate establishing standard IT governance and service management processes and managing demand for IT services, drive IT service strategy, and verify IT service effectiveness and improvement.

[59] Source: Private and public sector procurement experts

Enhancing cash management. The Commonwealth could consider improving its cash management strategy as it enhances central functions. In order to increase working capital, the Commonwealth could assess and pursue improvement levers (Exhibit 20). Additional cost benefit analysis on each opportunity is necessary to prioritize and estimate savings (e.g., working capital could be improved either through negotiating prompt payment discounts or extending payment terms). Further analysis could also be done to optimize debt service and broader financing decisions. Sizing of these opportunities would require analysis beyond the scope of this report.

Exhibit 20: Working capital approaches used in other public and private sector cases[60]

Accounts payable levers	Accounts receivable levers	Inventory levers
▪ Renegotiate **term length** (e.g., 30 to 60 or 90 days) ▪ Move to **End of Accumulation Period** ("EOAP") / prox terms ▪ **Enforce contractual** payment terms ▪ Introduce **supplier finance** / reverse factoring ▪ Eliminate **early payment** ▪ Equalize **unfavorable balance of terms** (vendor is also a customer but AP/AR terms different) ▪ **Change policies** (e.g., improve standard terms, pay one day per week, etc.) ▪ **Review all discounts**, ensure rigorous analysis on discount vs. payment timing decisions ▪ Advance payment of **year end rebates** to quarterly/monthly cycle	▪ Renegotiate **term length** (e.g., 45 to 30 days) in conjunction with commercial efforts ▪ Eliminate **late payments** ▪ Introduce **Factoring** ▪ **Tighten ship dates**/ invoice dates ▪ **Review all discounts**, ensure rigorous analysis on discount vs. timing of receipt decisions ▪ Equalize **unfavorable balance of terms** (customer is also a vendor but AR/AP terms different) ▪ **Change policies** (e.g., improve standard terms, review collection policies and procedures, etc.) ▪ Improve **dunning process**	▪ Optimize **safety stock** levels at each stage of process ▪ Identify and eliminate deviation from **target stock levels** ▪ **Pool stocks** across locations where logistically feasible ▪ Consume or monetize **low-quality, slow-moving, and returns inventory** ▪ Stop producing **low volume, low margin, and/or high volatility SKUs** ▪ **Match** production schedules and supplier orders to **demand** ▪ Reduce cross-BU or other "gaming" by **aligning incentives** ▪ Consider **Vendor Managed Inventory** or consignment ▪ Implement a **Control Tower or Zero Based Budgeting**

Finally, interviews with Commonwealth leadership suggest that in the current operating model, agencies are not fully incentivized to optimize across the portfolio of state funds, facilities, and assets. This leads to inefficient use of space, contracts, and IT systems. In order to ensure coordinated planning and execution, central teams would need increased data collection and visibility from constituent agencies, increased governance and authority over decision-making at the agency level in given functions, and increased staff skill and capacity. Potential long-term opportunities for agencies to improve their ability to operate as one Commonwealth include:

- **Continue to evolve HR center of excellence and shared service capabilities** within the Office of Administration. Enhance strategic services such as talent management and workforce planning offered through a center of excellence. At the same time, reduce the number of staff within agencies devoted to transactional activities that the HR Shared Service Center could perform more efficiently.
- **Further centralize management of common IT infrastructure.** Continue to centralize data centers and application development teams, and enhance data sharing across agencies. The Office of Information Technology (OIT) within the Office of Administration has begun pursuing these activities, but the Commonwealth could prioritize and support further centralization of these activities.

[60] Proprietary public and private sector case studies

- **Enhance DGS real estate, facilities, and procurement capabilities and governance** to create a true center of excellence and enable best practices. Further strengthen DGS's capabilities to set category strategy for procurement, lead negotiations of major contracts, consolidate contracts across agencies, and lead in demand management. Invest in data systems to allow the Bureau of Real Estate to have a portfolio view of all leased and owned buildings and to play a stronger role in coordinating space utilization, consider the role and reporting structure of agency real estate and facilities teams, and review governance models for facilities and fleet decision-making.

While a full modernization of central business functions would take more than a year to operationalize and have budget impact, the Commonwealth could pursue several initiatives immediately to both save cost in the near-term and put itself on the path to fully operating as one Commonwealth in the next 3-5 years.

Next, this report elaborates on the specific initiatives related to the "One Commonwealth" theme.

3.1 ENHANCE USE OF SHARED SERVICES

3.1.1 Consolidate HR and IT into cross-agency delivery teams

The Commonwealth could increase the use of shared service centers and common infrastructure for back-office functions. There are two main best practices in private sector corporate business functions. The first is to create central teams split into functional centers of excellence (e.g., focused on one category of procurement, focused on one talent management area such as professional development, or focused on one type of facilities issue such as lease negotiations). The second best practice is to create specialist business partners who report to the central team and are incentivized to manage across the portfolio, but are deeply embedded with the constituent agency to assist with strategic planning, and to represent the needs of that organization.

In the near-term, the Administration plans to consolidate HR and IT functions into clusters across agencies, and to consolidate a broader set of back-office functions in several agencies. The Office of Administration estimates these efforts could result in ~$9.3 million in total General Fund savings in FY17-18.

To realize the opportunities identified over FY17-18 and FY18-19, and to move further towards a best-in-class shared service operation, the Commonwealth could consider the following steps in addition to the planned implementation:

- Begin managing hiring and backfill rates for affected positions immediately.
- Review the services offered by the shared service center and consider opportunities to further expand transactional services across agencies, and adjust complement as needed if workload is reduced.
- Provide additional training to central teams and cross-agency delivery teams to promote their role as strategic partners to agencies (e.g., offering consultation on workforce planning).
- Use the shared service center or cross-agency delivery team model for other services.

3.1.2 Maximize mail, print, and imaging centralization

The Commonwealth could increase the use of the DGS Bureau of Publications as a shared service for printing, envelope insertion, and mail services. The Commonwealth could also

explore initiatives to optimize imaging services. Similar to the HR and IT shared service opportunities, the Commonwealth could see savings from consolidation of positions, facilities, equipment, and contracts.

Mail shared services. DGS has identified three potential initiatives that could increase efficiencies across agencies.[61]

- If the Commonwealth uses ZIP+4 Codes in place of post office boxes and caller services, it could realize savings from PO Box fees, caller service fees, and personnel time.
- Maximizing agency enrollment in DGS's Postage Metering Program and using an online stamp system could save maintenance costs for meters and improve accountability of postage use.
- Using DGS Publications for centralized sort and delivery of all incoming mail could save vehicle costs, personnel costs, and real estate needed for mail rooms duplicated across agencies. Mail could still be screened at the Commonwealth Mail Processing Center.

In addition, the FY16-17 enacted Commonwealth Budget appropriated $3.1 million for the Commonwealth Mail Processing Center under Legislative Miscellaneous and Commissions.[62] Further mail savings may be possible at this facility, although further analysis is required to determine consolidation potential.

To realize the opportunities identified over FY17-18 and FY18-19, and potentially identify further opportunities, the Commonwealth could pursue the following steps:

- Create plan for central delivery of incoming mail and communicate with affected agencies.
- Establish ZIP+4 system, and procure an online postage stamp system.
- Assess the business case for moving agency mail delivery to a central delivery system.

Print and envelope insert shared services. Consolidating print and envelope insert operations could generate ~$1.1 million in General Fund savings in both FY17-18 and FY18-19, as estimated by the Governor's Budget Office.

- **Print.** The DGS Bureau of Publications may have the print capacity to consolidate print shops from several agencies to deliver printing at a lower unit cost,[63] with savings coming from lower personnel and equipment costs. Additionally, the real estate housing the print shops could become available for other use as part of an effort to consolidate and reduce space. DGS inkjet printers may be able to accommodate the additional capacity from consolidation, as the inkjet printers that DGS plans to buy could have a total annual capacity of ~500 million pages. Currently, DGS prints ~250 million pages, and the combined output of the print shops to be absorbed is ~90 million pages. The PennDOT and DMVA print shops could remain as they are for continuity of operations. Additional analysis on implementation is needed to determine whether DGS needs new IT systems to handle any new types of print jobs.
- **Envelope insert.** Some agencies run their own envelope insert operations. The Commonwealth could consider aggregating capacity for envelope insert at the DGS Bureau of Publications, resulting in a lower unit cost through savings on equipment and personnel. Further effort would be required to design a standard operating procedure,

[61] Source: Department of General Services

[62] Source: Governor's Budget Office, 2016-17 Enacted Budget Tracking Run

[63] Source: Department of General Services

but agencies could submit envelope insert orders online for DGS Bureau of Publications to fulfill. To handle such a consolidation, DGS may need investment in capacity or new IT systems.

The Commonwealth could also consider further consolidation of legislative printing. Both the Senate and House of Representatives run print shops with budgets of ~$7 million and ~$10.7 million respectively.[64] The Senate print shop occupies 50,000 square feet, and the House print shop occupies 60,000 square feet, both in the DGS Annex.[65] Further analysis is required to estimate the potential for consolidation of these operations.

The Commonwealth may also be able to optimize imaging services, but further analysis is needed to estimate the potential size of savings. Where possible, documents could be sent electronically to control demand for physical imaging and scanning services. In addition, agencies could consolidate existing imaging services and contracts to avoid duplicating services.

To realize the opportunities identified over FY17-18 and FY18-19, the Commonwealth could consider the following steps:

- Acquire technology including inkjet printers and envelope inserter for DGS, and create plan to ensure capacity for DGS to handle increased envelope insert demand.
- Determine IT needs to handle agency print and insert operations (if applicable).
- Create new standard operating procedures for agency print and insert orders.

3.2 OPTIMIZE REAL ESTATE, FACILITIES, AND PHYSICAL ASSETS

The Commonwealth currently has a significant real estate and facilities footprint, as well as physical assets including a fleet of personal and non-personal vehicles. To make the best use of state resources and to provide the best services to customers, the Commonwealth could consider consolidating its real-estate footprint across agencies, divesting unused property, and optimizing the vehicle fleet across agencies. In addition, the Commonwealth could consider additional asset types for monetization. For instance, the Commonwealth has a network of over 1,000 communications towers that it could lease to a communications tower manager.

3.2.1 Consolidate real estate footprint across agencies

DGS manages a portfolio of owned office buildings and long-term master leases in Harrisburg. Walk-throughs of several facilities suggest that the buildings are not fully utilized; as such, agencies currently in other leases could move into space in the owned and master leased buildings. Leases up for renewal in Harrisburg in FY17-18 account for ~220,000 square feet, and there could be ~264,000 square feet available (unutilized) in owned buildings or buildings with long-term master leases. Similarly, in FY18-19, initial analysis suggests leases up for renewal total an additional ~70,000 square feet, while there may be an additional ~212,000 square feet available in state-owned buildings or buildings with long-term master leases that year.[66] Consolidating offices could require build-out costs of the new space, relocation costs, and annual parking costs for all occupants. Additional

[64] Source: Governor's Budget Office, 2016-17 Enacted Budget Tracking Run

[65] Source: Department of General Services, Land and Building Inventory, November 2016

[66] Source: Department of General Services, Lease Report, November 2016; building walk-throughs

space consolidation may be possible, as more useable space is identified in Harrisburg and across the Commonwealth.

Consolidating these spaces in Harrisburg could require a ~$0.4 million net investment (~$0.5 million in net General Fund costs) in FY17-18. In FY18-19, this investment could generate savings of ~$5.2 million (~$3.2 million General Fund). Over the long-term, consolidating these spaces in Harrisburg could generate savings of ~$5.2 million (~$3.3 million General Fund). Similarly, consolidating spaces in Philadelphia could result in ~$1.6 million savings from FY17-18 onwards, but these would not accrue as General Fund savings.

A number of factors have slowed adoption of multi-agency building leases and consolidations in the past, including lack of agency buy-in, concerns over parking, and the specifications of the alternative space. These concerns would have to be overcome to realize these savings. Additionally, further analysis would be required to estimate the additional opportunity available if the Commonwealth's space manual was revised, or if less space were needed due to the implementation of initiatives such as teleworking.

Finally, the Commonwealth may also be able to improve lease terms. Initial analysis suggests that DGS leases in Dauphin County are more expensive than prevailing public and private sector office lease rates.[67] Further analysis is required to determine feasibility of achieving market rates given specifics of each site.

To realize the opportunities identified over FY17-18 and FY18-19, the Commonwealth could consider the following steps:

- Gather agency occupancy data and space plans to establish a central, portfolio view of Commonwealth buildings.
- Update the space manual and work with agencies to redesign space of existing offices to maximize occupancy.
- Create detailed implementation plans for consolidating leases, including ensuring funds are available to renovate spaces identified for office move-in.

To continue to improve, the Commonwealth may also consider the following in the long-term:

- Explore additional opportunities to consolidate real estate, such as expanding teleworking and assessing opportunities to co-locate citizen service centers.

3.2.2 Divest unused property

The Bureau of Real Estate (BRE), together with agency input, has identified 22 owned properties as unused and surplus. Selling these properties could generate significant savings (Exhibit 21):

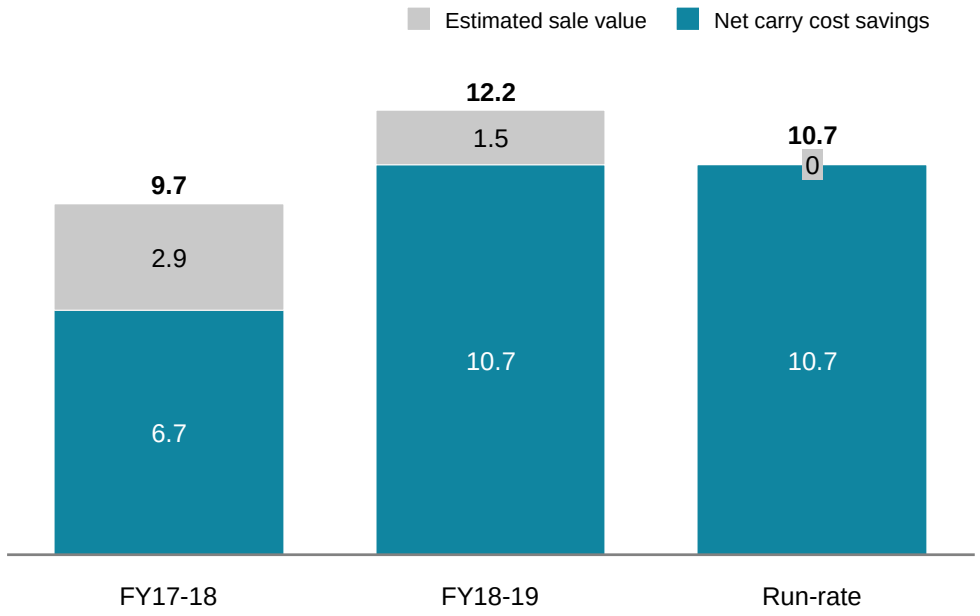
- FY 2017-18: ~$6.8 million (~$6.7 million in General Fund savings) in recurring operating expenses, and ~$4.8 million (~$2.9 million in General Fund revenue) in one-time sale of the properties.

[67] Source: Department of General Services Lease Report, November 2016; CoStar Plus data for Dauphin County

- FY 2018-19: ~$10.8 million (~$10.7 million in General Fund savings) in recurring operating expenses, and ~$1.5 million (~$1.5 million in General Fund revenue) in one-time sales.[68,69]
- Run-rate: ~$10.8 million (~$10.7 million in General Fund savings) in recurring operating expenses.[70]

Exhibit 21: Potential General Fund savings from divesting unused property

Dollars, millions



Further analysis would be required to identify unused or underused properties that may not have been reported. Given the current governance relationship, BRE does not have complete knowledge of space utilization or play an active role in space planning, except on a project-by-project basis at the request of the agency

To realize the opportunities identified over FY17-18 and FY18-19, and to identify additional savings, the Commonwealth could consider the following:

- Prioritize a list of properties to sell based on highest recurring operating expenses.
- Develop a process to proactively identify additional surplus property for further divestment or consolidation.

3.2.3 Rationalize fleet across agencies

There are several potential ways the Commonwealth could reduce the cost of the passenger vehicle fleet across agencies: reducing the mileage reimbursement for using a personal vehicle to the US General Services Administration standard, installing a telematics system across the fleet to capture utilization data, and continuing to right-size the fleet. These

[68] Source: Department of General Services

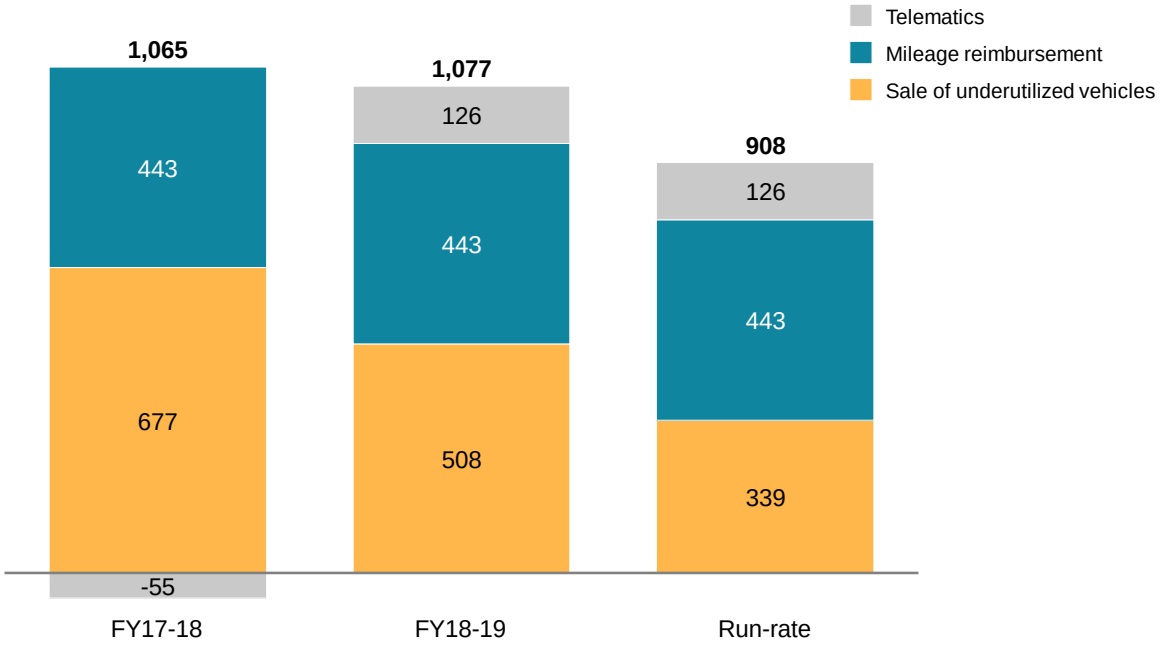
[69] Note: General Fund share varies.

[70] Note: Some properties may require legislature to divest.

initiatives could result in a total General Fund savings of ~$1.1 million in FY17-18, ~$1.1 million in FY18-19, and ~$0.9 million run-rate (Exhibit 22).

Exhibit 22: Potential General Fund savings from fleet initiatives[71]

Dollars, thousands



Reducing personal mileage reimbursement charges. Analysis of a subset of driver data over the course of a year shows that 11,086 drivers across eight agencies received reimbursement for driving their personal vehicles, and that they were reimbursed at different rates, up to $0.57 per mile.[72] Currently, policies and implementation on the reimbursement rate are the responsibility of each agency. If the Commonwealth were able to reimburse these drivers at the GSA standard rate of $0.19 per mile, the Commonwealth could save ~$1.2 million per year (~$0.4 million in General Fund savings).[73,74] To reduce the personal mileage reimbursement rate to the 2016 GSA standard of $0.19, the Commonwealth would need to first offer the driver access to a government vehicle as an alternative.

To realize the opportunities identified over FY17-18 and FY18-19, the Commonwealth could consider the following updating policies and oversight to ensure proper mileage reimbursement across agencies.

Implement a telematics system. DGS's Bureau of Vehicle Management (BVM) plans to install a telematics system across the Commonwealth's fleet to allow for GPS tracking and data collection of vehicle utilization. After the investment cost of ~$0.15 million (~$0.06

[71] Note: Assumes General Fund share of 36.6%.

[72] Source: Department of General Services, Mileage Reimbursement data: August 1, 2015 –August 1, 2016

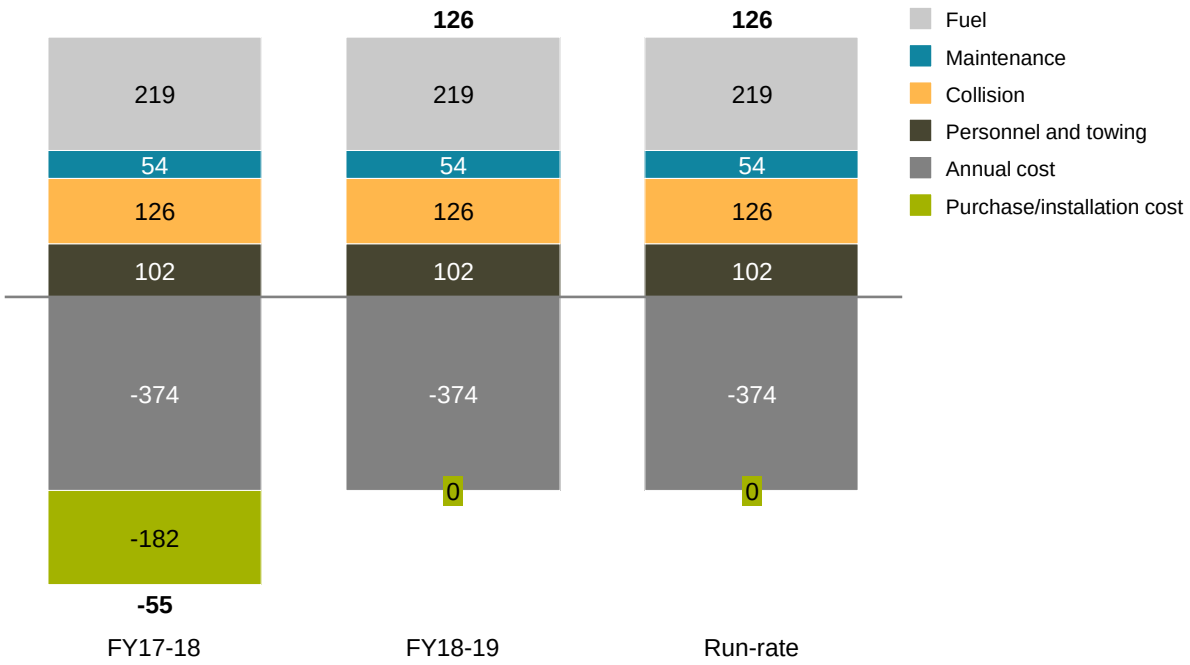
[73] Note: Assumes General Fund share of 36.6%

[74] Source: General Services Administration, privately owned vehicle (POV) mileage reimbursement rates

million in General Fund cost)[75] in FY17-18, installing telematics could result in net savings of ~$0.35 million (~$0.13 million in General Fund savings) in FY18-19 and also at run-rate (Exhibit 23).[76]

Exhibit 23: Potential General Fund costs and savings from telematics[77]

Dollars, thousands



In addition to conducting and assessing the currently planned pilot, the Commonwealth could consider exploring additional ways to monitor personal fleet utilization through the improved data system.

Continue to right-size the fleet. The BVM has been in the process of right-sizing the Commonwealth's fleet for several years, and estimates that the fleet could be reduced by an additional 100 vehicles in FY17-18. The BVM estimates this could save ~$1.9 million in FY17-18 in replacement costs (~$0.7 million a year to General Fund).[78] In FY18-19, the BVM projects another 75 vehicle reduction, saving an additional ~$1.4 million (~$0.5 million from the General Fund), and a further 50 vehicles in FY19-20, totaling ~$0.9 million (~$0.3 million from the General Fund). The telematics program could also allow the BVM to collect detailed utilization data, which would allow for in-depth analysis of fleet utilization.

[75] Note: Assumes General Fund share of 36.6%.

[76] Source: Department of General Services

[77] Note: Assumes General Fund share of 36.6%. Assumes projected 6% savings in fuel, projected 5% savings in maintenance, and projected 25% savings in collision.

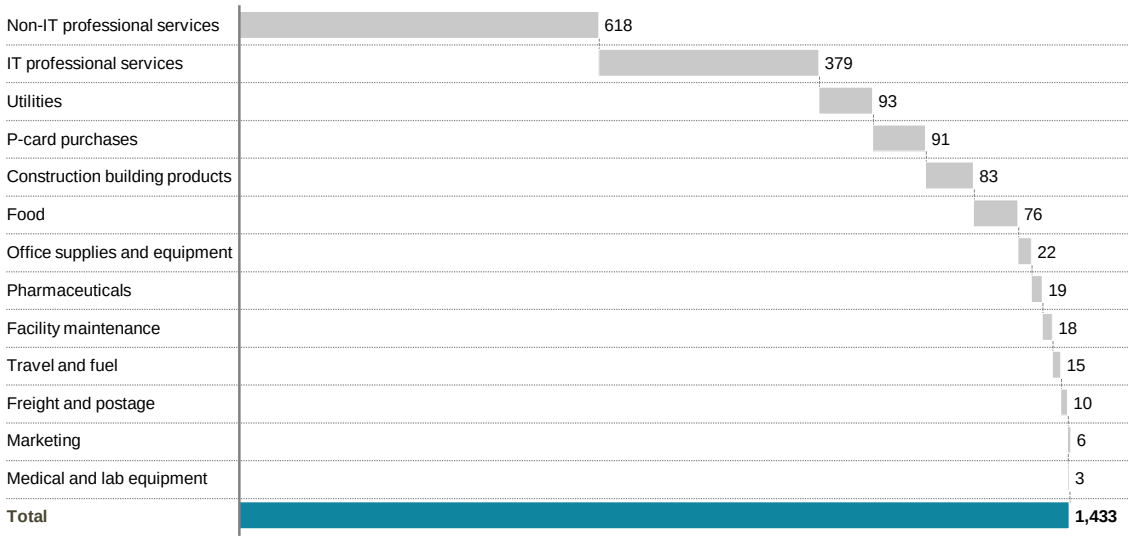
[78] Source: Department of General Services Bureau of Vehicle Management

3.3 REDUCE COST OF PROCURED GOODS AND SERVICES

The Commonwealth spends ~$5 billion annually on vendors across a range of products and services, with additional third-party expenditures made to grant recipients.[79] This analysis considered ~$1.4 billion of third-party spending addressable in relation to the General Fund (Exhibit 24).[80]

Exhibit 24: Estimated addressable General Fund third-party spending[81]

Dollars, millions



Analysis conducted on the estimated addressable spend using benchmarks, best practices, interviews, and detailed contract reviews indicates a General Fund savings opportunity of ~$40 million in FY17-18 across all categories, with the potential to grow to $117 million over the longer-term if procurement best practices are extended to additional contracts. To calculate these savings, analysis was done at three levels:

- In-depth contract reviews to compare contract terms and usage to industry standards,
- High-level contract reviews to extrapolate savings from the in-depth reviews to similar contracts, and
- Category spending reviews to estimate savings on the rest of the spending in a category through benchmarking and top-down analyses.

At each of these levels, a variety of analyses were used to assess savings. These include clean-sheet analyses, which project actual supplier costs, as well as rate-differential analyses, which highlight instances where different rates are charged for similar work. A brief description of the method and total savings for each spending category is detailed below. However, due to the sensitivity and proprietary nature of contract negotiations, specific vendors, contracts, clean-sheet analyses, and potential negotiating strategies are not included.

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[79] Source: Department of General Services

[80] Note: Spending addressed does not include grants and transfers to individuals, payments to governmental sub-recipients, state and federal transfer payments, or salaries and accounting costs.

[81] Note: General Fund allocations estimated based on FY15 spend data and the Governor's Budget Office. Excludes categories that overlap with other initiatives in this report (e.g., real estate, fleet).

3.3.1 Improve contracting and demand management for IT professional services, and pursue discounts and optimal product mix for hardware and software

A review of individual contracts and usage rates suggests that the Commonwealth may be able to reduce its external spending on information technology across professional services and software and hardware purchases:

- IT professional services:
  - Review of rates across vendors, as well as clean-sheet analysis, suggests opportunity to reduce the rate at which services are procured.
  - In addition to contract negotiations, the Commonwealth may also realize savings by changing the mix of resources sourced from IT services vendors (e.g., using higher skilled positions through vendors and staff augmentation for lower skilled personnel).
  - Analysis of contracts also shows that in some cases contract values have grown significantly through add-on projects. The Commonwealth could consider measures such as requiring central approval of change orders over a certain amount or establishing a limit to which contracts can exceed original value before conducting a new procurement process.
  - The Office of Information Technology (OIT) highlighted potential opportunities to reduce the number of applications currently maintained across agencies (with some agencies reporting over half of their applications to be non-essential). Agencies also reported that 73% of applications were custom developed, which can drive up costs of development and maintenance.
- Hardware and software purchases:
  - By capturing a greater proportion of manufacturer discounts given to IT vendors on bundled products (e.g., software, network equipment), savings of ~6-11% could be realized. The Commonwealth could capture these savings by utilizing direct purchasing and/or re-negotiating prices.
  - Additionally, analysis of the Commonwealth's phone line spending revealed higher annual unit costs for business analog lines and ISDN lines compared to VoIP lines. Based on current usage, converting these lines to VoIP may result in 18% savings.

Accounting for feasibility (due to recent contract negotiations, the potential demand other initiatives may place on IT services, and potential changes at the federal level that may have IT implications), there may be ~$18 million in General Fund savings for FY17-18, growing to ~$35 million in savings for FY18-19, and ultimately ~$41 million in run-rate savings, out of ~$379 million of General Fund spending in this category. The Commonwealth could consider a number of actions to accelerate the timing of these savings opportunities, including re-negotiating contracts, actively managing project scope in partnership with agencies, and proactively expanding the use of lower-cost, existing IT vendors.

3.3.2 Seek optimized rates for non-IT professional services

Several agencies such as the Department of Agriculture (DOA), Department of Human Services (DHS), and Department of Corrections (DOC) rely on vendors to provide a wide range services ranging from medical care to legal guidance. Analysis of several contracts showed that re-examining rate differentials and re-negotiating potential some contracts could lower expenditures. As an example, a rate differential analysis of the Commonwealth's current contract with a medical / outpatient services vendor revealed that personnel costs varied based on location. Reducing rates to current the minimum rate achieved for each position could result in up to 16% savings. Based on the contracts analyzed, there may be up

to ~$10 million in savings for FY17-18, ~$19 million in savings for FY18-19, and ~$38 million ultimately in run-rate savings.

3.3.3 Convert retail expenditures on purchasing cards into contracted wholesale purchases

Commonwealth agencies currently spend ~$216 million through purchasing cards (P-card)[82] annually, ~$91 million of which comes from the General Fund. This translates to approximately 0.3% of the total budget. Benchmarking shows that a comparable state with a similar sized budget spends ~0.1% of its total budget through P-cards. Per conversations with the Department of General Services (DGS), P-card spending may be high because the Commonwealth has used P-cards for payments on contracts for certain large commodities where the transaction count is high and spending is significant. While P-card spending benefits from rebates, the Commonwealth could negotiate wholesale contracts for additional items to benefit from the lowest possible negotiated rate.

Benchmarking and review of current P-card spend across suppliers suggests that ~$74 million of the total P-card spending may constitute retail purchases for which contract pricing may be possible. Given industry benchmarks for wholesale to retail price savings[83], there is a potential ~$3 million in savings in FY17-18, ~$6 million in savings in FY18-19, and ultimately ~$13 million in run-rate savings[84].

3.3.4 Improve contracting and negotiations for facility maintenance

Facility maintenance services are important to the productivity and well-being of Commonwealth agencies. A clean-sheet analysis of a key vendor suggested that the contract's maximum hourly rate and average rates exceeded a "should-cost" hourly rate for services provided, based on estimates of vendor cost structure and industry profit margins. With respect to the ~$18 million of General Fund spending in this category, there may be ~$3 million in savings in FY17-18, ~$4 million in savings in FY18-19, and ultimately ~$5 million in run-rate savings.

3.3.5 Apply demand management to utilities spending

While the Commonwealth has negotiated lower energy prices on recent contracts, the Commonwealth could consider pursuing demand management approaches to reducing energy usage. For instance, renovating facilities or optimizing operating practices to curb energy demand could lower utilities costs. Initial analysis shows that some Commonwealth agencies have above-average energy consumption compared to benchmarks for similar building types.[85] Further analysis is required to develop detailed initiatives given the unique properties of each facility and to assess investment costs and potential funding sources for energy-saving facility upgrades. Contingent on further analysis conducted in a detailed design phase, there may be ~$2 million in savings for FY17-18, ~$4 million in savings for FY18-19, and ultimately ~$7 million in run-rate savings.

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[82] Note: Purchasing cards allow employees to make work-related purchases at retailers without filing individual reimbursements; purchasing cards may also give employees access to a catalog of discounted rates for those work-related purchases.

[83] Note: Wholesale to retail savings potential based on Keystone pricing, an industry estimate that suggests that the average retail-to-wholesale price discount is 50%, and review of current vendor discounts.

[84] Note: Potential savings have been phased over several years given feasibility of negotiating new contracts and rolling out new protocols across agencies.

[85] Source: Department of General Services, Utility Usage Report, 2014-2015; US Energy Information Administration, Commercial Building Energy Consumption Survey, 2012

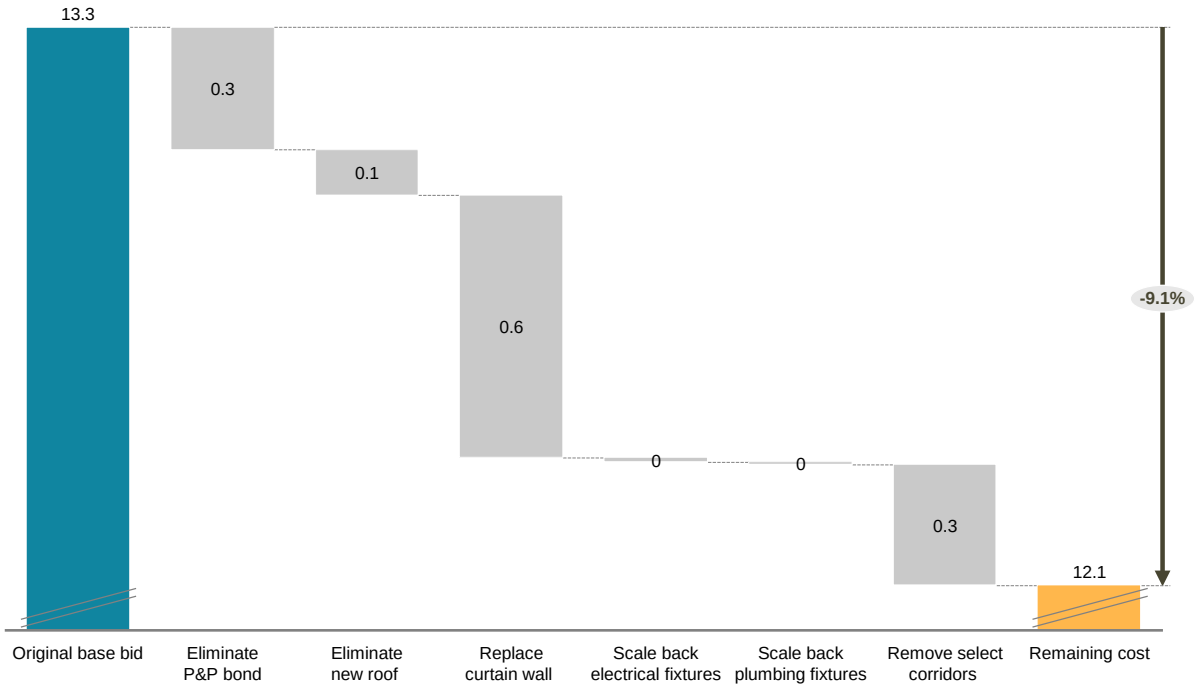
3.3.6 Use value engineering and demand management on construction projects

DGS recently conducted a value engineering study on construction spending on a sample renovation project and found opportunities to reduce spending by extending the useful life of parts, using alternate materials, eliminating redundant spaces, and optimizing electrical and plumbing fixtures. This analysis produced ~9% savings on the cost of the project (Exhibit 25).

If applied to additional upcoming projects, value engineering could potentially represent a ~$1 million saving opportunity in FY17-18, ~$2 million in FY18-19, and ultimately ~$4 million in run-rate savings.

Exhibit 25: Sample construction savings through value engineering[86]

Dollars, millions



3.3.7 Increase compliance, strategic sourcing, and demand management for office supplies and equipment

Detailed analysis of the purchasing log for one office supplies vendor showed that there may be an 11% savings opportunity in this category through the following strategies:

- **Contract vs off-contract spending**: Moving off-contract spending, which represents ~14% of total spending on office supplies, to a contract could result in savings of ~2% of current spending.
- **Ink**: switching from original equipment manufacturer (OEM) to remanufactured ink could result in a ~6% savings opportunity, as estimates suggest that remanufactured ink cartridges cost 18% less on average than OEM ink.
- **Paper**: Given the range of paper brand costs, there may be a 3% savings opportunity by using the lowest cost brand of paper.

[86] Source: Department of General Services Construction Services Department

In total for office supplies, there may be ~$0.6 million in savings in FY17-18, ~$1 million in savings in FY18-19, and ultimately ~$2 million in run-rate savings.

3.3.8 Use demand management to reduce freight and postage costs

Analysis suggests that the Commonwealth may be able to reduce postage costs through demand management. Commonwealth mail volume consists of 71 million letters, 3 million halves, and 3 million flats sent primarily via first-class. Industry estimates suggest that first class mail usage will decline by 7% annually resulting in a 20% decline by 2020 due to digitization. Realizing similar declines could create savings for the Commonwealth.[87]

In addition, the Commonwealth may have a further opportunity to reduce postage by coordinating within and across agencies to consolidate mail sent to the common recipients, shifting non-urgent and non-personally identifiable mail from first class to standard, when possible, and optimizing communication and registration policies to reduce overall demand for mail services.

With respect to the ~$11 million of General Fund spending in this category, there may be ~$0.5 million in savings in FY17-18, ~$1 million in savings in FY18-19, and ultimately ~$2 million in run-rate savings.

3.3.9 Improve sourcing of marketing

The Commonwealth engages in marketing efforts to promote its various services (and in the case of state enterprises, products). Analysis of benchmark marketing spending levels suggests there may be ~$0.3 million in savings in FY17-18, ~$0.6 million in savings in FY18-19, and ultimately ~$1 million in run-rate savings.

3.3.10 Improve sourcing of pharmaceuticals

Recent RFPs achieved a weighted average savings rate of 4% through improved sourcing efforts. Given this experience and benchmark rates, there may be ~$0.2 million in savings in FY17-18, ~$0.4 million in savings in FY18-19, and ultimately ~$0.8 million in run-rate savings in this category.

3.3.11 Improve sourcing of medical and lab equipment

The Commonwealth spends ~$7 million in medical and lab equipment, of which ~$3.5 million comes from the General Fund. Recent agency negotiations suggest a 9% savings opportunity in this category. External benchmarks of similar contracts, coupled with the recent negotiations, suggest that improved sourcing efforts may bring up to ~$0.1 million in savings in FY17-18, ~$0.2 million in savings in FY18-19, and ultimately ~$0.3 million in run-rate savings.

3.3.12 Optimize travel and fuel purchases

Analysis of wholesale unleaded gas prices suggests there may be ~2% savings potential if DGS were able to procure gas for all counties at their current lowest negotiated price. With respect to the ~$15 million of General Fund spending in this category, there may be ~$0.1 million in savings in FY17-18, ~$0.2 million in savings in FY18-19, and ultimately ~$0.3 million in run-rate savings.

[87] Source: Government Accountability Office (GAO-12-159SP)

To realize opportunities across categories in FY17-18 and FY18-19, the Commonwealth could consider the following steps:

- Further examine contracts and refine levers to determine highest priority contracts.
- Begin compiling spending data across the Commonwealth into a centralized database.
- Negotiate highest value contracts and prepare RFPs (if necessary).

Longer-term, the Commonwealth could consider improving spending visibility and use of group purchasing and strategic sourcing, as well as ensuring governance and compliance is in place to track spending and promote demand management.

3.4 MONETIZE FARM SHOW COMPLEX & EXPO CENTER

The Commonwealth has proposed monetizing the Pennsylvania Farm Show Complex & Expo Center. To monetize the complex, the Commonwealth would issue a request for proposals (RFP) to seek private entities interested in a 29-year contract on the complex. The private entity would pay the Commonwealth the fair market value of the complex in full on the first day of the lease. The Commonwealth would then make annual payments to the private entity for a term of 29 years based on a negotiated interest rate. The Commonwealth would retain the control and responsibility of the property without any interference or approval from the private entity. Title to the property would not transfer to the private entity.

Based on a DGS valuation of ~$147 million (generated before recent improvements to the property), the Commonwealth estimates the fair market value of the complex could be ~$200 million. The initial payment of ~$200 million to the Commonwealth would augment the debt service General Fund appropriation. Assuming an annual interest rate of 4%, the Commonwealth would be responsible for ~$11.8 million annual payment for 29 years starting in 2018-19. The issuance of the RFP will likely occur in the fall of 2017. Further consideration of long-term implications, contract terms, and tax considerations would be necessary to refine estimated FY17-18 revenue generated and benefit to the Commonwealth.

3.5 RAISE BOND FUNDS FOR SELECT GRANT PROGRAMS

The Administration has proposed funding several discretionary grant programs through bond funding, instead of the General Fund:

- Transfers to Environmental Stewardship Fund (~$51.8 million).
- TSF CURE: Commonwealth Universal Research Enhancement (~$45.9 million).
- Grants to the Arts (~$9.6 million).
- Cultural and Historical Support (~$2 million).

Overall, the Administration estimates potential savings of ~$109 million in FY17-18.

3.6 REDEPLOY LAPSED FUNDS

The Administration has identified an additional estimated ~$100 million in current and prior year budget lapses (unspent appropriations).

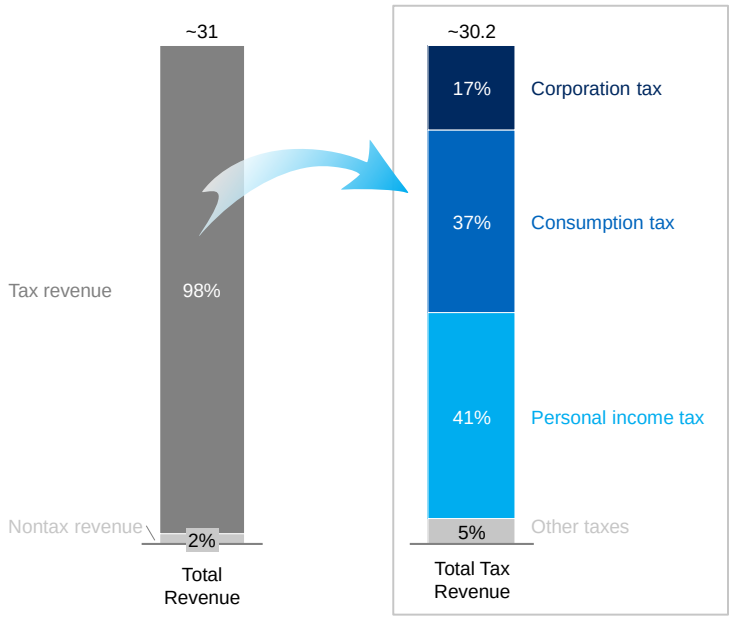
4 Increase revenues without commensurate changes to tax rates

The Commonwealth has the potential to increase state revenues without commensurate tax rate increases by achieving the full potential from current tax revenues and Liquor Control Board profits. The Commonwealth gets the majority of its General Fund revenues from taxes (Exhibit 26). Pennsylvania's major sources of tax revenue are corporation taxes, consumption taxes (e.g., sales and use, liquor excise taxes), personal income taxes and other taxes (e.g., realty transfers, inheritance). The Commonwealth also derives revenues from nontax sources including licenses, fees and penalties. It also receives funding from federal grants, and contributions from state enterprises.

This report provides potential initiatives that could enhance Department of Revenue management and operations, thereby increasing tax compliance and capturing more revenue from current and planned policies. The study also examined ways to improve the profitability, and therefore the contribution of, state enterprises. Due to a parallel effort, this study did not focus on federal grant opportunities.

Exhibit 26: Major sources of revenue FY15-16[88]

Dollars, billions



This report next describes individual initiatives across the Department of Revenue and state enterprise operations.

4.1 ENHANCE DEPARTMENT OF REVENUE OPERATIONS

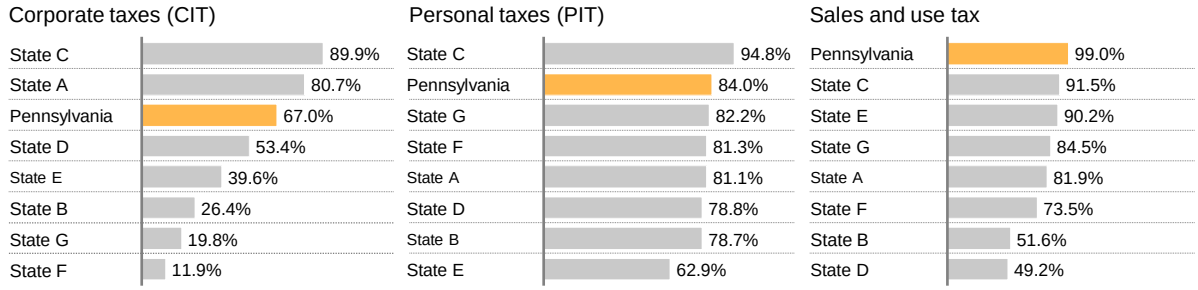
The Department of Revenue (DOR) assists the Commonwealth in collecting ~$30 billion in annual revenues. Over the past several years, DOR has made continuous efforts to adjust to the changing tax landscape. For example, realizing a need for greater compliance in the emerging freelance contractor economy, DOR engaged AirBnB to remit occupancy taxes to

[88] Source: Department of Revenue, Statistical Supplement for the Pennsylvania Tax Compendium – Fiscal Year 2015-2016

the Commonwealth. DOR has also pioneered a sales tax desk review program, and a program to detect sales tax suppression that continue to enhance its capabilities. DOR has also sought to drive greater efficiency through digital channels and compares favorably with other states in terms of E-filing rates (Exhibit 27).

Exhibit 27: E-filing rates for Pennsylvania compared to other states[89]

Percent



This report details additional opportunities the Commonwealth could also consider to further enhancing revenues, including:

- Increasing productivity of current staff by reviewing processes against industry best practices and ensuring employees have the necessary tools, training, and skills to be most effective,
- Increasing use of data systems to proactively pursue greater tax compliance, while focusing on delinquency prevention and putting DOR on a path towards greater use of analytics and automation,
- Augmenting productive audit and collections staff to help ensure that the Commonwealth is optimizing total revenues collected, both in the near-term and in the long-term,
- Increasing support for the tax appeals process, and
- Supporting DOR legislative proposals that would further enable DOR to pursue non-compliant taxpayers.

To continue to evolve and potentially capture even greater value over the longer-term, the Commonwealth could also consider:

- Employing truly integrated data systems that enable process improvements across DOR via more extensive data matching.
- Using advanced analytics and machine learning to help DOR continually improve processes and prioritization.
- Increasing use of automation and digitization in manual processes to enhance data capture and productivity improvements.
- Increasing focus on customer experience in reporting and filing of taxes to support voluntary compliance.

[89] Source: Department of Revenue 2015-2016 data; Proprietary state tax dataset, collected 2013 – 2014

To identify opportunities, interviews were conducted to help understand current practices, internal metrics and practices were reviewed compared to other states[90], and DOR's historical performance was examined.

4.1.1 Increase productivity of current staff

While strong in many areas, DOR may be able to improve productivity, specifically in collections and corporate tax audit. Review of other states' productivity shows that DOR is among the best in personal income tax and sales and use tax audit productivity when considering exam revenue per employee. At the same time, DOR lags other states in corporate tax audit exam revenue per employee and in delinquent tax collections revenue per employee[91]. Review of internal data also shows that DOR's collection of delinquent tax revenues from sales and use and corporate taxes has declined in recent years from historical averages by ~38% and ~20% respectively. DOR has identified a number of potential steps to take to regain historical levels of productivity (and has made progress in improving delinquent corporate tax collections already) including improving IT systems, managing staff turnover, and enhancing training for junior employees.

Focusing on internal performance improvements could empower tax professionals to be their best while providing return on investment for the Commonwealth. Other states, such as New York and California, have successfully adopted practices such as using integrated data systems and improving selection customization in processes to help support improved performance.[92,93] To drive productivity improvement, DOR could consider adopting industry best-practice processes (many of which will require improvements in systems support), improving internal management and front-line training, and enhancing measurement of performance metrics.

In collections, for instance, several specific approaches may be considered, such as: increasing customization of the collections workflow for different taxpayer segments; selectively increasing dialer intensity; and establishing specialized call groups and account ownership. Additionally, there may be opportunity to better structure and optimize collections activities in the field setting. All of these may yield material improvements in dollars collected. DOR has also identified an opportunity to improve audit productivity by moving certain staff from less-productive IFTA audits to higher-revenue generating assessments, while staying within current legal requirements for such audits.

Through these actions, DOR may be able to generate an additional $1-22 million in FY17-18, depending on speed of implementation. While initial progress can be made on these actions in FY17-18, some changes may take time to implement. For example, redesigning collections and audit processes, piloting and measuring changes, and institutionalizing best practices across the department could start in FY17-18, but the full benefits of these actions may only be fully realized in later years. Particularly in audit, where there can be several months of lag

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[90] Note: State data used represents a mix geographies and tax structures. No states included have gross receipt taxes, and four out of seven have combined reporting. Corporate income tax rates range from ~6 – 9% while sales and use tax rates range from ~4 – 7.5%. Personal income tax varies considerably, as most states have graduated income schedules. FY15-16 data used for Pennsylvania, 2013 and 2014 used for other states.

[91] Note: Historical average performance is higher than 2015-2016 performance, but even at historical levels there is a gap between the Commonwealth's collection performance per employee and that of top-quartile states. Source: Department of Revenue 2015-2016 data.

[92] Source: New York Fraud Analysis and Selection Team, https://www.tax.ny.gov/about/fta-tech-award-nomination.pdf

[93] Source: California Franchise Tax Board, https://www.ftb.ca.gov/aboutFTB/Projects/EDR/edr_brochure_ftb_824.pdf

time between an assessment and final payment, gains are more likely to be observed beyond FY17-18. Savings estimates for initial years also include upfront investments (e.g., potential upgrades to IT systems).

4.1.2 Increase use of data and integrated systems

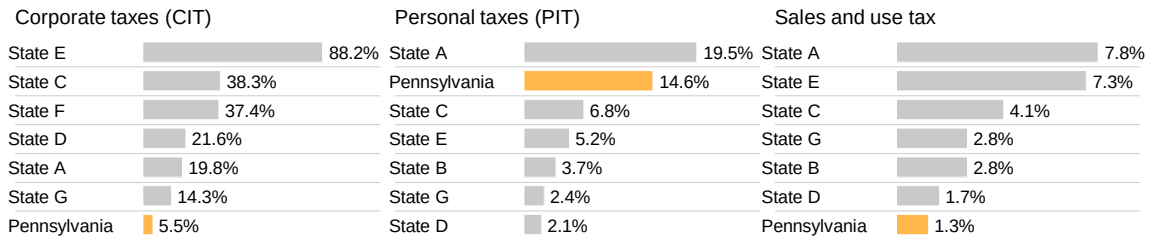
Leading tax authorities, facing an increasingly complex tax environment, are investing in new types of data and database linking. DOR could use similar approaches to unlock meaningful value for the Commonwealth. Specifically, accessing real property ownership data could create substantial value over the next two years. DOR believes that this data, currently housed at the county level, could enable it to better identify non-reporting and under-reporting taxpayers, as well as collect delinquent revenue more effectively. DOR estimates FY17-18 impact of ~$11-13 million, inclusive of a ~$2 million investment, and ~$5-6 million net impact in ongoing years.

4.1.3 Augment productive staff

The Commonwealth may also consider increasing the number of certain DOR positions as a way to sustainably enhance state revenues while providing improved levels of taxpayer support and service. Based on historical productivity, some revenue-generating positions (e.g., in audit and collections) yield $1-3 million per year in revenue for the Commonwealth. Pennsylvania field audit and desk exam review have high levels of productivity per employee in personal income and sales and use tax compared to other states.[94] However, Pennsylvania assesses a much smaller portion of its overall revenue as compared to other states (Exhibit 28), suggesting that the Commonwealth may be able to increase revenue by augmenting staff.

Exhibit 28: Exam revenue assessed in Pennsylvania compared to other states[95]

Percent of total revenue



Furthermore, the Commonwealth has a history of linking DOR staff increases to increased revenue through the Enhanced Revenue Collection Account (ERCA) program. In this program, additional investments in DOR staff have resulted in returns on investment in excess of 11-to-1.[96] Other states have also invested in additional staff as a way to increase revenues. For example, in 2015, Wisconsin added 113 additional tax staff to its taxing authority to help balance the state's budget (Exhibit 29).

[94] Source: Proprietary state tax dataset, collected 2013 – 2014

[95] Source: Proprietary state tax dataset, collected 2013 – 2014

[96] Source: Department of Revenue, "Report to the General Assembly on the Enhanced Revenue Collection Account," 2016

Exhibit 29: Wisconsin tax authority staff augmentation[97]

State	Description	Investment	Impact
	▪ In 2015, Wisconsin approved an expansion of its taxing authority by hiring an additional 113 FTEs, including 87 auditors, 11 collectors, 7 managers and 8 support staff	▪ Year one costs were estimated at $11.8 M and $13.6 M for subsequent years	▪ The year one revenue benefit was estimated at $31.5 M with an additional $80-90 M in subsequent years

To realize these additional revenues, the Commonwealth could take several approaches. DOR believes that more sustained funding through General Fund appropriations would enable it to make investments in staff that best promote the long-term sustainability of assessments. Another option may be to expand ERCA or a similar program. Yet another pathway, particularly in collections, could be through outsourcing some operations. Indeed, the Commonwealth already uses outsourced vendors for late-stage collections (under the direction of the Office of the Attorney General). This program could be expanded into earlier-stage interactions. If this path is pursued, best practices suggest that contracting vehicles be modernized to allow greater control over vendor performance than currently allowed through outsourced collections contracts (e.g. allowing dynamic allocation of collections accounts based on vendor performance for different types of collections). Based on DOR's proposal, a ~$7 million investment in FY17-18 may produce ~$34-41 million in additional revenue, and a ~$13 million investment in FY18-19 may generate an additional ~$72-78 million.

4.1.4 Increase support for the tax appeals process

The Department of Revenue believes there is an opportunity to adopt a more proactive litigation strategy in the tax appeals process, which could increase revenue for the Commonwealth. The capacity of DOR's appellate counterparts may make it challenging to maximize revenue collected. Due to high caseloads, ~95% of all cases that make it to Commonwealth Court are settled, usually with a significant discount from the tax upheld by lower level courts.[98] The likelihood of a discount may make appeals to the courts more attractive to taxpayers with large disputes. In addition, this practice may limit DOR's opportunities to establish tested precedents in disputed areas.

DOR estimates that a refined appeals process may generate ~$9-19 million in run-rate revenue, including ~$1 million in annual funding needed for additional lawyers and legal staff to litigate more appealed cases. Longer-term, the Commonwealth may also be able to reduce the number of appeals, as precedents are established in disputed tax areas. This may ultimately lead to a lower burden on the appeals process and reduced revenue leakage from negotiated settlements.

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[97] Source: Wisconsin Legislative Fiscal Bureau, https://docs.legis.wisconsin.gov/misc/lfb/budget/2015_17_biennial_budget/300_budget_papers/560_revenue_additional_auditor_positions.pdf; GazetteExtra, http://www.gazettextra.com/20150921/steven_walters_new_tax_auditors_will_target_out_of_state_firms

[98] Source: Department of Revenue

In addition, DOR has proposed that if legislation were sought to reduce the current appeal timeframe, the change could speed up each collection step, thereby increasing the likelihood that delinquent taxes are paid.

4.1.5 Consider additional Department of Revenue legislative proposals

While legislative analysis is outside the scope of this report, the Department of Revenue (DOR) believes that several legislative proposals may help it enforce the tax code. For example, allowing DOR access to Department of Motor Vehicles ownership data may help identify non-filers and under-reporters.

Exhibit 30 highlights DOR's revenue-generating proposals in more detail, including DOR's estimates of potential revenue. Assuming these proposals are enacted, an investment of ~$1-3 million may generate ~$30-35 million in run-rate revenue for the Commonwealth.

Exhibit 30: Department of Revenue legislative proposals and run-rate estimates[99]

Post Amnesty legislative idea	Description	Estimated revenue, $M	Estimated cost, $M	Estimated net value, $M
Strengthen criminal tax enforcement	Extend statute of limitations and augment criminal tax penalties	1 - 3	~0	1 - 3
Institute Financial Institution Data Match (FIDM)	Expand bank attachment process similar to child support program	2	<1	1 - 2
Enact non-resident withholding at source for 1099-MISC	Require firms to designate PA source income on 1099-MISC	22	<1	20 - 21
Utilize data exchange with Department of Transportation (DOT)	Allow DOT to provide driver license and vehicle information to DOR	8	~1	7
Enable DOR to garnish credit card payments	Allow DOR to garnish credit card payments from payment processors	2	<1	1 - 2
	Total	~35 – 37	~1 – 3	~30 – 35

4.1.6 Improve collection of non-tax revenues

In addition to its role in the appeals process and tax collection, the Office of the Attorney General (OAG) is responsible for collection of delinquent non-tax revenues (e.g., fines, delinquent motor vehicle registrations payments). In this capacity, OAG collected ~$12 million in revenues from non-tax accounts in FY15-16.[100] Initial discussions with the OAG suggest that the total value of delinquent non-tax debt outstanding is still more than $100 million. The OAG passes collected revenue back to respective agencies from which the debt originated. While many of its collected revenues may not directly impact the General Fund, the Commonwealth may have opportunities to explore increasing non-tax revenue collections activities through additional staff and/or greater performance management of collections agencies.

[99] Source: Department of Revenue

[100] Source: Office of Attorney General

4.1.7 Capture additional revenue from potential minimum wage increase

The Administration has estimated that raising the minimum wage from $7.25 to $12.00 could generate additional revenue. After adjusting for feasibility and capture, the Administration has estimated ~$95 million in revenue from a potential minimum wage policy change in FY17-18, potentially growing to ~$98 million in FY18-19 and ~$100 million in FY19-20.

4.1.8 Capture additional revenue from potential suspension of tax credits

The Administration has proposed reducing the scope and amount of tax credits allocated, estimated at generating ~$100 million in revenue in FY17-18.

To realize the Department of Revenue operational improvement opportunities identified over FY17-18 and FY18-19, the Commonwealth could consider the following steps:

- Assemble a DOR working team and identify internal change agents.
- Prepare and issue RFP for collections system.
- Pilot near-term process improvement changes in collections and audit (e.g., regular huddles, call intensity, continual skip-tracing).
- Consider increasing ongoing, front-line training and development sessions.

To continue to improve, the Commonwealth could also consider the following in the long-term:

- Expand DOR's data warehouse capabilities to enhance predictive modeling and help prioritize staff activities.
- Continue to align tax functions to enhance DOR visibility and taxpayer connectivity (e.g., field audit and desk review, personal and business tax systems).
- Provide DOR with greater flexibility in its contracts with outsourced collections agencies.

4.2 IMPROVE PROFITABILITY OF COMMONWEALTH ENTERPRISES

Both the Pennsylvania Liquor Control Board (PLCB) and the Pennsylvania Lottery have made continual strides to improve the operations of their businesses. For example, since the enactment of Act 39, PLCB has exercised some of its new freedoms by renegotiating contracts with select suppliers to improve its gross margins. Additionally, PLCB has initiated plans to develop a new customer relationship management (CRM) system to better interact with and serve its customers. Similarly, Pennsylvania Lottery has continually evolved its business to improve financial performance. For example, its pilot program offering play-at-the-pump games has raised new revenues, while offering Lottery gift cards may help recruit new retail partners in the future.[101]

In addition to these efforts, initial analysis suggests that the Commonwealth may have opportunities to further improve profitability of the PLCB and the Pennsylvania Lottery to further enhance their contributions to state funds (PLCB to the General Fund and State Store Fund and Pennsylvania Lottery to the Lottery Fund). The scope of this report is limited to profitability improvement opportunities within the current ownership structure.

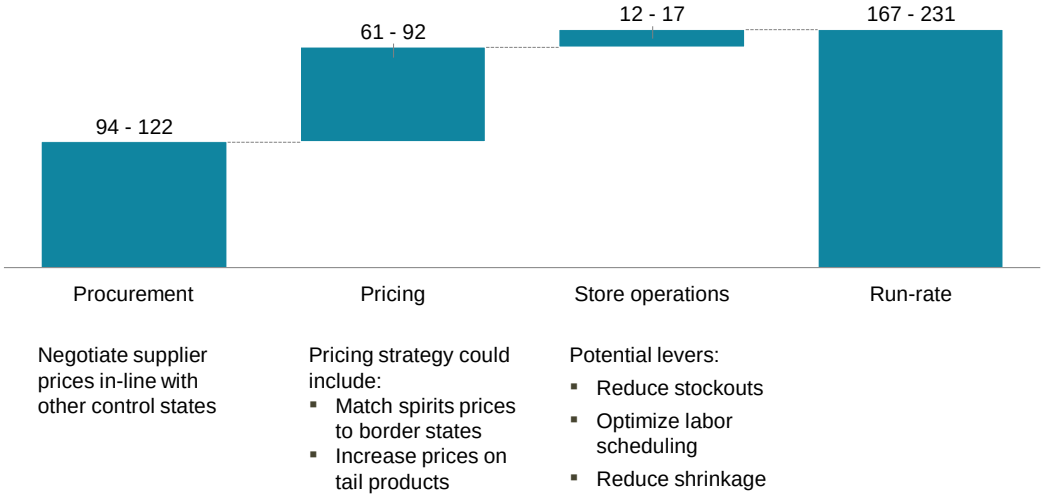
[101] Source: Pennsylvania Lottery

4.2.1 Pennsylvania Liquor Control Board

The Pennsylvania Liquor Control Board (PLCB) generated ~$2.4 billion in sales in FY15-16, generating ~$0.5 billion for the Commonwealth through sales and excise taxes.[102] PLCB also directly supports the General Fund through annual profit transfers, and it contributes to Pennsylvania State Police liquor enforcement efforts. Analysis suggests that PLCB could enhance its profitability using the following approaches (Exhibit 31):

Exhibit 31: Potential run-rate opportunities for Pennsylvania Liquor Control Board[103]

Dollars, millions



Negotiate with suppliers to lower cost of goods sold (COGS). The PLCB controls wholesale and retail distribution of wine and spirits across the state. While it is the largest buyer among alcohol control states, Pennsylvania has historically had higher COGS compared to its peers (Exhibit 32). Analysis across Pennsylvania's top 40 spirits by total sales suggests that it pays higher supplier prices on 37 of the top 40 spirits, compared to other large alcohol control states.[104] Across these items, analysis suggests that peer states pay an average of 14-19% lower prices than PLCB for identical products.

With the additional flexibility afforded through Act 39, PLCB may be able to re-negotiate with suppliers, which could be worth ~$94-122 million in run-rate profits.

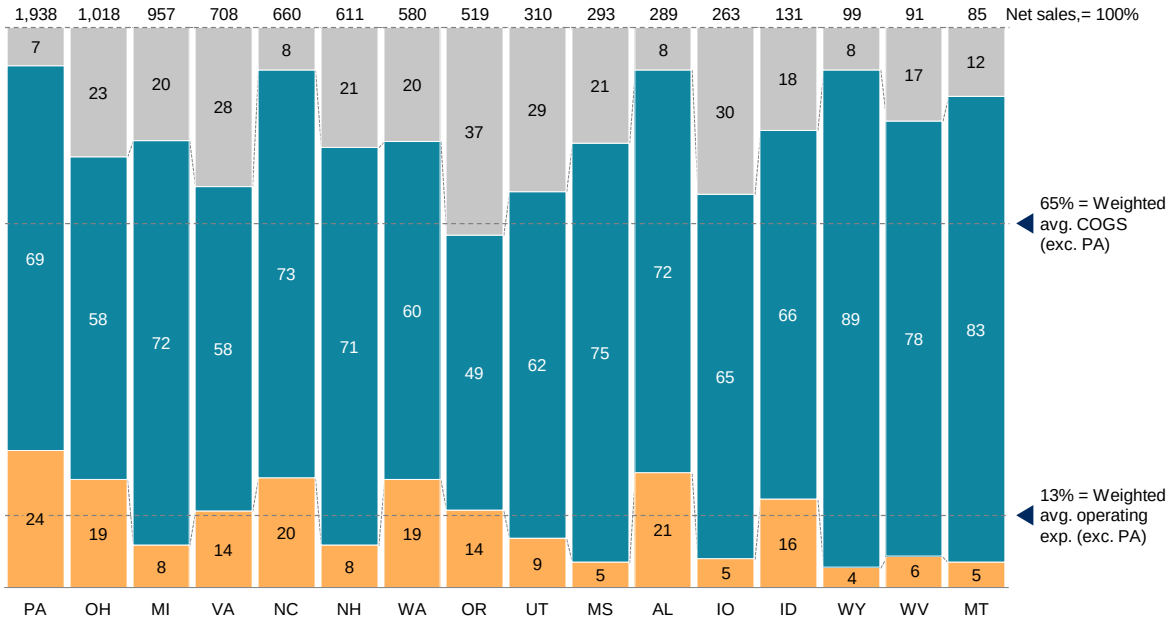
[102] Source: Pennsylvania Liquor Control Board, 2015 Annual Report

[103] Note: Estimates based on prior years' financial performance. The Pennsylvania Liquor Control Board (PLCB) may have ongoing efforts and proposals related to procurement, pricing, and store operations; further analysis is required to determine potential overlap with PLCB proposals for FY17-18.

[104] Source: Pennsylvania Liquor Control Board

Exhibit 32: Financial comparison of select alcohol control states[105]

Percent of net sales



Optimize pricing strategy. Given additional flexibility from Act 39, PLCB is no longer required to uniformly mark up all products across the top 150 brands. Specifically within pricing, there are two primary strategies that may enhance profitability: a) increasing spirits prices to be more in line with bordering states, and b) increasing the mark-up on products outside of the top 150 brands (i.e. tail products).

Examining a subset of PLCB's top products suggests that popular spirits tend to be priced lower in Pennsylvania compared to bordering states. Spirits examined were priced ~6% lower on average in Pennsylvania compared to the average price across NJ, NY, DE, and MD (Exhibit 33). These findings suggest that increasing spirit prices to those of bordering states could result in ~$39-57 million in run-rate profits.

[105] Source: US Census; Pennsylvania Liquor Control Board, 2015 Annual Report, North Carolina Liquor Control Board 2015 Annual Report , Alabama Alcoholic Beverage Control Board, 2014 Annual Report; Virginia Department of Alcoholic Beverage Control, 2015 annual report; JobsOhio, 2015 Annual Report

Exhibit 33: Top spirit prices in Pennsylvania compared to bordering states

Dollars

Top Spirits Price category[1]	Avg. PA price $	Avg. border price[2] $	Avg. price difference $	Price gap Percent
Avg. overall	20.3	21.5	1.2	6%
• High	27.7	29.3	1.6	6%
• Med	18.9	19.8	0.9	5%
• Low	14.2	15.3	1.2	8%

Comparing 18 spirits across PLCB's top 150 suggests that PA spirits may be priced **~6% lower** on average than border states (NJ, DE, NY, MD)

In addition, PLCB has flexibility to uniformly increase prices on "tail" products (those outside of the top 150 brands). PLCB estimates that tail products represent ~15% of total wine sales and ~25% of total spirit sales.[106] This translates to ~$430 million of total sales based on FY15-16 performance. Increasing prices on these products by 5-8% may result in additional earnings of ~$22-35 million, assuming limited impact on volume (Exhibit 34). Together, these two pricing changes could result in ~$61–92 million in run-rate profits. Changing retail prices could occur within a short timeframe, so it is possible that the majority of run-rate savings could be captured within FY17-18 if fully pursued.

Exhibit 34: Estimated impact of increasing tail prices[107]

Dollars, millions (rounded)

Product category	Estimated value of tail products, $ M	Impact of 5% price increase, $ M	Impact of 8% price increase, $ M
Wine	118	6	10
Spirits	315	16	25
Total	432	22	35

Improve operational efficiency of state-run stores. PLCB has higher operating costs as a percentage of sales compared to other alcohol control states, including states with similar workforce expenses (Exhibit 35).

[106] Source: Pennsylvania Liquor Control Board

[107] Source: Pennsylvania Liquor Control Board, 2015 Annual Report

Exhibit 35: Pennsylvania Liquor Control Board financial performance vs. comparable control states[108]

Financial performance	Pennsylvania LCB	Comparable state LCBs (AL, NC, VA)
Gross sales, $M	2,430	-
Taxes, $M	492	-
Sales net of taxes[2], $M	1,938	616
Cost of Goods Sold (COGS), Percent	69%	66%
Total operating expense ratio, Percent	24%	18%
▪ Warehousing expense ratio, Percent	1%	-
▪ Store operations expense ratio, Percent	19%	-
▪ Other costs expense ratio, Percent	4%	-
Operating margin, Percent	7%	16%

PLCB could potentially lower store operating costs through a variety of levers (e.g., optimizing checkout operations, readjusting labor schedules). Implementing Lean Management processes could reduce operating costs by 8-10%.[109] If the PLCB could realize 3-5% savings by adopting a subset of these practices, it could garner run-rate savings of ~$12-17 million. Further analysis is required to determine which practices to adopt and how to time their adoption, as such operational changes may require 6-18 months to fully implement.

To realize the opportunities identified over FY17-18 and FY18-19, the Commonwealth could consider the following steps:

- Assemble an internal working team to focus on the highest value near-term opportunities (e.g., procurement, pricing) and align on near-term objectives.
- Prioritize the highest-value supplier contracts and renegotiate supplier prices.

To continue to improve, PLCB may also consider the following steps in the long-term:

- Assess its retail footprint to ensure customer access and enterprise profitability.
- Examine store operations to assess potential improvements against best practices.
- Continue to identify opportunities to maximize customer retention and satisfaction (e.g., on-demand delivery).

[108] Note: State peer set based on several factors including existence of state-run stores, size of state population served per store and per capita alcohol consumption. Source: Pennsylvania Liquor Control Board, 2015 Annual Report, North Carolina Liquor Control Board, 2015 Annual Report, Alabama Alcoholic Beverage Control Board, 2014 Annual Report; Virginia Department of Alcoholic Beverage Control, 2015 Annual Report

[109] Source: Retail operations experts

4.2.2 Pennsylvania Lottery

Note: savings estimates associated with the Pennsylvania Lottery are not included in the total opportunity identified, as savings would accrue to the Lottery Fund, not the General Fund.

During FY15-16, the Pennsylvania Lottery earned ~$4 billion in total game sales and had profits of more than $1 billion, marking the fifth consecutive year that the Lottery set a record number of total game sales.[110] Compared to benchmarks for similar states, however, the Lottery's per capita sales may have room to grow (Exhibit 36). To do so, the Pennsylvania Lottery could consider several initiatives to further enhance its ability to contribute to the Lottery Fund and the senior programs it supports (Exhibit 37).

Exhibit 36: Traditional and total per capita lottery sales across states[111]

Dollars per capita

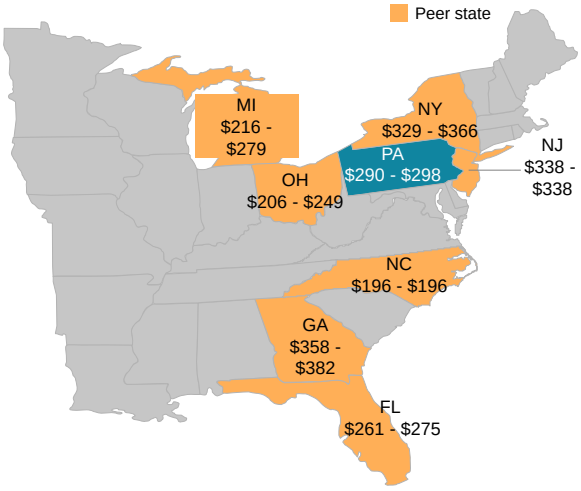
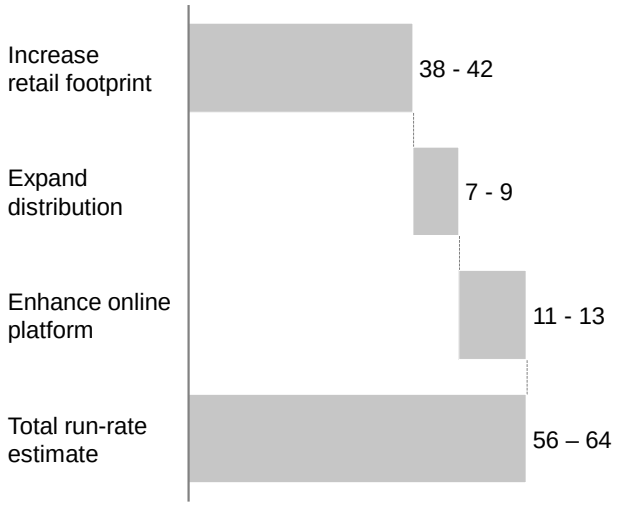


Exhibit 37: Potential run-rate opportunities for Pennsylvania Lottery

Dollars, millions



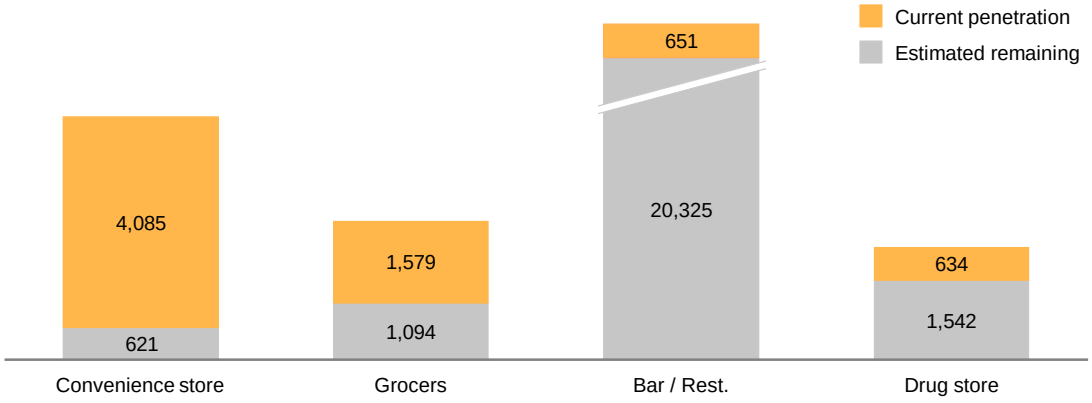
[110] Source: Pennsylvania Lottery, 2015 profit report

[111] Note: First number in range represents traditional ticket sales which include lottery products where a ticket is produced, e.g., instant tickets, 3-digit numbers, Powerball, etc. The second number in the range represents total sales which include all lottery games, inclusive of Keno and other games. Source: LaFleur's FY2016 Almanac

Increase retail footprint. Lottery games can be purchased in a variety of locations (also known as agents). Agents include bars and restaurants, convenience stores, liquor stores, grocers, drug stores, mass merchants, and others. Based on the Lottery's footprint compared to the total size of the market, the Lottery could have room to expand in select retail locations (Exhibit 38). Furthermore, the roll out of Fast Play games scheduled for early 2017 may enhance the opportunity to engage bars and restaurants that have not participated as retail partners in past years. Pennsylvania Lottery's pilot program that offers gift cards may also lead to improved conversion of large retail merchandisers.

Exhibit 38: Estimated potential opportunity by type of retail agent[112]

Number of retailers



Adding terminals to ~250 locations across these retailers (a ~3-5% increase), could create an additional ~$100-150 million in annual revenue. Coupled with potential growth in merchandise retailers, the Lottery could potentially realize an additional ~$30 million in profits in FY17-18. Given the Lottery's experience this past year implementing terminals across ~300 PLCB stores in 9 weeks, once relationships are established, the implementation time may be minimal. Even with additional retailers, experts believe cannibalization risk to be modest based on the experience of other lotteries. Further analysis would be needed to fully assess Pennsylvania Lottery's retail footprint and identify which specific retailers present the greatest opportunity. The Lottery's ability to capture potential value will depend on the customer pipeline, ongoing discussions, and conversion success.

Expand channel distribution. In addition to increasing the number of locations that sell tickets, the Lottery could realize additional sales by allowing players to purchase tickets at more than one location inside the same retailer. Multi-lane sales have proven to be a useful source of revenue. For example, in British Columbia, multi-lane sales resulted in 14% higher grocery store sales.[113] The Pennsylvania Lottery may have already developed the technology to implement this change, potentially minimizing implementation time and costs. However, it is important to note that adoption of the Europay, MasterCard and Visa (EMV) technology needed to support the system has experienced implementation challenges.[114] The Commonwealth would need greater adoption of the technology to fully realize the potential of multi-lane sales. Given current lottery sales across grocery stores and drug stores, the impact of multi-lane channels (assuming 20% adoption at run-rate) could add an additional ~$7-9 million in run-rate revenue, but with minimal impact likely in FY17-18, given current adoption levels.

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[112] Source: LaFleur's FY2016 Almanac; US Census; NACS (The Association for Convenience & Fuel Retailing)

[113] Source: British Columbia Lottery Corporation, 2014-15 service plan

[114] Source: Business Wire, "EMV Merchant Adoption Slower Than Expected," February 2017

Enhance online platform. National and local trends suggest that lottery players are aging, and younger demographics may not be replacing them at an equal rate. Experts suggest that the future of gaming may shift online, as the industry aims to reach new demographics.[115] Given these factors, lotteries that have developed online capabilities see online revenues ultimately comprise between 5-20% of total sales, and provide a net increase in sales of ~1%.[116] The Pennsylvania Lottery believes that they already have the technology needed to respond quickly, should the legislature authorize online sales. Given historical sales performance of the Pennsylvania Lottery, the addition of an online platform could be worth ~$11-13 million in additional run-rate profits, with ~$7-9 million potentially realizable in FY17-18.

[115] Source: Lottery experts

[116] Source: Lottery experts, H2GC Analytics

5 Reevaluate level of support for select programs

Over 80% of total agency expenses are made via grants and transfers, with ~30% of that spending directed to local governments, nonprofits, and other entities, in support of operations and programs.[117] The Commonwealth could review the degree of funding provided to these entities for specific programs by considering funding models used by other states, operational improvement opportunities at the sub-recipient level, and whether such grantees could have access to alternative sources of funding.

In the course of conducting interviews and working sessions for this report, Commonwealth and agency leaders raised several programs for consideration. This report summarizes benchmarking and funding source information gathered to facilitate the Commonwealth's review but does not put forth a recommendation on program funding levels. A comprehensive assessment of program funding levels and models is beyond the scope of this report.

The Commonwealth has estimated potential savings from changes to funding for the University of Pennsylvania School of Veterinary Medicine, Institutional Assistance Grants, county courts, and pupil transportation.

5.1 REEVALUATE SUPPORT LEVELS FOR GRANTS TO INDIVIDUALS AND INSTITUTIONS

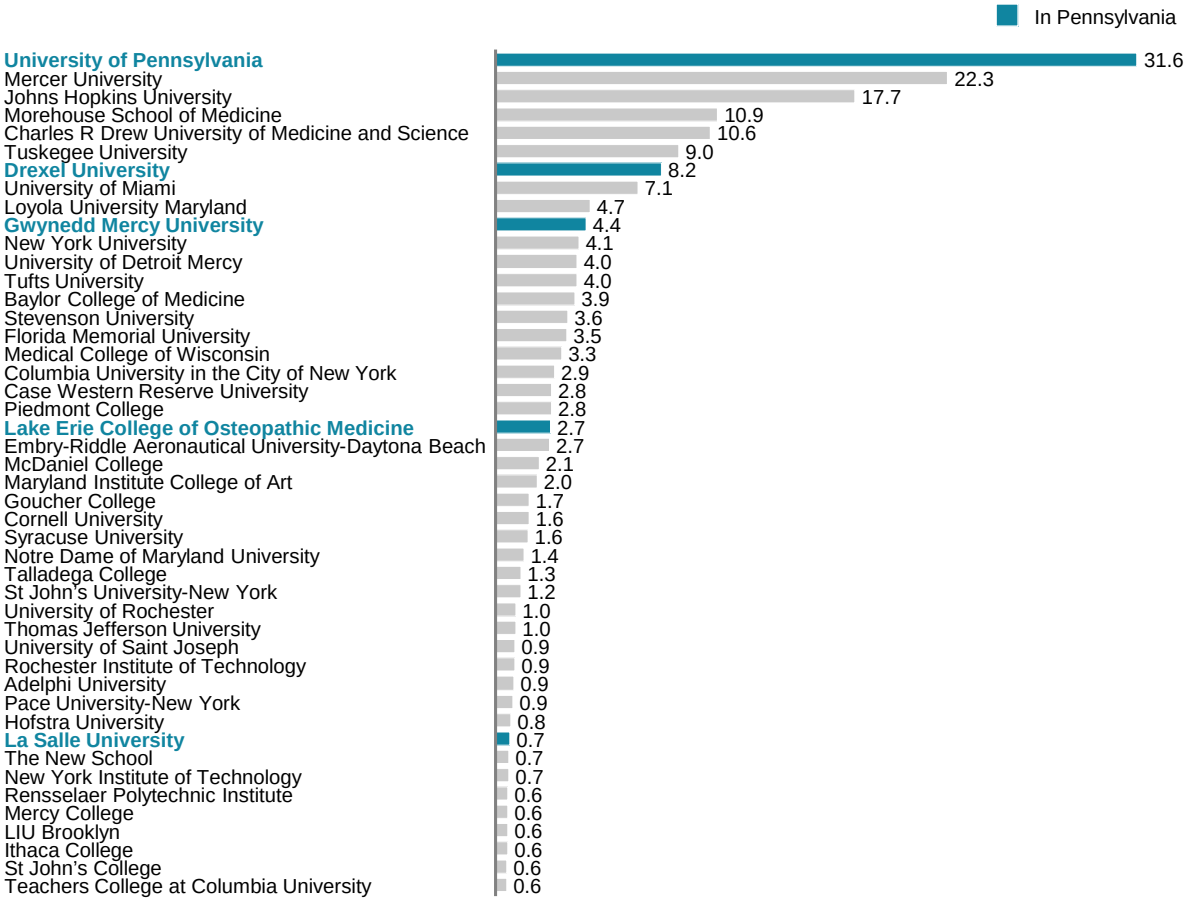
University of Pennsylvania School of Veterinary Medicine (current budget impact: ~$30 million). The University of Pennsylvania School of Veterinary medicine (Penn Vet) was the largest recipient of state appropriation dollars to private schools in the nation (Exhibit 39). The University of Pennsylvania's endowment is ~$10.7 billion, it provides ~$214 million in financial aid per year, and it has received nearly $1 billion in student grants since 2008. Additionally, other private veterinary school subsidies are lower than Penn Vet: for example, Tuft's veterinary school receives a $5,000 subsidy to in-state students and a total of ~$5 million per year from the Commonwealth of Massachusetts.[118]

[117] Note: includes expenses made from General Fund appropriations, agency augmentations, and federal funds (excludes special state funds). Source: Governor's Budget Office, Major spend by agency by Commonwealth of Pennsylvania fund, FY15-16

[118] Source: Massachusetts FY2017 Executive Budget; Vet.tufts.edu

Exhibit 39: State appropriations to private schools[119]

Dollars, millions



Institutional Assistance Grants (current budget impact: ~$26 million): Aside from New York, the Commonwealth provides the most state appropriated funding to private universities. Additionally, 55% of states do not provide any funding to private schools of higher education.[120] Other states such as New Jersey, New York, Maryland, and Wisconsin have instituted matching programs (Exhibit 40): New Jersey, Maryland and Wisconsin's programs each require 1:1 matching of state dollars, while New York's program gives $1 for every $3 provided by the higher education institution.

[119] Note: Data from FY13-14. Cornell University received $131,315,000 from New York State, however, $129,666,000 of it went to Cornell schools that are part of the public SUNY system and thus were not included on this chart. Source: IPEDS database; FY17 Massachusetts enacted budget; cornell.edu.

[120] Source: National Association of State Student Grant & Aid Programs, http://www.nassgap.org/survey/NASSGAP_Report_14-15_final.pdf

Exhibit 40: State higher education matching programs[121]

State	Description
Maryland	Maryland launched a new financial aid program in 2016 called to Guaranteed Access Partnership program that will require the universities to match a student's Guaranteed Access grant from the state, which is a grant for low-income students who complete a college preparatory program, have a 2.5 GPA, and enroll full time as undergraduate students at a MD institution
New York	The Higher Education Capital Matching Grant Program provides $180 million in grants for capital projects and equipment purchases by independent institutions of higher education in New York State. The program requires grantees to match approximately $3 for every $1 invested by the state.
Wisconsin	Academic Excellence Scholarships are awarded to Wisconsin high school seniors who have the highest GPA in each public and private high school in the state. In order to receive the scholarship, the student must be enrolled full-time in a participating public or independent college or university. The state pays half of the scholarship, while the institutes matches the other half.
New Jersey	The New Jersey Higher Education Infrastructure Technology Act finances the procurement of higher education technology infrastructure, and requires the recipient institution to provide a matching amount at least equal to the amount of the state grant.

The Commonwealth has estimated potential savings of ~$30 million from reducing funding to the University of Pennsylvania's Veterinary School and ~$13 million from establishing a 1:1 matching program for Institutional Assistance Grants.

5.2 REEVALUATE SUPPORT LEVELS FOR GRANTS TO OTHER LEVELS OF GOVERNMENT

County court reimbursements (current budget impact: ~$35 million): Of Pennsylvania's peer states, only Michigan and New York reimburse local courts at a higher level than the Commonwealth (Michigan provides ~$60.8 million and New York provides ~$107.4 million). Other states such as Massachusetts, North Carolina, New Jersey, and Ohio all provide ~$1.5 - $5 million in local court reimbursements, with Georgia and Illinois providing no funding at all.[122] Although Michigan and New York provide more in total funding, the impact of local court reimbursements on their General Funds is only ~$10.4 million and ~$2.4 million respectively. Among peer states, Pennsylvania spends the most out of its General Fund for county court reimbursement.

Pupil transportation (current budget impact: ~$630 million): The Commonwealth currently spends close to $550 million on public pupil transportation and an additional ~$80 million on non-public and charter pupil transportation, representing ~42% of total pupil transportation costs. Over the past 10 years, the cost of pupil transportation has increased by ~3% per year. This has taken place despite the fact that the number of students transported has declined by ~0.5% per year and that the price of fuel has declined by more

[121] Source: (Maryland) Baltimore Sun, http://www.baltimoresun.com/news/maryland/education/blog/bs-md-gapp-program-20160211-story.html; (New Jersey) http://www.nj.gov/njefa/activity/state/heti/statute.html; (New York) http://dasny.org/finance/grantadministration/hecapboard.aspx; Wisconsin Higher Education Aids Board

[122] Source: State budgets, FY16-17

than 30% in recent years. As of 2015, the cost of transportation per pupil was ~$1,097 in the Commonwealth, while the national average was $136 less per pupil.[123]

One of the underlying factors for the Commonwealth's higher costs may be inefficiencies in its reimbursement formula. For example, the formula reimburses districts based on the number of vehicles instead of the number of students. Moreover, the formula lacks incentives for districts to work toward filled daily capacity. The reimbursement formula also contains a provision to reimburse districts for excess costs, or costs that the base formula could not capture.

In contrast, best-in-class formulas and pupil transportation policies try to maximize efficiency by incentivizing filled capacity and optimal routes.[124] By modernizing the formula to fund expected costs and incentivize providers toward greater efficiency, the Commonwealth may be able to save ~$40-50 million in FY17-18 on public pupil transportation. Additionally, the Commonwealth could review applying any updates to the reimbursement formula to non-public and charter school students, as well as to the Intermediate Units that provide transportation.

The Commonwealth has estimated potential savings of ~$12 million in FY17-18 from keeping county court reimbursements at the FY16-17 level and ~$50 million from reforming pupil transportation policies and the reimbursement formula.

[123] Source: US Energy Information Administration, https://www.eia.gov/dnav/ng/hist/rngwhhdm.htm; Pennsylvania Department of Education; PennDOT school bus statistics; US Department of Transportation Bureau of Transportation Statistics, https://www.rita.dot.gov/bts/sites/rita.dot.gov.bts/files/publications/national_transportation_statistics/html/table_bus_profile.html; National Center for Education Statistics, https://nces.ed.gov/fastfacts/display.asp?id=67

[124] Source: State of Washington Office of Financial Management, "Development of Student Transportation Funding Methodology Options for Washington State", http://ofm.wa.gov/reports/k12transpo/consultant_report.pdf

6 Conclusion

Focused and coordinated implementation activities could help ensure that the Commonwealth captures the opportunities detailed in this report. Regular operating procedures will be sufficient to capture part of the opportunity, but some of the major change efforts will likely require dedicated governance and management processes. In successful implementation efforts, the following elements are usually present:

- **Relentless focus on results and impact.** The efforts need clear targets for savings, revenue, customer service, and outcomes, tracked at the enterprise and agency level.
- **Clear accountability.** The efforts also need a highly empowered implementation leader who will be able to hold agencies accountable for progress and results. Also vital are accountable executive leaders and point people on the project management team who are responsible for each area of significant savings, and improvements to revenue and customer service.
- **A proactive approach to course corrections.** A transparent process and routines to enable performance management, identify and remove obstacles immediately, and celebrate successes.
- **Continuous stakeholder engagement.** Proactive communication with all relevant parties.
- **Sustained support.** Full commitment to the implementation process that cannot be derailed by unexpected external events.

The opportunities identified in this report could help the Commonwealth close the budget deficit in the near-term. Just as importantly, they could help the Commonwealth modernize government and move towards a sustainable budget position in the long-term. This includes preserving high value programs, and improving services available to citizens. By reimagining service delivery models and agency operations to improve efficiency and customer service simultaneously, the Commonwealth could continue the process of becoming truly the best it can be.