

Performance-Based Budget

DEPARTMENT OF REVENUE



Commonwealth of Pennsylvania
Independent Fiscal Office
January 2023

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INDEPENDENT FISCAL OFFICE

January 3, 2023

The Honorable Members of the Pennsylvania Performance-Based Budget Board:

Act 48 of 2017 specifies that the Independent Fiscal Office (IFO) shall "review agency performance-based budget information and develop an agency performance-based budget plan for agencies subject to a performance-based budget review." This review "shall be completed in a timely manner and submitted by the IFO to the board for review."

This report contains the review for the Department of Revenue. All performance-based budget (PBB) reviews submitted to the Board contain the following content for each activity or service provided by the agency:

- a brief description of the activity, relevant goals and outcomes;
- a breakdown of agency expenditures;
- the number of full-time equivalent positions dedicated to the activity;
- select currently available metrics and descriptive statistics;
- any proposed metrics that the review recommends; and
- observations that should allow agencies to more effectively attain their stated goals and objectives.

The IFO submits this review for consideration by the PBB Board. The agency received a draft version of this review and was invited to submit a formal response. If submitted, the response appears in the Appendix to this review. The IFO would like to thank the agency staff that provided considerable input to this review.

Sincerely,

A handwritten signature in blue ink that reads "Matthew J. Knittel".

Dr. Matthew J. Knittel
Director

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Background on Performance-Based Budgeting

Act 48 of 2017 is known as the Performance-Based Budgeting and Tax Credit Efficiency Act. The act requires the Independent Fiscal Office (IFO) to develop performance-based budget (PBB) plans for all agencies under the Governor’s jurisdiction once every five years based on a schedule agreed to by the Secretary of the Budget and the Director of the IFO. The act directs the IFO to evaluate and develop performance measures for each agency program or line item appropriation. As determined by the IFO to be applicable, the measures shall include the following: outcome-based measures, efficiency measures, activity cost analysis, ratio measures, measures of status improvement of recipient populations, economic outcomes or performance benchmarks against similar state programs or similar programs of other states or jurisdictions.

The act requires the IFO to submit plans to the PBB Board for review and approval. The PBB Board reviews plans at a public hearing at which agency heads or their representative must attend to offer additional explanations if requested. The PBB Board has 45 days after submission to approve or disapprove plans.

A performance-based budget differs from a traditional budget in several key respects. The main differences are summarized by this table:

Traditional versus Performance-Based Budget		
Criteria	Traditional Budget	Performance Budget
Organizational Structure	Line Items or Programs	Agency Activities
Funds Used	Appropriated Amounts	Actual Expenditures
Employees	Authorized Complement	Actual Filled Complement
Needs Assessment	Incremental, Use Prior Year	Prospective, Outcome-Based

The plans track funds based on agency activities because they can be more readily linked to measures that track progress towards goals, objectives and ultimate outcomes. Activities are the specific services an agency provides to a defined service population in order to achieve desired outcomes. Activity measures can take various forms: inputs (funding levels, number of employees), outputs (workloads), efficiency (cost ratios, time to complete tasks), outcomes (effectiveness), benchmark comparisons to other states and descriptive statistics. The final category includes a broad range of metrics that provide insights into the work performed by an agency and the services provided. Those metrics supply background, context and support for other metrics, and they may not be readily linked to efficiency or outcome measures. The inclusion of such measures supports the broader purpose of the PBB plans: to facilitate a more informed discussion regarding agency operations and how they impact state residents.

Note: Unless otherwise noted, performance metrics used in this report were supplied by the agency under review. Those data appear as submitted by the agency and the IFO has not reviewed them for accuracy. For certain years, data are not available (e.g., due to a lag in reporting). In those cases, "--" denotes missing data. All data related to expenditures and employees are from the state accounting system and have been verified by the IFO and confirmed by the agency.

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Department of Revenue Overview

Purpose, Mission and Vision Statements

The purpose of the Pennsylvania Department of Revenue (DOR) is to fund programs and services to benefit all Pennsylvanians; the mission is to fairly, efficiently and accurately administer Pennsylvania tax and Lottery programs; and the vision is to be an innovative, customer-focused, and employee-centered agency.¹

Services Provided

For this report, the services provided by DOR are classified into five general activities.

Department of Revenue: Activities and Primary Services Provided	
Activity	Primary Service(s)
1 Tax Administration.....	Register taxpayers and process tax returns
2 Enforcement.....	Enforce tax laws and promote voluntary compliance
3 Lottery.....	Administer state Lottery to support programs for older adults
4 Property Tax and Rent Rebate.....	Provide property tax/rent relief to older and disabled adults
5 Administration.....	Provide organizational leadership and support

Department Resources

DOR Average Weekly FTE Positions by Activity and Fiscal Year						
	17-18	18-19	19-20	20-21	21-22	22-23
	Actual	Actual	Actual	Actual	Actual	Budget
Tax Administration	638	626	561	541	478	654
Enforcement	687	680	719	689	690	839
Lottery	223	233	239	258	259	293
Property Tax and Rent Rebate	96	94	98	91	90	200
Administration	<u>102</u>	<u>93</u>	<u>99</u>	<u>102</u>	<u>111</u>	<u>132</u>
Total	1,746	1,725	1,715	1,680	1,628	2,118

Notes: FTE stands for Full-Time Equivalent and includes permanent and wage positions. FY 22-23 are budgeted positions.

¹ See DOR's strategic plan at [Strategic Plan \(pa.gov\)](https://www.pa.gov/strategic-plan).

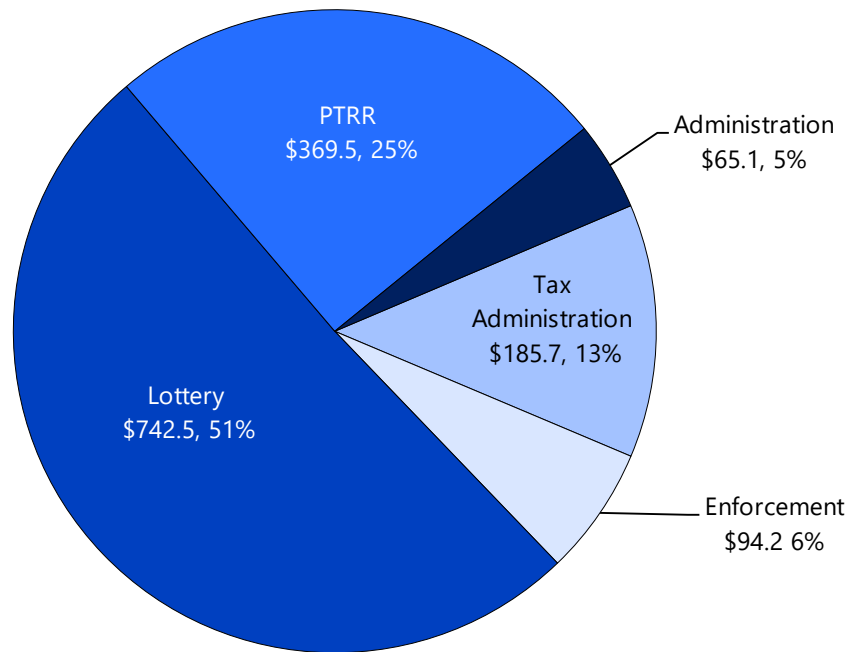
DOR Expenditures by Fiscal Year

	17-18	18-19	19-20	20-21	21-22	22-23
	Actual	Actual	Actual	Actual	Actual	Budget
Expenditure by Activity						
Tax Administration	\$156.0	\$171.1	\$167.1	\$162.9	\$192.3	\$185.7
Enforcement	83.9	84.2	79.7	85.2	73.9	94.2
Lottery	546.7	619.8	531.1	683.6	668.5	742.5
Property Tax Rent Rebate Administration	277.1	265.3	430.9	74.9	230.1	369.5
	<u>62.9</u>	<u>55.2</u>	<u>48.9</u>	<u>47.9</u>	<u>45.1</u>	<u>65.1</u>
Total	1,126.5	1,195.7	1,257.7	1,054.5	1,210.0	1,457.0
Expenditures by Object						
Personnel Services	182.9	167.0	161.1	161.6	164.3	180.3
Operational Expenses	594.6	677.1	581.2	740.8	717.7	785.1
Fixed Assets Expense	5.9	15.4	13.2	7.6	11.0	35.9
Debt Service/Investments	--	--	--	0.3	0.9	--
Grants	290.2	278.9	442.6	86.0	243.9	382.5
Non-Expense Items	<u>52.9</u>	<u>57.3</u>	<u>59.6</u>	<u>58.3</u>	<u>72.1</u>	<u>73.3</u>
Total	1,126.5	1,195.7	1,257.7	1,054.5	1,210.0	1,457.0
Expenditures by Fund						
General Fund (State)	167.5	179.7	166.7	163.4	174.7	196.8
General Fund (Augmentations)	66.1	61.4	32.1	34.6	28.1	28.1
General Fund (Restricted)	0.1	0.1	28.6	31.5	30.1	30.0
Lottery Fund (State)	823.6	884.9	961.4	757.9	898.0	971.3
Lottery Fund (Augmentations)	0.2	0.2	0.7	0.7	0.7	0.7
Lottery (Federal)	--	--	--	--	--	140.0
Motor License Fund ¹	45.1	44.3	43.2	46.4	45.0	58.9
State Gaming Fund	12.8	12.5	12.5	7.5	20.3	17.5
PA Race Horse Development Trust Fund	10.9	12.4	12.4	11.8	11.9	12.3
Video Gaming Fund	--	--	0.0	0.5	1.0	0.7
Fantasy Contest Fund	--	0.0	0.0	0.0	0.0	0.4
State Racing Fund	<u>0.2</u>	<u>0.2</u>	<u>0.1</u>	<u>0.2</u>	<u>0.1</u>	<u>0.3</u>
Total	1,126.5	1,195.7	1,257.7	1,054.5	1,210.0	1,457.0
Personnel Cost/FTE (\$ thousands)	\$104.8	\$96.8	\$94.0	\$96.2	\$100.9	\$85.1

Notes: Expenditures in dollar millions. Actual expenditures are listed in the year the expenditure was recorded.

¹ Contains a small amount of federal funds.

Expenditures by Activity (FY 2022-23 Budget)



Appropriations	Tax					Total
	Admin.	Enforc.	Lottery	PTRR	Admin.	
General Fund - State	\$100.1	\$42.1	--	--	\$54.6	\$196.8
General Government Operations	46.2	42.1	--	--	54.6	143.0
Dist. of Public Utility Realty Tax	33.3	--	--	--	--	33.3
Comm.-Inheritance & Realty Trans.	15.8	--	--	--	--	15.8
Tech. and Process Modernization	4.8	--	--	--	--	4.8
Lottery Fund - State	--	--	\$741.8	\$229.5	--	971.3
Payment of Prize Money (EA)	--	--	443.4	--	--	443.4
PTRR for Older Pennsylvanians (EA)	--	--	--	209.2	--	209.2
On-Line Vendor Commissions (EA)	--	--	68.2	--	--	68.2
Instant Vendor Commissions (EA)	--	--	52.5	--	--	52.5
Lottery Advertising (EA)	--	--	51.0	--	--	51.0
General Operations (EA)	--	--	72.9	--	--	72.9
Prop. Tax Rent Rebate-Gen. Ops.	--	--	--	20.3	--	20.3
Other Lottery Fund State	--	--	53.8	--	--	53.8
Lottery Fund - Federal	--	--	--	140.0	--	140.0
Motor License Fund¹	40.0	18.9	--	--	--	58.9
State Gaming Fund	16.4	1.1	--	--	--	17.5
All Other Appropriations	29.2	32.1	0.7	--	10.5	72.5
Total	185.7	94.2	742.5	369.5	65.1	1,457.0

Note: Expenditures in dollar millions.

¹ Contains a small amount of federal funds.

Key Agency Performance Metrics

This report includes numerous performance metrics, but certain metrics are critical to the overall operation of the agency. Key agency metrics that policymakers should monitor are displayed in the table. A brief explanation of key metrics follows the table.

Key Metrics to Monitor						
	17-18	18-19	19-20	20-21	21-22	22-23
Tax Administration						
Refunds paid within required time frame (%) ¹	91%	95%	95%	89%	91%	--
PIT and business returns filed electronically (%)	--	85%	87%	87%	93%	94%
PIT non-withholding payments processed electronically (%)	18%	21%	22%	30%	35%	--
Enforcement²						
Business accts. receivable (<3 years, \$ millions)	--	--	\$1,268	\$1,030	\$1,237	--
Delinquent taxes collected per \$ spent	\$9	\$11	\$9	\$10	\$11	--
Audit tax adjustments per \$ spent	\$11	\$16	\$7	\$12	\$19	\$13
CEC call wait time (mins)	11	18	9	8	13	12
CEC call accept rate (% calls not dropped)	--	--	72.5%	77.0%	67.1%	72.0%
Overall customer experience rating	--	--	--	78%	84%	80%
Lottery						
Net Lottery profits (\$ millions)	\$1,094	\$1,143	\$1,142	\$1,303	\$1,195	\$1,109
Administration expenses as a % of sales	2.2%	2.6%	2.6%	1.8%	2.1%	3.0%
Intercepted prizes (to repay prior debts, \$ millions)	\$0.07	\$0.27	\$0.69	\$0.80	\$1.07	--
Property Tax and Rent Rebate (PTRR)³						
PTRR distributed (\$ millions) ⁴	\$262	\$255	\$244	\$223	\$213	\$351
Claims processed statewide (000s)	548	532	508	467	444	450
Claims processed electronically (%)	--	--	--	--	8%	17%
Claims sent to Treas. w/July 1st payment date (%)	89%	88%	94%	96%	65%	68%
Notes: PIT is personal income tax. CEC is Customer Experience Center.						
1 This is an indexed measure and includes different tax types. As an example, the PIT required time frame is 75 days.						
2 All enforcement data are by calendar year except business accounts receivable which is as of June 30th.						
3 Data by calendar year (CY). For PTRR, the CY is the year after the claim year.						
4 CY 2022 includes \$210.7 million in typical claims plus \$140 million in extra federal ARPA relief money. Calculations by the IFO.						

Tax Administration

From 2019 through 2022, the department implemented a modernization project to integrate all taxes into a single tax system, called Pennsylvania Tax Hub, or PATH. Modernization objectives include (1) increased system functionality for improved self-service, (2) increased productivity and efficiencies related to tax filing and refunds and (3) reduced error rates. Three key metrics to monitor include refunds paid within the required time frame, personal income tax (PIT) and business returns submitted electronically and PIT non-withholding payments processed electronically.

The department and taxpayers have already realized efficiencies due to the modernization project. For tax year 2021 returns, roughly 194,000 taxpayers used myPATH, an online self-service portal, to file their PIT return and the share of PIT returns processed electronically increased roughly 7% from tax year (TY) 2020 to 2021. Similarly, the PTRR program has a new option to file claims electronically that enabled 17% of PTRR claimants to file claims electronically in 2022. (See pages 9 to 12.)

Enforcement

PATH implementation should enhance the department's ability to reduce accounts receivable and collect delinquent taxes. For example, if a tax filer is due a refund but has an outstanding tax obligation in another tax, the new integrated tax system may enable the department to offset the amount due more efficiently than in prior years.

The Enforcement Activity includes customer outreach, education and assistance. The Customer Experience Center (CEC) is the primary call center for the department. Important metrics to track are call wait times, the share of calls that reach a customer service representative (CEC call accept rate) and the overall customer experience rating (share of customers responding that they were satisfied with the service they received). (See pages 13 to 16.)

Lottery

Lottery proceeds benefit older Pennsylvanians, and the primary goal is to responsibly maximize net profits to support Lottery-funded programs. Lottery has maintained or increased Lottery profits in recent years despite competition from slots, tables games, fantasy sports, Sports Book, iCasino, video game terminals and games of skill.

The Pennsylvania Lottery intercepts Lottery winnings to collect fines and restitution, delinquent taxes and back child support payments. In FY 2021-22, the Lottery recovered nearly \$1.1 million, including \$674,367 in Administrative Office of the Pennsylvania Courts (AOPC) court-ordered obligations, \$233,900 in delinquent child support and \$163,330 in delinquent state taxes. These offsets are statutorily set and could be expanded to recover other funds due the Commonwealth such as unemployment compensation benefit overpayments and outstanding Pennsylvania Turnpike tolls. (See pages 17 to 22.)

Property Tax and Rent Rebate (PTRR)

The PTRR program provides property tax and rent rebates to lower-income Pennsylvanians (1) age 65 and older, (2) widows and widowers age 50 and older and (3) people with disabilities age 18 and older. For claim year 2020, primarily processed in CY 2021, the department processed 444,000 claims and distributed \$213 million in rebates. For claim year 2021 (primarily processed in CY 2022), the department estimates that 450,000 claims will be processed for a total of \$351 million in rebates, including \$140 million in federal American Rescue Plan Act funds as a result of Act 54 of 2022. (See pages 23 to 26.)

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Activity 1: Tax Administration

The department registers taxpayers, processes tax returns and payments and administers taxpayer and revenue accounting consistent with Commonwealth tax laws. In FY 2021-22, there were roughly 6.5 million personal income tax filers, 71,000 corporate filers, 287,000 sales and use tax filers and 362,000 employer withholding filers. Support functions for this activity include forecasting and fiscal analysis, due process and taxpayer advocacy. The department develops the forms and instructions used to report and remit Pennsylvania taxes and provides taxpayers with tools to voluntarily comply with their individual and business tax obligations. In 2018, the department budgeted \$151 million over a ten-year period, for modernization and support of the Pennsylvania Tax Hub (PATH). This modernization initiative integrates all taxes into a single tax system. Now that it is complete, PATH should reduce maintenance costs, minimize error rates and provide greater efficiencies across the department.

The primary goal of this activity is to fairly, efficiently and accurately administer the tax laws of the Commonwealth. The expected outcomes are increased efficiency in processing tax returns and payments and improved timeliness in the issuance of tax refunds.

Resources for Tax Administration						
	17-18	18-19	19-20	20-21	21-22	22-23
	Actual	Actual	Actual	Actual	Actual	Budget
Expenditures by Object						
Personnel Services	\$52.74	\$52.97	\$51.22	\$44.32	\$56.09	\$50.92
Operational Expenses	21.39	31.26	29.54	30.78	32.92	27.07
Grants ¹	27.67	28.40	26.41	29.28	30.26	33.31
Non-Expense Items ²	52.87	57.31	59.63	58.26	72.10	73.30
Other	<u>1.28</u>	<u>1.20</u>	<u>0.31</u>	<u>0.30</u>	<u>0.93</u>	<u>1.10</u>
Total	155.96	171.14	167.11	162.93	192.29	185.68
Expenditures by Fund						
General Fund (State)	\$67.50	\$85.31	\$80.34	\$87.55	\$107.78	\$100.14
General Fund (Augmentations)	24.86	20.32	16.15	14.51	12.75	11.12
General Fund (Restricted)	0.11	0.12	8.88	6.82	5.69	4.47
Motor License Fund	40.36	41.12	37.59	34.94	33.64	40.02
State Gaming Fund	12.04	11.67	11.54	6.62	19.38	16.42
PA Racehorse Dev. Trust Fund	10.86	12.42	12.44	11.78	11.91	12.33
Other Funds	<u>0.24</u>	<u>0.17</u>	<u>0.18</u>	<u>0.71</u>	<u>1.16</u>	<u>1.19</u>
Total	155.96	171.14	167.11	162.93	192.29	185.68
Average Weekly FTE Positions	638	626	561	541	478	654
Personnel Cost/FTE (\$ thousands)	\$82.6	\$84.6	\$91.4	\$82.0	\$117.2	\$77.8
Notes: Expenditures in dollar millions. Actual expenditures are listed in the year the expenditure was recorded.						
1 Includes the distribution of the Public Utility Realty Tax.						
2 Primarily includes Motor License Fund liquid fuels tax refunds and various fund transfers.						

Performance Measures for Tax Administration

	17-18	18-19	19-20	20-21	21-22	22-23
Efficiency						
Cost per PIT (PA-40) return processed ^{1,2}	--	--	\$0.91	\$0.84	\$0.97	--
Payments in suspense > 90 days (% , June 30th) ³	--	--	0.3%	0.6%	1.0%	--
PIT and business returns filed electronically (%) ¹	--	85%	87%	87%	93%	94%
PIT non-withholding payments (count) processed electronically (%)	18%	21%	22%	30%	35%	--
Returns processed with correct liability (%) ⁴	90%	92%	93%	96%	95%	--
Fraudulent refunds prevented by FDAU (\$ millions)	13.8	7.1	10.3	14.3	19.2	--
<u>Hearings/appeals</u>						
Avg. days to issue ruling from a hearing/appeal	99	109	106	96	105	--
Outcome¹						
Refunds paid within required time frame (%) ⁵	91%	95%	95%	89%	91%	--
Avg. turnaround times (days) for PIT refunds ⁵	61	60	61	98	82	--
Non-registered bus. identified & notified of tax obligation	256	209	642	48	263	--
Reg. business found to be non-reg. for other tax obligations	354	354	375	55	204	--
<u>Assessments</u>						
Assessments	-- Recommended measure --					
Assessments protested (%)	-- Recommended measure --					
Protested assessments sustained (%) ⁶	38%	36%	43%	49%	33%	--
Protested assessments sustained (\$ millions)	\$368	\$476	\$307	\$333	\$360	--

Notes: PIT stands for personal income tax. FDAU stands for Fraud Detection and Analysis Unit.

1 See Notes on Measures.

2 Costs include personnel (salaries & benefits) and operating (maintenance, equipment, utilities, hardware & software).

3 Includes Business Tax System only. Payments in suspense are payments that have not been accurately posted on taxpayer accounts. Errors can occur with incorrect/incomplete information from tax filers or typographical errors by DOR staff.

4 Returns processed with no need for taxpayer correspondence/adjustment.

5 This is an indexed measure and includes different tax types. As an example, the PIT required time frame is 75 days.

6 Protested assessments in which no relief was granted divided by number of protested assessments.

Notes on Measures

- The cost for PIT return reflects costs to process paper returns only. As fewer returns are processed on paper, the cost per paper return could increase.
- PIT and business returns filed electronically include PIT, corporation tax, sales and use tax and employer withholding.
- Many outcome metrics were temporarily impacted by the implementation of the new PATH system and COVID-19, especially in FY 2020-21.

Modernization Timeline for PATH

Month/Year	Items Migrated Into PATH
January 2019	<ul style="list-style-type: none"> * Motor and alternative fuel taxes * International fuel tax agreement (IFTA) tax
October 2019	<ul style="list-style-type: none"> * Realty transfer tax * Inheritance tax * Medical marijuana tax * Case management solution for voluntary disclosure program
November 2020	<ul style="list-style-type: none"> * Personal income tax and related pass-through entity processing * Property tax/rent rebate program
August 2021	<ul style="list-style-type: none"> * Miscellaneous taxes previously supported by standalone systems
November 2022	<ul style="list-style-type: none"> * Business Tax System (BTS) - includes employer withholding, sales tax, corporation taxes and other business taxes

Beginning in 2019 and continuing through 2022, the department implemented the PATH modernization project. The goal of modernization is to integrate the administration of all taxes into a single tax system (PATH). Modernization objectives include (1) increased system functionality for improved self-service, (2) increased productivity and efficiencies related to tax filing and refunds and (3) reduced error rates. Key metrics to monitor moving forward include (1) the share of electronic payments and filings, (2) accounts receivable by age, (3) timely processing of returns and refunds and (4) cost per tax return processed. The department estimates annual savings from the modernization project at \$9.5 million by year ten of the contract. These savings should continue to increase as efficiency gains are realized. Moving forward, other modules will need additional funding to implement (e.g., responsible party assessments, appeals processing).

Share of Tax Returns Filed Electronically

	17-18	18-19	19-20	20-21	21-22
Corporation taxes	48%	59%	67%	73%	75%
Non-motor vehicle sales and use	97	98	99	99	99
Personal income tax	86	87	94	86	92
Personal income tax - withholding	95	96	97	97	98
Personal income tax - annual	83	85	94	84	90

Notes: Share of tax returns filed electronically for the three major tax types is based on count of returns. Motor vehicle sales and use tax is not included because amounts are deposited by the Pennsylvania Department of Transportation.

The table above details the increase in the share of tax returns filed electronically by major tax type. From FY 2017-18 through FY 2021-22, all three major tax types have increased the share of tax returns filed electronically. Electronic filing reduces potential input errors and increases efficiency because it takes significantly more staff time to process returns filed through the mail. Of the three major tax types, corporation tax returns are least likely to be filed electronically (75% in FY 2021-22).

Share of Electronic Tax Payments

	17-18	18-19	19-20	20-21	21-22
Corporation taxes	62%	61%	64%	67%	73%
Non-motor vehicle sales and use	92	93	94	96	96
Personal income tax - withholding	98	98	98	99	99
Personal income tax - non-withholding	18	21	22	30	35

Notes: Share of electronic tax payments for the three major tax types is based on count of returns. Motor vehicle sales and use tax is not included because amounts are deposited by the Pennsylvania Department of Transportation.

The table above details the increase in the share of electronic tax payments by major tax type. Electronic payments increase efficiencies and allow payments to be processed in a timely manner regardless of delays in mail service. The tax with the largest gains in electronic payments during that time was non-withheld personal income tax (PIT), which increased from 18% in FY 2017-18 to 35% in FY 2021-22. However, non-withheld PIT still has the lowest overall share of payments made electronically across the three major tax types (PIT, corporation tax and sales and use tax).

Activity 2: Enforcement

The department administers audit, compliance and collection functions to enforce the commonwealth tax laws. More specifically, this activity (1) provides taxpayers, practitioners, members of the General Assembly and other state and local agencies with information and services regarding tax-related issues through its customer experience center (CEC); (2) provides education and tax preparation assistance; (3) reviews and analyzes business and individual tax returns to encourage tax compliance; (4) administers the tax laws of the Commonwealth consistently for all taxpayers, (5) provides for the voluntary disclosure of tax obligations unknown to the department and (6) provides field enforcement and criminal prosecution. The department also coordinates with federal, state and local law enforcement agencies.

The primary goals of this activity are (1) exemplary customer service, (2) successful outreach and education and (3) maximized voluntary compliance with the tax system. The expected outcomes are (1) positive customer experience ratings, (2) increased delinquent taxes recovered and (3) increased share of new businesses contacted that stay current with their tax obligations.

Resources for Enforcement						
	17-18	18-19	19-20	20-21	21-22	22-23
	Actual	Actual	Actual	Actual	Actual	Budget
Expenditures by Object						
Personnel Services	\$69.64	\$70.96	\$66.85	\$72.19	\$61.40	\$65.82
Operational Expenses	14.20	13.26	12.80	12.96	12.50	28.38
Fixed Assets Expenses	<u>0.01</u>	<u>0.01</u>	<u>0.01</u>	<u>0.01</u>	<u>0.01</u>	--
Total	83.85	84.23	79.66	85.17	73.91	94.20
Expenditures by Fund						
General Fund (State)	\$46.67	\$50.97	\$48.33	\$39.65	\$37.51	\$42.07
General Fund (Augmentations)	31.70	29.28	5.42	9.26	5.15	6.87
General Fund (Restricted) ¹	--	--	19.42	24.33	19.40	25.14
Motor License Fund ²	4.77	3.13	5.57	11.03	10.90	18.85
State Gaming Fund	0.71	0.86	0.92	0.90	0.96	1.09
Other Funds	--	--	--	--	--	<u>0.18</u>
Total	83.85	84.23	79.66	85.17	73.91	94.20
Average Weekly FTE Positions	687	680	719	689	690	839
Personnel Cost/FTE (\$ thousands)	\$101.4	\$104.4	\$93.0	\$104.8	\$89.0	\$78.5
Notes: Expenditures in dollar millions. Actual expenditures are listed in the year the expenditure was recorded.						
1 Enhanced Revenue Collection Account (ERCA) funds for FY 17-18 and FY 18-19 included in General Fund augmentations.						
2 Contains a small amount of federal funds.						

Performance Measures for Enforcement

	2017	2018	2019	2020	2021	2022
Customer Experience Center (CEC)						
Total calls (000s)	--	--	1,192	518	873	1,000
Customer phone calls average wait time (minutes) ¹	11	18	9	8	13	12
Call accept rate (% calls that reach CEC agent) ¹	--	--	72.5%	77.0%	67.1%	72.0%
Calls/filled full-time equivalent staff ²	--	--	--	--	--	6,912
Staff turnover in CEC ^{1,3}	18.0%	15.8%	11.7%	8.9%	16.7%	--
Emails responded to within five days (%)	--	--	--	--	95.4%	100.0%
Overall customer experience rating ¹	--	--	--	78%	84%	80%
Outreach						
New businesses successfully contacted by field agents ⁴	--	--	--	58	1,633	1,434
Delinquent 3 months out (%)	--	--	--	33%	38%	13%
Delinquent 6 months out (%)	--	--	--	39%	36%	16%
Delinquent 1 year out (%)	--	--	--	40%	44%	--
Audits						
Audits per auditor per year	13	12	9	8	10	10
Audit tax adjustments per \$ spent	\$11	\$16	\$7	\$12	\$19	\$13
Collection of Delinquent Taxes						
Business accts. receivable (<3 years, June 30th, \$ millions)	--	--	--	\$1,268	\$1,030	\$1,237
Delinquent tax collected (\$ millions) ³	\$743	\$845	\$643	\$741	\$681	--
Delinquent taxes collected per \$ spent ^{1,3,5}	\$9	\$11	\$9	\$10	\$11	--
Restitution collected-criminal tax enforcement (\$ millions) ³	\$1.23	\$0.42	\$0.30	\$0.50	\$0.40	--

Notes: Data by calendar year unless noted.

1 See Notes on Measures.

2 Calculations by the IFO.

3 Data by fiscal year starting in FY 17-18.

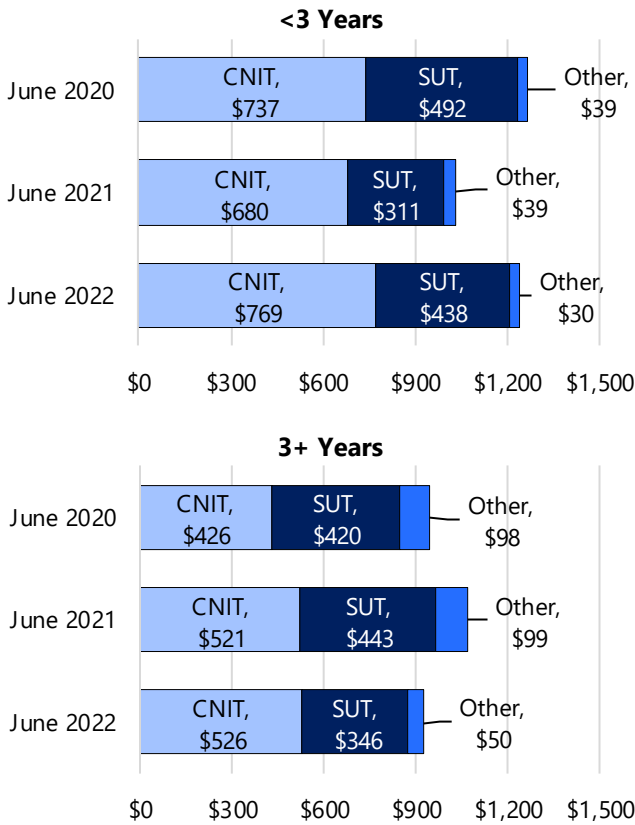
4 DOR staff reach out to new businesses to educate them on tax requirements with follow up in three months, six months and one year to determine if they are properly paying relevant taxes.

5 Calculation of delinquent taxes collected divided by collection dollars spent (includes General Fund and Enhanced Revenue Collection Account (ERCA) expenditures).

Notes on Measures

- Staff turnover is the total number of employees no longer employed by DOR divided by the average number of employees during the same year.
- The overall customer experience rating is the share of respondents answering survey questions in a positive manner and includes survey responses from CEC calls, correspondence, DOR employee interaction, DOR website and myPATH results. Survey questions vary depending on how the customer contacted DOR. For CEC phone calls, customers are asked if they were satisfied with their customer experience.

Business Tax Accounts Receivable by Age



Note: Amount in \$ millions. CNIT is corporate net income tax. SUT is sales and use tax. Other is primarily employer withholding tax.

The figure to the left displays the amount of known outstanding business tax payments due based on age (i.e., the delinquency is less than or more than three years old). Generally, more recent receivables are easier to collect because old receivables could be related to entities no longer in business.

As of June 2022, there were \$1.2 billion in delinquent business taxes less than three years old due the Commonwealth, 62% of which were delinquent CNIT and 35% delinquent SUT. There is an additional \$922 million from delinquent business taxes more than three years old.

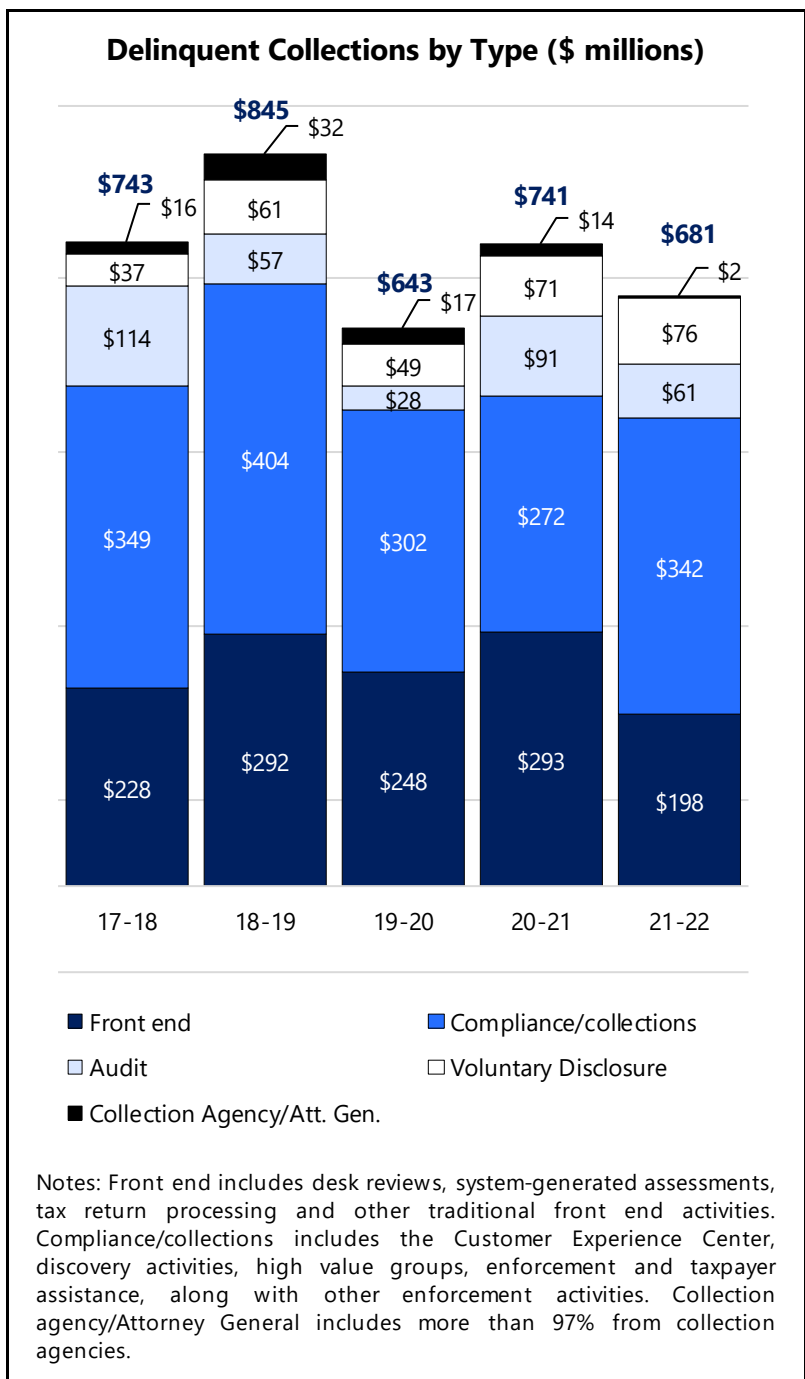
The table below provides additional details on various audit costs and resulting tax adjustments. The table illustrates that while the total amount spent on audits remained relatively flat over the last five years, DOR identified higher audit adjustments during that time period. The amount of audit tax adjustments per dollar spent increased from \$11.10 in FY 2017-18 to \$19.46 in FY 2021-22. FY 2019-20 was impacted by a three-month pause in new desk reviews and field audits at the beginning of the COVID-19 pandemic (spring 2020).

Audit Tax Adjustments per Dollar Spent

	17-18	18-19	19-20	20-21	21-22
Number of audits	3,396	2,569	1,849	1,682	1,755
Audit adjustments (\$ millions)	\$395.6	\$515.5	\$232.2	\$415.3	\$674.9
Audit costs (bureau) (\$ millions)	\$35.6	\$32.7	\$33.2	\$35.3	\$34.7
Avg. audit adjustment	\$116,488	\$200,650	\$125,572	\$246,917	\$384,543
Avg. audit cost	\$10,490	\$12,738	\$17,972	\$20,996	\$19,760
Audit tax adjustments per \$ spent	\$11.10	\$15.75	\$6.99	\$11.76	\$19.46

The figure to the right provides additional delinquent collections detail based on recovery year. For FY 2021-22, \$681 million in delinquent taxes were recovered, including (1) \$342 million from compliance and collection activities, (2) \$198 million from front end activities, (3) \$76 million from voluntary disclosure and (4) \$61 million from audits.

For most years, compliance and collection activities recovered nearly half of all delinquent collections. Roughly another third was recovered due to front end activities such as desk reviews, system-generated assessments, tax return processing and other traditional front-end activities. The remainder came from audit, voluntary disclosure, collection agency and Attorney General efforts.



Activity 3: Lottery

The Pennsylvania Lottery was established in 1971 and is the only state lottery to designate all proceeds to programs that benefit older residents. The Pennsylvania Lottery markets and sells various products, develops and manages the portfolio of games available, assists retailers, conducts drawings, processes claims, maintains controls and supports employees.

There are nearly 10,000 licensed Lottery retailers authorized to sell Lottery games including multiple instant scratch-off ticket games, Fast Play, Keno, Xpress Sports and several draw games, including three multi-state games — Powerball, Mega Millions and Cash4Life. There are approximately 20,000 points of distribution (includes terminal and vending machines) that sell various products. In 2018, the Pennsylvania Lottery added an online component called iLottery.

Lottery profits support (1) Department of Aging services provided by local Area Agencies on Aging (AAAs) and prescription benefits for older Pennsylvanians (i.e., PACE/PACENET), (2) DOR distribution of Property Tax and Rent Rebates, (3) PennDOT’s Shared and Free Ride Program and (4) Department of Human Services (DHS) programs related to long-term living services and supports for older adults.

The primary goal of this activity is to increase sales through an enhanced Lottery experience and greater points of distribution. The expected outcome is increased net profits to support Lottery-funded programs for the benefit of older Pennsylvanians.

Resources for Lottery						
	17-18	18-19	19-20	20-21	21-22	22-23
	Actual	Actual	Actual	Actual	Actual	Budget
Expenditures by Object						
Personnel Services	\$22.78	\$23.62	\$24.05	\$25.62	\$26.48	\$30.08
Operational Expenses	520.47	582.62	494.22	650.46	631.24	677.88
Fixed Assets Expenses	<u>3.42</u>	<u>13.59</u>	<u>12.86</u>	<u>7.52</u>	<u>10.81</u>	<u>34.51</u>
Total	546.67	619.83	531.13	683.60	668.53	742.47
Expenditures by Fund						
Lottery (State) ¹	\$546.50	\$619.67	\$530.47	\$682.94	\$667.86	\$741.81
Lottery (Augmentations)	<u>0.16</u>	<u>0.16</u>	<u>0.66</u>	<u>0.66</u>	<u>0.67</u>	<u>0.66</u>
Total	546.67	619.83	531.13	683.60	668.53	742.47
Average Weekly FTE Positions	223	233	239	258	259	293
Personnel Cost/FTE (\$ thousands)	\$102.2	\$101.5	\$100.7	\$99.4	\$102.4	\$102.7
Notes: Expenditures in dollar millions. Actual expenditures are listed in the year the expenditure was recorded.						
1 Excludes Property Tax and Rent Rebate expenditures included in Activity 4.						

Performance Measures for Lottery

	17-18	18-19	19-20	20-21	21-22	22-23
Workload						
Distribution points (000s) ^{1,2}	16.9	17.7	18.7	19.2	19.8	20.1
Scratch-off facings (000s) ^{2,3}	312	312	332	322	334	342
Prize claims processed at Lottery HQ (000s) ⁴	142	129	140	140	156	--
Efficiency						
Retailer commission (% of sales) ⁵	5.3%	5.4%	5.8%	6.2%	5.9%	--
Administration expenses (% of sales) ⁶	2.2%	2.6%	2.6%	1.8%	2.1%	3.0%
Intercepted prizes (to repay prior debts, \$ millions) ^{2,7}	\$0.07	\$0.27	\$0.69	\$0.80	\$1.07	--
Lottery profit as % of total gaming \$ returned to state ⁸	54.1%	54.8%	59.6%	53.6%	45.5%	--
Outcome						
Net Lottery profits (\$ millions) ^{2,9}	\$1,094	\$1,143	\$1,142	\$1,303	\$1,195	\$1,109
Net profit margin (traditional games only) ¹⁰	26.0%	25.2%	24.6%	23.4%	23.0%	--

1 As of July 1st. Includes Lottery WAVE terminals and vending machines used to sell tickets.

2 See Notes on Measures below.

3 As of July 1st. Scratch-off facings are the number of different scratch-off games displayed at retail establishments.

4 Any prize amount greater than \$2,500. Data is by calendar year beginning in 2017.

5 Includes retailer commissions and incentives in numerator and traditional sales only (excludes iLottery) in denominator. Calculations by the IFO.

6 Includes general operating and advertising in numerator and traditional sales only (excludes iLottery) in denominator.

7 Data by calendar year beginning in 2017.

8 Denominator includes state dollars from slots, table games, fantasy sports, Sports Book, iCasino and video game terminals.

9 Includes traditional and online profits.

10 Source: Pennsylvania Lottery. "Pennsylvania Lottery Profit Report," 2022.

Notes on Measures

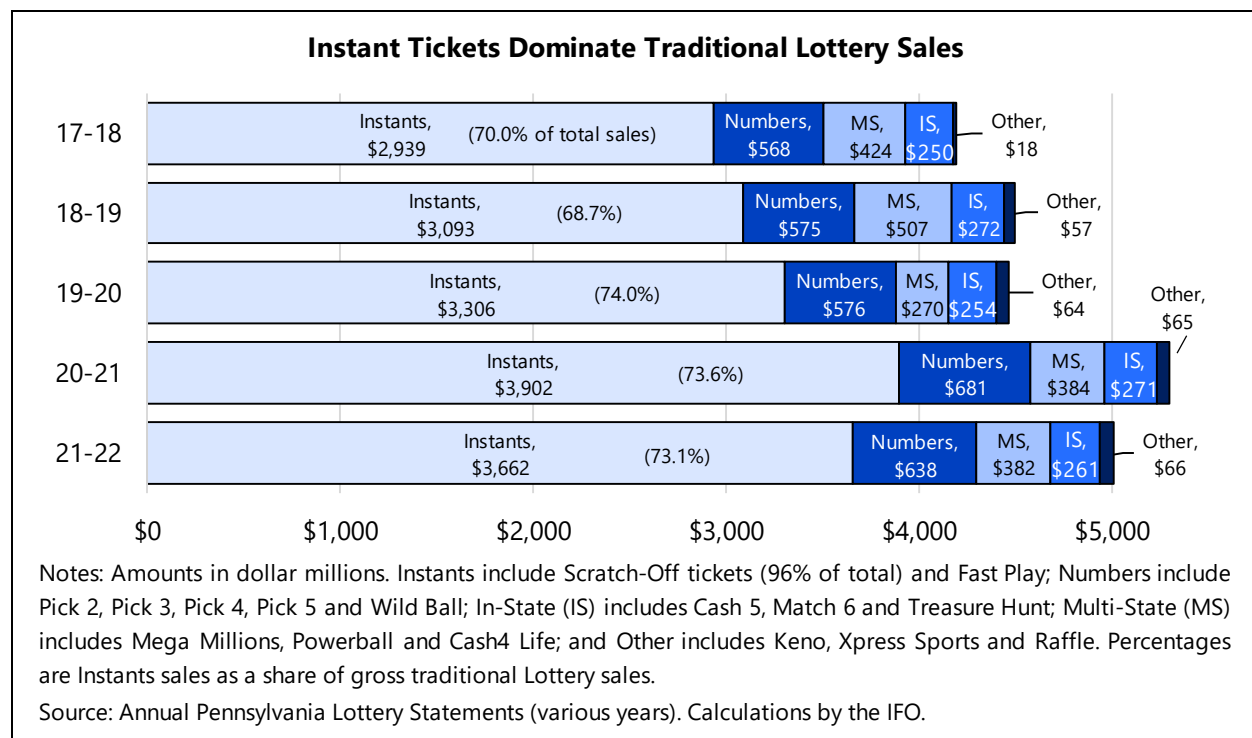
- Over the time period reviewed, the Lottery increased the number of distribution points, scratch-off facings and retailers (not shown in table). Net Lottery profits increased through FY 2020-21. While there was an annual decline in FY 2021-22, that decline was likely due to higher Lottery sales in FY 2020-21 as a result of temporary federal stimulus payments and limited other entertainment options.
- Lottery intercepted an increasing amount of court-ordered obligations for the Administrative Office of the Pennsylvania Courts (AOPC), delinquent state taxes owed to DOR and back child support from Lottery prize winners. In FY 2021-22, Lottery intercepted \$674,367 on behalf of AOPC (63% of total intercepted prize money), \$233,900 in back child support (22%) and \$163,330 in delinquent state taxes (15%). The offsets that Lottery effectuates are statutorily set and with additional legislation could be expanded to recover other funds due the Commonwealth such as unemployment compensation benefit overpayments and outstanding Pennsylvania Turnpike tolls.

Minimum Profit Margin Requirement

Since the Lottery's inception, there has been a minimum profit margin requirement, and Pennsylvania is one of seven states that currently has this requirement.² Originally 30%, various legislative acts have lowered the minimum margin, including: Act 201 of 2014 set the minimum at 25% beginning in FY 2014-15, Act 97 of 2019 temporarily lowers the rate to 20% from FY 2019-20 through FY 2023-24 and Act 137 of 2022 extends margin relief through FY 2028-29. Absent new legislation, the minimum margin will return to 25% for FY 2029-30 and thereafter. Changes in profit margin requirements could significantly impact net profits without adequate lead time as the game development process can take up to a year.

The figure below provides a breakdown of traditional Lottery sales (excludes iLottery). In FY 2021-22, the prize payout for Scratch-Off tickets and Fast Play (referred to collectively as Instants in the figure), was 72.7% of gross sales. All other traditional games had an average prize payout of 54.1%.³ The difference in prize payouts impacts overall minimum profit margins. A larger share of Scratch-Off and Fast Play sales reduces the overall profit margin.

Since the minimum profit margin was reduced to 20% in FY 2019-20, Instants (mostly Scratch-Off tickets) have comprised over 73% of all traditional gross sales. In the preceding years of FY 2017-18 and FY 2018-19 (minimum profit margin was 25%), Instants comprised less than 70% of all traditional gross sales. The reduction in the profit margin permitted Lottery to offer more games with a lower profit margin in an effort to gain or retain lottery play.



² Other states include Delaware, Louisiana, New Jersey, New Mexico, Rhode Island and Tennessee. Source: Pennsylvania Lottery Profit Report (2021), page 4.

³ Calculations by the IFO based on data provided by the Pennsylvania Lottery. Excludes the expired unclaimed prizes (\$20.5 million).

State Benchmarks

Traditional Lottery Games: Gross Sales per Capita for Select States						
Select States	Traditional Gross Sales/ Capita (Age 18+)			45 States + D.C. Rank		Has Profit Margin Requirement
	17-18	20-21	AAGR ¹	20-21 Gross Sales/Capita	AAGR ¹	
Georgia	\$538	\$684	8.3%	2	22	No
Michigan	458	639	11.7	3	9	No
Maryland	435	544	7.7	5	25	No
Pennsylvania	414	527	8.3	6	21	Yes
New Jersey	485	524	2.7	7	40	Yes
Florida	396	522	9.6	9	15	No
New York	513	484	-1.9	10	44	No
Virginia	323	483	14.3	11	4	No
Ohio	348	472	10.7	12	11	No
Texas	267	370	11.5	18	10	No
Tennessee	309	359	5.1	19	33	Yes
Rhode Island	303	334	3.3	22	36	Yes
Delaware	305	296	-1.0	25	42	Yes
California	229	276	6.4	26	28	No
Louisiana	138	176	8.6	34	20	Yes
New Mexico	83	94	4.3	44	34	Yes

Notes: Selected states include other states with profit margin requirements and similar-sized states throughout the United States. Ranks include data from 45 states and Washington D.C. where Lottery play is available.

1 AAGR stands for average annual growth rate and is from FY 17-18 to FY 20-21.

Source: Data provided by DOR from U.S. Census Bureau. Population data from U.S. Census Bureau 2020 and 2021 Population Estimates.

In FY 2020-21, Pennsylvania's Lottery sales of \$527 per capita (age 18+) ranked 6th among states that have a Lottery. Since FY 2017-18, Pennsylvania's overall per capita sales increased by 8.3%, which places Pennsylvania roughly in the middle (21st place) in growth among states with a Lottery.

County Benchmarks

Net Lottery Sales and Lottery Fund Benefits by County (\$ millions, FY 20-21)

County	Net Lottery Sales ¹	Lottery Funded Benefits ²	Benefits to Net Sales Ratio ³	County	Net Lottery Sales ¹	Lottery Funded Benefits ²	Benefits to Net Sales Ratio ³
Sullivan	\$0.8	\$1.1	1.37	Elk	\$4.8	\$3.2	0.65
Mifflin	4.1	5.2	1.27	Washington	28.0	18.2	0.65
Fulton	1.2	1.5	1.25	Cambria	24.1	15.5	0.64
Somerset	8.9	10.2	1.14	Bradford	8.8	5.6	0.64
Philadelphia	268.5	305.0	1.14	Centre	10.4	6.6	0.64
Forest	1.0	1.1	1.08	Lehigh	40.3	25.6	0.63
Venango	5.5	5.7	1.03	Columbia	9.7	6.1	0.63
Juniata	2.3	2.3	1.01	Schuylkill	25.7	16.0	0.62
Potter	2.1	2.0	0.97	Erie	42.6	26.1	0.61
Bedford	5.3	4.9	0.91	Northampton	33.1	20.2	0.61
Snyder	3.5	3.1	0.88	Blair	22.2	13.4	0.60
Jefferson	6.6	5.7	0.87	Armstrong	11.4	6.9	0.60
Tioga	4.4	3.9	0.87	Lackawanna	39.2	23.3	0.59
Northumberland	13.0	11.2	0.87	Mercer	18.4	10.9	0.59
Lawrence	12.1	10.3	0.85	Lancaster	51.2	30.0	0.59
Huntingdon	5.4	4.6	0.85	Berks	52.2	30.4	0.58
Crawford	11.0	9.2	0.83	Greene	6.3	3.6	0.57
Clearfield	11.4	9.4	0.82	Allegheny	199.3	114.3	0.57
Adams	7.4	6.0	0.81	Franklin	16.0	9.1	0.57
Lebanon	13.4	10.2	0.76	Carbon	10.4	5.7	0.55
Montour	2.5	1.9	0.75	Delaware	88.1	47.2	0.54
Perry	5.1	3.8	0.75	Montgomery	90.7	47.5	0.52
Indiana	9.5	7.1	0.74	York	50.1	26.0	0.52
Wayne	7.4	5.4	0.73	Chester	35.7	18.3	0.51
Warren	5.7	4.1	0.72	Cumberland	27.8	13.6	0.49
Lycoming	15.5	11.2	0.72	Wyoming	4.5	2.1	0.47
Fayette	21.9	15.7	0.72	Westmoreland	66.4	31.2	0.47
Union	4.4	3.1	0.71	Luzerne	63.1	29.3	0.46
Clarion	5.5	3.9	0.71	Pike	6.7	3.1	0.46
McKean	6.6	4.5	0.68	Butler	25.3	11.2	0.44
Clinton	5.3	3.6	0.67	Bucks	76.2	32.7	0.43
Cameron	1.2	0.8	0.67	Dauphin	63.9	24.8	0.39
Susquehanna	5.1	3.4	0.67	Monroe	<u>24.5</u>	<u>8.8</u>	<u>0.36</u>
Beaver	24.0	15.7	0.65	State Total	1,784.7	1,182.7	0.66

1 Gross Lottery sales minus prize payouts (\$ millions). Source: Pennsylvania Lottery; Calculations by IFO.

2 Includes distributions from the Lottery Fund, including revenue from slots used for Property Tax and Rent Rebates (\$ millions). Source: Pennsylvania Lottery Economic Benefit Impact Report FY 20-21.

3 Lottery-funded benefits divided by net Lottery sales.

The table on the previous page displays net Lottery ticket sales (gross ticket sales minus prizes paid) and Lottery-funded benefits by county.⁴ The statewide benefits disbursed in FY 2020-21 include funds distributed to:

- AAAs and senior centers to support various programs for older adults (\$269 million),
- PACE/PACENET program that provides prescription benefits to low-income older adults (\$126 million),
- DOR to support the PTRR program (see Activity 4) (\$223 million),
- PennDOT to support the Shared and Free Ride Program that provides rides for older adults (\$130 million) and
- DHS to pay for long-term living services and support for older adults (\$439 million).⁵

The ratio of benefits to net sales compares how much each county receives in Lottery-funded benefits relative to net Lottery sales within each county. A higher ratio indicates a greater level of Lottery-funded benefits compared to net Lottery sales that occurred in a county.

With the notable exception of Philadelphia County, the top 10 counties with the highest ratio of benefits to net sales are in rural areas of the state, likely due to a larger older population living in those areas who qualify for various older adult programs. Philadelphia is included with these counties due to the large amount it receives for the Shared and Free Ride Program.

⁴ The vast majority of revenue to the Lottery Fund originates from Lottery net profits. However, a transfer of gaming revenue funds a small share of benefits distributed.

⁵ Lottery winnings are excluded from the benefits by county.

Activity 4: Property Tax and Rent Rebate (PTRR)

The PTRR program provides property tax and rent rebates to lower income Pennsylvanians (1) age 65 and older, (2) widows and widowers age 50 and older and (3) people with disabilities age 18 and older. The income limit is \$35,000 per annum for homeowners and \$15,000 per annum for renters, excluding half of Social Security income. The maximum standard rebate is \$650, but supplemental rebates for qualifying homeowners can boost rebates to \$975. For claim year 2020 (largely distributed in CY 2021), the department processed more than 444,000 claims, with an average rebate of \$554 for renters and \$442 for homeowners.

While the income-eligibility limits have not increased since 2006, there have been several changes to the program to exclude various types of income during certain years (e.g., federal and state veterans' disability payments and 50% of some federal pensions). Additionally, in certain years legislative action ensured that current claimants were not disqualified solely due to Social Security cost-of-living adjustments. Act 54 of 2022 allocates \$140 million from the federal American Rescue Plan Act (ARPA) to provide an additional one-time rebate equal to 70% of the original rebate amount for all claims made for claim year 2021 (largely processed in 2022). While it is difficult to ascertain the exact share of the eligible population that benefits from the PTRR program, DOR estimates that roughly 60% of the eligible population receives PTRR.

The primary goal of this activity is to efficiently provide property tax and rent relief to eligible Pennsylvanians. Expected outcomes include (1) increased claims within the eligible population (2) increased share of claims sent to Treasury by July 1st and (3) increased claims processed electronically.

Resources for PTRR						
	17-18	18-19	19-20	20-21	21-22	22-23
	Actual	Actual	Actual	Actual	Actual	Budget
Expenditures by Object						
Personnel Services	\$5.99	\$5.94	\$5.65	\$5.59	\$5.70	\$7.16
Operational Expenses	8.59	8.87	9.11	12.61	10.75	13.18
Grants ¹	<u>262.56</u>	<u>250.46</u>	<u>416.14</u>	<u>56.71</u>	<u>213.66</u>	<u>349.20</u>
Total	277.14	265.27	430.89	74.91	230.11	369.54
Expenditures by Fund						
Lottery (State) ¹	\$277.14	\$265.27	\$430.89	\$74.91	\$230.11	\$229.54
Lottery (Federal)	--	--	--	--	--	<u>140.00</u>
Total	277.14	265.27	430.89	74.91	230.11	369.54
Average Weekly FTE Positions²	96	94	98	91	90	200
Personnel Cost/FTE (\$ thousands)	\$62.4	\$63.5	\$57.9	\$61.3	\$63.1	\$35.8

Notes: Expenditures in dollar millions. Actual expenditures are listed in the year the expenditure was recorded.
 1 Funds from FY 20-21 were pulled into FY 19-20 so that PTRR claims for 2019 could be paid prior to July 1st.
 2 FY 22-23 includes total budgeted positions, including vacancies.

Performance Measures for PTRR

	2017	2018	2019	2020	2021	2022
Efficiency						
Cost per claim processed ^{1,2}	\$27	\$28	\$29	\$39	\$37	\$45
PTRR claims processed electronically (%) ^{2,3}	--	--	--	--	8%	17%
Claims processed per FTE staff person (000s) ⁴	17.1	17.7	16.9	15.6	13.9	14.1
Claims sent to Treasury with a July 1st payment date (%) ⁵	89%	88%	94%	96%	65%	68%
Claims sent to Treasury by Jan. 15th payment date (%) ⁵	94%	92%	96%	98%	91%	92%
Outcome						
Property tax claims processed statewide (000s) ²	353.0	340.7	323.1	300.1	292.6	--
Rent rebate claims processed statewide (000s) ²	194.9	191.3	185.1	166.5	151.5	--
PTRR distributed (\$ millions) ⁶	\$262	\$255	\$244	\$223	\$213	\$351
Statewide Indicators						
Property tax reimbursed (%) ^{2,6}	22.1%	21.1%	20.8%	20.4%	20.0%	--
Rent reimbursed (%) ^{2,7}	10.5%	10.7%	10.5%	10.5%	9.4%	--

Notes: Data are CY following the applicable claim year (i.e., 2020 rebates primarily distributed in CY 2021).

1 Includes activity personnel and operational costs by FY (FY 17-18 = 2017) divided by number of claims processed. Calculations by the IFO.

2 See Notes on Measures below.

3 CY 2021 was the first year that claimants were able to submit an electronic application via myPATH.

4 IFO calculation based on data provided by DOR.

5 July 1st is the earliest day that claims can be sent to Treasury. Applicants have until June 30th to submit claims, but that deadline is routinely extended until December 31st. The January 15th date the following year measures how many can be reimbursed on a timely basis.

6 CY 2022 includes \$210.7 million in typical claims plus \$140 million in extra federal ARPA relief money. Calculations by the IFO.

7 Includes the total amount reimbursed divided by the total taxes/rent confirmed to be paid by claimant. Since this may not include all taxes or rents paid or billed, this should be viewed as an upper limit. Calculations by the IFO. Source: Various PTRR Program Statistical Reports.

Notes on Measures

- The increase in cost per claim processed increased substantially in 2020 due to an increase in operational expenses in FY 2020-21 as a result of additional costs for PATH going live for PTRR and increases to interagency billings for technology and human resources.
- CY 2021 (for claim year 2020) was the first year that claimants could apply electronically through the Pennsylvania Tax Hub (myPATH) system. While a small portion of claims was processed electronically in 2021 and 2022 (preliminary), this figure should grow and increase efficiencies within the PTRR program.
- The PTRR income limits were last modified in 2006. As a result, the total number of property tax and rent rebate claims processed trends downward over time.
- The share of property tax and rent reimbursed generally declines over time as income limits and maximum claim amounts remain the same and property taxes and rents increase. Act 54 of 2022 allocates ARPA funds to provide a one-time increase in claim amounts for claim year 2021 (disbursed in 2022).

Property Tax Rebates (Claim Year 2020)

County	Total Claims ¹			Share of Taxes Reimbursed ²	County	Total Claims ¹			Share of Taxes Reimbursed ²
	Claims	Amount	Rank			Claims	Amount	Rank	
Philadelphia	25,176	\$13,835	1	43.1%	Snyder	1,339	\$555	51	24.2%
Forest	263	99	67	35.5	Luzerne	9,885	4,582	4	23.7
Clearfield	3,661	1,449	31	34.7	Washington	5,530	2,259	19	23.6
Bedford	2,115	814	44	33.9	Westmoreland	13,267	5,546	3	22.9
Fayette	5,857	2,509	17	33.6	Lackawanna	5,535	2,717	14	22.4
Cameron	278	105	66	33.6	Montour	561	221	63	22.3
Clarion	1,410	551	52	33.0	Perry	1,269	532	55	21.8
Jefferson	1,839	703	47	32.9	Butler	4,410	1,812	24	21.5
Venango	2,218	858	41	32.6	Wyoming	756	360	61	21.4
Huntingdon	1,829	714	46	31.7	Beaver	5,870	2,488	18	21.4
Somerset	3,678	1,456	30	31.6	Lycoming	3,727	1,616	28	20.7
Sullivan	293	117	65	30.9	Centre	2,137	830	43	20.3
Greene	942	393	59	30.9	Allegheny	25,925	11,378	2	20.2
Cambria	6,742	2,581	15	30.8	Union	1,004	408	58	20.1
McKean	1,602	646	48	30.1	Franklin	4,283	1,732	26	20.1
Potter	731	301	62	29.1	Erie	7,296	3,264	11	19.7
Blair	4,816	1,950	21	29.1	Carbon	2,617	1,182	37	19.6
Northumberland	3,538	1,422	32	29.1	Wayne	1,561	741	45	19.3
Schuylkill	5,887	2,561	16	27.9	Dauphin	4,701	1,983	20	18.6
Warren	1,428	544	53	27.6	Pike	1,099	529	56	18.2
Lawrence	3,213	1,421	33	26.9	Lebanon	3,793	1,547	29	16.9
Juniata	900	362	60	26.8	Cumberland	4,502	1,849	22	16.7
Mercer	4,418	1,761	25	26.2	Monroe	3,615	1,722	27	16.1
Elk	1,562	563	50	26.1	Adams	2,639	1,175	38	15.9
Susquehanna	1,155	489	57	26.1	Lancaster	9,623	4,152	7	14.8
Crawford	3,209	1,345	34	25.9	Lehigh	6,785	3,193	12	14.7
Fulton	510	215	64	25.8	Berks	9,455	4,290	6	14.5
Bradford	2,042	833	42	25.0	York	10,301	4,576	5	14.0
Mifflin	2,119	907	40	24.9	Northampton	6,169	2,823	13	12.8
Columbia	2,393	1,016	39	24.9	Chester	4,112	1,848	23	11.7
Clinton	1,331	540	54	24.8	Delaware	6,846	3,403	10	11.5
Tioga	1,397	572	49	24.7	Montgomery	8,704	3,983	9	11.4
Indiana	2,989	1,184	36	24.7	Bucks	8,773	3,991	8	11.1
Armstrong	2,949	1,237	35	24.3	State Total³	292,646	129,374	--	20.0

1 Total amount (\$ thousands) reimbursed for the county.

2 Total amount reimbursed divided by property taxes paid. This calculation only includes taxes the claimant confirmed they paid and may not include all tax paid or billed.

3 Includes a small number of out-of-state residents.

Source: DOR. "Property Tax Rent Rebate Program 2020 Statistical Report." May 2022.

The figure above provides the total number and amount of approved property tax claims by county as well as the share of the property taxes reimbursed. With the exception of Philadelphia County, most counties with high reimbursement rates are rural counties. Counties with low reimbursement rates tend to be more populated and largely located in the southeastern part of the state. Because claimants may not confirm all tax paid, these percentages reflect the upper limit for the share of property tax reimbursed.

Rent Rebates (Claim Year 2020)

County	Total Claims ¹			Share of Rent Reimbursed ²	County	Total Claims ¹			Share of Rent Reimbursed ²
	Claims	Amount	Rank			Claims	Amount	Rank	
McKean	730	\$405	44	12.6%	Centre	1,010	\$554	38	10.4%
Clarion	652	349	46	12.4	Dauphin	3,676	2,013	13	10.3
Susquehanna	468	245	54	12.4	Luzerne	5,307	2,930	5	10.3
Bradford	1,074	590	36	12.1	Fayette	2,748	1,521	16	10.3
Sullivan	116	55	65	11.9	Lycoming	2,076	1,160	21	10.2
Greene	632	341	48	11.9	Cambria	2,553	1,393	19	10.0
Huntingdon	592	329	49	11.7	Franklin	1,441	801	31	10.0
Tioga	555	302	51	11.7	Allegheny	16,843	9,189	2	9.8
Elk	382	203	57	11.7	Cumberland	1,678	891	28	9.7
Bedford	587	309	50	11.7	Lackawanna	3,917	2,199	10	9.6
Mifflin	940	521	41	11.7	Adams	652	343	47	9.6
Crawford	1,545	865	29	11.7	Snyder	348	196	58	9.6
Cameron	106	52	66	11.6	Washington	2,476	1,359	20	9.6
Lawrence	1,481	819	30	11.6	Philadelphia	23,290	13,349	1	9.6
Forest	64	34	67	11.5	Carbon	737	391	45	9.4
Union	427	219	56	11.4	Monroe	1,068	585	37	9.3
Somerset	1,125	605	34	11.2	Berks	5,400	3,091	3	9.3
Warren	452	252	53	11.2	Wyoming	262	144	60	9.2
Clinton	770	430	42	11.0	Lehigh	5,058	2,770	7	9.1
Montour	201	106	62	11.0	Venango	963	525	40	9.1
Columbia	982	533	39	11.0	Pike	161	85	64	8.8
Northumberland	1,912	1,050	25	10.9	York	3,973	2,253	9	8.8
Westmoreland	4,598	2,509	8	10.9	Chester	1,956	1,062	24	8.7
Beaver	2,550	1,404	18	10.7	Lancaster	5,077	2,866	6	8.0
Wayne	492	271	52	10.7	Bucks	3,279	1,732	15	7.9
Mercer	2,094	1,145	22	10.7	Blair	2,644	1,451	17	7.8
Potter	232	127	61	10.7	Montgomery	3,713	2,016	12	7.6
Indiana	1,135	621	33	10.6	Delaware	3,911	2,161	11	7.5
Schuylkill	1,990	1,093	23	10.5	Butler	1,814	989	26	7.1
Armstrong	1,202	671	32	10.5	Northampton	3,550	1,936	14	7.0
Clearfield	1,101	599	35	10.5	Lebanon	1,690	963	27	6.5
Perry	409	227	55	10.5	Fulton	170	91	63	5.8
Juniata	322	179	59	10.5	Jefferson	758	415	43	5.6
Erie	5,247	2,932	4	10.4	State Total³	151,473	83,871	--	9.4

1 Total amount (\$ thousands) reimbursed for the county.

2 Total amount reimbursed divided by rent paid. This calculation only includes rent the claimant confirmed they paid and may not include all rent paid or billed.

3 Includes a small number of out-of-state residents.

Source: DOR. "Property Tax Rent Rebate Program 2020 Statistical Report." May 2022.

The figure above provides the total number and amount of approved rent claims by county as well as the share reimbursed. Most counties with high reimbursement rates are rural counties where rents are likely lower. Because claimants may not confirm all rent paid, these percentages reflect the upper limit for the share of rent reimbursed.

Activity 5: Administration

This activity provides organizational leadership and core support services to the department and includes the Executive Office staff; Communications Office; Policy Office; Office of Chief Counsel; Legislative Liaison Office; Bureau of Fiscal Management; and Bureau of Process Reinvention, Innovation and Strategic Management (PRISM). The activity provides executive guidance, directs operations and evaluates performance. It also (1) coordinates external and internal communications, (2) advocates for policy and legislation, (3) provides advice and legal assistance, (4) develops and monitors the department budget and procurements, and (5) provides strategic guidance, business analysis, data analysis, and project management support.

The department has developed an employee engagement index (EEI) to measure employee perspectives on issues that affect performance. Employees are regularly surveyed to rate how strongly they agree or disagree with 11 statements such as (1) I understand the DOR mission and goals; (2) Communication of information with DOR is adequate; (3) Our work processes and policies are continually improved and (4) I received regular feedback from my supervisor on my performance. The responses are converted to a number (5 = strongly agree to 1 = strongly disagree) and averaged together to create the EEI.

Resources for Administration						
	17-18	18-19	19-20	20-21	21-22	22-23
	Actual	Actual	Actual	Actual	Actual	Budget
Expenditures by Object						
Personnel Services	\$31.72	\$13.48	\$13.33	\$13.91	\$14.64	\$26.32
Operational Expenses	30.00	41.13	35.55	33.94	30.31	38.55
Fixed Assets Expenses	<u>1.17</u>	<u>0.58</u>	<u>0.06</u>	<u>0.03</u>	<u>0.16</u>	<u>0.25</u>
Total	62.88	55.18	48.94	47.88	45.11	65.12
Expenditures by Fund						
General Fund (State)	\$53.36	\$43.40	\$38.05	\$36.23	\$29.44	\$54.61
General Fund (Augmentations)	9.53	11.78	10.50	10.81	10.21	10.12
General Fund (Restricted)	--	--	0.35	0.38	5.01	0.39
Motor License Fund (State)	--	--	<u>0.04</u>	<u>0.46</u>	<u>0.46</u>	--
Total	62.88	55.18	48.94	47.88	45.11	65.12
Average Weekly FTE Positions¹	102	93	99	102	111	132
Personnel Cost/FTE (\$ thousands)	\$311.8	\$145.1	\$134.4	\$137.0	\$132.1	\$199.7
Notes: Expenditures in dollar millions. Actual expenditures are listed in the year the expenditure was recorded.						
1 FY 22-23 includes total budgeted positions, including vacancies.						

Performance Measures for Administration

	17-18	18-19	19-20	20-21	21-22	22-23
Personnel						
Agency FTE ¹	1,746	1,725	1,715	1,680	1,628	2,118
Staff turnover rate	10%	12%	18%	7%	12%	--
Office-based positions ^{2,3}	--	--	--	--	575	--
Full-time telework positions ^{2,3}	--	--	--	--	683	--
Home-headquartered positions ²	--	--	--	--	194	--
Information Technology						
IT costs (\$ thousands) ³	\$52,314	\$72,124	\$57,382	\$66,476	\$63,917	\$70,455
IT cost per agency FTE ⁴	\$29,966	\$41,814	\$33,467	\$39,560	\$39,256	\$33,271
Overtime						
Overtime costs (\$ thousands)	\$314	\$592	\$239	\$185	\$483	\$846
Overtime cost per agency FTE ⁴	\$180	\$343	\$139	\$110	\$296	\$400
Human Resources						
HR costs (\$ thousands) ³	\$2,161	\$3,002	\$2,351	\$2,379	\$2,253	\$2,837
HR cost per agency FTE ⁴	\$1,238	\$1,740	\$1,371	\$1,416	\$1,384	\$1,340
Facilities³						
Facility costs (\$ thousands)	\$4,505	\$5,119	\$6,319	\$6,163	\$5,912	\$9,594
Facility space (thousands sq. ft.)	623.5	623.5	623.5	611.0	604.8	604.8
Facility cost per square foot ⁴	\$7.2	\$8.2	\$10.1	\$10.1	\$9.8	\$15.9
Agency Specific Measures						
Employee engagement index ⁵	--	3.82	3.82	3.96	3.96	--

1 Average weekly filled FTE. FY 22-23 includes budgeted positions.

2 Measure includes filled and vacant positions as of July 28, 2022 date. Historical data are not available.

3 See Notes on Measures below.

4 Calculations by the IFO.

5 FY 17-18 data are not comparable due to a change in the survey scale from a 4-point to 5-point Likert scale.

Notes on Measures

- In FY 2017-18, executive agency human resources (HR) services and information technology (IT) complement were consolidated under the Office of Administration (OA). During this transitional year, executive agencies continued to pay the personnel costs associated with the HR and IT complement transferred to OA. Beginning in FY 2018-19, agencies are billed for these services and for a portion of the HR and IT enterprise budget previously appropriated to OA.
- Management Directive 505.36 issued in April 2021 defines classifications of workers eligible to telework: (1) full-time telework work remotely each day of their workweek, (2) part-time telework have regularly scheduled days working remotely and in an office and (3) ad hoc telework work remotely only in case of weather emergency or other qualified occurrences. Office-based positions include non-telework, part-time telework and ad hoc telework positions.
- Facility costs exclude costs paid by other agencies (i.e., Department of General Services). Facility cost measures illustrate the change in costs over time, not the total level.

Appendix

Performance-Based Budgeting and Tax Credit Review Schedule

Year		Performance-Based Budgets				
1	Corrections	Board of Probation and Parole	PA Commission on Crime & Delinquency	Juvenile Court Judges' Commission	Banking and Securities	General Services
2	Economic & Community Development	Human Services – Part 1	Health	Environmental Protection	PA Emergency Management Agency	State
3	PennDOT	Human Services – Part 2	State Police	Military & Veterans Affairs		
4	Education	Human Services – Part 3	Aging	PA Historical & Museum Commission	Agriculture	Labor and Industry
5	Drug and Alcohol Programs	Insurance	Revenue	Executive Offices	Conservation and Natural Resources	
Year		Tax Credits				
1	Film Production	New Jobs	Historic Preservation Incentive			
2	Research and Development	Keystone Innovation Zones	Mobile Telecom and Broadband	Organ and Bone Marrow		
3	Neighborhood Assistance	Resource Enhancement and Protection (REAP)	Entertainment Economic Enhancement Program	Video Game Production	Keystone Special Development Zones	
4	Educational Tax Credits	Coal Refuse and Reclamation	Mixed-Use Development	Brewers'		
5	Resource Manufacturing	Manufacturing and Investment	Waterfront Development	Rural Jobs and Investment		

 Independent Fiscal Office

Agency Response



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF REVENUE
HARRISBURG, PENNSYLVANIA
17128-1100

THE SECRETARY

(717) 783-3680

December 14, 2022

Matthew Knittel
Director, Independent Fiscal Office
Rachel Carson Building
400 Market Street
Harrisburg, PA 17105

IFO Performance Based Budgeting Report

Dear Director Knittel:

I thank the Independent Fiscal Office (IFO) for this agency performance review of the Department of Revenue as mandated by Act 48 of 2017. The department strives to fulfil our mission "to fairly, efficiently, and accurately administer Pennsylvania tax and Lottery programs." This review has helped to further refine key performance indicators to achieve success.

For the years reviewed in this report, the Department of Revenue has undergone extensive transformation by modernizing our tax systems and functionalizing our business bureaus to better serve the citizens of Pennsylvania. The modernization project, Pennsylvania Tax Hub (PATH), has remained on time and on budget since its launch in 2018. PATH transitioned all the state taxes the department administers to one system to allow for improved tax administration and enforcement capabilities. This allowed the department to decommission costly and outdated technology. The efficiency gains resulting from the internal improvements and the newly implemented electronic services via myPATH will result in improved customer experience and will enhance the department's organizational capacity moving forward.

Activity 1: Tax Administration

Recommended Measures for Tax Administration

Total assessments and assessments protested were recommended measurements by IFO and the department will implement those measurements. While the department does currently measure sustain rates for assessments, this additional measure will allow the department to better understand where tax deficiencies are present and to what percentage assessments are protested resulting in better allocation of department resources.

Activity 2: Enforcement

Department COVID-19 Response

Beginning with FY 19-20, the enforcement activities conducted by the department were significantly altered because of the global COVID19 pandemic. During the height of the pandemic, as many businesses and individuals faced economic hardships, the department paused or modified the following collection activities:

- Pausing payments for existing payment plans, upon taxpayer request.
- Providing flexible terms for new payment plans.
- Suspending and reducing automatic enforcement actions regarding liens, wage garnishments, bank attachments, license inspections, requirements for tax clearances, citations and the use of private collections agencies.
- Suspending the creation of new desk reviews and field audits.
- Broadening audit penalty abatement and interest relief.
- Continuing administration of tax credit and incentive programs.
- Abating penalties if taxpayers have remitted trust fund taxes collected.

During this time, employees who were typically assigned to enforcement activities were refocused on customer service initiatives. The department's focus was on assuring collection of trust fund taxes. Audit and desk review activity was limited to resolution of open audits, however, face-to-face activity ceased.

Additionally, the following tax administration changes were made to help reduce the burden on taxpayers:

- Extended return filing and payment due dates, per Act 10 of 2020:
 - Extended the deadline to July 15, 2020 for declarations of estimated personal income tax.
 - Extended the deadline to July 15, 2020 for payments of estimated personal income tax.
 - Extended the deadline to July 15, 2020 for the filing of informational returns related to Pennsylvania S corporations and partnerships (Form PA-205/PA-65), and estates and trusts (Form PA-41).
 - Extended the filing date by three months for certain information returns (1099-R, 1099-MISC, and W2-G)
 - Extended the due date for calendar year corporation returns, to mirror the federal due date extensions, to July 15, 2020.
- Suspended the assessment of the accelerated sale tax penalty.
- Suspended the offset IRS refunds to PA personal income tax liabilities.

Variance in Customer Experience Center Total Call Numbers

The closure of the department in March 2020 resulted in the closure of the contact center. Because not all employees in the Customer Experience Center had laptops at the start of the closure, it took between March 2020 and July 2020 to get the contact center employees fully equipped to telework. While the contact center was offline, customers turned to the department's Right Now email system as the main form of communication. Even after the contact center reopened, the department continues to trend above pre-pandemic days in terms of overall emails responded, while keeping average days to respond to between 1 and 2 business days.

Despite department staff fully returning to work by July 2021, traditional enforcement activities continued to be modified as modernization activities were ongoing through the end of calendar year 2022. It is expected that enforcement will return to pre-pandemic levels in 2023.

Activity 3: Lottery

Over the years reviewed, the Pennsylvania Lottery increased the total number of distribution points, scratch-off facings, and retailers. Net Lottery profits increased through fiscal year 20-21. The Lottery acknowledges that factors related to the COVID-19 pandemic, such as temporary federal stimulus payments and limited entertainment options, likely played a significant role in the record-breaking sales and profits in fiscal year 20-21. As a result, the Lottery projected negative year-over-year sales and profit growth for fiscal year 2021-22.

Activity 4: Property Tax/Rent Rebate

As part of the department's modernization efforts, the Property Tax/Rent Rebate (PTRR) program recently modernized to PATH and now offers an electronic filing option via myPATH for claimants to receive their property tax/rent relief.

Department COVID-19 Response

On May 19, 2020, Governor Wolf announced that rebates through the PTRR program would begin to be issued on May 20, 2020, instead of the typical issue day of July 1st. The governor signed HB 1076 (Act 20 of 2020) to authorize the early distribution of rebates through the PTRR program. Rebates started to be issued on May 20, 2020 and were processed on a first in, first out basis. The goal was to provide financial support to our most vulnerable residents during the early stages of the COVID-19 pandemic. This advancement of PTRR payments caused fluctuations when comparing FY 19-20 metrics to fiscal years that both preceded and followed.

Additionally, Act 54 of 2022 allocated \$140 million from the federal American Rescue Plan Act (ARPA) to provide an additional one-time rebate equal to 70% of the original rebate amount for all PTRR claims made for claim year 2021. These additional PTRR payments caused fluctuations when comparing FY 21-22 metrics to fiscal years that preceded it.

Activity 5: Administration

Department Transition to Telework

With COVID-19, came a departmental shift in business operations, moving from in-person work to telework. On April 13, 2020, 63% of employees were teleworking or working onsite. By mid-August 2020, 98% of employees were back to work in some capacity (largely teleworking).

Complement, Budget, and Expenditure Variances

Beginning in 2016, the department has implemented several re-organizations to functionalize our business to better support the department's mission and the attainment of our strategic goals and initiatives. As a result, some prior year complement, budget, and expenditures may fluctuate within an activity or may make it difficult to compare prior years because of the changes in positions and personnel within the department.

Additionally, here are some notable variances in the charts seen throughout the report:

- In the chart, *DOR Average Weekly FTE Positions by Activity and Fiscal Year*, the total number of FTE positions for the 22-23 Budget are considerably higher than past fiscal years. The numbers for the 22-23 Budget column are estimates which include all funded permanent and wage (tax season) positions. Previous fiscal year numbers reflect the filled permanent and wage positions within the respective fiscal years. Since July 2021, the department has been averaging 200 permanent position vacancies and has been able to hire a limited number of tax season (wage) positions. This is the result of both the pandemic and economic conditions.
- In the chart, *Resources for the Department of Revenue*, a drop was seen in fiscal year 20-21, with a subsequent rise in 21-22. This was due to changes to the regular PTRR timeline as 20-21 funds were paid in FY19-20 to help those impacted by the pandemic.
- In the chart, *Resources for Tax Administration*, an increase in costs was seen between fiscal years 20-21 and 21-22. The increase in Personnel Services reflects the cost to carry and includes increases in pay and benefits. The increase in Non-Expense Items reflects some transfers for FY20 that took place in FY21 and an increase in Realty Tax Transfers (\$14M gambling and \$2.3 Realty Tax Transfers) contributed to the variance which had not occurred in the previous fiscal year.
- In the chart, *Resources for Enforcement*, an increase is seen in the 22-23 Budget column. The figures in this column reflect budgeted amounts for permanent and wage positions. All prior years reflect actual expenditures for filled FTEs. Similar to above, the department is often unable to fill or keep filled all the funded positions within a fiscal year.
- In the chart, *Resources for PTRR*, operational expenses increased between both fiscal years 20-21 and 21-22. This is due to the result of PTRR going live in PATH during fiscal year 20-21 and the allocation of PATH project costs to the PTRR appropriation for those related expenditures. Additional increases were also seen in shared services billing from OA for IT/HR expenditures.

The Department of Revenue is dedicated to our mission and understands the impact of our purpose to the commonwealth, funding programs and services to benefit all Pennsylvanians. I appreciate the partnership with the IFO and our shared goal of being responsible stewards of taxpayer dollars.

Sincerely,



C. Daniel Hassell
Secretary of Revenue