FALL 2011

LEGISLATIVE PRIORITIES

Commonwealth Foundation
for PUBLIC POLICY ALTERNATIVES

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LEGISLATIVE PRIORITIES

SCHOOL CHOICE

- Pennsylvania public school spending doubled in the past 15 years; performance did not.
- In the commonwealth's bottom five percent of schools, more than 5,400 acts of violence occurred in the 2008-09 school year, including seven rapes and more than 3,000 assaults on students and staff.
- Pennsylvania's Educational Improvement Tax Credit serves 40,000 students annually, but thousands remain on waiting lists.
- Studies have shown school choice programs, including vouchers and tax credits, increase student performance, improve the quality of public schools, and save taxpayers money.

LIQUOR STORE PRIVATIZATION

- Pennsylvania and Utah are the only states where government has a complete monopoly over sales of wine and liquor.
- 69 percent of Pennsylvania voters support getting government out of the booze business.
- A Pennsylvania Liquor Control Board-commissioned study found that 45 percent of Southeast Pennsylvanians buy wine and liquor in other states, even though it is illegal to transport alcohol across state lines.
- Pennsylvania ranks higher than the national average in underage drinking, underage binge drinking, and binge drinking among all residents. A comprehensive study shows no link between government control of alcohol sales and negative social impacts.

MARCELLUS SHALE IMPACT FEE/TAX

- Pennsylvania's natural gas industry has paid more than $1.2 billion in state taxes since 2006. In addition to taxes, gas companies put $200 million into improving local roads last year, and paid out an estimated $7 billion in lease and royalty payments to residents since 2006.
- Penn State economists estimate Marcellus activity spurred more than 24,000 new jobs in Pennsylvania in 2009 alone.
- Last year, Marcellus gas production saved Pennsylvanians an estimated $633 million in utility costs, or about $200 for every family of four.
- Any impact fee assessed to the natural gas industry should only charge for the government services gas drillers are using that are not already being covered through current taxes and fees.

TRANSPORTATION FUNDING

- No additional transportation funding should be awarded without spending reforms. Every dollar spent on transportation should be prioritized.
- Redefining prevailing wages as the market wage would save hundreds of millions of dollars each year.
- Enabling public-private partnerships would bring in private-sector funding and expertise both in new road construction and in mass transit operations.
- Any additional funding needs should be borne only by those who benefit. This includes riders of mass transit.

CHARTER SCHOOL REFORM

- Charter school enrollment grew from 982 students in 1997 to 91,000 in 2010, as more parents exercised choice in their children's education.
- On average, charter schools receive and spend only about 83 percent of what school districts spend for each student.
- If charters fail to perform, they may be shut down. Ultimately, charters face the highest accountability standard—parental choice.
- Allowing alternative charter school authorizers would increase opportunities for new and innovative charter schools.

SCHOOL CHOICE

Should parents have more control over their child's education? Pennsylvania has doubled public school spending in the past 15 years, yet only 40 percent of 8th-grade students scored at or above proficiency levels on the National Assessment of Educational Progress reading and mathematics exams. Over that time, enrollment in Pennsylvania public schools declined by 26,960 students, while schools hired an additional 32,937 employees. Nearly every empirical study shows that school choice programs increase academic achievement for students and improve public schools through competition. It's time to empower families to pick the best school for their child.

Why does school choice need to happen this session? In the commonwealth's bottom five percent of schools, fewer than 53 percent of students were proficient in reading and math in 2009-10. In the same 144 schools, more than 5,400 acts of violence occurred in the 2008-09 school year, including seven rapes and more than 3,000 assaults on students and staff. Only by acting now can lawmakers provide a lifeline to these students before sentencing them to another year in violent and failing schools.

Recorded Violent Incidents in 144 Lowest-Performing Schools, 2008-09

Incident	Total	Incident	Total
Assaults on Student	1983	Robbery	163
Assaults on Staff	1027	Theft	593
Rape	7	Rioting	2
Involuntary Sex	1	Bomb Threat	26
Sex Assault	4	Terroristic Threat	31
Indecent/Aggravated Assault	121	Weapon Charges	554
Indecent Exposure	30	Burglary	20
Kidnapping/Interference with Child Custody	4	Arson	107
Reckless Endangering	38	Vandalism	548
Criminal Trespassing	171		
Source: Safe Schools Online Reporting (www.safeschools.state.pa.us)			

What can lawmakers do? Legislation has been introduced to expand educational tax credits and implement school vouchers. The popular Educational Improvement Tax Credit Program (EITC) supports scholarships that help parents pay tuition at their school of choice from voluntary contributions of Pennsylvania businesses. Vouchers provide families with taxpayer money, in this case a fraction of the amount schools currently spend per pupil, to help parents pay private or public school tuition.

Does school choice provide a better education for children? Nine of the 10 "gold standard" evaluations of voucher programs reported statistically significant gains in achievement for all or some voucher recipients. Voucher programs improve graduation rates in places like Washington, D.C., and Milwaukee, have higher parental satisfaction rates and reduce segregation.

How does school choice affect public schools? When parents can choose, public schools are forced to compete. In 18 out of 19 academically rigorous studies, vouchers had a positive impact on affected public school districts. No study has ever demonstrated that scholarships have a negative impact on district school performance or their ability to raise funds.

Can school choice save taxpayers money? The EITC saved taxpayers an additional $512 million last year, as students left high-cost district schools. The average EITC scholarship is $1,044, while the average school district spends over $14,000 per student. If all students currently enrolled in charter schools, private schools and homeschooling returned to district schools, it would cost taxpayers an additional $3 billion per year.

Do parents want school choice? Since the late 1990s, Pennsylvania lawmakers have created charter schools, cyber schools and private school scholarships through the Educational Improvement Tax Credit program. Yet long waiting lists for these limited options show the supply of school choice options does not meet parental demand. For example, the Children's Scholarship Fund Philadelphia had 95,000 applications for 7,700 scholarships awarded over the last 12 years.

GOVERNMENT-RUN LIQUOR STORES

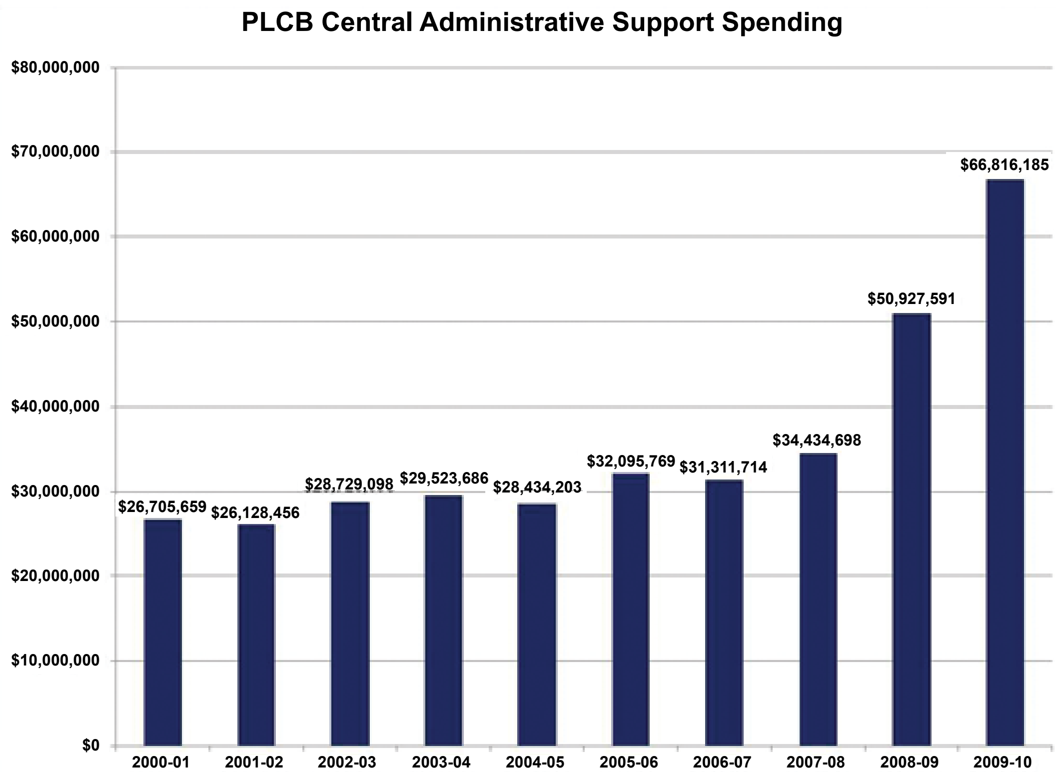
Should Pennsylvania sell off the government-run liquor stores? Every state except Utah provides more freedom over wine and spirits sales than Pennsylvania. These are the only states where government has a complete monopoly over wholesale and retail sales of wine and liquor, a remnant of Prohibition. This lack of liquor liberty has turned law-abiding residents into bootleggers.

The Pennsylvania Liquor Control Board (PLCB) should concentrate on its enforcement role and private businesses should be given the ability to sell wine and spirits in a competitive market. This will give Pennsylvanians the same freedom, convenience and pricing offered in neighboring states.

Are Pennsylvanians crossing the border to buy alcohol? A PLCB-commissioned study found that 45 percent of Southeast Pennsylvanians buy wine and liquor in other states, even though it is illegal to transport across state lines. Based on PLCB sales in just these eight counties alone, the state loses an estimated $40 million per year due to border bleed.

Do Pennsylvanians support private liquor stores? More than 69 percent of Pennsylvania voters support getting government out of the booze business, according to recent polling. Support for privatization transcends party lines, gender, union membership, economic means and all geographic regions of the state.

Isn't the liquor business a cash cow for the state? From the wine kiosk catastrophe that cost millions because PLCB leaders ignored internal recommendations to not proceed, to spending $66 million for an inventory database that under-ordered (causing managers to hoard), then over-ordered (wasting millions due to product spoilage and excess storage costs), the PLCB has misused taxpayer resources. Last year, the PLCB finished with a year-end fund balance of negative $8 million.



Is privatization safe? Contrary to the facts, opponents of privatization spread fear that less government control will lead to adverse social impacts. If more government control resulted in more safety, Pennsylvania would be ranked first or second in the nation in measure of lowest alcohol use and abuse. Yet Pennsylvania ranks higher than the national average in underage drinking, underage binge drinking, and binge drinking among all residents. The commonwealth ranks higher than most of its border states in alcohol-related traffic fatalities and total alcohol-related deaths per capita. A comprehensive study shows no link between government control of alcohol sales and negative social impacts.

Pennsylvania Alcohol Related Deaths and Traffic Fatalities Compared to Bordering States

		Alcohol Related Deaths		Alcohol Related Traffic Fatalities, 2009				MADD Ranking
State	Population	Total Alcohol Related Deaths (Avg. 2001-05)	Per 100,000 Residents	Number	% of total fatalities	Per 100,000 Residents	Per 1,000 State Hwy Miles	DUI-related accidents per capita
Pennsylvania	12,632,780	3,210	25.41	406	32	3.21	3.33388	30
Delaware	891,464	220	24.68	45	38	5.05	7.14059	39
Maryland	5,737,274	1,278	22.28	162	30	2.82	5.14923	17
New Jersey	8,732,811	1,772	20.29	149	25	1.71	3.83675	3
New York	19,577,730	3,825	19.54	321	28	1.64	2.80237	11
Ohio	11,532,111	2,875	24.93	324	32	2.81	2.63363	26
West Virginia	1,825,513	573	31.39	115	32	6.30	2.97943	29
United States	309,050,816	79,646	25.77	10,839	32	3.51	2.67582	

Sources: Alcohol Related Deaths: http://apps.nccd.cdc.gov/DACH_ARDI/Default/Default.aspx; Alcohol Related Traffic Fatalities: http://www-nrd.nhtsa.dot.gov/Pubs/811363.pdf; Highway Miles: http://www.fhwa.dot.gov/policyinformation/statistics/2009/hm20.cfm; MADD Rankings: http://www.madd.org/drunk-driving/campaign/state-ranking/

Prepared by Commonwealth Foundation, www.CommonwealthFoundation.org

Underage and Binge Drinking Rates Among Pennsylvania and Its Border States

	Alcohol Use in past month Age 12-20	Binge Drinking Age 12-20	Binge Drinking Age 12 +
Pennsylvania	29%	19%	24%
Delaware	30%	21%	25%
Maryland	28%	18%	22%
New Jersey	26%	18%	23%
New York	32%	20%	23%
Ohio	29%	21%	26%
West Virginia	24%	16%	19%
United States	27%	18%	23%

Source: U.S. Department of Health and Human Services, Substance Abuse and Mental Health Statistics, http://www.oas.samhsa.gov/2k8State/AppB.htm

Prepared by Commonwealth Foundation, www.CommonwealthFoundation.org

What should the role of the Pennsylvania Liquor Control Board be? Currently, the PLCB spends millions to advertise alcohol products, rebrand stores and shift operating practices to look more like a private business. At the same time, the PLCB is charged to serve the role of enforcer. This conflict of interest means the PLCB cannot dedicate its full energies to enforcing laws that protect citizens from underage drinking, binge drinking and other forms of alcohol abuse.

MARCELLUS SHALE IMPACT FEE/TAX

Should the natural gas industry pay higher taxes or fees? In considering this question, we encourage policymakers to apply the following five principles to their decision-making process:

1. **Businesses should pay the cost for the amount of government they use.** If a business is not paying for its negative impacts on the environment and/or infrastructure, it is appropriate to charge a fee/tax to pay for the government's cost to remediate the problem. Since drilling's impact on government does not increase if a gas well is more profitable, a "fee" should not be tied to production.
2. **Any fee/tax should be directly related to uncompensated costs of government.** A new fee/tax should not be imposed to extract additional revenue for unrelated government purposes or subsidies. For example, Growing Greener is not directly related to remediating problems caused by the natural gas industry. The program subsidizes a wide range of projects from alternative energy to downtown redevelopment.
3. **Any fee/tax rate should be established in the context of what businesses are already paying in taxes, fees, and contributions to local communities and the state,** setting the fee/tax rate at a level to only cover those uncompensated costs of government.
4. **Any fee/tax should be imposed at the county or municipal level, not at the state level.** This ensures fee/tax competition between local governments, discourages excessive fee or tax rates, and reduces the threat of cross-subsidization and redistribution of additional fee/tax revenues to unrelated government purposes.
5. **Before imposing a new fee/tax, elected officials should consider if current local taxes and fees should be revised to cover any uncompensated costs of government.** For example, would it be appropriate to adjust local hotel and emergency services taxes to better address the influx of large numbers of workers into sparsely populated areas of Pennsylvania? Or, are there other fee/tax mechanisms that can be more directly tied to any uncompensated costs of government?

Is the natural gas industry avoiding taxes? No. There's no tax loophole for drillers. The industry pays the same taxes as every other business in the state, including the second highest corporate tax rate in the nation. The industry has paid more than $1.2 billion in state taxes since 2006.

Are drilling companies paying their "fair share"? The gas industry should pay for their environmental and infrastructure impacts or government services used. Direct fees for services, road maintenance agreements, and insurance requirements for environmental costs are proper ways of dealing with drilling's impacts.

Actual impacts should be measured against what the industry is already paying in taxes and fees. In addition to taxes and fees, gas companies put $200 million into improving local roads last year. Drilling companies are providing transportation funding far above what drilling communities receive from the state. And state oversight for drilling is entirely funded through natural gas permits. Drillers pay millions in permitting fees to cover the cost of inspection each year. In addition, the state is expected to receive $60 million in royalties from drilling on state-owned lands next year.

The industry has paid out an estimated $7 billion in lease and royalty payments to residents since 2006. But that's not the only way counties benefit economically: Local governments are receiving increased revenues from local taxes and processing fees. For example, in 2010, Bradford County received an estimated $1 million from the drilling industry through minor revenue streams like recording and copying fees.

Doesn't every other state have a natural gas tax? That's only part of the story. States with natural gas taxes have friendlier business climates—for instance, Texas and Wyoming have neither income nor corporate taxes. Pennsylvania already has the 10th highest tax burden in the nation. Most states with similarly difficult-to-drill natural gas, like Arkansas and Louisiana, have reduced or delayed their severance taxes to allow drilling companies to recoup their up-front costs. Pennsylvania is currently one of the most expensive states in which to drill; it cost 25 percent more to drill a well in Pennsylvania than Texas, a cost of $1 million in additional costs.

Table 2

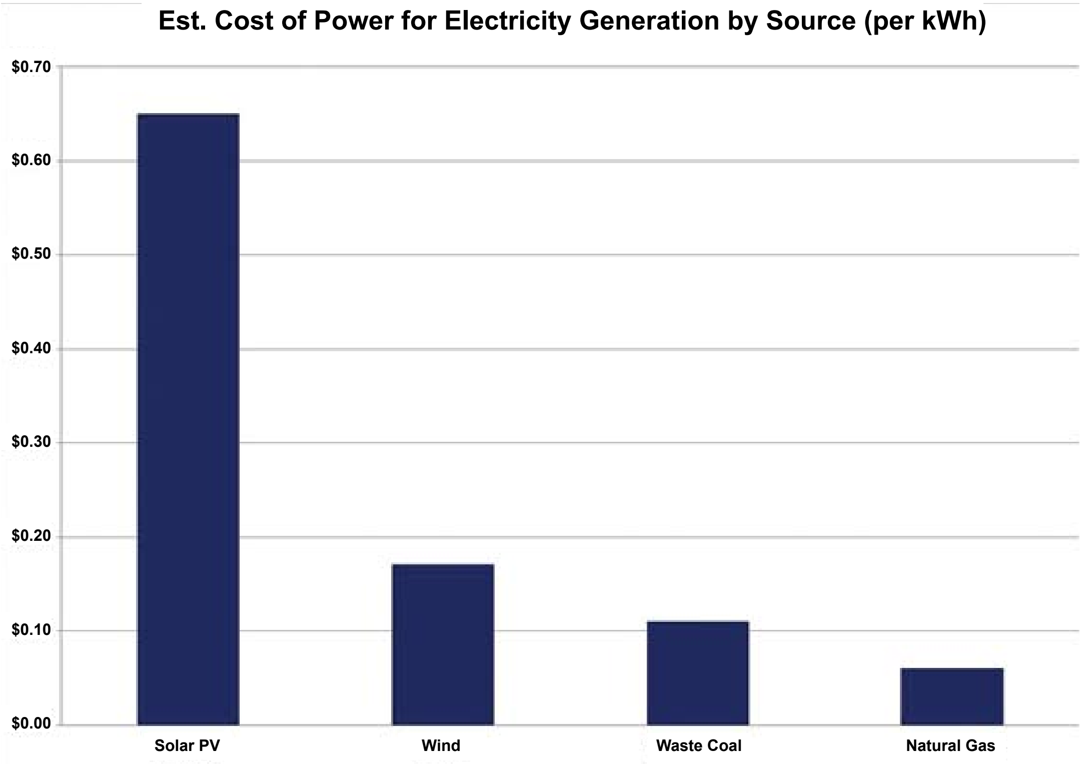
Top Natural Gas Producing States

Top Natural Gas Producing States in 2009	State	Severance Tax on Natural Gas	Severance Tax Exemptions and Incentives for Unconventional Wells	Top Corporate Net Income Tax	State & Local Tax Burden as a Percentage of State Income/National Rank (Tax Foundation 2010)
1	Texas	7.5% of market value	Rate reduction appr. 2% for up to 10 years	0%	7.9% / 45
2	Wyoming	6% of taxable value (gross sales minus certain processing and transportation costs)	Gas transporation costs are significant and are subtracted from the taxable value	0%	7.8% / 46
3	Oklahoma	7% plus 0.095% excise tax	Exempt from severance tax for four years or until gas production pays for the cost of the well	6%	8.7% / 37
4	Louisiana	$0.03 - 0.13 per MCF	Severance tax suspension on horizontally drilled well for 2 years or until payback	8%	8.2% / 42
5	Colorado	2% to 5% based on gross income	Allows producers to deduct 87.5% of their property taxes paid to gov. from severance tax to state.	4.63%	8.6% / 39
6	New Mexico	3.75%		7.60%	8.4% /41
7	Arkansas	5%	1.5% on new discovery wells for 24 months and on high cost wells for 36 months (can get extension)	6.50%	9.9% / 14
8	Utah	3% - 5%	6 months exemption for development wells	5%	9.7% / 20
9	Alaska	25% to 50% net value	Reduction for all drilling in Cook Inlet basin and when gas is used instate; result minimal tax (appr. 1%). State also gives certain tax credits for exploration	6.50%	6.3% / 50
10	Kansas	8% on gross value severed from earth	There is 3.67% tax credit for ad valorem taxes paid, effectively reducing the severance tax to 4.33%	7.05%	9.7% / 19
11	California	Less than 0.01 per mcf		8.84%	10.6% / 6
12	Pennsylvania	No Tax		9.99%	10.1% / 10
13	West Virginia	5% plus $0.047 per MCF		8.50%	9.4% / 27
14	Alabama	4-8% of gross value		6.50%	8.5% / 40
15	Michigan	5%		4.95%	9.7% / 21

The drilling companies won't leave because the gas is here, right? While the drilling industry won't disappear if a severance tax is enacted, there will be an impact—it's through reduced investment in the state, lower wages, reduction in job growth or a reduction in spending on things like road improvements. A severance tax would hurt Pennsylvania landowners, because a typical lease splits severance tax obligations between drilling companies and landowners.

How is drilling impacting the economy? Dozens of drilling companies are investing in Pennsylvania and boosting the economy by creating high-paying, permanent jobs for locals. Communities with Marcellus Shale development have seen increases in sales tax collections, job growth and increased property values. In 2009 alone, Penn State economists estimate Marcellus activity spurred more than 24,000 new jobs in Pennsylvania.

How do residents in the rest of the state benefit? Pennsylvania consumers have benefited from a 70 percent reduction in natural-gas prices since 2008, in large part due to the dramatic growth in shale gas. Last year, Marcellus gas production saved Pennsylvanians an estimated $633 million in utility costs, or about $200 for every family of four. These savings have been especially beneficial for low-income families, who spend almost a quarter of their after-tax income on energy. An attack on affordable energy is an attack on low-income families' ability to heat their homes, run hot water, and cook food.



Source: Pennsylvania Public Utility Commission, "The 2010 AEPS Annual Report"

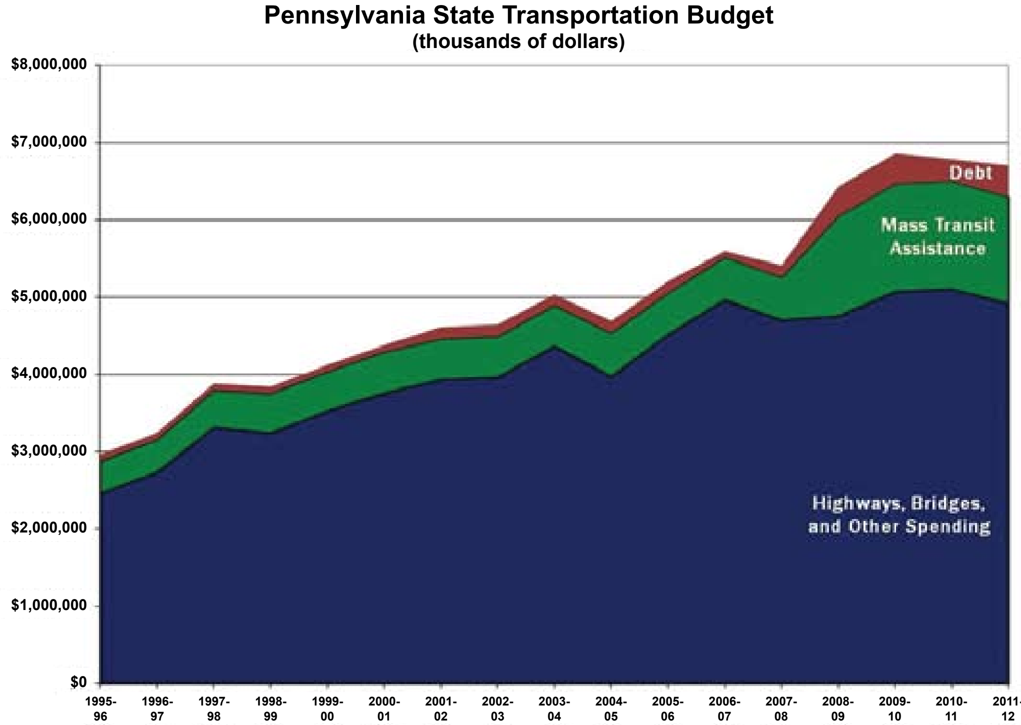
Does Marcellus Shale exploration harm the environment? No. Pennsylvania laws ensure drilling companies, and not taxpayers, are held responsible for environmental and infrastructure damages. For example, when EOG Resources had an accident in Clearfield County, the company paid eight times in fines the cost of the investigation and cleanup.

TRANSPORTATION FUNDING

Does Pennsylvania need more money for transportation? Pennsylvania routinely finishes among the worst states in rankings of road conditions, and among the highest in the number of structurally deficient bridges. Yet Pennsylvania also ranks high among states in terms of spending on roads and bridges (2nd highest in total investment in 2009), both in terms of spending per capita (9th highest) and spending per highway mile (7th highest).

More funding for transportation—meaning higher taxes or fees on residents and motorists—should only occur with significant reforms to transportation funding. It is critical to ensure that every single taxpayer dollar is well-spent before asking taxpayers to part with more of their hard-earned dollars.

In 2006, Gov. Rendell's Pennsylvania Transportation Funding and Reform Commission wrote: "The Commission concludes that no additional funding should be provided for highways, bridges and transit unless a series of parallel actions are taken to reform funding structure and a number of transportation business practices." Yet little to no reform has occurred to date.



How can the state prioritize spending? Hundreds of millions of tax dollars are spent each year on less pressing priorities such as bike trails, beautification efforts, corporate welfare, hockey arenas, convention centers, film productions, lobbyists, new roads named for politicians, or flexing of highway money to mass transit.

Moreover, transportation funding must be considered in light of all state spending priorities. It is inconsistent to suggest taxpayers must pay more for bridge and road construction when the commonwealth can spend $200 million each year on Redevelopment Assistance Capital Program projects from sports stadiums to new corporate headquarters to the Arlen Specter Library. Funding for agencies like the Commonwealth Financing Authority should be redirected to finance infrastructure which benefits all Pennsylvanians instead of financing corporate welfare. Transportation infrastructure is a legitimate function of government, and should be prioritized as such.

Can private-sector funding and innovation be used? Legislation to enable the use of public-private partnerships (P3s) on new construction seems to have been a high priority for years, but has yet to be enacted. P3s are the emerging paradigm in transportation funding. Immediately implementing P3s on new construction of express lanes, high occupancy lanes, highways, and bridges could reduce costs to taxpayers and commuters.

How can we improve roads and bridges without spending more money? Prevailing wage laws drive up the cost of road construction, making government construction contracts more expensive by forcing contractors to pay higher wages than those paid by the private sector for the same job. State-mandated wages for government projects are 40 percent higher, on average, than private sector pay for the same work.

Ten states have repealed prevailing wage mandates since 1980 to maximize their transportation dollars. Forcing state and local governments to overspend on labor costs just to enforce a mandate originally created to prevent African-American workers from the south from taking construction jobs defies common sense. To stretch each tax dollar further, we must begin with redefining prevailing wage rules.

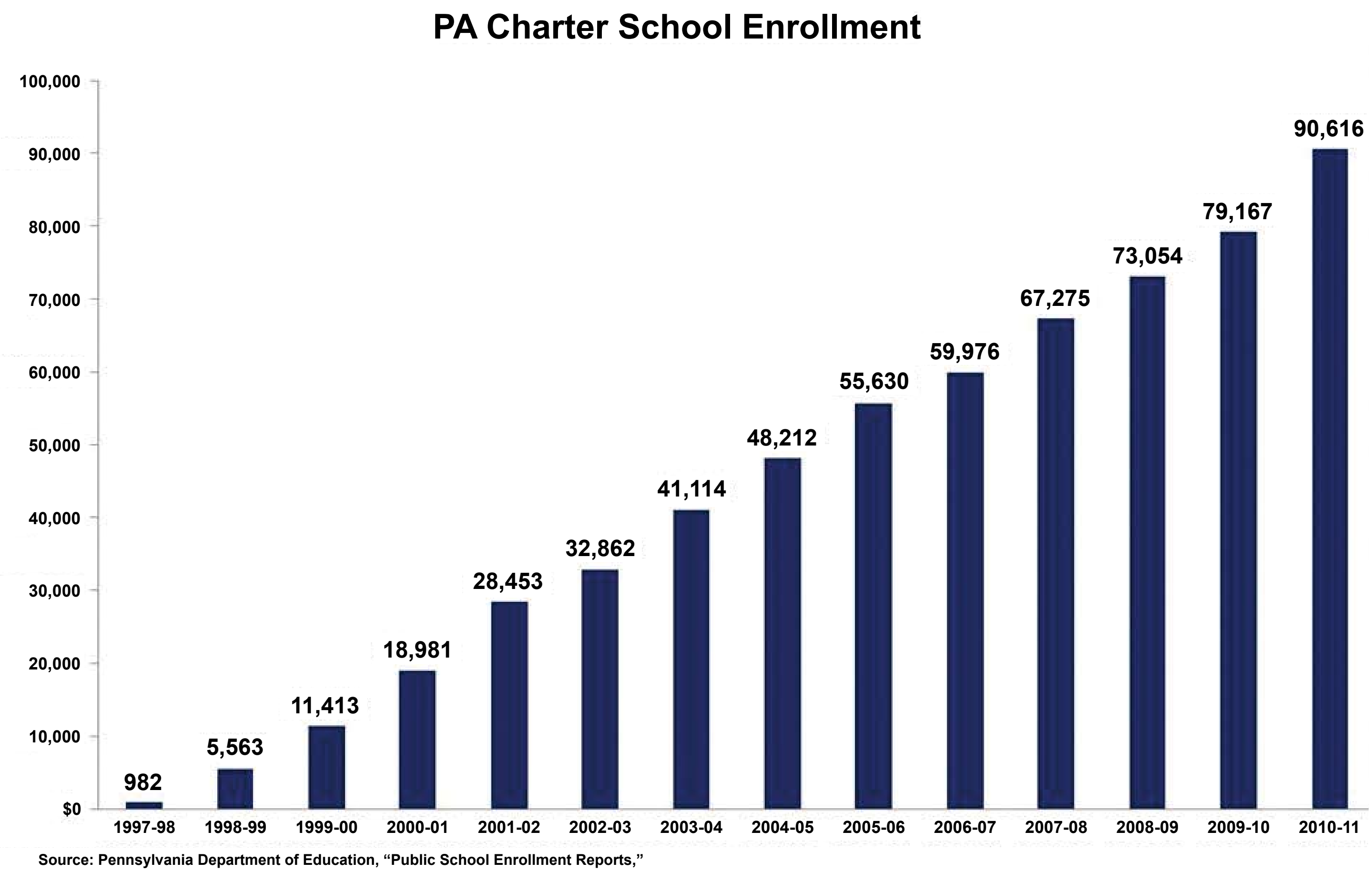
If more funding is still needed, where should it come from? To the extent possible, additional transportation funding should come directly from the users who benefit. This may include additional toll roads or toll lanes, so long as tolls flow solely into improving the road being used, rather than being redirected elsewhere. Tolling existing freeways should not be pursued simply to redirect fuel taxes—this increases cross-subsidization and would impose new costs on drivers who would not benefit from infrastructure improvements. Likewise, riders should bear the primary burden for financing the cost of mass transit.

CHARTER SCHOOL REFORM

Should Pennsylvania make changes to its public charter school laws? Charter schools are self-managed public schools that receive a charter to operate by local school districts. Cyber charter schools are full-time online institutions directly approved by the Pennsylvania Department of Education.

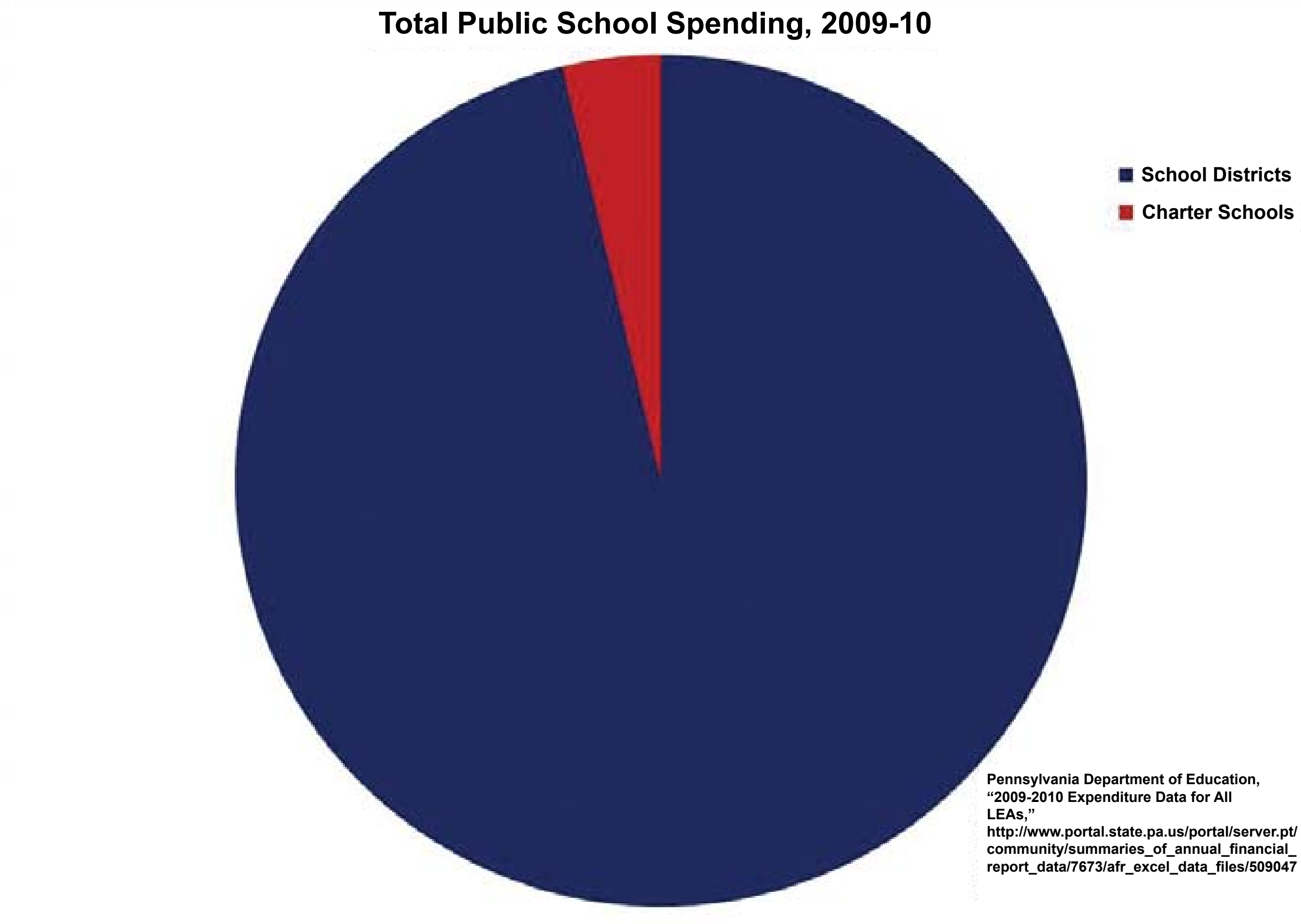
School districts currently authorize charter schools, while simultaneously competing with charter schools for students. This is akin to having McDonald's approve the opening of a new Wendy's next door. Allowing alternative authorizers, including the state (as is done for cyber charter schools) or universities, as many other states do, would increase the opportunities for new and innovative charter schools.

Do parents want charter schools? Since charter schools were established in Pennsylvania in 1997, their enrollments have skyrocketed, demonstrating their popularity among families. Parents value the ability to choose where to educate their children. Today, there are 145 charter schools serving 91,000 students. They include 12 cyber charter schools with almost 28,000 students, and offer parents an alternative to their local traditional public schools.



Source: Pennsylvania Department of Education, "Public School Enrollment Reports," http://www.portal.state.pa.us/portal/server.pt/community/enrollment/7407/public_enrollment_reports/620541.

How are charter schools funded? Funding for charter schools follows students who leave a particular school district and enroll in a local charter school. Charters receive a portion of the per-student spending of the district of origin, while school districts retain the rest. On average, charter schools receive and spend only about 83 percent of what school districts spend for each student. In total, charter schools received $945 million in 2009-10, about 3.7 percent of total public education spending in the commonwealth.



Do charter schools drain public schools of desperately needed funding? Charter schools receive only a fraction of the per-student funding allocated to public schools—3.7 percent of total public school spending. The portion that public schools retain—for children they no longer have to educate—effectively raises the amount they can devote to each student, or can be used to lower local property taxes. For example, the Philadelphia School District spent $13,272 per student in 2009-10. The district had to pay $8,184 for every non-special needs charter school student, retaining $5,089 for every child it was no longer responsible for educating.

Even if two-thirds of students left for charter schools, the district would retain 60 percent of funding to serve one-third the number of children—driving spending per student to $22,200 per student for those who remain in the district.

Are charter schools accountable? Charter schools are evaluated by the same standards as district schools. But unlike traditional public schools, failing charter schools risk losing their charter and being shut down. Public schools should face the same accountability measures charter schools do—with a performance contract that is regularly reviewed, which is usually every five years. Moreover, charters face the highest accountability standard—parental choice. No charter school gets any funding unless parents choose it for their child.

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