

**Testimony Before the House Appropriations Committee**  
**Pat Browne, Secretary**  
**Department of Revenue**  
**Tuesday, February 20, 2024**

Chairman Harris, Chairman Grove, and members of the committee, thank you for the opportunity to meet with you today to discuss the Governor's Executive Budget for the Pennsylvania Department of Revenue (Department). I am Pat Browne, Secretary for the Department of Revenue, and joining me today are members from my team: John Kaschak, Executive Deputy Secretary for Revenue; Amy Gill, Deputy Secretary for Tax Policy; Christin Heidingsfelder, Deputy Secretary for Administration; and Drew Svitko, Executive Director of the Pennsylvania Lottery.

**Governor Shapiro's Budget Initiatives**

**Governor Josh Shapiro's** proposed 2024-25 budget is a continuation of his focus on bringing people together to get stuff done — and it puts forth a bold vision to create opportunity for all Pennsylvanians. From prioritizing economic opportunity and access to higher education, to making historic investments in public education and supporting law enforcement, this budget delivers solutions on the most pressing issues we face and creates real opportunity across Pennsylvania. The Governor's vision maintains a balanced budget and does not raise taxes — and if every initiative is funded, Pennsylvania will still have an \$11 billion surplus by the end of Fiscal Year 2024-25.

**Governor Shapiro** delivered results for Pennsylvanians in his first budget — and with this budget, he and his Administration will continue to get stuff done and create real opportunity in our Commonwealth. Below are some of the revenue-related initiatives in the Governor's budget proposal.

**Raising the Minimum Wage for Pennsylvania Workers**

It is time to offer a competitive minimum wage because Pennsylvania is falling behind. Pennsylvania ranks lower than 30 other states, including all of our neighboring states when it comes to minimum wage. Attracting Pennsylvanians to work in the state is a key part of the Shapiro Administration's workforce development strategy. The Governor's budget is calling for an increase in the minimum wage from \$7.25 an hour to at least \$15 an hour for non-tipped workers, and \$9 per hour for tipped workers.

**Adult-Use Cannabis**

Regulating and taxing adult-use cannabis in Pennsylvania would produce over \$500 million in additional revenue over the next five fiscal years. Nearly all of our nearby states — Ohio, New York, New Jersey, Delaware, and Maryland — already allow adult-use cannabis. Not only do we

lose out on this revenue source by not legalizing it, but it continues to put a strain on our community resources and law enforcement to manage the underground sale and its use.

### **Skill Games Tax**

Recognizing that so-called “skill games” are already prevalent across Pennsylvania, **Governor Shapiro** is proposing to regulate and tax these machines at a rate of 42 percent of the gross gaming revenue to produce more than \$150 million in the 2024-25 Fiscal Year — and a combined total of more than \$1.4 billion over the next five fiscal years. Under the Governor’s proposal, skill machines will be regulated by the Pennsylvania Gaming Control Board, in line with other legalized gambling operations in the Commonwealth. Funds from this tax would be directed into the Commonwealth’s General Fund.

The Governor’s proposal to regulate and tax “skill games” will not increase the amount of gaming options — but it will help to make playing games of skill safer by leveling the playing field and subjecting them to the same rules and regulations as other gaming options, such as slot machines.

This action will also ensure that skill machines are operating on a level playing field with the Pennsylvania Lottery.

### **DOR History and Mission**

For more than 90 years, the Department of Revenue has been tasked with fairly, efficiently, and accurately administering the tax laws and revenue programs of the Commonwealth of Pennsylvania. The Department takes great pride in the fact that our daily work to collect and distribute tax monies due to the Commonwealth funds the vital programs and services that are essential to all Pennsylvanians.

In addition to the collection and distribution of tax monies, the Department also administers the Pennsylvania Lottery, which was established by law in 1971. The Pennsylvania Lottery generates funding for programs that benefit older Pennsylvanians. Since selling its first ticket in 1972, the Lottery has generated more than \$35.1 billion for those critical senior programs.

Collectively, our work at the Department is an important part of **Governor Shapiro’s** overarching goal to create economic opportunities for Pennsylvanians and to advance Pennsylvania’s government to become more effective and efficient. The Department has also continued its efforts to find ways to improve services for Pennsylvanians. The Department established several goals in its strategic plan that are designed to improve customer service, enhance effectiveness in tax compliance, and continue boosting sales and net profits for the Lottery in a responsible manner.

Please allow me to provide an overview of some of our recent work and important initiatives that are ongoing at our agency.

## **Successes at Revenue**

As you know, the Department has worked over the last several years to update its technology and computer systems to replace several legacy tax systems that had been in place for decades. The Department contracted with a leading vendor in the industry to help with this work — and it remained on time and on budget. I am proud to report that our new system, known as PATH (Pennsylvania Tax Hub), has been fully operational for more than a year.

All taxes and revenue programs the Department is responsible for are now administered through PATH — one unified, integrated tax system. With the rollout of this new system, the Department has achieved a longtime goal of modernizing the way it handles taxes for Pennsylvanians.

Below are some highlights of the project, which include not only the implementation of PATH, but also myPATH, which is the online portal that customers use to meet their filing, payment, and account obligations:

- Nearly 30.6 million returns have been processed since the system went live, totaling more than \$80.4 billion in payments.
- 99.9 percent of payments processed through PATH have not required manual intervention by a Department employee.
- More than 6 million refunds have been issued out of PATH totaling more than \$4 billion, the majority electing for direct deposit.
- myPATH has been visited more than 9 million times while logged in & more than 3 million times while not logged in (no username or password required for these functions).
- More than 948,000 accounts have been successfully created on myPATH.
- Over 204,000 Property Tax/Rent Rebate applications have been submitted via myPATH, with the expectation that it will increase significantly in the year ahead with the recent expansion of the program.

myPATH also has introduced a number of customer service improvements. For example, myPATH has a Spanish-language interface for customers to apply for the Property Tax/Rent Rebate Program and to file a PA Personal Income Tax Return (PA-40). These are examples of big results that not only benefit those who use the system but improve our processes and create efficiencies that have helped our staff.

The benefits of the PATH modernization project align with the Department's strategic goals related to streamlining agency processes, improving customer service, and boosting tax compliance. Many of the changes allow Department employees to focus on value-added processes that are core to our mission. The PATH system has reduced processing errors, improved internal processes, and enhanced the Department's organizational capacity.

## **Cutting Costs for Pennsylvania's Seniors and Working Families**

**Governor Shapiro** delivered results for both Pennsylvania's working families and seniors during his first year in office. He signed into law two critically important expansions that the Department will play an instrumental role in:

#### PTRR Expansion

**Governor Shapiro**, with the help of the General Assembly, delivered the largest targeted tax cut for seniors in nearly two decades by expanding the Property Tax/Rent Rebate (PTRR) program. This program benefits eligible Pennsylvanians age 65 and older; widows and widowers age 50 and older; and people with disabilities age 18 and older. Since the program's inception in 1971, it has delivered more than \$8 billion in property tax relief.

The program expansion means that 175,000 additional Pennsylvanians will be newly eligible for rebates. For the first time since 2006, the income limits have been raised. The program's income levels were made equal and increased to \$45,000 for both homeowners and renters. In addition, the maximum rebate also increased from \$650 to \$1,000, putting more money back in the pockets of our seniors.

Finally, the PTRR program's income limits will be tied to the cost-of-living in future years, meaning that people won't be priced out of the program as they have been in recent years.

The Department has been preparing for the unprecedented number of applicants and working to ensure the Shapiro Administration can deliver for Pennsylvanians.

Specifically, the Department has:

- Added additional full-time staff and is working to hire an additional 25 temporary staff.
- Stationed Department staff at Area Agencies on Aging and senior centers throughout the Commonwealth to deliver direct in-person support to eligible Pennsylvanians and to help Pennsylvanians limit errors when applying.
- Made system improvements to better utilize existing functions within myPATH to validate eligibility for first-time filers.
- Changed myPATH to prevent common errors from being allowed when filling out the application.

#### Expansion of Child and Dependent Care Enhancement Tax Credit

**Governor Shapiro** also signed legislation in December to expand Pennsylvania's Child and Dependent Care Enhancement Tax Credit. The expansion will be a major help to working families with children in daycare and other people in the Commonwealth who are caring for a family member.

The expansion means that more money will be going back into the pockets of roughly 210,000 families in Pennsylvania who received the credit during the prior tax year. Research has shown

that a similar tax credit on the federal level significantly reduced childhood poverty, addressed food insecurity, and helped many families secure their finances.

The Department is prepared to administer the expansion of the credit now that the filing period is open for Pennsylvanians to file their 2023 PA Personal Income Tax returns.

### **Lottery Success**

The Pennsylvania Lottery continues to be the only state Lottery that generates funding solely for programs that benefit older adults. The Lottery closed another fiscal year in 2022-23 by generating more than \$1 billion for programs that benefit older Pennsylvanians. This was the 12th consecutive year that the Lottery has generated more than \$1 billion in funding that supports property tax and rent rebates, free and reduced-fare transportation, prescription assistance, and more.

Here are some other highlights from the fiscal year that ran from July 1, 2022, to June 30, 2023:

- Profit during this fiscal year was driven by the Lottery selling \$4.98 billion in traditional games, which include Scratch-Off tickets and Draw Games, such as Powerball® and Mega Millions®.
- Meanwhile, the Lottery generated \$922.7 million in sales from its online games. The Lottery's online games continue to be very popular with players since their launch in May 2018.
- Sales of Scratch-Off games totaled more than \$3.3 billion, down slightly by \$164.8 million, or 4.7 percent, from the previous year. These games account for more than 67 percent of total traditional sales.
- Sales of Draw Games at retail or in-store — including the PICK family of games and Wild Ball, Treasure Hunt, Cash 5 with Quick Cash, Match 6 Lotto, Millionaire Raffle, Cash4Life®, Powerball®, and Mega Millions® — totaled more than \$1.4 billion for the fiscal year, an increase of more than \$149.6 million, or 11.6 percent, from the previous year's total. This fiscal year, there were several large Powerball® and Mega Millions® jackpots that drove sales.
- The Lottery's \$872.5 million in online eInstant play increased by nearly \$126 million, or more than 16.8 percent, from the prior fiscal year. This was the second-best sales year for online eInstant sales.
- Online Draw Game ticket sales totaled \$50.1 million, an increase of \$22.4 million, or 81 percent. Draw Games currently available for purchase online include Powerball®, Mega Millions®, Treasure Hunt, Cash4Life®, PICK games, and Match 6 Lotto.

- Sales of Fast Play games totaled more than \$145.2 million, a decrease of more than \$3.8 million, or 2.6 percent, from the previous fiscal year.
- Sales of Monitor Games, which include Keno and Xpress Sports games, totaled an estimated \$50.7 million this fiscal year, a decrease of nearly \$5 million, or 9 percent, from the previous fiscal year.
- Traditional game prizes paid to winners were more than \$3.3 billion. A total of 86 winning tickets of \$1 million or more were paid to players during the 2022-23 fiscal year.
- More than \$772.3 million in prizes were paid out to winners of online eInstant games. This was an increase of \$123 million from the prior fiscal year.
- More than 10,000 licensed Lottery retailers statewide, many of them small and family-owned businesses, earned an estimated \$294.7 million in sales commissions. That's an increase of more than \$8 million from the previous fiscal year.

As you can see, brick-and-mortar retailers continue to be the bedrock of the Lottery business.

In addition to the great success that the Lottery has seen from products offered at retail, online games also continue to be greatly successful. The Department launched online games in May of 2018 after the General Assembly passed Act 42 of 2017. The Department first started selling online by offering internet instant games. We have since launched several Draw Games online, including Powerball®, Mega Millions®, Treasure Hunt, Cash4Life®, PICK games and Match 6 Lotto. We expect to debut additional Draw Games online in the future, which we are confident will be popular with players.

The Department is incredibly proud of the progress that it has made to incorporate innovative ideas and expand the Lottery's portfolio of products. By becoming more diversified, we are in a better position to continue funding the vital programs that Pennsylvania's older residents rely upon.

The Lottery is again asking the General Assembly to consider legislation that would eliminate the statutory minimum profit margin. Taking this legislative step would help the Lottery continue to thrive in a highly competitive entertainment market. Moreover, the requirement that the Lottery focus on the profit percentage is in direct conflict with the Lottery's mission of generating profit dollars. The Department appreciates the work of the previous Administration and General Assembly to enact Act 137 of 2022, which extended the temporary reduction of the mandated margin rate of return from 25 percent to 20 percent through June 30, 2029. By eliminating the profit margin requirement altogether, the Lottery would have the ability to prepare its future game portfolio to maximize profits for older Pennsylvanians.

Lastly, it's important to mention that the Pennsylvania Lottery is in the midst of its own major modernization project that will affect many parts of the business, including retail, administrative

functions, and Lottery players. By debuting new equipment, players will experience more convenience when purchasing Lottery products. At the same time, our modernization work will also make it easier for businesses to start selling Lottery products. All of these efforts will help sustain the longevity of the Lottery so that we can continue to generate proceeds for vital programs that older Pennsylvanians rely on every day.

### **Conclusion**

In closing, I look forward to working with each of you in the weeks ahead. Thank you for the opportunity to provide testimony on behalf of the Department of Revenue and the Pennsylvania Lottery. My colleagues and I welcome any questions from the members of your committee.