

THE McCord Report

A quarterly look at Pennsylvania's economic vital signs

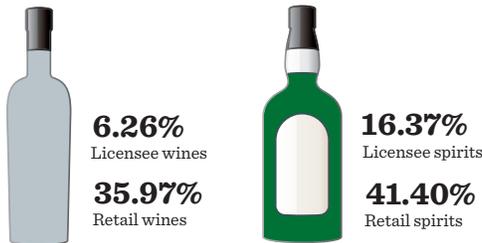
PA Liquor Control Board alcohol sales and tax revenue (thousands)

The Pennsylvania Liquor Control Board generates revenue from the sale of alcohol and various taxes levied on those sales. The graphic below shows the components that make up the average gross sales of wine and spirits over the past four years. The total made available from the LCB for the benefit of the Commonwealth (not including sales tax revenue) has averaged \$393.4 million over the past four years.



Wholesale vs. retail sales ratios (two-year average)

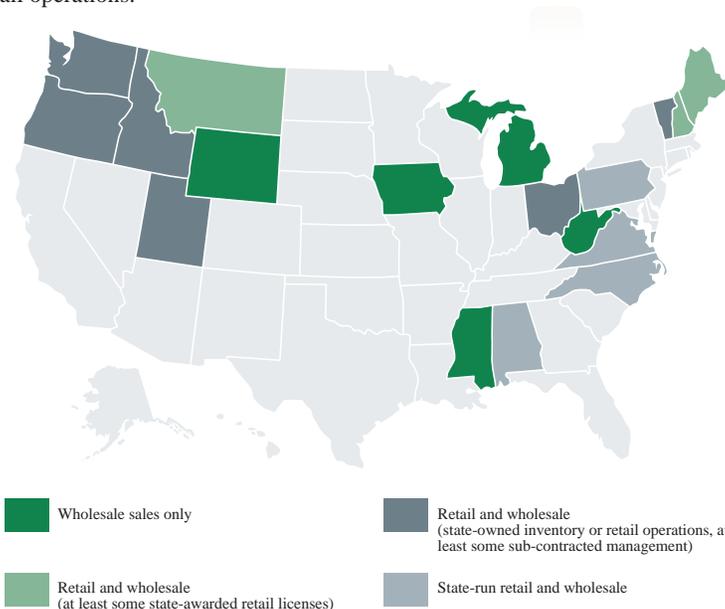
Licensee revenue comes from wholesale activity, such as sales to restaurants and bars. Retail sales occur at LCB store locations.



Source: Pennsylvania Liquor Control Board

Public vs. private sale of alcohol

All states control or regulate the sale of alcohol to some degree. Eighteen states maintain some degree of state control over wholesale and retail sales, as shown below. Of these states, four (including Pennsylvania) control both wholesale and retail operations.



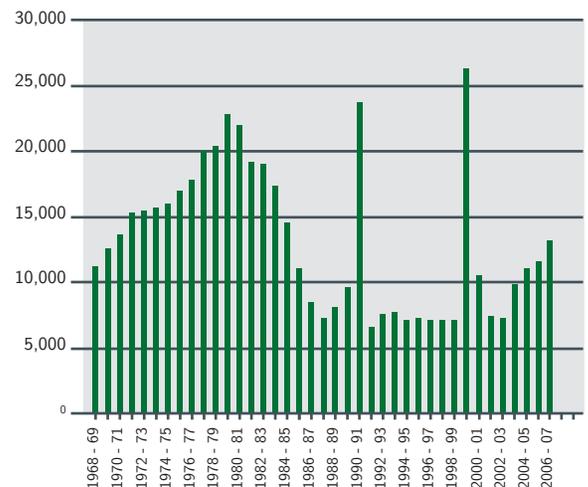
Source: Pennsylvania Treasury

What is the Johnstown Flood Tax?

The Johnstown Flood Tax, more commonly called the "state liquor tax," is an 18% tax charged on alcohol sold in Pennsylvania. This tax revenue goes into the General Fund, and is distinct from the Liquor Control Board markup, sales taxes, and the federal excise tax. It was initially enacted as a 10% temporary tax to provide financial assistance to victims of the 1936 Johnstown flood and raise the \$42 million necessary to rebuild the community, which it did by 1942. The tax was made permanent in 1951; it was raised to 15% in 1963 and to 18% in 1968.

Recent liquor sales privatization (thousands)

In the past 20 years, only one state - West Virginia - privatized its retail operations. It sold its retail stores in 1990, but continues to maintain control over wholesale sales. The graphic below shows liquor revenues transferred to West Virginia's General Fund from 1966-2007.



* West Virginia re-licenses the retail sites every 10 years, experiencing corresponding revenue spikes.

Source: West Virginia Department of Revenue

Public pensions (billions)

Here is statistical data about two of Pennsylvania's public pensions, the State Employees' Retirement System (SERS) and the Public School Employees' Retirement System (PSERS).

	SERS:	PSERS:
Fund size (12/31/10)	\$25.5	\$49.2
One year return 12/31/10 (estimate)	11.5%	13.2%
10-year annualized return 12/31/10 (estimate)	4.5%	4.4%
Assumed investment rate of return	8%	8%
Funding level	84.4% (as of 12/31/09)	75.1% (as of 6/30/10)
Employer contribution rate set to begin in 2013 (pre-Act 120)	28%	29%
Employer contribution rate 2013 set in Act 120	11.5%	11.5%

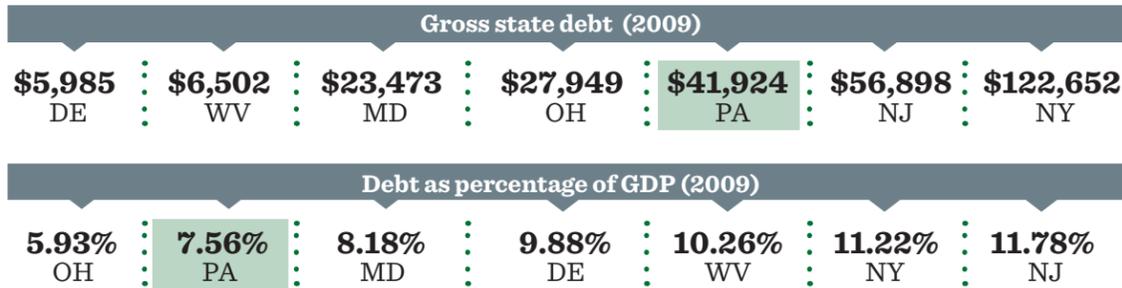
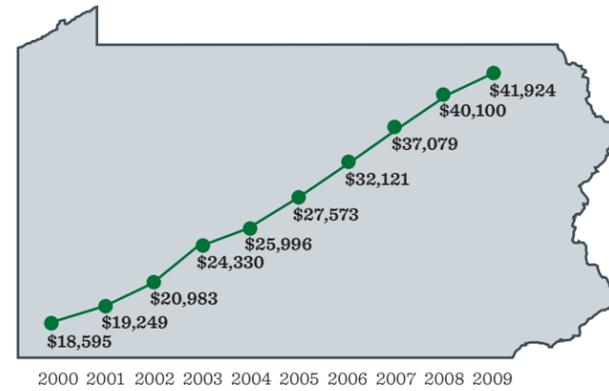
Source: Pennsylvania Treasury as of 12/31/10

Tax revenue (thousands)

Tax revenue represents the most important source of government income. The biggest Pennsylvania tax revenue streams are shown here.

Debt (millions)

The prudent use of debt is an important concern for states. The graph at right shows Pennsylvania's level of debt since 2000. The debt reflected here includes both "tax-supported debt" -- debt secured by state operating resources which could otherwise be used for state operations -- as well as the debt of dependent agencies and authorities (debt that is not secured by tax revenue but rather, is largely repaid through other funding sources, such as stadium revenue, bridge tolls, and user fees). This chart does not include public pension obligations. See below to learn how the Commonwealth's debt load compares to those of neighboring states (as well as the percentage of gross domestic product each state's debt represents).



Source: U.S. Census Bureau: Annual Survey of State Finances, and Population Estimates; Bureau of Economic Analysis, U.S. Department of Commerce

Gaming revenue (thousands)

Last fiscal year, slot machine gaming produced over \$736 million for local property tax relief across Pennsylvania.

	Gross terminal revenue	State property tax relief rate	Amount for property tax relief	Local Share Assessment (Usually to county and host municipality)	Economic Development Tourism Fund (Statewide economic development projects)
FY 2010-2011 (Year-to-date)					
SLOTS	\$1,146,494	34%	\$389,808	\$45,860	\$57,325
TABLE GAMES	\$212,477	14%	\$29,747	\$4,250	n/a+
FY 2009-2010					
SLOTS	\$2,164,840	34%	\$736,046	\$86,594	\$108,242
TABLE GAMES	n/a*	14%	n/a*	n/a*	n/a+

*Table gaming began in mid-July, 2010.
+Applies only to slots revenue

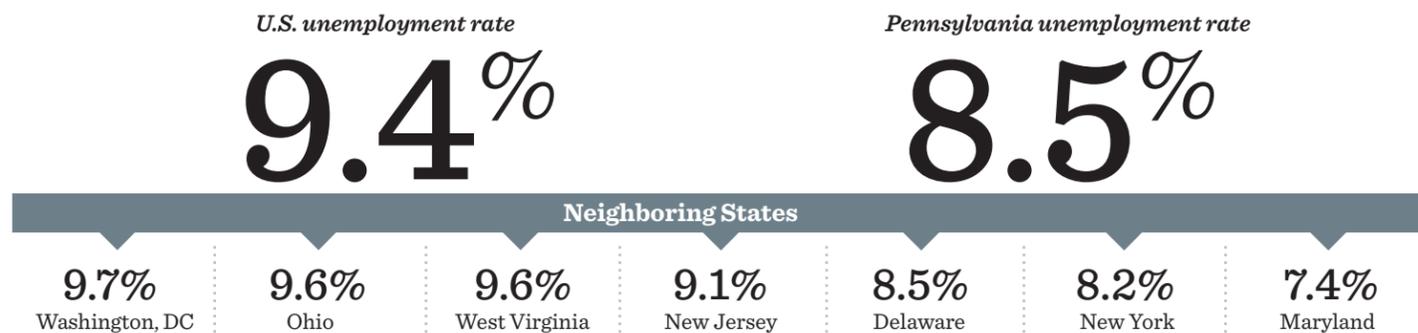
Source: Pennsylvania Gaming Control Board as of 1/21/11



Source: Pennsylvania Department of Revenue

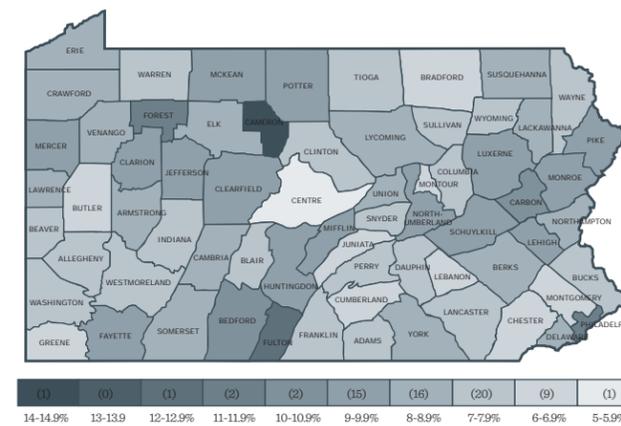
Pennsylvania employment (December 2010)

See how Pennsylvania's unemployment rate compares to the national rate, as well as to rates in neighboring states. At right is a graphic that shows the unemployment rates in Pennsylvania's counties (as of November 2010, not seasonally adjusted).



Source: Pennsylvania Department of Labor and Industry

Unemployment by county



Source: U.S. Bureau of Labor Statistics

Pennsylvania highlights/lowlights

Treasury's take on recent economic highs and lows.

The employment situation continues to show signs of improvement; Pennsylvania added 54,900 jobs in 2010. The unemployment rate decreased from 8.8% at the beginning of the year to 8.5% in December -- better than the December national unemployment rate of 9.4%.

Bankruptcy filings in Pennsylvania increased to 10,287 in the third quarter 2010. This is up from 10,144 in the second quarter 2010.

Tax revenues were 1.7%, or \$191.2 million, above projections for the first six months of the fiscal year.

Housing permits decreased 29.8% from October to November 2010, compared to a nationwide decrease of 10%.

In 2010, average weekly private sector wages in Pennsylvania went up 3.4% from \$694.98 in January to \$718.70 in December.

In this edition of The McCord Report: Objective data on Liquor Control Board revenues and more



At the start of a truly “new” year – new Governor, new session of the General Assembly, and new legislative leadership – most of us have many of the same old questions. How will we address our growing budget shortfall? How do we best manage our resources? Which services must we continue to receive from state government, and where should we cut?

In this, the second edition of *The McCord Report*, we present data on a wide range of timely topics, including Liquor Control Board revenues (and a look at how other states handle alcohol sales) as well as a ten-year look-back at Pennsylvania’s debt load.

This quarterly publication is a reflection of my obsession with data; it is designed to be easy-to-read and objective. Our goal is to shed light on some of the important public fiscal conversations of our day in the most effective way we know how – through the presentation of unvarnished facts.

Please do contact us at McCordReport@ptreasury.org with feedback or ideas for future topics.

Yours in service,

Rob McCord
Pennsylvania State Treasurer

Pennsylvania Treasury performance

Investments

Gained **\$1.2 billion** since 2009

Gained **9.2%** on long-term investment fund (Pool 98) since January 2009, beating the average return of 5.47% since its 2002 inception.

Assets managed by Treasury (thousands):

12/31/10 **\$13,446,148**

12/31/09 **\$10,643,433**

Total assets under the custody of Treasury (thousands):

12/31/10 **\$93,273,952**

12/31/09 **\$86,851,496**

Unclaimed Property Program (thousands)

As dictated by state law, Treasury manages Pennsylvania’s Unclaimed Property Program, a revenue-generating, good-government program aimed primarily at reuniting owners and heirs with their dormant or unclaimed property. Search the free database at www.ptreasury.org.

Property received

2010 **\$192,862**

2009 **\$185,119**

Property returned

2010 **\$99,420**

2009 **\$107,681**

Net revenue to Commonwealth’s General Fund

2010 **\$93,441**

2009 **\$77,437**

PA 529 College Savings Program (dollar values in thousands)

Treasury administers the Pennsylvania 529 College Savings Program, offering families two distinct savings plans to help make college affordable. Please visit www.PA529.com to learn more about the program.

Guaranteed Savings Plan

	12/31/09	12/31/10
Accounts	92,195	94,781
Assets	\$1,165,000	\$1,289,000
Contributions (1/1-12/31)	\$155,761	\$152,366
% funded	92.2%	96.41%

Investment Plan

	12/31/09	12/31/10
Accounts	55,701	61,348
Assets	\$676,061	\$871,816
Contributions (1/1-12/31)	\$138,659	\$157,464