Legislative Budget and Finance Committee

Financial Analysis of the Pennsylvania Game Commission

<u>Report Presentation by Christopher R. Latta, MBA | Deputy Executive Director</u>
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Mr. Chairman and Members of the Committee, Act 2019-107 required the Legislative Budget and Finance Committee to prepare a financial analysis of the Pennsylvania Game Commission. I am here today to present the results of our analysis.

Financial management is a key function of any responsible entity which involves money. Governments differ from businesses in goals and accountability, therefore, governments follow different standards for financial planning, recording, and analysis. The Government Accounting Standards Board explains this difference as follows:

> . . . Due to their unique operating environment, governments have a responsibility to be accountable for the use of resources that differs significantly from that of other business enterprises. Although businesses receive revenues from a voluntary exchange between a willing buyer and seller, most governments obtain resources primarily from the involuntary payment of taxes. Taxes paid by an individual taxpayer often bear little direct relationship to the services received by that taxpayer. Overall, taxpayers collectively focus on assessing the value received from the resources they provide to a government

Financial trend monitoring and analysis is an important part of financial management in government. Ideally governments have both retrospective and prospective analysis systems in place to monitor internal controls over public finances. The type of analysis contained in this report is retrospective, meaning analysis that uses past data to determine the overall health of a government or particular fund.

To prepare our financial analysis of PGC revenues and expenditures, we obtained data from PGC annual reports, the Commonwealth's SAP accounting system, and Pennsylvania's Comprehensive Annual Financial Report. We used this information to calculate financial indicators necessary to analyze the PGC's fiscal condition. To measure the overall fiscal health of the PGC, we chose 17 financial indicators based on the availability of data and their appropriateness for the PGC.

The indicators are grouped into three areas – revenues, expenditures, and operating position. From those indicators, we calculated various ratios that can be used by the PGC while planning and managing Commission resources and also by legislators to help determine the Commission's stewardship of their financial resources. It should be noted that financial ratios alone do not tell the complete financial story of an agency nor should they be used alone; however, they are helpful to note variances and potential issues that may require further investigation.

We chose the following financial indicators:

- Revenues per capita and licensee
- Revenues by source
- License revenues per licensee
- Intergovernmental revenues
- Actual vs. budgeted revenues
- Revenues vs. expenditures
- Expenditures per capita and licensee
- Expenditures by function
- Employees per capita and licensee
- Personnel costs as a percent of expenditures
- Fringe benefits as a percent of wages and benefits
- Retirement costs as a percent of wages and benefits
- Funder operating surplus or deficit
- Fund balance as a percent of expenditures

Of the trends we calculated, eight are favorable, seven are cautionary, and two are warning.

In the interest of time I will highlight a few of each.

Revenues

Revenues per capita and licensee illustrate how revenues change relative to the change in those categories over time, showing the ability of the Game Commission to maintain service levels.

These two trends are favorable. From FYs 2014-15 to 2018-19, total revenues per capita increased approximately $2.00 per capita in constant dollars. This equates to a 28 percent increase in per capita revenues in constant dollars. In the same period, revenues per licensee have increased by $44 to $153 from $109 – an increase of 41 percent.

The revenues by source trend is cautionary. Revenues from the sale of licenses were roughly $35 million in FY 2014-15 and declined to a little less than $34 million in FY 2018-19 (constant dollars). Revenues from natural resources and right-of-ways increased from $26 million to $54 million (constant dollars) over the same time period. In FY 2014-15, revenues from the sale of licenses were 35 percent of total Game Commission revenues. By FY 2018-19, that number dropped to 26 percent. The inverse is true for revenues from natural resources and right-of-ways. In this category, revenues were 26 percent of Game Commission revenues in FY 2014-15 and increased to 41 percent of revenues by FY 2018-19.

Expenditures

Expenditures are an approximate measure of the Pennsylvania Game Commission's service output. An ideal situation would be that expenditure growth rate does not exceed the revenue growth rate and will have maximum spending flexibility to adjust to changing conditions.

Expenditures per capita and per licensee reflect spending changes relative to Pennsylvania's population and the number of licenses sold.

An increase in per capita spending may indicate the cost of providing services is exceeding the public's or licensee's ability to pay. If the increase in spending is greater than would be expected from continued inflation and cannot be explained by the addition of new services, it can be an indicator of declining productivity, whereby the Commission is spending more to support the same level of services.

The expenditure trend per capita is cautionary. Overall Game Fund per capita expenditures in constant dollars decreased from $8.36 to $7.39, or minus 12 percent from FY 2014-15 through FY 2016-17. Beginning in FY 2017-18, per capita expenditures began to increase from $7.39 to $9.47, or a 28 percent increase. The change in per capita expenditures over the entire scope of our study was an increase of $8.36 to $9.47, or 13 percent.

The same concern holds true for expenditures per licensee. The expenditure trend per licensee in constant dollars is similar to the per capita trend. The difference is in the degree. Expenditures per licensee from FY 2014-15 to FY 2016-17 decreased from $113.16 to $103.23, or 9 percent. From FY 2016-17 to FY 2018-19, spending per unique licensee increased from $103.23 to $141.29, an increase of 37 percent. Over the entire scope of our study, expenditures per licensee in constant dollars increased 25 percent.

The overall expenditure trend is concerning. Per capita and per licensee expenditures have grown during the scope of our study. However, the significant increase in PGC expenditures for FY 2018-19 included planned infrastructure initiatives such as building projects with the Department of General Services and capital asset purchases for replacing fully depreciated machinery and equipment beyond its useful life. If the aforementioned expenditures are more than a one-time spike it could be expected that the Pennsylvania Game Commission would be unable to maintain existing service levels unless it finds new revenue sources, increases revenues from existing sources, or decreases costs.

Fringe benefits as a percent of wages and benefits is a warning trend. Fringe benefit expenditures increased from $27 million in FY 2014-15 to $30.7 million in FY 2018-19 – an increase of 13 percent. Over the same time period, wages and benefits increased from $69 million to $71.8 million – an increase of just three percent. The fringe benefit to wages and benefits ratio increased from 39.15 percent to 42.68 percent over the period.

Retirement costs as a percent of wages and benefits is also a warning trend. The pension ratio averaged 15 percent between FY 2014-15 and FY 2018-19. The high point reflected over this period is FY 2017-18, which measured 17.66 percent. The trend for this indicator shows annual increases from prior fiscal years and is anticipated to continue into the future. We note with concern the rising costs related to State Employees Retirement System benefits. If pension costs continue to increase, the result will be a significant strain on the Game Commission.

It should be noted that fringe benefit and retirement costs are largely outside the control of the PGC. Fringe benefits are negotiated between the Governor and the labor unions representing PGC employees. Retirement obligations are set in statute. Never the less, as the costs of these benefits increases more rapidly than wages and benefits, the Commission's finances will come under strain if action to restrict these or other costs is not taken.

To summarize, as shown by the financial indicators, the revenue condition of the Game Fund is favorable. The data shows that revenues per capita and revenues per licensee are not, at this time, placing an undue burden on hunters. Further, revenues consistently exceed expenditures. That said, the Pennsylvania Game Commission has not received an increase in the price of a license since 1999. As such, the sources of revenue are trending towards an over reliance on extraction of natural resources. Further, the Game Commission's revenue predictions often miss the mark. This can cause the Commission to unnecessarily cut back on services.

Expenditures per capita and licensee are a concern. As the number of licensees decrease and expenditures increase, the cost of services per licensee will put a strain on the Game Fund. Additionally, fringe benefit costs – specifically retirement costs – will cause financial difficulties for the Fund over the long term unless services are cut or revenues increase.

In closing, I would like to acknowledge the excellent cooperation and assistance provided by the Pennsylvania Game Commission and its staff during our review. Appreciation for the cooperation and support they provided during this review is extended to Mr. Bryan

Burhans, Executive Director, Mr. Daniel Dunlap, Administrative Services Bureau Director, Mr. Kevin Kayda, Fiscal Management Division Chief, and Mr. Joshua Zimmerman, Legislative Liaison.

And as always, this report would not be possible without the hard work of our analysts, Stevi Sprenkle and Shanika Mitchell-Saint Jean.