

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES

APPROPRIATIONS COMMITTEE
BUDGET HEARING

STATE CAPITOL
HARRISBURG, PA
MAIN CAPITOL BUILDING
140 MAJORITY CAUCUS ROOM

TUESDAY, FEBRUARY 18, 2020

INDEPENDENT FISCAL OFFICE

BEFORE:

HONORABLE STAN SAYLOR, MAJORITY CHAIRMAN
HONORABLE MATT BRADFORD, MINORITY CHAIRMAN
HONORABLE ROSEMARY BROWN
HONORABLE LYNDA SCHLEGEL-CULVER
HONORABLE SHERYL M. DELOZIER
HONORABLE GEORGE DUNBAR
HONORABLE JONATHAN FRITZ
HONORABLE MATT GABLER
HONORABLE KEITH J. GREINER
HONORABLE SETH GROVE
HONORABLE MARCIA M. HAHN
HONORABLE DOYLE HEFFLEY
HONORABLE LEE JAMES
HONORABLE JOHN LAWRENCE
HONORABLE JASON ORTITAY
HONORABLE CLINT OWLETT
HONORABLE CHRIS QUINN
HONORABLE GREG ROTHMAN
HONORABLE JAMES STRUZZI
HONORABLE JESSE TOPPER
HONORABLE JEFF WHEELAND
HONORABLE RYAN WARNER
HONORABLE MARTINA WHITE
HONORABLE DONNA BULLOCK
HONORABLE MORGAN CEPHAS

*Pennsylvania House of Representatives
Commonwealth of Pennsylvania*

1 (Continued)

2 HONORABLE CAROLYN COMITTA
3 HONORABLE AUSTIN DAVIS
4 HONORABLE ELIZABETH FIEDLER
5 HONORABLE MARTY FLYNN
6 HONORABLE ED GAINNEY
7 HONORABLE PATTY KIM
8 HONORABLE STEPHEN KINSEY
9 HONORABLE LEANNE KRUEGER
10 HONORABLE STEPHEN MCCARTER
11 HONORABLE BENJAMIN SANCHEZ
12 HONORABLE PETER SCHWEYER

13 NON-COMMITTEE MEMBERS

14 HONORABLE MIKE PEIFER
15 HONORABLE GARY DAY
16 HONORABLE BRIAN SIMS
17 HONORABLE SCOTT CONKLIN
18 HONORABLE HARRY READSHAW
19 HONORABLE JAKE WHEATLEY
20 HONORABLE STEVE SAMUELSON

21 COMMITTEE STAFF PRESENT:

22 DAVID DONLEY
23 MAJORITY EXECUTIVE DIRECTOR
24 RITCHIE LAFEVER
25 MAJORITY DEPUTY EXECUTIVE DIRECTOR

ANN BALOGA
MINORIT EXECUTIVE DIRECTOR
TARA TREES
CHIEF COUNSEL

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*Pennsylvania House of Representatives
Commonwealth of Pennsylvania*

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TESTIFIERS

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SUBMITTED WRITTEN TESTIMONY

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(See submitted written testimony and handouts
online.)

P R O C E E D I N G S

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3 MAJORITY CHAIRMAN SAYLOR: I will call
4 the Appropriations hearing to order.

5 Okay. Matt, Brenda, would you mind
6 rising and raising your right hand, so I can
7 swear you in?

8 (Testifiers were sworn en masse.)

9 MAJORITY CHAIRMAN SAYLOR: Thank you.
10 with that, we'll start off with any --
11 do you want to make any kind of a statement,
12 Matt, before you start?

13 DIRECTOR KNITTEL: No, I will defer.

14 MAJORITY CHAIRMAN SAYLOR: Okay. Very
15 good. We'll start off with Representative
16 Dunbar.

17 REPRESENTATIVE DUNBAR: Thank you,
18 Mr. Chairman, and good afternoon, Matt and
19 Brenda. Good to see you again. I don't know if
20 you had an opportunity to hear the Department of
21 Revenue's testimony this morning in regard to the
22 Governor's revenue assumptions on combined
23 reporting.

24 By any chance, did you hear that?

25 DIRECTOR KNITTEL: I did not, no.

1 REPRESENTATIVE DUNBAR: Okay. Well,
2 first off, in years past, the revenue assumptions
3 were always zero revenue coming in in the first
4 year, which coincided with what the IFO said
5 also. Last year, I believe the IFO had projected
6 a minus \$2 million and Revenue projected minus
7 \$7.2. This year, with the exact same proposal,
8 Revenue is now proposing \$239 million of
9 additional revenue to now come in.

10 Have they had any conversations with
11 you about how they got to that number?

12 DIRECTOR KNITTEL: No, we haven't
13 spoken to them about the estimates yet, but we
14 plan to for our analysis of proposals, which will
15 come out next month.

16 REPRESENTATIVE DUNBAR: Okay. So you
17 have yet to come out with anything, but in years
18 passed, you had always said anywhere from eight
19 to 12 percent of total CNIT, which would be about
20 \$350 million essentially at its maturity, but
21 nothing in its first year.

22 DIRECTOR KNITTEL: That's correct.
23 And not having seen the language, I'm not sure,
24 but we think it would be largely a wash in the
25 first year.

1 REPRESENTATIVE DUNBAR: Right. Right.
2 And their assumption was that based upon some
3 returns that they had seen after the Federal Jobs
4 Act was passed, that some companies may actually
5 start making estimated tax payments early.

6 Do you agree with that assumption?

7 DIRECTOR KNITTEL: I'm not aware of
8 any changes that would have occurred that would
9 trigger that behavior.

10 REPRESENTATIVE DUNBAR: Yeah, there's
11 nothing legislatively that would make that
12 happen. Okay.

13 So then, if you would -- once you do
14 your analysis, if you would fall back where you
15 were last year, then this budget -- the
16 assumptions they're making would leave this
17 budget unbalanced; is that correct?

18 DIRECTOR KNITTEL: That's correct. If
19 we were at the same spot, it wouldn't include
20 \$240 million.

21 REPRESENTATIVE DUNBAR: Very good.
22 Okay. And I just wanted to -- when do you expect
23 to have your analysis done?

24 DIRECTOR KNITTEL: I think it will be
25 mid-March, late March, right around there.

1 REPRESENTATIVE DUNBAR: Okay. And are
2 you basing that on any legislation that's pending
3 before us, or are you just --

4 DIRECTOR KNITTEL: We would reach out
5 to see what the Governor's proposal was, if we
6 could get some detail, and base it on that if we
7 could.

8 REPRESENTATIVE DUNBAR: Okay. I also
9 wanted to touch base on the performance based
10 budget and review that I know Brenda had done
11 yeoman's work # on. We just finished year two on
12 that. I didn't know if you had any comments,
13 thoughts, ideas, suggestions of how we're
14 progressing. I do know that when Matt was with
15 the Board, he had mentioned about maybe doing
16 less detailed -- less activities and more
17 detailed work.

18 I don't know if your -- what your
19 thoughts were on that, Brenda.

20 DEPUTY DIRECTOR WARBURTON: Yeah. So
21 we have now two years under our belt. We did
22 five agencies the first year and six agencies the
23 second year. So we do have some lessons learned
24 from the first two years. I think in the second
25 year, our focus was on doing more work on the

1 performance measures. We were able to start
2 meeting with agencies earlier. We had more time.
3 We were able to put a little bit more detail into
4 categorizing the performance measures by output,
5 efficiency, outcome, including more benchmark
6 data with other States, and also among the
7 counties or regional level within the State.

8 So I think our experience tells us
9 that it's relatively easy or less time consuming
10 to get the funding data because we have that
11 information and SAP, but the performance measure
12 data is really where the time -- what takes up
13 the bulk of our time. And so we wanted to focus
14 those efforts on the larger activities where
15 there's hopefully more data available when
16 working with agencies.

17 REPRESENTATIVE DUNBAR: And the way
18 this is structured right now is each agency comes
19 up once every five years, but there are different
20 measurements that you leave them with that were
21 suggested measurements.

22 Do you think that's something that we
23 should be doing on an annual basis and providing
24 that information to decision makers, or do you
25 think we need some type of legislation to enforce

1 that?

2 DEPUTY DIRECTOR WARBURTON: So I don't
3 think there's anything that would require the
4 agencies to do that with the IFO right now. In
5 terms of -- and we've had discussions with, you
6 know, what does make sense in the interim years.
7 So five years does seem like a long time to wait
8 to come back and look at the measures.

9 REPRESENTATIVE DUNBAR: And I think,
10 also, the testimony I heard from both the DEP
11 Secretary and DCED Secretary, that they find it
12 useful in helping them manage their own
13 departments, but I think it's only if we continue
14 to do it on an annual basis. So the plan right
15 now is just do it once every five years and hope
16 they do it in the interim years.

17 Is that where we're at?

18 DEPUTY DIRECTOR WARBURTON: I think
19 it's probably going to be up to the Budget Office
20 and agencies, as well as what is requested of the
21 legislature. From our perspective, we have our
22 hands full with the next year. So it would be
23 difficult for us to go back and relook at all of
24 the reports on an annual basis.

25 REPRESENTATIVE DUNBAR: Okay. Thank.

1 DEPUTY DIRECTOR WARBURTON: Uh-huh.

2 MAJORITY CHAIRMAN SAYLOR:

3 Representative Gabler.

4 REPRESENTATIVE GABLER: Thank you very
5 much. It's great to spend a little bit of time
6 with you today and I appreciate the opportunity
7 to ask a couple of questions.

8 I wanted to follow Representative
9 Dunbar in following the line of questions that we
10 started with the Department of Revenue and ask a
11 couple of questions about the IFO's view of
12 running the numbers on the minimum wage proposal.
13 The Governor's administration contains a revenue
14 estimate of \$133.3 million increase to the State
15 revenues based on a -- the minimum wage proposal
16 as outlined by the Governor.

17 what is the IFO's projection of impact
18 on revenues for the upcoming year, based on the
19 Governor's proposal?

20 DIRECTOR KNITTEL: well, running those
21 numbers right now, last year, we thought once
22 fully phased in, it would increase revenues by
23 about \$50 million.

24 REPRESENTATIVE GABLER: Thank you.

25 Do you have any kind of an inclination

1 as far as how the -- how it would impact the
2 different types of taxes, sales and use tax,
3 personal income tax, corporate net income?

4 DIRECTOR KNITTEL: Most of it would be
5 attributable to personal income and sales and
6 use. We thought that would be a negative impact
7 on corporate net due to the higher wage. I don't
8 have that split, but the great majority of it is
9 due to PIT and SUT.

10 REPRESENTATIVE GABLER: And that
11 actually led right into the next question I had
12 exactly. So there would -- there would likely,
13 in the IFO's estimation, be a negative impact on
14 the CNI, based on the fact that there would be
15 larger expenses to employers, based on the wage,
16 correct?

17 DIRECTOR KNITTEL: Yeah. So we assume
18 that the higher minimum wage would be financed
19 two-thirds through higher prices and it would
20 reduce profits by -- 20 percent of it would show
21 up in reduced profits.

22 REPRESENTATIVE GABLER: Thank you.
23 And that helps put some context in. I wanted to
24 shift a little bit because I think that helps me
25 out on that topic. Another question I wanted to

1 ask you is just kind of more generally, so not
2 just specific to the minimum wage, but kind of
3 more generally.

4 when looking at proposals, whether it
5 be policy proposals, revenue proposals at the
6 state level, can you speak to the difference
7 between a static analysis versus a dynamic
8 analysis and what sort of -- what sort of
9 procedures the IFO goes through to try to project
10 what will happen due to a given policy proposal
11 or change, kind of more in the abstract?

12 DIRECTOR KNITTEL: Sure. When we're
13 talking about dynamic, there's really two
14 categories. One is talking about behavior,
15 taxpayer behavior, how they would respond. The
16 other is talking about the economy, if the
17 economy expands, and would you get larger
18 effects. So we try to incorporate those. We
19 definitely incorporate the behavior, the taxpayer
20 response, the macroeconomic impact is a little
21 harder to, but to the extent we can, we try to
22 include that, as well.

23 A static impact doesn't allow for
24 that. It assumes prices are fixed. It assumes
25 that behavior, that the taxpayer behavior doesn't

1 change. It doesn't assume the economy grows.

2 REPRESENTATIVE GABLER: So for
3 example, if there were a proposal to change a
4 given tax rate, a static analysis would say, you
5 increase the tax by X percent, our current tax
6 brings in this, so X percent of that would bring
7 in this much more, whereas a dynamic analysis
8 would say, well, we think people might act
9 differently on that tax rate, correct?

10 DIRECTOR KNITTEL: That's correct.

11 REPRESENTATIVE GABLER: So have -- I
12 had recently been contacted by an entity that is
13 -- that has a model that they put out there. I
14 think it's an economic entity out of
15 Massachusetts. They offer their services.

16 Is that something that the IFO is
17 looking at, to use a dynamic modeling proposal to
18 incorporate into State data?

19 DIRECTOR KNITTEL: We've met with
20 representatives of REMI, who is a dynamic
21 analysis model. We've talked to them and looked
22 at possibilities. It is -- the quote we received
23 to bring it into the office is about \$120,000.
24 We currently use IMPLAN, which is also an
25 input/output model, but it is static. So there

1 is a trade-off, but we have been talking with
2 folks at REMI.

3 REPRESENTATIVE GABLER: I think that's
4 -- it's something that kind of piqued my interest
5 as I was kind of looking at this, because
6 certainly it's a different sort of calculating
7 than what somebody might see in their own
8 household. You know, a lot of times somebody
9 looks at their own household in their budget and
10 they're looking at kind of a static model, but
11 when we're looking at large macroeconomic
12 impacts, it's something that piqued my interest
13 and it's something that certainly piqued my
14 curiosity. So I'm glad you guys are looking at
15 it and doing your analysis.

16 That's all the questions I have. I
17 just want to thank you for the work that you do
18 and giving us a fresh look at numbers. I really
19 appreciate all the data you give us. So with
20 that, Mr. Chairman, I'm all done. Appreciate it.

21 MAJORITY CHAIRMAN SAYLOR:
22 Representative Culver.

23 REPRESENTATIVE CULVER: Thank you,
24 Mr. Chairman. Over here.

25 I just wanted to begin by talking

1 about the changing demographics in the State of
2 Pennsylvania and by thanking you for being a
3 leader in bringing to life those changing
4 demographics, and maybe the impact these changes
5 will have on both our expenditures and revenue in
6 future budgets.

7 The data provided in your packet shows
8 that for the period of 2015 through 2020, the
9 working population, which is age 20 to 64, has
10 declined -- will be declining by 154,000, while
11 the population 65 and older has increased by
12 285,000. But what is most noticeable in the data
13 provided is the growth in the baby boomers alone,
14 which are age 65 to 79 over that same period,
15 which was an increase of 276,000. Additionally,
16 I think most concerning is the school age
17 population, our future workers, zero to 19 years
18 of age, declined by 75,000.

19 So looking at the period going forward
20 of 2020 to 2025, this picture does not look to be
21 getting much better. The population zero to 64
22 years of age is anticipated to decline by about
23 268,000 while the population age 65 years and
24 older is anticipated to grow by about 333,000,
25 which I think they refer to as our silver tsunami

1 that's coming upon us in the coming years.

2 So given our challenging age
3 demographics, would you say that anticipated long
4 term revenue growth will be able to meet the
5 anticipated long term expenditure growth in the
6 Commonwealth?

7 DIRECTOR KNITTEL: So I'd say there
8 are definitely some challenges here to what you
9 noted. What we're seeing going forward in 2025
10 now is instead of the baby boomers, we're getting
11 growth at the very high end, 85-plus, where the
12 healthcare costs accelerate very rapidly. As
13 we're also undergoing that, more of the income in
14 Pennsylvania, of course, is not subject to tax,
15 it's retirement income. So we have both of those
16 dynamics at work. So it is a challenging
17 environment.

18 And the third thing that I'd point
19 out, as you had noted, is that the working age
20 cohort in Pennsylvania is contracting every year
21 and will do so over the next five years. So
22 there's a lot of concern there whether there will
23 be enough workers or trained workers to fill the
24 jobs.

25 REPRESENTATIVE CULVER: So what would

1 you suggest we as policymakers keep in mind about
2 our current tax structure, expanding services and
3 creating new spending initiatives, given these
4 demographic challenges?

5 DIRECTOR KNITTEL: I think it's just
6 important to keep an eye on all of these issues
7 as they develop because they're very subtle.
8 They don't show up immediately over time. It
9 takes a long time for them to show up. I also
10 think that with the challenges on the working age
11 cohort in particular, it's important to get these
12 folks retrained, get them back into the economy
13 as soon as we can. So I do think there's value
14 to the training programs, but to get some
15 verification on those training programs, as well,
16 to make sure they're doing the job.

17 REPRESENTATIVE CULVER: Okay. Thank
18 you very much.

19 MAJORITY CHAIRMAN SAYLOR:
20 Representatives James.

21 REPRESENTATIVE JAMES: Thank you,
22 Mr. Chairman.

23 Director Knittel, over here. There
24 you go.

25 Along the same line, a flashback to a

1 year ago you were here, and before the Committee,
2 you stated current data in Pennsylvania suggested
3 a sound economic -- sound economic fundamentals
4 and you look for modest, but more expansion in
5 the future. You mentioned there were some
6 headwinds at that time and suggested policymakers
7 should expect slower economic growth in the
8 future.

9 So I would ask you to flash forward
10 today and give us your opinion on the economy,
11 the risks, the reward potential, things of that
12 nature, and perhaps some things we should be
13 aware of.

14 DIRECTOR KNITTEL: Sure. I'd very
15 quickly refer to the one-page handout that came
16 with your packet that had some economic growth
17 rates on it. And there's a lot of growth rates
18 there, so I won't spend a lot of time here. I
19 will say that things still look solid. The labor
20 market in particular is doing very well. It is
21 slowing down. We're seeing fewer jobs, but
22 that's as expected because we were at a very high
23 level.

24 The wage growth is still very solid.
25 It's growing by about four percent. Even though

1 the unemployment rate ticked # up recently in
2 December to 4.5 percent, that was for more
3 individuals joining the labor force, so even that
4 was for a good reason. So right know, we think
5 things are pretty solid.

6 we do have concerns about two items in
7 particular that showed up at the end of last
8 year. The first one is that auto loan
9 delinquencies are now at an all-time high. So
10 that's not only true for Pennsylvania, that's
11 true for the U.S., as well. We think the lending
12 standards were lowered and firms are just getting
13 more profits now by securing financing as opposed
14 to selling a car. So that's kind of a dynamic
15 there.

16 The other thing that happened at the
17 end of last year was that there was a 100-percent
18 increase in applications for mortgage refinancing
19 in Pennsylvania. So we think a lot of
20 individuals are refinancing, and we think they
21 are pulling out home equity from their existing
22 homes. And we think that also provided the
23 economy with a bit of a boost. But internally,
24 that's a little concerning. Otherwise, the labor
25 market looks pretty good. Of course, there's

1 overseas concerns, as well, but we don't have any
2 control over that.

3 REPRESENTATIVE JAMES: Right. Okay.
4 Thank you very much.

5 Thank you, Mr. Chairman.

6 MAJORITY CHAIRMAN SAYLOR:
7 Representative Kinsey.

8 REPRESENTATIVE KINSEY: Thank you,
9 Mr. Chairman.

10 Mr. Knittel, I want to review, I
11 believe, a comment that came out of the IFO last
12 year. I believe that in your analysis of last
13 year you noted that recent studies generally
14 confirm that established research finds that
15 higher minimum wages increased employees'
16 productivity and reduced turnover. Both factors
17 should, if I'm not mistaken, should produce
18 employer cost savings. I think this is something
19 that you shared with this body last year.

20 I want to know if you can elaborate on
21 this research. And I'm asking this because over
22 the past five years, we've talked about
23 increasing minimum wage. We've not done that
24 thus far, but also with your studies, I've had
25 opportunity to talk with individuals in certain

1 industries. And I want to sort of get an idea
2 with these industries, how raising the minimum
3 wage will impact them, as well. And I'm talking
4 specifically to industries in regards to child
5 care, human services workers, direct employees,
6 teachers aides.

7 And what I'm hearing, again, from some
8 of these folks in the industry is that if we
9 increase the minimum wage, that we should also
10 increase maybe their return in regards to the
11 services that they provide or increase the amount
12 of moneys that they receive for employing those
13 folks, as well. So what I'm trying to find is a
14 balance.

15 And again, I'm looking at what you
16 referenced last year in regard to the analysis.
17 What I'm hearing from some of the employers
18 themselves in trying to see what we can do as a
19 body to sort of, one, increase minimum wage, but
20 also ensure that it does not impact folks to the
21 extent where businesses are closing. So can you
22 elaborate on the studies that you referenced last
23 year?

24 DIRECTOR KNITTEL: So we did find in
25 our research last year, when we looked at the

1 minimum wage -- and I characterize it as a pretty
2 robust result because it's just a widespread
3 result, that it doesn't prove productivity,
4 worker productivity. It does reduce labor
5 turnover. So nothing I've seen since that would
6 counteract that. In fact, the few studies I've
7 seen since then would reinforce it.

8 Unfortunately, we can't get a measure
9 on the impact of a turnover, a dollar cost, how
10 much savings would there be, but we do know for
11 certain industries, such as retail, that there's
12 a high amount of labor turnover, on the order of
13 15-percent labor turnover. So certainly, it's a
14 material concern. And to the extent minimum wage
15 reduces that, that's real return to a business.

16 REPRESENTATIVE KINSEY: So aside from
17 retail, are there other industries that there's
18 either a concern for or that have a high
19 turnover? And I'm thinking about like child care
20 or even folks that work, direct support
21 professionals, that work with people with
22 disabilities and so forth, so on.

23 DIRECTOR KNITTEL: Yes. I'd agree
24 with that. High rate turnovers are not only in
25 retail, but in food service, health care,

1 daycare, home health care, industries that have a
2 disproportionately large number of folks down at
3 the lower end of the wage spectrum, generally
4 have a higher turnover rate.

5 REPRESENTATIVE KINSEY: Right. And so
6 is it the belief of the IFO still that if we
7 increase the minimum wage that it could benefit
8 businesses? Is that still the overall belief?

9 DIRECTOR KNITTEL: Yes, we do think
10 businesses would recognize cost savings. So in
11 other words, even if they raise their wage rate,
12 they will raise their prices some. We also think
13 it will reduce their profit some, but we also
14 think they'll realize savings through a higher
15 productivity and through reduced labor turnover.

16 REPRESENTATIVE KINSEY: Okay. And
17 lastly, again, I've been with this Committee for
18 quite a few years. And it's my belief, I
19 believe, that over the past few years that your
20 Department, the IFO, has stayed consistent with
21 that belief; is that correct?

22 DIRECTOR KNITTEL: That is correct,
23 yes.

24 REPRESENTATIVE KINSEY: Thank you very
25 much, sir.

1 MAJORITY CHAIRMAN SAYLOR:

2 Representative Rothman.

3 REPRESENTATIVE ROTHMAN: Thank you,
4 Director Knittel. Thank you for all you and your
5 agency do.

6 My question has to do with page 19 of
7 your presentation and the Commonwealth of
8 Pennsylvania's State and local tax burden in
9 comparison to surrounding and competing States.
10 Pennsylvania has the third-highest corporation
11 net income tax, yet we're ranked 12th in
12 corporate income. Our personal income tax, we're
13 ranked nineteenth. Our sales and use tax, 39th.

14 Does the sales and use tax include the
15 59-cents-a-gallon gas tax?

16 DIRECTOR KNITTEL: No, it does not.
17 That's separate.

18 REPRESENTATIVE ROTHMAN: Would that
19 though -- is that anywhere in the total taxes, in
20 the tax burdens, do you know?

21 DIRECTOR KNITTEL: Not in this table.
22 We do have a more expanded study on our website
23 that does look at motor fuel, motor license
24 taxes.

25 REPRESENTATIVE ROTHMAN: Where are we

1 ranked then, if you include that and even the
2 impact fee that's not included?

3 DIRECTOR KNITTEL: So in terms of
4 motor vehicle taxes, we rank 11th. That's
5 including everything though, the fees, the gas
6 tax and whatnot. In terms of the gas rate, we're
7 the highest.

8 REPRESENTATIVE ROTHMAN: Highest. And
9 is there anything -- in property taxes, are we
10 including in this chart -- I'm sorry -- the taxes
11 paid by nonresidential properties, so commercial
12 properties?

13 DIRECTOR KNITTEL: Anything that's
14 remitted to a school district or a municipality
15 located in the state would be included in those
16 numbers.

17 DIRECTOR KNITTEL: Included. So in
18 your opinion, how do we -- how do we compare to
19 surrounding areas? Are we heading in the right
20 direction. Are we -- what -- the actual tax
21 burden on our citizens and on our employers, how
22 do we compare it to surrounding states?

23 DIRECTOR KNITTEL: I'd say generally,
24 and based on this table, we're generally middle
25 of the pack. We're lower on sales and use tax

1 and that's because we have a relatively narrow
2 base. We're a little higher on personal income
3 tax, not because of the State rate, but because
4 local units all levy some sort of a local income
5 tax.

6 But beyond that, I think the spread of
7 the tax structure across the different revenue
8 sources compares very favorably. In other words,
9 we're not exposed to one particular tax, so if we
10 did hit a recession, it spreads the risk out. So
11 I think from that perspective, it -- we perform
12 pretty well.

13 REPRESENTATIVE ROTHMAN: If I still
14 have a moment, any thought on the one income that
15 we do not tax, pension income, and how we compare
16 to other states?

17 And obviously, we don't tax it. Do
18 other States tax it?

19 DIRECTOR KNITTEL: Most States to do
20 tax at least a portion of what I call retirement
21 income. That could include social security. It
22 could include pensions. It could include IRA
23 withdrawals. Pennsylvania currently does not.
24 We have worked on some proposals that propose to
25 expand the tax base to tax retirement income as

1 an offset to a lower property tax, and those are
2 available on our website, but Pennsylvania is
3 unique in that it doesn't tax any retirement
4 income.

5 MAJORITY CHAIRMAN SAYLOR:

6 Representative Comitta.

7 REPRESENTATIVE COMMITTEE: Thank you,
8 Mr. Chair.

9 In looking over your performance based
10 budget review of DEP, you note that, and I quote,
11 Pennsylvania failed to meet the two most recent
12 Chesapeake Bay pollution targets and is furthest
13 away from meeting the latest '20-25 final
14 pollution targets among the participating States.
15 Despite being the largest contributor of nitrogen
16 and phosphorus into the Bay, data show that
17 Pennsylvania devotes less State resources to
18 restoration of the watershed than three other
19 States.

20 So my question is, how much is
21 Pennsylvania investing, compared to other States,
22 to meet these water pollution goals?

23 DEPUTY DIRECTOR WARBURTON: That's a
24 great question. We did compile data in the
25 report that is reported by the Federal

1 Environmental Agency. And they -- they are
2 compiling and publishing data that is provided to
3 them by State agencies. And according to that
4 report, with the EPA's Chesapeake Bay Program,
5 Pennsylvania is expending a relatively small
6 amount compared to other States. So their total
7 for the most recent years is about \$1.3 billion
8 and Pennsylvania's amount reported by EPA is only
9 \$36 million.

10 However, I would note that EPA
11 compiles -- or DEP, sorry -- compiles data that
12 looks at all spending from all sources, all
13 funding sources, as well as all agencies. And so
14 their total is a little bit higher, quite a bit
15 higher. It's more like \$155 million. I think
16 with the -- with the amount of the attention on
17 the Chesapeake Bay and the importance of the
18 Chesapeake Bay in this area, that would be
19 something that would require more analysis of
20 other States to really nail down that number.

21 REPRESENTATIVE COMITTA: Thank you for
22 looking into this very, very important issue.

23 MAJORITY CHAIRMAN SAYLOR:
24 Representative Brown.

25 REPRESENTATIVE BROWN: Thank you,

1 Mr. Chairman. Thank you, Director Knittel for
2 being here.

3 I'm going to add on a little bit to
4 Representative Rothman, who spoke a little bit
5 about the tax burden in Pennsylvania, and he went
6 through a couple of specifics. And one of the
7 things that, if you haven't already heard today
8 in another hearing or not, is specifically
9 looking at our property tax burden. And looking
10 at that to say what we're doing to make sure that
11 Pennsylvania is competitive, both from the
12 business standpoint and also the resident
13 standpoint, to make sure the residents are not
14 overtaxed.

15 So recently, the IFO released a report
16 on February 6th, 2020, that is on school district
17 property tax forecasts. I don't know how you
18 remember all of these reports, but you're pretty
19 good. It shows that 2018-19 tax collections at
20 \$15 billion, and 2019-20 moving up slightly to
21 \$15.3 billion. And then, projections are showing
22 an increase of 3.9 percent, reaching \$18.6
23 billion in the years 2024-25.

24 The current property tax burden that
25 we have some information on from the IFO is

1 showing we're at 2.87 percent. We're 24th,
2 right; and the national average is 3.10 percent.
3 I'm aware that that's obviously a statewide
4 average. My concerns and questions to you are,
5 in the Pocono region and some other parts of the
6 State, you will have up to a five-percent plus
7 tax burden, which is significantly high and well
8 over the national average.

9 Do you believe -- a couple of quick
10 questions for you -- in your professional
11 opinion, do you believe that the projections will
12 increase property tax collections, will greatly
13 impact this five percent, these geographic areas
14 that have a much higher burden?

15 And we do have some wiggle room here,
16 looking at some of these numbers on the sales tax
17 and where you said we're spread out nicely to
18 sort of protect ourselves from recessions and
19 things, but do you believe there's some wiggle
20 room there to sort of offset or help maybe the
21 inequities that we're seeing? Although, I
22 understand once again that the State average says
23 we're below the national average and burden, but
24 I think there's certain areas that really are
25 seeing significant -- mine being one of them.

1 So let's start with that. And then I
2 might add onto it a little bit.

3 DIRECTOR KNITTEL: Sure.

4 REPRESENTATIVE BROWN: Thanks.

5 DIRECTOR KNITTEL: I have no doubt.

6 And when we've taken a look across school
7 districts or counties, it has varied widely
8 across the state. So it's not surprising to me
9 that you're seeing that. Regarding the property
10 tax forecast, yes, what we're seeing is that the
11 ACT 1 index will increase because wage growth has
12 increased. So we do anticipate that school
13 districts will take advantage of the higher index
14 and will increase property taxes a little more
15 than they had in the past. So we are building
16 that in, as you note in our forecast.

17 Regarding the -- the other revenue
18 sources, the one that sticks out to me is sales
19 tax. I mean, we're -- if you take our ranking,
20 we're 39th. We do have a relatively narrow base.
21 If we did need a major revenue source to provide
22 relief or elimination, that's an obvious
23 candidate, given that the base is relatively
24 narrow.

25 REPRESENTATIVE BROWN: And with that,

1 which, you know, looking at the paper, I agree
2 with you on some wiggle room there, do you
3 believe that that would, in your professional
4 opinion, again, impact our competitiveness with
5 other states?

6 I would assume no, based on what we
7 just --

8 DIRECTOR KNITTEL: I think that I
9 would characterize it as marginal. I don't think
10 it would hurt it or change it dramatically. I
11 would say to the extent, economically speaking,
12 any time we have a broader base and lower rates,
13 it's always good. And again, it protects us in
14 recessions.

15 REPRESENTATIVE BROWN: Right. And
16 just two more further questions. Any further --
17 I mean, I have the list of property tax reports
18 that you have done from Homestead to replacement
19 estimates to older -- I know you've done a lot of
20 work.

21 Are there any further IFO reports in
22 play right now that I may not be remembering
23 through our process, or would you suggest any
24 further research that may be helpful on working
25 on furthering this reform measure with a school

1 tax proposal that maybe we haven't considered in
2 the future -- in the past.

3 DIRECTOR KNITTEL: Yes. We're not --
4 currently, we don't have any studies related to
5 property tax in the pipeline. We are going to
6 compile some historical data and make that
7 available, where we provide a breakdown based on
8 income levels and age groups to see how property
9 taxes, how does it vary across the Commonwealth.
10 So we do have that in the works.

11 REPRESENTATIVE BROWN: Okay. And my
12 time is up, but Mr. Chairman, one real quick,
13 quick question?

14 MAJORITY CHAIRMAN SAYLOR: Yes.

15 REPRESENTATIVE BROWN: Geographic
16 information, is that provided within -- in the
17 further reports, where I can see the tax burden a
18 little bit more in detail?

19 DIRECTOR KNITTEL: I think we could
20 get down to the county level. School district is
21 very difficult, but the county level, I think we
22 could do that.

23 REPRESENTATIVE BROWN: Okay. Thank
24 you so much.

25 MAJORITY CHAIRMAN SAYLOR:

1 Representative Bullock.

2 REPRESENTATIVE BULLOCK: Thank you,
3 Mr. Chairman.

4 Good afternoon. I have two sets of
5 questions for you. I know that you have a small
6 complement, I think, of about 13, so I'm not
7 going to dig in too much to your specific
8 demographics about diversity, but what I would
9 like to ask you is how does workplace diversity
10 and inclusivity impact the economy?

11 Knowing that -- employers that know
12 that Pennsylvania is a welcoming State, a State
13 that is inclusive, hopefully, how does impact our
14 own local economy by having a diverse work
15 force in an inclusive workplace, and
16 particularly, as we look at our proposed PA
17 Fairness Act that has been stalled in the
18 legislature?

19 Second set of questions is around the
20 Governor's investments in preventing gun
21 violence. How does his proposed investments
22 impact our economy, and how do you see it as a
23 best property tax compared to other States and
24 what we can do, and why we should continue or not
25 continue to invest in reducing gun violence

1 across our Commonwealth?

2 DIRECTOR KNITTEL: So in regard --
3 and I'll just try to address both questions
4 generally. I think, from what I've seen, the
5 diversity, the inclusion, is always a positive.
6 In that case, it's always beneficial to economic
7 growth and to welcoming individuals into the
8 State. We've talked about the demographics here
9 and how we're facing a -- challenges going
10 forward, especially folks who are working,
11 working-age cohort. So to the extent we can make
12 the State more welcome, more inclusive, that's
13 all to the positive.

14 Regarding the gun violence, we haven't
15 undertaken that analysis. We are looking at
16 combined reporting and minimum wage, but we
17 haven't looked at that specifically. I think
18 that anything that provides a more welcoming and
19 safe environment would be a positive and would
20 contribute in a positive fashion to economic
21 growth.

22 REPRESENTATIVE BROWN: So do you
23 anticipate at any point doing a harder, deeper
24 look into what that economic impact may actually
25 look like in a dollar sense on either of those

1 subject matters?

2 MAJORITY CHAIRMAN SAYLOR:

3 Representative, I'm going to have to ask you to
4 not go that direction, because again, that's not
5 the job of the IFO at this point. Any studies
6 that would be done would be done under the Joint
7 State Government Committee or one of those
8 agencies, not the IFO.

9 REPRESENTATIVE BULLOCK: Okay. May I
10 ask him if they're aware of any other studies
11 that have been done?

12 MAJORITY CHAIRMAN SAYLOR: You may.

13 REPRESENTATIVE BULLOCK: Are you aware
14 of any studies that have been done?

15 DIRECTOR KNITTEL: I am not, but I
16 haven't looked, so I don't have knowledge of any
17 at this point.

18 REPRESENTATIVE BULLOCK: Okay. Thank
19 you very much.

20 MAJORITY CHAIRMAN SAYLOR:

21 Representative Topper.

22 REPRESENTATIVE TOPPER: Good
23 afternoon. Over here to your right.

24 I just have a question about Act 15 of
25 2016, which required the IFO to perform cost

1 analysis of approved collective bargaining
2 agreements. But one of the groups that is not in
3 that statute or is not included in the statute,
4 any contracts relating to PASSHE, our
5 Pennsylvania System of Higher Education.

6 would you be -- just a real quick
7 question. would you be willing to do a cost
8 analysis of the latest collective bargaining
9 agreement with PASSHE?

10 As we look, here in the legislature,
11 we're looking at a system redesign, a package of
12 bills, we meet with the chancellor. As we move
13 forward in looking to reform that system, I think
14 that would be something that could be helpful and
15 was just wondering if that would be something
16 that would be within your willingness to do a
17 cost analysis of, even though I don't believe
18 that specifically they were included in that
19 statute?

20 DIRECTOR KNITTEL: That's correct.
21 PASSHE System, the State Police, the correctional
22 officers are not included in the analysis that we
23 perform for the wage contracts. I have to defer
24 on that whether we could do it. I don't -- I'm
25 not sure what data is available or whether it

1 could be provided or what would be involved. The
2 wage contracts, I know it's very simple because
3 all of the data are available on SAP and we work
4 with the Office of Administration to score these
5 things out. And therefore, it's very
6 straightforward. With these other contracts, I'm
7 not sure what's involved, so I'd have to gather
8 some more information before I could comment.

9 REPRESENTATIVE TOPPER: All right.
10 Thank you.

11 Thank you, Mr. Chairman.

12 MAJORITY CHAIRMAN SAYLOR:
13 Representative McCarter.

14 REPRESENTATIVE MCCARTER: Thank you
15 very much, Mr. Chairman. And again, thank you
16 both for being here today.

17 Going back for one second. My
18 colleague, Representative Comitta, referenced the
19 DEP report and I wanted to go back to that also,
20 the statement you made in there. The report
21 indicates that while DEP has located more than
22 12,100 of the abandoned wells that exist in
23 Pennsylvania report, oil and gas wells, it's
24 estimated that there are approximately 200,000 or
25 more, possibly even as high as 400,000 in the

1 State that have not been identified. You wrote
2 these issues can pose significant threats to the
3 citizens and the environment of the Commonwealth.
4 And surely, we're going to follow up with the --
5 in more detail with the DEP Secretary, but what
6 is it of the nature of these threats, and why did
7 you feel it important to target this particular
8 -- or highlight this issue?

9 DEPUTY DIRECTOR WARBURTON: Well, we
10 worked with the agencies to really identify their
11 goals and objectives and then try to develop
12 performance measures that would align with those
13 goals and objectives. And in working with DEP,
14 there was a lot of attention paid to well
15 plugging, both in terms of the wells that are
16 plugged by industry, as well as wells that are
17 plugged by DEP, because there is no private
18 entity that is around anymore that can do that
19 work.

20 So in looking at the performance based
21 budget review with DEP, we did include some
22 measures with regard to DEP looking at well water
23 supply that has been adversely impacted by the
24 oil and gas activities, and this can also happen
25 with the abandoned wells from past industry

1 activity. We also just looked at the cumulative
2 number of wells plugged by DEP and noticed that
3 there has not been a lot of activity in that area
4 in the past couple of years. And so those data
5 just, I think, provide a little bit of context
6 and scope for what is potentially out there.

7 REPRESENTATIVE MCCARTER: Well, what
8 is the threat that you see to the Commonwealth
9 that you are identifying as part of that in your
10 statement?

11 DEPUTY DIRECTOR WARBURTON: So in
12 terms of the well plugging, I think the threat
13 would be to groundwater supplies, if there is
14 leaking into groundwater supplies from wells that
15 have not been plugged. I think there can also be
16 in some cases some soil and air quality concerns,
17 as well.

18 REPRESENTATIVE MCCARTER: And were you
19 concerned about the future fiscal impact of
20 having to deal with this, as well? Is that part
21 of what you were identifying?

22 DEPUTY DIRECTOR WARBURTON: So we are
23 looking at the trends over the past five years
24 and we're looking at the funding levels that have
25 been devoted to this activity, and then the

1 results that have been achieved at that funding
2 level. I think with regard to the well plugging,
3 I was looking if we had cost information there.
4 I don't think we do, so I think that would
5 potentially be something that DEP could provide.

6 REPRESENTATIVE MCCARTER: Well, the
7 average cost that I think DEP has used in the
8 past is about \$30,000 per well, with a cost
9 potentially as high as \$100,000 for some wells,
10 but the average being \$30,000. And if you
11 extrapolate that over the number of abandoned
12 wells, I was wondering if that was part of what
13 you're identifying, is that the Commonwealth is
14 on the hook, potentially, for a significant
15 amount of money there.

16 DEPUTY DIRECTOR WARBURTON: So
17 throughout the whole PBB process with DEP, we
18 looked at 17 different activities, and so this is
19 one of the things that they are looking at. So
20 we are providing both the funding levels, as well
21 as the performance metrics to hopefully give you
22 a better idea of how you can best allocate
23 resources over the entire scope of their program
24 areas.

25 REPRESENTATIVE MCCARTER: Thank you

1 very much.

2 DEPUTY DIRECTOR WARBURTON: Uh-huh.

3 MAJORITY CHAIRMAN SAYLOR:

4 Representative Owlett.

5 REPRESENTATIVE OWLETT: Over on this
6 side here. Thank you for joining us today. And
7 thank you, Mr. Chairman.

8 Thank you for the service that you
9 provide the Commonwealth. It really helps us as
10 legislators. I just wanted to talk a little bit
11 more, maybe the 30,000 foot view. We talked a
12 little bit about demographics. We talked about
13 property tax challenges.

14 Talking about tax reform, I serve in a
15 bordering district to another State. We're
16 always competing with attracting businesses,
17 especially with the workforce and workforce
18 challenges. They're coming to us saying, what
19 can you do for me? Like we're going to go
20 somewhere, what can you do for us?

21 So it was suggested even this morning,
22 the Secretary of Revenue made the suggestion that
23 we look at some tax policies of even Texas and
24 some other areas. Tax reform is always a topic
25 of discussion the States continually compete

1 against each other for attracting businesses and
2 jobs, which ultimately drive economic growth
3 within the state.

4 Can you take a 30,000 foot view and
5 say what are we doing well, what can we improve
6 on as a State in order to make sure that
7 Pennsylvania is more competitive on a national
8 and global market?

9 DIRECTOR KNITTEL: Yeah. So I can --
10 regarding that, and just let me note on that
11 topic, at the back of your packet here, there's a
12 full list of economic document incentives and
13 other programs that are in the Commonwealth. I
14 do think, as you noted, much like other States,
15 we have many programs to encourage economic
16 development. And we're putting out these tax
17 credit reports that are evaluating them over
18 time. We put out four last year. We'll put out
19 another four this coming year.

20 I think what we want to do though --
21 and all states have these programs, but it's
22 important that they're targeted appropriately.
23 And what we want to do is target them to what I
24 call tradeable sectors, that are our export based
25 industries, who are pulling the funds into the

1 State. We want to target States that have
2 positive externalities or spillovers,
3 agglomeration effect, a clustering. Those are
4 high-tech firms.

5 So I think we have to be very careful
6 and specific because the funds are limited about
7 the industries and the results that we want, and
8 we need to verify and document them because all
9 States are doing this. And the incentives they
10 offer are all very similar, quite frankly.

11 REPRESENTATIVE OWLETT: I appreciate
12 that. And if there's any additional information
13 that you can provide us as legislators that would
14 be a positive move for Pennsylvania, let us know.
15 We'd love to work with you on that and continue
16 to attract businesses here to the Commonwealth.
17 Thank you.

18 MAJORITY CHAIRMAN SAYLOR:
19 Representative Kim.

20 REPRESENTATIVE KIM: Director and
21 Deputy Director, good afternoon.

22 Your revenue projection differed
23 slightly with the Department of Revenue. I think
24 it's like a .4 percent.

25 Just curious, do you know what the

1 difference was, and where did you project more in
2 the budget in terms of revenue surplus?

3 DIRECTOR KNITTEL: Yeah, so for next
4 year, after you take out the proposals for
5 minimum wage and combined reporting, we have a
6 difference of about \$170 million, so that's
7 close. The main differences are that we think
8 the economy will be a little stronger. We have a
9 little bit more in personal income tax. The main
10 differences are we have more in bank shares and
11 insurance premiums. So we think that will be
12 higher this year and higher next year. The banks
13 had a very good year last year, so we think their
14 market value, their equity is quite high.

15 REPRESENTATIVE KIM: Good to know. So
16 let's say it's about \$225 million of revenue
17 surplus, how do we compare with the surrounding
18 states? Do you have that information?

19 I'd just like to have the 30,000 foot,
20 you know, how well are we doing in our region?

21 DIRECTOR KNITTEL: Yeah. So last
22 year, as everybody is aware, we had what I would
23 characterize as a windfall. We had very strong
24 revenue collections. All states experienced the
25 same thing.

1 From what I know, the states that
2 surround us, they're all very close to estimates.
3 So they're getting growth rates similar to
4 Pennsylvania. New Jersey recently had a very
5 large increase in their corporate net income tax,
6 so they're getting a little gain there, but
7 things are lining up well because we're all
8 experiencing the same benefit. All the states
9 around us, like Pennsylvania, have a pretty
10 strong labor market and that's fueling the
11 growth.

12 REPRESENTATIVE KIM: Great. You were
13 talking earlier about some of your concerns and
14 then it just kind of reminded me, you know, there
15 is always a potential of a recession. And other
16 than like the Rainy Day Fund and fully funding
17 it, what other recession-proof policies do you
18 see in this proposal or do you support?

19 DIRECTOR KNITTEL: Yes. So the
20 payment last year, the deposit, was very
21 positive. That's always good to build up the
22 Rainy Day Fund. As we discussed earlier, another
23 good policy is to not be susceptible or have --
24 rely overly dependent on one revenue source. And
25 I think Pennsylvania stacks up well. The other

1 thing that is always good is the expenses that
2 are due in the current year, is to try to pay
3 them if we can and not delay them or roll them
4 forward. So that's always good if that can be
5 managed.

6 REPRESENTATIVE KIM: Good. And then
7 my next question, Representative Culver gave some
8 good facts or stats regarding the senior citizens
9 who are 65 and older who are leaving the job
10 market. And then, in your IFO report, you
11 estimated about 1.1 million people would benefit
12 from a higher minimum wage.

13 would it be safe to say that older
14 Pennsylvanians would be part of that increase in
15 minimum wage since we have so many of those
16 people in that population?

17 DIRECTOR KNITTEL: Yes, I would agree
18 with that. And if you look at the hearings
19 packet that we submitted, on one of the pages,
20 we -- in fact, on page nine, we look at where the
21 job gains are going. And two-thirds of the job
22 gains are going to those 55 and older every year.
23 So I would imagine if the minimum wage were
24 increased, it would affect those folks, as well.

25 REPRESENTATIVE KIM: Great. Thank you

1 very much for your time and information.

2 MAJORITY CHAIRMAN SAYLOR:

3 Representative Hahn.

4 REPRESENTATIVE HAHN: Thank you,
5 Mr. Chairman. Good afternoon. Thanks for being
6 here.

7 This morning when we were talking to
8 the Department of Revenue, we were talking about
9 the stability of the programs for seniors from
10 the Lottery Fund. So I think in the information
11 you gave, you have your estimate for the gross
12 ticket sales for the Lottery to be about \$4.9
13 billion. And in comparison, Revenue's estimate
14 is much lower, I think like \$146 million lower.

15 Can you tell me or explain why your
16 estimate is so much lower than the Department's?

17 DIRECTOR KNITTEL: Yeah. I -- we are
18 -- we are higher. I think we're a little
19 optimistic. And I think the wild card here over
20 the last part of the fiscal year is will we get a
21 big jackpot or not. That drives so much of the
22 ticket sales. We haven't had one yet this year.

23 REPRESENTATIVE HAHN: Is that with the
24 draw games, are you talking about?

25 DIRECTOR KNITTEL: Powerball, Mega

1 Millions, it's such a large driver. And because
2 we haven't had one doesn't mean we will have one
3 or that it's more likely because it's a
4 completely random event, but what we've seen
5 recently is that the instant ticket sales, there
6 was kind of a lull in the first half of the year,
7 but they're starting to pick up again. So that
8 was a benefit. I think we just had to benefit
9 from another month of data versus what was in the
10 budget.

11 REPRESENTATIVE HAHN: So do you think
12 the Lottery Fund can grow and continue to support
13 the programs that they fund?

14 DIRECTOR KNITTEL: I think they can,
15 although every year that goes by, it's -- I think
16 it's a little more difficult because the market
17 gets more saturated. You know, the instant
18 ticket sales, the machines are expanding into all
19 of the retail outfits. It's unknown how long
20 that can continue. So I do think it's a
21 significant challenge, especially with the
22 demographics of this State, whether it can keep
23 up with the demands.

24 REPRESENTATIVE HAHN: And that takes
25 me to my next question. I think we talked this

1 morning, again, about the harm that illegal
2 gaming machines have in the Commonwealth. And I
3 think the Department of Revenue estimated, like,
4 they're losing \$200 million to those games.

5 So do you have an analysis of what
6 that impact is of those machines on the ticket
7 sales and the profits?

8 DIRECTOR KNITTEL: No. We don't have
9 an estimate of how much that cannibalization of
10 the instant ticket sales in theory would be built
11 into our estimate, but not an itemization of it.

12 REPRESENTATIVE HAHN: Okay. Thank
13 you.

14 Thank you, Mr. Chairman.

15 MAJORITY CHAIRMAN SAYLOR:
16 Representative Schweyer.

17 REPRESENTATIVE SCHWEYER: Thank you,
18 Mr. Chairman. Over here. Good to see you again.
19 I appreciate all of the incredible work that you
20 and the IFO does, and I know I speak for all of
21 our colleagues with that.

22 when you go towards the end of the
23 hearing, like I tend to do, I'm doing a little
24 bit of cleanup. So I have two topics that were
25 discussed briefly, but I just want to build upon

1 them, if I could.

2 First, I think it was the gentleman
3 from Venango County who asked a question about
4 general economic outlook toward the beginning of
5 your testimony. And I want to build upon that a
6 little bit. Looking through your report, based
7 on economic sectors that we have an employment
8 change in, it seems like manufacturing and retail
9 are dropping, if I'm not mistaken, while health
10 care and transportation and hospitality is
11 gaining in terms of job growth.

12 Is that a fair observation for a
13 generalization?

14 DIRECTOR KNITTEL: Yes and No. If I
15 can explain real quick.

16 REPRESENTATIVE SCHWEYER: Please.

17 DIRECTOR KNITTEL: So this is page six
18 of the handout. It does show a contraction of
19 the retail sector of about 7,400 jobs. And
20 that's continuing, and I think that's real. The
21 manufacturing number that's shown there, which is
22 a contraction of \$4,600, I don't think that's
23 correct. It's an official number. I do think it
24 will be revised up when they re-benchmark the
25 data next month.

1 REPRESENTATIVE SCHWEYER: Revise up as
2 in less job loss?

3 DIRECTOR KNITTEL: Correct.

4 REPRESENTATIVE SCHWEYER: Okay. My
5 ups and downs are a little off.

6 DIRECTOR KNITTEL: That is correct.
7 So I don't think that is a solid number right
8 now.

9 REPRESENTATIVE SCHWEYER: Okay. Okay.
10 But generally speaking, growth in health care,
11 growth in transportation, that's going.

12 what does that tell us about general
13 wage growth or decrease in wages for the average
14 Pennsylvania employer -- employee, excuse me?

15 DIRECTOR KNITTEL: I'd say what we're
16 seeing here in the dynamics, there's probably
17 growth at the upper end and the lower end of the
18 wage spectrum and less in the middle.

19 REPRESENTATIVE SCHWEYER: All right.

20 DIRECTOR KNITTEL: That's how I would
21 characterize it.

22 REPRESENTATIVE SCHWEYER: Should we
23 generally be comfortable with that shift as a
24 Commonwealth or should we be looking to do
25 something different from a policy perspective?

1 DIRECTOR KNITTEL: Over time, it's
2 always good to have, I would say, middle class,
3 middle income growth that's solid, at least to
4 economic growth. It is a little concerning that,
5 if we're looking at things such as manufacturing
6 or professional services, that we're seeing a
7 decline. Those are middle income jobs, as are
8 government. So yes, it is a little concerning
9 that we're not seeing more growth there.

10 REPRESENTATIVE SCHWEYER: Yes. And I
11 saw that the Federal government's employment
12 numbers are up, but that's probably census. So
13 I'm guessing that most of those are temporary --
14 most of those are temporary jobs. Not that
15 they're bad, but they're still temporary jobs.

16 Second, changing topics, going back to
17 property taxes. I believe it was the gentlelady
18 from Monroe County, we were -- she was discussing
19 property taxes. On just the homeowner -- the
20 homeowner property tax collections are up to
21 about \$9 billion. It's up by \$200 million. This
22 does not include taxes paid by the owner of
23 rental properties, correct?

24 DIRECTOR KNITTEL: That is correct.

25 REPRESENTATIVE SCHWEYER: Okay.

1 That's a -- I don't know if there's an easy way
2 for you to do that, but that's a significant
3 problem. Renters do pay property taxes, too.
4 It's just buried in their rent. And it's unfair
5 for us to continue to talk about property tax
6 burden just being on homeowners, when a lot of
7 lower income folks rent, a lot of younger people
8 are renting, the trend is moving towards more
9 rental properties, at least in places like
10 Allentown. So we need to factor in their
11 contribution to the property tax and school tax
12 equation, as well.

13 DIRECTOR KNITTEL: I would agree with
14 that. And it's frustrating as an analyst not to
15 have those data because it's not itemized.

16 REPRESENTATIVE SCHWEYER: I believe
17 that. Okay.

18 DIRECTOR KNITTEL: I do believe that
19 the rental payments are probably passed through
20 to the renter and they're effectively paying
21 them.

22 REPRESENTATIVE SCHWEYER: Any landlord
23 who isn't is not going to be a landlord for long.
24 And I want to just talk about something that is a
25 constant source of conversation up here. If we

1 were to discuss property tax elimination for
2 homeowners, we would have to find \$9 billion of
3 State funding, while still having an escalator
4 cause of about 2.5 percent because that's roughly
5 what the index is. So we'd have to find \$9
6 billion of new State taxes.

7 Just generally speaking, would that be
8 good for Pennsylvania's economy to increase State
9 taxes by \$9 billion.

10 DIRECTOR KNITTEL: Well, I'd
11 characterize it all as a tradeoff. There's only
12 two places to go to increase the personal income
13 tax and sales and use tax as a tradeoff. There
14 would be winners and losers, and they would be
15 scattered across the State.

16 REPRESENTATIVE SCHWEYER: We've never
17 looked at an analysis of what that would do in
18 terms of job market, of economic incentives for
19 businesses, et cetera, et cetera?

20 DIRECTOR KNITTEL: No, we haven't done
21 that. I'm not aware of a study that has done so.

22 REPRESENTATIVE SCHWEYER: Okay. Fair
23 enough. Appreciate it.

24 Thank you, Mr. Chairman.

25 MAJORITY CHAIRMAN SAYLOR:

1 Representative Wheeland.

2 REPRESENTATIVE WHEELAND: Thank you,
3 Mr. Chairman. And thank you, sir, for -- I'm
4 over here. Hello.

5 Do you, or have you in the past, with
6 respect to the lottery, Pennsylvania State
7 Lottery, have you compared Pennsylvania state
8 Lottery, annualized their efficiencies compared
9 to other states? Has that been done yet?

10 DIRECTOR KNITTEL: It has been done,
11 but my office undertook that report in, gosh,
12 2013. So it's been a while, but it's out on our
13 website for those who are interested.

14 REPRESENTATIVE WHEELAND: Okay. And
15 today in the Revenue hearing and the testimony,
16 it was very disconcerting because they, in their
17 testimony, chatted about Pennsylvania skill games
18 as being illegal, which that is yet to be
19 determined. The courts have ruled that they are
20 not illegal, but we do have approximately 50,000
21 video poker machines, aka slot machines that are
22 illegal in non-licensed premises throughout the
23 State.

24 So I guess my question is when you get
25 into analysis of lottery tickets and whether

1 there is or is not an impact on these games, you
2 know, is there any information that can be
3 provided by the industry to you? Specifically
4 I'm talking about research that was done by Peter
5 Zaleski from the -- villanova. And he has
6 reached the conclusion that these Pennsylvania
7 skill games actually increase lottery ticket
8 sales at outlets.

9 So there are reports out there. I
10 just wanted to make you aware of that, if the
11 industry could be helpful to you.

12 DIRECTOR KNITTEL: Sure. We're always
13 looking for new data sources and to improve our
14 estimates. So we'll definitely take a look at
15 that report.

16 REPRESENTATIVE WHEELAND: Okay. Thank
17 you.

18 MAJORITY CHAIRMAN SAYLOR:
19 Representative Krueger.

20 REPRESENTATIVE KRUEGER: Thank you,
21 Mr. Chairman. And thank you so much for joining
22 us here today.

23 I've got a question for you related to
24 a requirement that the legislature put in place
25 with Act 20 last year. Last June, I had a class

1 of fourth graders here in the Capitol from
2 Mrs. Knight's class. They were studying civics
3 and how a bill becomes a law. And they were here
4 to advocate for regulations against the use of
5 single-use plastic. In particular, these fourth
6 graders were advocating that plastic straws only
7 be made available upon request in restaurants.

8 Their resolution got sent to
9 Committee. It got stuck there. They came to the
10 Capitol to advocate. And instead of moving that
11 resolution or any of the bills on that subject,
12 the legislature passed a law requiring the IFO to
13 enact a study on the economic and environmental
14 impact of a single-use plastics ban. So instead
15 of taking action, we wanted to study the issue
16 for a year.

17 Can you tell us about any progress
18 that the IFO has made on that study?

19 DIRECTOR KNITTEL: Yes, I can. And I
20 can report that we've made good progress. We're
21 really taking care of the economic side of the
22 equation, and the Legislative Budget and Finance
23 Committee is taking care of the environmental
24 impact. But we've already met a number of
25 stakeholders. We are meeting with industry

1 representatives. We're sending out a survey
2 through Penn State to see what the demand is for
3 bags. We're working with the retail industry to
4 see the cost per bag, and do they pass these
5 costs forward, and what would happen if the bags
6 were banned.

7 So we think we'll have a very solid
8 and informative report as of June.

9 REPRESENTATIVE KRUEGER: And is your
10 research only on single-use bags, or does it
11 include straws and other single-use plastic
12 products, as well?

13 DIRECTOR KNITTEL: So we're going to
14 focus on single-use bags because other
15 municipalities, other State, have enacted bans or
16 fees. And then we're going to extrapolate from
17 that and increase it to Styrofoam and plastic
18 straws, things such as that.

19 REPRESENTATIVE KRUEGER: And at the
20 end of the day, how will you weigh environmental
21 impact versus economic impact?

22 DIRECTOR KNITTEL: So that will be a
23 very difficult question. From our standpoint, we
24 probably will not try to put a value on the
25 pollution or the reduced pollution. I would

1 defer to LBFC for that estimate.

2 REPRESENTATIVE KRUEGER: Will their
3 recommendations be included in your report?

4 DIRECTOR KNITTEL: The reports will be
5 issued together as really a single report at the
6 end of June.

7 REPRESENTATIVE KRUEGER: Okay. I
8 would encourage you to do whatever you could to
9 also quantify the environmental impact of our
10 decisions. We know, you know, we were talking
11 about unkept wells, and we know that pollution
12 has a real fiscal cost. It also has a public
13 health cost. The fourth graders that I'm working
14 with are onto a new class. They're now looking
15 at the use of single-use plastic bans, and
16 they're calling on the legislature to take
17 action. I hope you'll give us the information
18 that allows us to move forward on this issue.

19 MAJORITY CHAIRMAN SAYLOR:
20 Representative Struzzi.

21 REPRESENTATIVE STRUZZI: Thank you,
22 Mr. Chairman. Good afternoon.

23 In October of last year, the Governor
24 proposed that Pennsylvania, by Executive Order,
25 enter into the Regional Greenhouse Gas

1 Initiative. And then in his budget in February,
2 that again contains no new taxes, he mentioned
3 that RGGI could possibly generate up to \$177
4 million. Which RGGI, as it's commonly known, is
5 a carbon tax, cap and trade system, a carbon tax
6 basically, but my concern, and I find it
7 extremely concerning, is that in your assessment
8 list here of reports and analyses, there's
9 nothing related to RGGI.

10 So my questions are, you know, first
11 of all, how does the Governor arrive at the
12 possibility of \$177 million in new revenue from
13 this carbon tax? And secondly, it's extremely
14 alarming that we aren't looking at the economic
15 impacts of something that could have such
16 far-reaching consequences.

17 So has your office done any
18 consideration of the impacts of RGGI on the
19 State's economy?

20 DIRECTOR KNITTEL: No, we have not.
21 As you noted in our list of reports, we haven't
22 undertaken one in the past. And for the budget
23 proposal this year, we won't undertake it, as
24 well, because it wasn't part of the official
25 proposals in the executive budget. We'll be

1 examining combined reporting and minimum wage,
2 but not the carbon tax.

3 REPRESENTATIVE STRUZZI: Is that
4 something that you're concerned with? I'm sure
5 that you're aware of the RGGI orders.

6 DIRECTOR KNITTEL: Oh, yeah, it's an
7 important issue. And for my office, I think the
8 -- it would be a heavy lift. If we were to
9 undertake that analysis, we'd probably have to
10 end up contracting it out. We just don't have
11 the expertise to undertake that.

12 REPRESENTATIVE STRUZZI: Okay.

13 DIRECTOR KNITTEL: But as far as the
14 Governor and how they perform the analysis, I --
15 I'm not sure.

16 REPRESENTATIVE STRUZZI: Okay. Well,
17 thank you. I would hope as a Commonwealth we
18 would consider those economic impacts before ever
19 considering something so vast and far-reaching,
20 but thank you for your testimony.

21 MAJORITY CHAIRMAN SAYLOR:
22 Representative Grove.

23 REPRESENTATIVE GROVE: Good morning.
24 Earlier, the Department of Revenue said they
25 didn't know the cost of the union employee

1 contracts for the life of the contract for their
2 Department.

3 Do you have that breakdown by
4 department when you do that analysis?

5 DIRECTOR KNITTEL: We would have that
6 breakout in the analysis that we published,
7 though we don't provide that. So I don't have
8 that data right before me.

9 REPRESENTATIVE GROVE: Okay. would
10 you send that to me and the Committee?

11 DIRECTOR KNITTEL: That would be fine.

12 REPRESENTATIVE GROVE: Okay.

13 Appreciate that.

14 I noticed this year you didn't have
15 any analysis of expenditures. Why was that?

16 DIRECTOR KNITTEL: We usually don't
17 have an analysis, per se. And we did have in
18 your -- in one of the pages of your packet where
19 we reconciled what we thought was a deficit in
20 our five year for '20-21, and we kind of did a
21 crosswalk, if you will.

22 REPRESENTATIVE GROVE: Okay. I'll
23 look for that. When you analyze expenditure
24 trends for the discretionary expenditures, is it
25 by historical increases or performance measures.

1 DIRECTOR KNITTEL: Typically, I'd
2 characterize that by historical increases, but
3 let me just check with Brenda here to confirm
4 that's accurate.

5 DEPUTY DIRECTO WARBURTON: Yeah.
6 We're looking -- we are looking at population
7 served as well as inflationary impacts and salary
8 increases if the program would -- the specific
9 program area where we have salary cuts.

10 REPRESENTATIVE GROVE: Got you. So
11 for education spending, basic ed, basically
12 you'll look at a historical trend of -- as to how
13 much we've put in every single year and try to
14 analyze that?

15 DEPUTY DIRECTOR WARBURTON: No. I
16 would say we're looking at the number of school
17 children, the population of the school children.
18 We're looking at --

19 REPRESENTATIVE GROVE: No, no, no.
20 I'm not talking about a performance based budget.
21 I'm talking about when you do an analysis of
22 expenditures for, like, if you wanted to project
23 out what our budget will be next year and the
24 following year, you're basing that off of
25 discretionary funds, so basic ed funding, for

1 example. That's -- basically, you're looking at
2 the historical trend, what we actually put into
3 it.

4 DEPUTY DIRECTOR WARBURTON: Well --

5 REPRESENTATIVE GROVE: Or are you
6 actually looking at performance measures to set
7 that?

8 DEPUTY DIRECTOR WARBURTON: So we are
9 incorporating our base year expenditures as in
10 '19-20. So we are looking at the base year
11 expenditures and then projecting what is the
12 spending needed to provide that level of service
13 going forward? And to do that, we look at the
14 population and the salaries and the inflationary
15 aspects.

16 REPRESENTATIVE GROVE: Okay. And then
17 for mandatory expenditures, such as MA
18 capitation. You're looking at health care costs,
19 population, more demographic data, correct?

20 DEPUTY DIRECTOR WARBURTON: Yes.

21 REPRESENTATIVE GROVE: Okay. At what
22 point could we actually start likening
23 performance measures to the actual allocations
24 within the budget?

25 DEPUTY DIRECTOR WARBURTON: So we did

1 do a review of six agencies this year as part of
2 our performance based budgeting review. And in
3 that process, we did work with the agencies to
4 identify their primary activities, and then we
5 broke down their funding by activity across all
6 funding sources and worked with them to develop
7 performance metrics associated with each
8 activity.

9 REPRESENTATIVE GROVE: Okay. But
10 that's the metric side. At what point do we
11 start taking those metrics and actually applying
12 them to how we allocate resources?

13 when do we have -- at what part of
14 this process do we start having those discussions
15 within a performance based budget, actually have
16 a budget based on performance?

17 DEPUTY DIRECTOR WARBURTON: So right
18 now, we are looking at -- we have six years that
19 ends in the current year, so we are not
20 projecting the data out for the 2020. We don't
21 have that information available to us, just
22 because of the schedule. The Governor's budget
23 comes out after our reports.

24 REPRESENTATIVE GROVE: Sure. I think
25 from earlier conversation, you're basically going

1 through a five-year trend, you're doing an
2 agency. So for year one, by the time you get
3 back to that, you're re-doing that based on five
4 years of work versus actually having what a lot
5 of states do, is actually having performance
6 based metrics updated every year and they use
7 those to set allocations within their budget,
8 correct?

9 DEPUTY DIRECTOR WARBURTON: Correct.
10 And there are also performance metrics included
11 in the Governor's executive budget. They do it
12 differently. They do it by a large program area.

13 REPRESENTATIVE GROVE: Yeah. Yeah,
14 I'm not sure how much time they actually put into
15 those metrics. They seem very similar year after
16 year, but we appreciate the work you're doing.

17 Thank you.

18 MAJORITY CHAIRMAN SAYLOR: Our last
19 person is Representative Heffley.

20 REPRESENTATIVE HEFFLEY: Thank you,
21 Mr. Chairman. Saving the best for last. That
22 wasn't that funny.

23 Just back real quick to the -- I know
24 Rosemary had asked some questions regarding
25 property taxes earlier and there were a couple of

1 comments. In the -- just as a part of reference,
2 when we talk about homestead versus non-homestead
3 taxes, we did pass an amendment here to the
4 Constitution to allow for up to 100-percent
5 homestead exclusion. And therefore, that would
6 be a tax shift, right. So it's not an
7 elimination; it's a tax shift.

8 And for renters, if a business owner
9 rents properties, it's a business and the
10 business pays those property taxes. I'm sure
11 it's a pass-through, just like the sales tax or
12 any other tax, right. If Walmart collects six
13 percent on sales, they pass it through. If a
14 property owner collects so much in property
15 taxes, they pass it through. So any tax we do is
16 ultimately going to come back to the individual
17 resident paying the taxes.

18 With that said, it's estimated it
19 would be about \$8.8 million to eliminate for
20 homesteads. And why I think it's important that
21 we look at homesteads is because businesses are
22 profitable, right. So there's -- property taxes
23 for homesteads isn't an equitable tax, right.
24 You don't make any money on your property. The
25 covenants and zonings in most places don't allow

1 you to have a business in your property. So if
2 you own one acres, two acres, or five acres, you
3 don't generate any revenue off of that property,
4 other than it's the value of the property only
5 when you sell it, right. So that's why there's
6 just an inequitable and unjust tax, especially
7 for homesteads and property taxes.

8 With that \$8.8 billion, the only tax
9 that I've ever seen that we've eliminated since
10 I've been here is the capital stock and franchise
11 tax, which is a tax on capital items, just the
12 same as property taxes, they're taxes on capital
13 that is the property. And that was a phase-out.
14 And I know that people are always getting reports
15 as to how much that was going to cost and how
16 much we could reduce that amount by.

17 And that was generally done through
18 the IFO, those estimates when we phased out the
19 capital stock and franchise tax; is that correct?

20 DIRECTOR KNITTEL: We built them into
21 our estimates, but I think it was probably more
22 the Budget Office or Department of Revenue.

23 REPRESENTATIVE HEFFLEY: So in doing
24 the tax shift, which would be any proposal to
25 eliminate homestead would be if we went to a

1 sales tax, sales tax expansion, or EIT tax. That
2 would be a tax shift, right. And then, the IFO
3 could -- would do studies on how that shift would
4 impact. I mean, granted, an \$8.8 billion shift
5 in one year, that would be a tremendous shift.
6 If it was gradually implemented over a period of
7 time, similar to what -- how the capital stock
8 and franchise tax was eliminated -- would that be
9 something that the IFO could do studies on how
10 that would impact our economy.

11 DIRECTOR KNITTEL: Yeah. Sure. If it
12 was enacted, we actually would be mandated to do
13 it. So we would have to publish that and build
14 it into our estimates.

15 REPRESENTATIVE HEFFLEY: So I just
16 want to commend the IFO. A lot of the numbers
17 that we get come from the report that you return
18 and they're generally fairly -- very accurate,
19 obviously, and we budget off of that. So I want
20 to commend the work that you do. And continue to
21 pull those numbers as many of us here in
22 Harrisburg continue to work and push for some
23 kind of more equitable way to fund our school
24 districts then to burden some inequitable
25 property tax. We'll continue to rely on the

1 numbers that you put forth.

2 So thank you very much.

3 MAJORITY CHAIRMAN SAYLOR: That ends
4 our questioners. Matt and Brenda, I want to
5 thank you for coming in today. Appreciate it.
6 God bless.

7 We will reconvene at 2:45 for the
8 Department of Aging.

9 (Whereupon, the hearing concluded.)

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C E R T I F I C A T E

I hereby certify that the proceedings are contained fully and accurately in the notes taken by me on the within proceedings and that this is a correct transcript of the same.

Tracy L. Markle

Tracy L. Markle, Court Reporter