

**House State Government Committee**  
**Informational Hearing: Independent Fiscal Office**  
August 30, 2017

*Opening Remarks by Director Matthew Knittel*

Good morning Mr. Chairman and Members of the Committee. I appreciate the opportunity to discuss the operations, duties and recent publications of the Independent Fiscal Office (IFO) at this informational hearing.

The IFO was created by Act 120 of 2010 to provide revenue projections and other budget and economic analysis to the General Assembly and the public. The office currently has 10 staff, including myself. I was originally appointed in September 2011, and recently received reappointment for another six-year term.

As required by statute, the office provides General Fund revenue projections four times during the fiscal year. Our most recent forecast was released June 15, which projected \$32.5 billion of General Fund revenues. Shortly thereafter, the IFO released monthly projections for the current fiscal year. Through July and August, the revenue forecast is holding up well, and it appears that we will pick up roughly \$30 million of revenue relative to our recent forecast. (See attachment.) Most of the strength is in inheritance and non-tax revenues. We have some concerns regarding the recent weakness in sales tax, and we will monitor that tax source as we prepare to release our five-year budget projections in November.

Related to revenues, the state economy is performing as expected. Through July, the labor market produced 62,800 net jobs (preliminary, average gain) relative to the same time period last year. That is a solid figure compared to recent years. Wages grew by 3.6 percent, while inflation remains low, running at 1.4 percent for the first half of the calendar year.

Each year, we typically receive a number of requests from members of the General Assembly for economic or budgetary analysis. Whenever possible, we work with members to craft a response that will be informative and useful. If reliable data are available for the purpose of the proposed analysis, we have nearly always undertaken requests when time and resources permit. Per the office policy, we make all published reports available on our website after the requestor has had three days to review the response and ask questions.

The office also (1) estimates the budgetary impact of collective bargaining agreements, (2) coordinates and provides actuarial analysis for proposed changes to the pension systems and (3) analyzes any tax proposals included in the Executive Budget. Currently, there are several bills that would further expand the duties of the office to include: the publication of performance-based budget reports, analysis of proposed regulations that are “economically significant,” and cost-benefit analyses using the Results First model maintained by the Pew Charitable Trusts. Twenty-one states have used that model to assist in the allocation of state funds to their most productive use.

Thank you. I would be happy to answer any questions that you may have.

# Independent Fiscal Office

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## **Background**

The office was created by Act 120 of 2010 and is finishing its sixth year of operation. The office currently employs 10 staff: 3 managers, 1 administrative assistant and 6 analysts. The budget for FY 2017-18 contains an appropriation of \$2.226 million for the office. That amount includes \$200,000 for work related to contracted actuarial analysis.

## **Role in the Budget Process**

The statute creating the IFO outlines several points at which the office is required to provide budget-related information to policymakers. They are as follows:

- November 15** Prepare an assessment of the state's fiscal condition for the current fiscal year and subsequent five fiscal years by taking account of the state economy, demographics, revenues and expenditures.
- January 31** Convene a revenue conference with the chairs of the Appropriations Committees, the Secretary of the Budget and the Secretary of Revenue to discuss economic trends and revenue performance.
- May 1** Provide an initial revenue estimate for the upcoming fiscal year.
- June 15** Provide a final revenue estimate for the upcoming fiscal year.

## **Other Office Responsibilities**

In addition to the issuance of revenue estimates, the office also has other statutory duties and undertakes various requests. These include:

- coordinate and facilitate actuarial analysis of proposed changes to the SERS and PSERS pension systems;
- provide a cost analysis of approved collective bargaining agreements;
- provide an economic analysis of revenue proposals included in the Executive Budget; and
- at the request of members of the General Assembly, provide various economic, revenue or fiscal analyses.

## **IFO Reports and Analyses**

### **Regular Monthly or Quarterly Reports**

- *Monthly Trends Report.* Provides a summary of recent economic trends for the U.S. and Pennsylvania. Displays monthly and fiscal year-to-date revenues and compares them to the same period for the prior year.
- *Impact Fee Update.* Provides detail regarding impact fee revenues including the number of wells subject to the fee and their vintage.
- *Quarterly Natural Gas Production Report.* Provides unconventional production volumes and well counts on a quarterly basis. Top producing counties also listed.

- *Quarterly Revenue Review*. Published after each quarter to compare the IFO's revenue estimates to actual revenues.

**Published Reports and Analyses** *(since June 2016)*

- FY 2016-17 Official Revenue Estimate (June 2016)
- Impact Fee Update and 2016 Outlook (July 2016)
- Revenue Estimate Performance (August 2016)
- Quarterly Revenue Estimate (August 2016)
- Natural Gas Production Report Quarter 2 (August 2016)
- Using Performance Measures in the State Budget (September 2016)
- AFSCME Wage Contract Analysis (September 2016)
- SEIU Wage Contract Analysis (September 2016)
- Actuarial Note Transmittal for A10803 to Senate Bill 1071 (October 2016)
- Quarterly Revenue Review (October 2016)
- Five-Year Economic and Budget Outlook (November 2016)
- Natural Gas Production Report Quarter 3 (November 2016)
- Impact Fee Estimate (January 2017)
- School District Property Tax Forecast (January 2017)
- Analysis of Recent Collective Bargaining Agreements (January 2017)
- Quarterly Revenue Review (January 2017)
- Mid-Year Update FY 2016-17 (January 2017)
- PFBC Wage Contract Analysis (February 2017)
- Pennsylvania Gaming Trends (February 2017)
- Department of Corrections Performance Measures (February 2017)
- Natural Gas Production Report Quarter 4 (March 2017)
- ISSU and PSSU Wage Contracts Analysis (March 2017)
- Horse Racing Analysis (March 2017)
- Philadelphia Cigarette and Beverage Tax Impact (March 2017)
- Analysis of Revenue Proposals in the 2017-18 Executive Budget (April 2017)
- Property Tax Elimination Projection (April 2017)
- Initial Revenue Estimate FY 2017-18 (May 2017)
- Quarterly Revenue Review (May 2017)
- Natural Gas Production Report Quarter 1 (May 2017)
- State and Local Taxes: A Comparison Across States (May 2017)
- Actuarial Note Transmittal for Senate Bill 1: A01354 and A01558 (June 2017)
- Official Revenue Estimate FY 2017-18 (June 2017)
- Savings-Costs of a \$12/hour Minimum Wage on DHS-Administered Programs (June 2017)
- Impact Fee Update and 2017 Outlook (July 2017)
- PLEA Wage Contract Analysis (July 2017)
- Like-Kind Exchange Analysis (July 2017)
- Quarterly Revenue Review (August 2017)
- Monthly and Quarterly Revenue Estimates (August 2017)

All reports published by the office are available on its website at [www.ifo.state.pa.us](http://www.ifo.state.pa.us).

## Revenue Update

	Fiscal Years (millions)			Growth Rates			FYTD: July-August Only (millions)			
	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2017-18</u>	<u>Growth</u>	<u>IFO Est.</u>	<u>\$ Diff</u>
Corporate Net Income	\$2,842	\$2,751	\$2,855	1.1%	-3.2%	3.8%	\$96	17.3%	\$92	\$3
Sales and Use	\$9,795	\$10,005	\$10,236	3.2%	2.1%	2.3%	\$1,760	4.5%	\$1,781	-\$22
Personal Income	\$12,506	\$12,664	\$13,322	3.3%	1.3%	5.2%	\$1,721	4.1%	\$1,710	\$11
Cigarettes	\$912	\$1,262	\$1,240	-1.7%	38.4%	-1.7%	\$190	15.9%	\$198	-\$8
All Other Taxes	\$4,203	\$4,070	\$4,119	1.2%	-3.2%	1.2%	\$382	10.0%	\$359	\$23
Non-Tax Revenue	<u>\$644</u>	<u>\$917</u>	<u>\$718</u>	<u>-41.5%</u>	<u>42.4%</u>	<u>-21.7%</u>	<u>\$62</u>	<u>7.2%</u>	<u>\$36</u>	<u>\$26</u>
<b>TOTAL GENERAL FUND</b>	<b>\$30,902</b>	<b>\$31,669</b>	<b>\$32,491</b>	<b>1.0%</b>	<b>2.5%</b>	<b>2.6%</b>	<b>\$4,210</b>	<b>5.6%</b>	<b>\$4,177</b>	<b>\$33</b>

Note: Figures for FY 2017-18 are IFO estimates from June 15, 2017. Data for August 2017 are preliminary.

## Economic Update

<u>Sector</u>	Annual Job Gains (000s)			<u>PA Economic Variables</u>	Annual Growth Rates		
	<u>2015</u>	<u>2016</u>	<u>2017</u>		<u>2015</u>	<u>2016</u>	<u>2017</u>
Mining	-3.8	-9.0	-2.1	Real Gross Domestic Product	2.6%	1.1%	3.0%
Construction	6.5	3.7	5.6	Wages and Salaries	4.0%	2.5%	3.6%
Manufacturing	0.0	-9.3	-7.7	Philadelphia CPI-U	-0.1%	0.6%	1.4%
Wholesale-Retail	1.0	-2.7	-5.3				
Transport-Storage	11.2	9.0	8.3				
Professional Services	18.0	14.4	14.7				
Health-Social Services	11.2	23.7	27.7				
Leisure-Hospitality	7.5	13.1	15.0				
All Government	-6.5	0.0	-2.0				
All Other	<u>1.5</u>	<u>9.4</u>	<u>8.6</u>				
<b>Total PA Net Job Gains</b>	<b>46.7</b>	<b>52.2</b>	<b>62.8</b>				

Note: Jobs data for 2017 through July (average gain). Wage growth rate and CPI-U for first half of 2017. Real GDP is year-over-year rate for first quarter.