



Budget Hearing Materials

Senate Appropriations Committee

February 22, 2022



INDEPENDENT FISCAL OFFICE

February 22, 2022

Dear Chairmen and Members of the Senate Appropriations Committee:

Thank you for the opportunity to submit materials in advance of the budget hearing for the Independent Fiscal Office (IFO). The *2022-2023 Governor's Executive Budget* proposes an appropriation of \$2.34 million for the office, the same amount appropriated for the current year.

In addition to questions about the IFO's budget, past hearings have included discussions regarding Pennsylvania's economic outlook, labor market, revenue collections, demographics, long-term fiscal outlook and natural gas trends. This submission includes data, tables and graphs that have been requested in prior budget hearings. We trust they will be helpful as you consider the FY 2022-23 budget proposal.

Functions of the IFO include the preparation of monthly reports on the state economy and revenue collections, periodic revenue estimates, publication of performance-based budgeting and tax credit evaluation reports, coordinating analyses and issuing actuarial notes for legislation that proposes changes to public employee pension or retirement plans, cost analyses of approved collective bargaining agreements, dynamic modeling, and special reports and research briefs on various budget and economic topics.

Questions regarding this packet can be submitted to contact@ifo.state.pa.us.

Sincerely,

A handwritten signature in blue ink that reads "Matthew J. Knittel".

Dr. Matthew J. Knittel
Director, Independent Fiscal Office

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Independent Fiscal Office – Overview

The office was created by Act 120 of 2010 and enters its tenth year of operation. The office currently employs 12 staff: 1 director, 2 managers, 1 office manager and 8 analysts. The IFO director is appointed by the leadership of the General Assembly and is in the fourth year of a six-year appointment. The FY 2022-23 Executive Budget proposes an appropriation of \$2.34 million for the office. That amount includes \$200,000 of dedicated funding for work related to contracted actuarial analysis.

Mission Statement

The Independent Fiscal Office (IFO) provides revenue projections for use in the state budget process along with impartial and timely analysis of fiscal, economic and budgetary issues to assist Commonwealth residents and the General Assembly in their evaluation of policy decisions. In that capacity, the IFO does not support or oppose any policy it analyzes, and will disclose the methodologies, data sources and assumptions used in published reports and estimates.

Role in the Budget Process

The statute that created 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 20** Provide an initial revenue estimate for the upcoming fiscal year.
- June 20** Provide a final revenue estimate for the upcoming fiscal year.

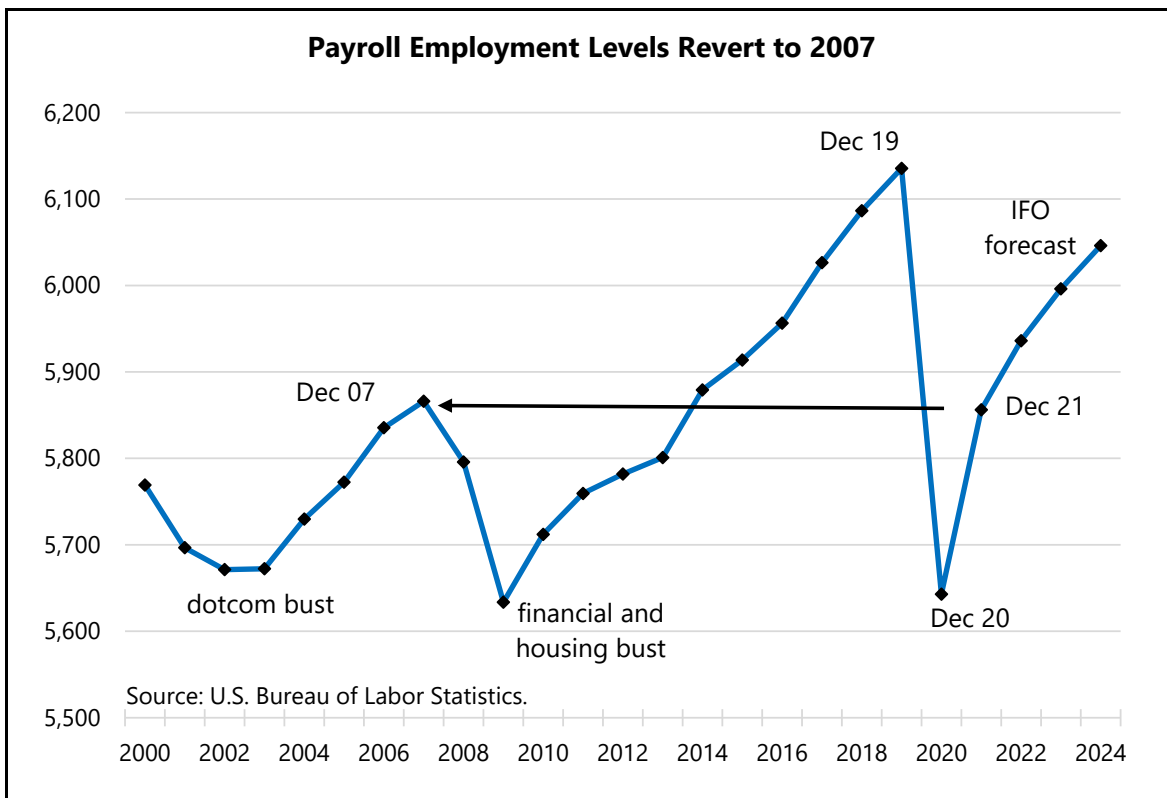
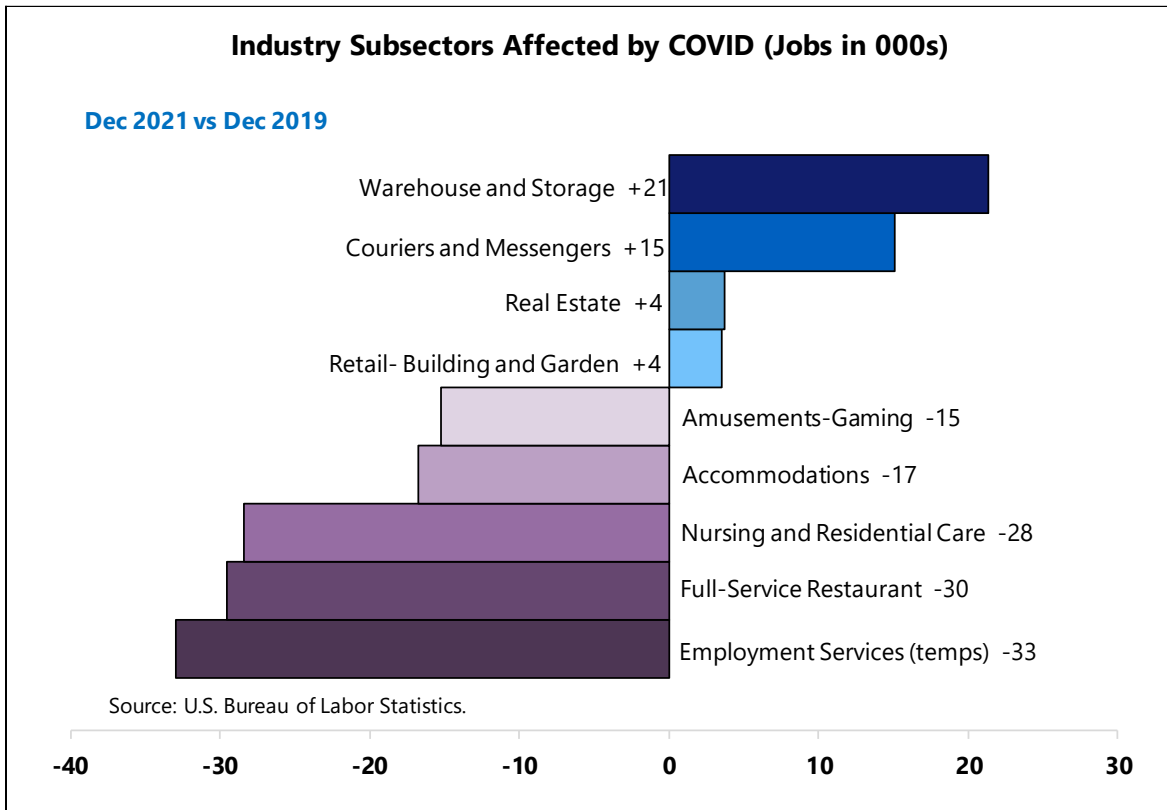
Other Responsibilities

Office resources are also used for the following purposes: (1) coordinate and facilitate actuarial analysis of proposed changes to the pension systems, (2) provide a cost analysis of approved collective bargaining agreements, (3) provide an economic analysis of any revenue proposals included in the Executive Budget, (4) publish performance-based budgeting reports for executive agencies, (5) publish tax credit review reports, (6) dynamic modeling and (7) at the request of members of the General Assembly, provide economic, revenue or fiscal analysis to the extent that staff resources are available for that purpose.

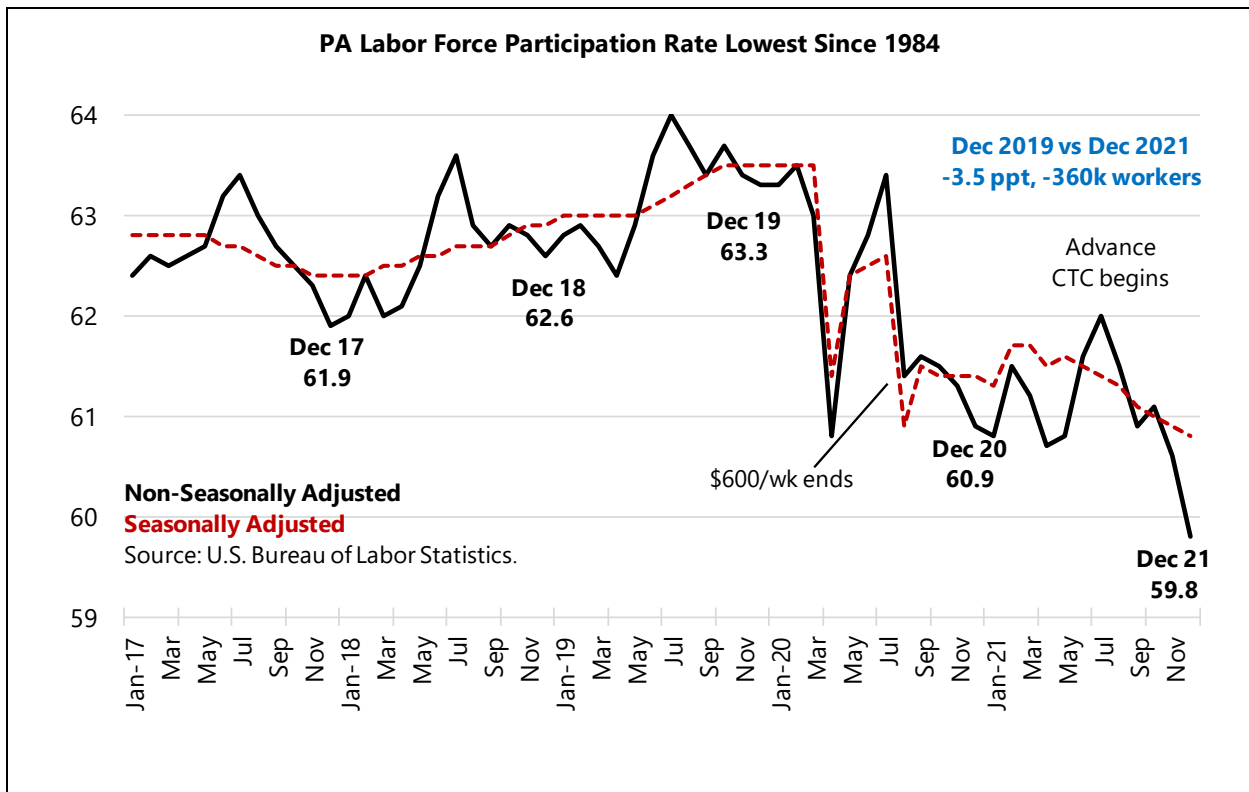
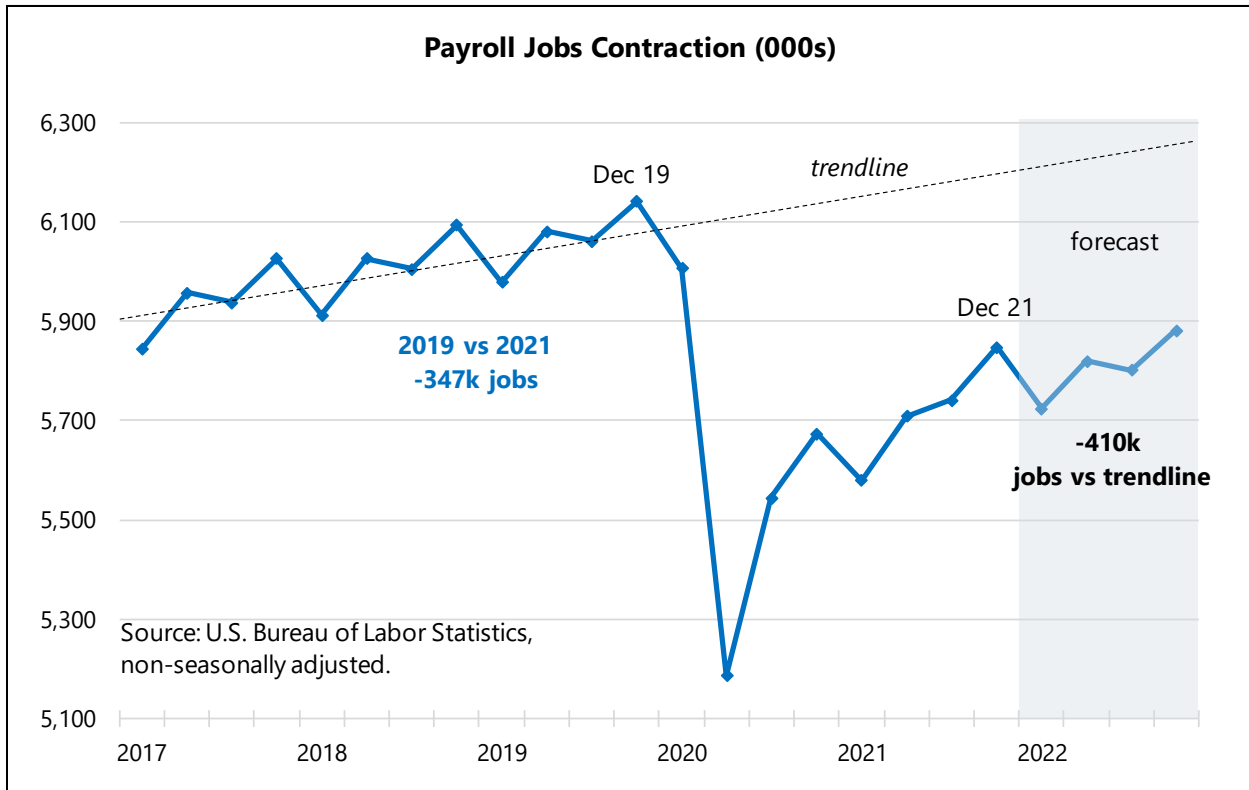
Independent Fiscal Office – Expenditures

Independent Fiscal Office Expenditures			
	Actual 20-21	Projected 21-22	Proposed 22-23
<u>Personnel</u>			
Salaries	\$1,156,224	\$1,202,000	\$1,267,600
Benefits	585,608	638,500	665,000
Retirement	337,364	361,000	379,500
Employer Taxes	<u>99,443</u>	<u>104,000</u>	<u>107,500</u>
Subtotal	2,178,639	2,305,500	2,419,600
<u>Operating</u>			
Office Operations and Supplies	\$11,466	\$15,000	\$17,000
Computers, Networks and Software	7,050	45,300	25,000
Data Acquisition and Analysis	11,276	12,000	13,000
REMI Model	--	156,000	34,000
Publications and Research Materials	64,129	56,400	52,400
Parking	33,215	34,200	35,200
Other	<u>59</u>	<u>12,700</u>	<u>15,000</u>
Subtotal	127,195	331,600	191,600
Contracted Actuarial Analysis	<u>0</u>	<u>100,000</u>	<u>100,000</u>
Total Expenditures	\$2,305,834	\$2,737,100	\$2,711,200
Appropriated / Proposed	2,343,000	2,343,000	2,343,000
Available	37,166	-394,100	-368,200

Economics – COVID Impact on PA Jobs



Economics – Jobs and Labor Force Participation



Economics – Inflation and Recent Trends

Inflation and Average Hourly Earnings						
	Share	Year-Over-Year Growth				
		Dec 19	Jun 20	Dec 20	Jun 21	Dec 21
Philadelphia CPI-U	100%	2.4%	0.1%	1.1%	4.9%	6.6%
Energy	6%	2.1%	-13.7%	-3.3%	19.8%	25.1%
Durable Goods	10%	0.9%	-2.8%	7.0%	23.3%	19.0%
Shelter	33%	2.6%	2.1%	1.4%	1.1%	4.3%
Food-Beverage	15%	1.7%	5.0%	4.2%	0.9%	4.0%
All Other	36%	3.0%	-0.6%	-1.3%	2.3%	3.3%

Average Hourly Earnings	Year-Over-Year Growth					
	2020.3	2020.4	2021.1	2021.2	2021.3	2021.4
All Private Workers Nominal	4.3%	4.0%	3.8%	2.0%	4.5%	5.4%
Leisure and Hospitality	2.4%	-1.2%	-0.9%	0.4%	7.8%	14.9%
Trade and Transportation	2.3%	3.7%	2.5%	2.1%	3.9%	2.4%
Education and Healthcare	-0.3%	1.7%	3.5%	4.4%	6.2%	5.8%
Manufacturing	5.9%	4.4%	4.4%	3.3%	3.6%	6.0%
Philadelphia CPI-U	0.4%	0.9%	1.4%	4.2%	4.8%	6.1%
All Private Workers Real	3.9%	3.1%	2.4%	-2.1%	-0.4%	-0.7%

Notes: Real Average Hourly Earnings deflated by Philadelphia CPI-U.
Source: U.S. Bureau of Labor Statistics.

Pennsylvania Economics							
	Year-over-Year Growth						
	2020.2	2020.3	2020.4	2021.1	2021.2	2021.3	2021.4
1 Real GDP (see note)	-32.4%	34.8%	5.2%	3.0%	5.9%	2.2%	Mar 31
2 Personal Income	13.0%	8.8%	4.5%	16.3%	-1.5%	2.6%	Mar 23
3 Wages and Salaries	-4.5%	-0.7%	1.8%	2.2%	11.9%	9.9%	9.5%
4 Payroll Jobs (vs 2019)	-896	-517	-468	-399	-373	-321	-294
5 Labor Force (vs 2019)	-96	-160	-231	-167	-200	-231	-311
6 Unemployment Rate	14.3	10.1	7.1	7.3	7.0	6.4	5.7
7 Auto Loan Debt	-1.7%	1.9%	2.6%	2.5%	12.7%	9.9%	8.9%
8 Credit Card Debt	-8.2%	-8.9%	-11.6%	-14.3%	-6.2%	-2.8%	3.1%
9 Home Mortgage Debt	2.1%	0.2%	2.4%	4.5%	4.2%	6.3%	6.4%
10 U.S. Corporate Profits	-20.5%	11.7%	5.3%	29.2%	70.4%	24.7%	Feb 24
11 S&P 500 Index	0.3%	11.9%	12.7%	26.9%	42.8%	32.4%	30.1%
12 PA Home Price Index	4.6%	8.4%	11.2%	12.4%	16.6%	14.7%	Feb 22

Notes: All growth rates or change are YOY except real GDP, which is annualized. Payroll jobs exclude self-employed. Payroll jobs and Labor Force use non-seasonally adjusted data and compare to same quarter in 2019.
Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, FHFA, NYFRB.

Economics – Pandemic Relief Programs

Federal and State Pandemic Relief Programs				
	CY 2020	CY 2021	CY 2022	Total
Payments to Individuals and Businesses				
State Unemployment Compensation	\$5.2	\$0.8	\$0.0	\$6.0
Fed. Pandemic Unemployment Comp (FPUC)	16.2	8.8	0.0	25.0
Pandemic Unemployment Assistance (PUA)	7.0	4.1	0.0	11.2
LWA and UC Extensions	3.1	3.2	0.0	6.3
SNAP Benefits	0.9	1.8	1.0	3.7
Economic Impact Payments	11.0	21.0	0.2	32.2
New Child Tax Credit Awards	--	3.4	0.1	3.5
Rental and Homeowner Assistance	--	1.8	0.0	1.8
Paycheck Protection Program (PPP)	<u>20.7</u>	<u>10.0</u>	<u>0.0</u>	<u>30.7</u>
Total	64.2	54.9	1.3	120.4
Other Federal Programs				
Direct State Support	5.9	20.2	0.1	26.1
Direct Local Support	2.6	8.1	0.0	10.7
Other Support	<u>6.8</u>	<u>3.0</u>	<u>0.0</u>	<u>9.8</u>
Total	15.2	31.3	0.1	46.5
Note: Figures in dollar billions.				

Demographics – Snapshot

Pennsylvania Demographic Snapshot							
Age Cohort	Number of Residents (000s)				Avg. Annual Growth		
	2010	2020	2025	2030	2010-20	2020-25	2025-30
0-4	729	701	668	673	-0.4%	-1.0%	0.2%
5-9	752	738	711	677	-0.2	-0.8	-1.0
10-14	790	759	752	724	-0.4	-0.2	-0.8
15-19	901	807	813	805	-1.1	0.1	-0.2
20-24	875	803	820	825	-0.9	0.4	0.1
25-29	783	857	795	811	0.9	-1.5	0.4
30-34	732	877	864	802	1.8	-0.3	-1.5
35-39	756	811	880	868	0.7	1.7	-0.3
40-44	848	748	813	883	-1.2	1.7	1.7
45-49	951	758	743	808	-2.2	-0.4	1.7
50-54	985	830	738	724	-1.7	-2.3	-0.4
55-59	885	908	798	710	0.3	-2.6	-2.3
60-64	752	913	863	758	2.0	-1.1	-2.5
65-69	555	788	853	806	3.6	1.6	-1.1
70-74	428	638	715	774	4.1	2.3	1.6
75-79	360	436	554	620	1.9	4.9	2.3
80-84	311	294	343	438	-0.6	3.1	5.0
85-89	202	196	198	234	-0.3	0.2	3.4
90-94	82	100	103	101	2.0	0.5	-0.5
95-99	21	32	39	40	4.4	3.8	0.6
100+	<u>3</u>	<u>5</u>	<u>9</u>	<u>10</u>	<u>5.7</u>	<u>9.9</u>	<u>3.2</u>
Total	12,701	13,003	13,070	13,090	0.2	0.1	0.0
Age Cohort Summary							
0-19	3,173	3,005	2,943	2,879	-0.5%	-0.4%	-0.4%
20-64	7,566	7,506	7,314	7,188	-0.1	-0.5	-0.3
65-79	1,343	1,862	2,122	2,200	3.3	2.7	0.7
80+	<u>620</u>	<u>629</u>	<u>691</u>	<u>823</u>	<u>0.1</u>	<u>1.9</u>	<u>3.5</u>
Total	12,701	13,003	13,070	13,090	0.2	0.1	0.0

Note: Thousands of residents. Detail may not sum to total due to rounding. Table data are from the IFO's Pennsylvania Demographic Outlook, released in November 2021.

Sources: The 2010 and 2020 data are from the U.S. Census Bureau 2020 Population Estimates with estimations by the IFO for the distribution of the age groups above 85 years old. The 2020 data also contain a proportional adjustment so that the sum of the age groups equal the U.S. Census Bureau's Decennial Census. 2025 and 2030 are projections by the IFO using data from the U.S. Census Bureau and U.S. Centers for Disease Control and Prevention.

Demographics – Decedent Trends and Excess Deaths

Pennsylvania Decedent Trends and Excess Death Estimate					
	2017	2018	2019	2020	2021
Total Deaths	135,656	134,702	133,983	155,546	154,960
Overdoses	5,178	4,262	4,251	5,089	5,300
Homicides	790	785	721	1,041	1,140
Suicides	2,023	2,017	1,887	1,720	1,730
Vehicle Accidents	1,343	1,348	1,195	1,247	1,330
Non-Vehicle Accidents	<u>8,121</u>	<u>7,207</u>	<u>7,369</u>	<u>8,173</u>	<u>8,080</u>
Residual Deaths	118,201	119,083	118,560	138,276	137,380
Trend Residual Deaths				<u>118,500</u>	<u>118,500</u>
Excess Deaths				19,776	18,880

Source: Total deaths from U.S. Centers for Disease Control and Prevention. Vehicle Accidents for 2020 and 2021 are based on data from the National Safety Council. All other categories from the Pennsylvania Department of Health. Calculations and estimates for 2021 by the IFO. *COVID-19 Impact on Pennsylvania Deaths*, IFO (February 2022).

Pennsylvania Decedents by Age Group							
Age	Total Deaths					Change vs Pre-COVID Avg.	
	2017	2018	2019	2020	2021	2020	2021
Under 25	2,615	2,337	2,197	2,292	2,490	25	223
25-44	6,546	6,108	5,946	6,916	7,670	889	1,643
45-64	23,077	22,563	22,484	25,074	27,560	2,551	5,037
65-74	23,623	23,932	24,032	29,063	31,490	5,081	7,508
75-84	31,434	31,595	32,337	37,719	37,340	5,753	5,374
Over 84	<u>48,329</u>	<u>48,143</u>	<u>46,957</u>	<u>54,475</u>	<u>48,410</u>	<u>6,925</u>	<u>860</u>
Total Deaths	135,656	134,702	133,983	155,546	154,960	21,204	20,618

Note: Age categories do not sum to total because they exclude deaths where age is unknown. Final two columns represent the change compared to the pre-COVID-19 average for 2018 and 2019.

Source: U.S. Centers for Disease Control and Prevention. Calculations and estimates for 2021 by the IFO. *COVID-19 Impact on Pennsylvania Deaths*, IFO (February 2022).

Demographics – Net Domestic Migration

Recent Net Domestic Migration by State (000s)							
State	2020	2021	Total	State	2020	2021	Total
1 Florida	43.1	220.9	264.0	27 Wyoming	0.3	1.3	1.5
2 Texas	41.0	170.3	211.3	28 West Virginia	-1.2	2.3	1.1
3 Arizona	26.6	93.0	119.7	29 Rhode Island	-0.6	0.9	0.3
4 North Carolina	18.2	88.7	106.9	30 Connecticut	-4.9	5.1	0.2
5 South Carolina	14.0	64.8	78.8	31 Iowa	-2.0	0.8	-1.2
6 Tennessee	12.1	61.4	73.5	32 New Mexico	0.3	-2.2	-1.9
7 Georgia	9.3	50.6	60.0	33 Nebraska	-1.1	-3.3	-4.4
8 Idaho	7.6	48.9	56.4	34 Alaska	-2.0	-3.9	-5.9
9 Utah	3.9	32.2	36.1	35 North Dakota	-0.7	-6.5	-7.1
10 Nevada	9.0	25.3	34.3	36 Mississippi	-2.9	-4.2	-7.1
11 Oklahoma	2.9	24.7	27.6	37 Ohio	-4.5	-3.1	-7.6
12 Alabama	3.3	22.1	25.5	38 Kansas	-2.5	-5.2	-7.8
13 Montana	2.2	19.2	21.5	39 Pennsylvania	-5.3	-3.2	-8.5
14 Colorado	7.0	13.1	20.0	40 Virginia	-2.3	-9.0	-11.3
15 Arkansas	1.6	16.0	17.6	41 Michigan	-6.8	-7.9	-14.7
16 Maine	1.5	15.5	17.0	42 Minnesota	-2.5	-13.5	-15.9
17 Missouri	0.7	14.9	15.5	43 Hawaii	-3.6	-12.6	-16.2
18 New Hampshire	1.1	13.6	14.7	44 District of Columbia	-0.3	-23.0	-23.3
19 Indiana	0.3	14.3	14.6	45 Maryland	-6.8	-19.9	-26.7
20 Delaware	2.2	12.2	14.4	46 Louisiana	-6.5	-30.3	-36.9
21 Oregon	5.2	8.1	13.3	47 New Jersey	-12.2	-27.8	-40.0
22 Kentucky	0.3	10.0	10.3	48 Massachusetts	-8.2	-46.2	-54.3
23 Washington	9.4	0.0	9.4	49 Illinois	-29.1	-122.5	-151.5
24 South Dakota	0.0	5.6	5.6	50 New York	-54.1	-352.2	-406.3
25 Vermont	-0.1	4.6	4.5	51 California	-62.1	-367.3	-429.4
26 Wisconsin	-0.8	3.3	2.5				

Note: Rank based on total net domestic migration for 2020 and 2021.
Source: U.S. Census Bureau.

Revenues – Fiscal Year to Date

Fiscal Year to Date Revenues (Growth Rate Adjusted)		
	Jan 2022 FYTD	YOY Growth
Total General Fund	\$26,149	14.9%
Total Tax Revenue	22,013	17.9
Corporate Net Income	2,531	27.6
Other Corporate	135	72.8
<u>Sales and Use</u>	<u>8,214</u>	<u>12.5</u>
Nonmotor	7,154	14.4
Motor Vehicle	1,060	1.3
Cigarette	572	-0.6
Other Tobacco Products	88	12.7
Malt Beverage	13	-5.9
Liquor	260	6.0
<u>Personal Income</u>	<u>10,200</u>	<u>41.2</u>
Withholding	6,795	11.3
Quarterly	1,493	78.5
Annuals	330	17.0
Realty Transfer	491	32.2
Inheritance	889	39.2
Gaming	187	47.1
Minor and Repealed	15	-48.8
Total Nontax Revenue	4,136	0.9

Note: Millions of dollars. Growth rates adjusted to reverse the shift of revenues to FY 2020-21, as well as the impact of one-time transfers.

Revenues – General Fund Projections

General Fund Revenue Projections				
	Dollar Amount (millions)		Growth Rate	
	21-22	22-23	21-22	22-23
Executive Budget				
Personal Income	\$16,336	\$17,585	8.7%	7.6%
Sales and Use	13,683	13,643	8.0	-0.3
Corporate Income	4,532	4,195	9.9	-7.4
All Other	<u>10,408</u>	<u>6,444</u>	<u>2.9</u>	<u>-1.9</u>
Total General Fund	44,959	41,866	7.2	1.8
Less: Revenue Proposals				
Personal Income	\$0	-\$29	--	--
Sales and Use	0	46	--	--
Corporate Income	0	-79	--	--
All Other	<u>0</u>	<u>-2,153</u>	--	--
Total General Fund	0	-2,216	--	--
Executive Budget Baseline				
Personal Income	\$16,336	\$17,613	8.7%	7.8%
Sales and Use	13,683	13,596	8.0	-0.6
Corporate Income	4,532	4,274	9.9	-5.7
All Other	<u>10,408</u>	<u>8,597</u>	<u>2.9</u>	<u>-1.8</u>
Total General Fund	44,959	44,081	7.2	1.8
IFO January 2022 Baseline				
Personal Income	\$16,291	\$17,053	8.4%	4.7%
Sales and Use	13,470	12,581	6.3	-6.6
Corporate Income	4,866	4,654	18.0	-4.4
All Other	<u>10,695</u>	<u>9,032</u>	<u>5.8</u>	<u>-0.1</u>
Total General Fund	45,322	43,319	8.1	-0.8
Executive Budget Less IFO				
Personal Income	\$45	\$561	--	--
Sales and Use	213	1,015	--	--
Corporate Income	-334	-380	--	--
All Other	<u>-287</u>	<u>-434</u>	--	--
Total General Fund	-363	762	--	--
<p>Note: Revenue proposals exclude higher refunds paid. Growth rates adjust for amounts shifted between years. The IFO 22-23 estimate assumes a transfer of \$2.19 billion of federal funds to the General Fund under Act 24-2021. The Executive Budget assumes that this transfer does not occur.</p>				

Impact Fee and Natural Gas Trends

Impact Fee and Natural Gas Trends						
	2016	2017	2018	2019	2020	2021
Impact Fee Revenues ¹	\$173.3	\$209.6	\$251.8	\$200.4	\$146.3	\$233.8
Growth Rate	-7.7%	20.9%	20.1%	-20.4%	-27.0%	59.8%
Computed Effective Tax Rate	4.5%	2.8%	2.2%	2.1%	3.3%	1.3%
Fees to Counties/Municipalities ²	\$93.1	\$114.8	\$140.1	\$109.2	\$76.7	\$129.3
Growth Rate	-8.5%	23.3%	22.0%	-22.1%	-29.8%	68.6%
Wells Paying Impact Fee	8,121	8,518	10,164	10,112	10,514	10,851
Average Fee Per Well	\$21,340	\$24,607	\$24,774	\$19,818	\$13,915	\$21,546
PA Production (bcf) ³	5,096	5,364	6,123	6,815	7,092	7,600
Growth Rate	10.8%	5.3%	14.1%	11.3%	4.1%	7.2%
New Horizontal Wells Drilled	501	811	777	614	476	518
NYMEX Natural Gas Price ⁴	\$2.46	\$3.11	\$3.09	\$2.63	\$2.08	\$3.84
PA Natural Gas Price ⁵	\$1.47	\$2.10	\$2.59	\$2.10	\$1.38	\$3.04

1 Impact fee revenues as reported by the PUC (millions). Revenues shown according to drilling year, not the year revenues were received. 2021 is estimated by the IFO.

2 Total disbursement of impact fee revenues to counties and municipalities with wells subject to the fee.

3 Actuals from PA DEP through November 2021. December 2021 estimated by IFO. Unconventional gas only.

4 Annual average price of natural gas near-month settlements on the New York Mercantile Exchange, upon which the impact fee schedule is based.

5 Weighted average spot price of major Pennsylvania hubs. Source: Bentek Energy.

State and Local Tax Burden

State and Local Tax Burden: Average Tax Rate and Rank								
Corporate Income			Personal Income			Sales and Use		
	Rank	ATR		Rank	ATR		Rank	ATR
DE	1	3.54%	NY	1	5.16%	OH	17	2.77%
NY	5	0.80	MD	3	4.26	NY	19	2.64
NJ	6	0.72	DE	8	3.32	NC	27	2.42
PA	11	0.48	VA	12	3.03	WV	31	2.30
MD	22	0.38	WV	14	2.82	MI	38	1.96
NC	27	0.34	NC	16	2.71	NJ	39	1.95
WV	33	0.27	OH	17	2.65	PA	40	1.93
MI	38	0.24	PA	19	2.62	VA	42	1.55
VA	41	0.20	NJ	20	2.60	MD	43	1.47
OH	46	0.10	MI	32	2.18	DE	48	0.11
USw		0.40	USw		2.46	USw		2.53
USuw		0.43	USuw		2.22	USuw		2.44
Property			Liquor, Tobacco, Game			Total Taxes		
	Rank	ATR		Rank	ATR		Rank	ATR
NJ	3	5.10%	WV	1	1.00%	NY	1	15.26%
NY	5	4.67	DE	4	0.70	NJ	6	11.71
MI	19	3.08	MD	5	0.66	DE	9	11.37
VA	20	3.08	PA	6	0.65	MD	10	11.25
PA	26	2.87	NC	10	0.50	WV	14	10.91
OH	28	2.84	MI	13	0.47	PA	20	10.28
MD	32	2.73	OH	15	0.44	OH	26	9.91
WV	40	2.32	NY	25	0.37	VA	29	9.51
NC	41	2.25	NJ	27	0.36	NC	30	9.46
DE	48	1.79	VA	37	0.25	MI	32	9.24
USw		3.17	USw		0.35	USw		10.28
USuw		3.06	USuw		0.39	USuw		9.96

Note: Average Tax Rate (ATR) is the ratio of the state-local tax revenue to modified state personal income. USw is weighted average. USuw is unweighted average (each state has same weight). Total Taxes excludes any severance tax or impact fee.

Source: *State and Local Tax Revenues: A 50 State Comparison*, IFO (January 2022).

Corporate Net Income Tax State Comparison

States With Corporate Net Income Tax			
State ¹	Income Tax Rate ²	Method	NOL Deduction Cap ³
New Jersey	11.5%	Combined	None
Pennsylvania	9.99	Separate	40% of taxable income on CFs
Iowa	9.80	Separate	None
Minnesota	9.80	Combined	Conforms to Federal
Illinois	9.50	Combined	\$100,000 on CBs
Alaska	9.40	Combined	Conforms to Federal
Maine	8.93	Combined	Conforms to Federal
California	8.84	Combined	None
Delaware	8.70	Separate	Conforms to Federal
Vermont	8.50	Combined	None
Maryland	8.25	Separate	Conforms to Federal
Massachusetts	8.00	Combined	None
Wisconsin	7.90	Combined	None
New Hampshire	7.70	Combined	\$10M on CFs
Oregon	7.60	Combined	None
Connecticut	7.50	Combined	50% of taxable income on CFs
Louisiana ⁴	7.50	Separate	72% of taxable income on CFs
Nebraska	7.50	Combined	None
New York	7.25	Combined	None
Kansas	7.00	Combined	None
Rhode Island	7.00	Combined	Conforms to Federal
Montana	6.75	Combined	\$500,000 on CBs
Idaho	6.50	Combined	None
Tennessee	6.50	Multiple	None
West Virginia	6.50	Combined	Conforms to Federal
Alabama ⁴	6.50	Separate	None
Hawaii	6.40	Combined	Conforms to Federal
Michigan	6.00	Combined	None
Virginia	6.00	Multiple	Conforms to Federal
Arkansas	5.90	Separate	None
New Mexico	5.90	Combined	Conforms to Federal
Georgia	5.75	Separate	Conforms to Federal
Florida	5.50	Separate	Conforms to Federal
Kentucky	5.00	Combined	Conforms to Federal
Mississippi	5.00	Multiple	None
South Carolina	5.00	Multiple	Conforms to Federal
Utah	4.95	Combined	Conforms to Federal
Arizona	4.90	Combined	Conforms to Federal
Indiana	4.90	Multiple	None
Colorado	4.55	Combined	Conforms to Federal
North Dakota	4.31	Combined	None
Missouri ⁴	4.00	Separate	None
Oklahoma	4.00	Separate	Conforms to Federal
North Carolina	2.50	Multiple	None

1 Nevada, Ohio, South Dakota, Texas, Washington and Wyoming do not levy a corporate net income tax.

2 Tax rate reflects the highest tax bracket for states with a graduated corporate income tax.

3 Reflects conformity with the 2017 TCJA, which limited the NOL carryforward (CF) deduction to 80% of taxable income and removed the carryback (CB) provision for tax years beginning after December 31, 2017.

4 State allows corporation to deduct all federal taxes paid from state taxable income (or up to 50%, LA).

Source: CCH State Tax SmartCharts (February 2022).

Pensions

State Pension System Funding Outlook								
FY Ending	SERS ¹				PSERS			
	Employer Rate	\$ State Contrib	System Return	Unfunded Liability	Employer Rate	\$ State Contrib	System Return	Unfunded Liability
2005-2010	3.53%	\$225	3.50%	\$9,736	5.34%	\$337	2.99%	\$19,699
2010-2015	10.87	745	6.90	19,452	11.63	699	9.73	37,336
2016	25.01	1,622	6.51	19,923	25.84	1,719	1.29	42,724
2017	29.51	1,897	15.08	19,662	30.03	2,064	10.14	44,512
2018	33.24	2,049	-4.55	22,793	32.57	2,264	9.27	44,855
2019	32.93	2,115	18.75	23,039	33.43	2,488	6.68	44,134
2020	33.59	3,186 ²	11.11	22,395	34.29	2,628	1.11	44,035
2021	33.48	2,871 ³	17.24	16,504	34.51	2,702	24.58	45,534
2022	33.81	2,117	7.00	14,978	34.94	2,734	7.00	44,604
2023	33.68	2,103	7.00	12,704	35.26	2,901	7.00	43,183
2024	31.55	1,988	7.00	11,010	35.69	2,966	7.00	41,808

Note: Dollars in millions. Data sourced from various system projections, releases and financial reports, unless noted otherwise. For year ranges (e.g., 2005-2010), Employer Contribution Rate and State Contributions are averages. System Return is 5-year performance as noted in system CAFR. Unfunded Liability is final year UAL. Calculations by the IFO.

1 SERS reported on calendar year basis except for Employer Contribution Rate. Includes all funds.

2 Includes \$1.1 billion prepayment in unfunded liability from The Pennsylvania State University.

3 Includes \$825 million prepayment in unfunded liability from the Pennsylvania State System of Higher Education.

Economic Development Incentives

Tax Credits and Economic Development Incentives						
	Actual (\$ millions)					Est.
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Tax Credit or Refund						
Educational Improvement	\$116.8	\$129.4	\$150.9	\$174.8	\$179.5	\$225.0
Keystone Opportunity Zone (KOZ)	78.0	92.1	95.1	84.3	99.1	110.0
Film Production	60.0	60.4	60.9	63.0	65.1	70.0
Research and Development	61.1	45.2	43.6	46.9	54.9	55.0
Educational Opportunity Scholarship	32.6	32.6	32.6	33.6	53.6	55.0
Neighborhood Improvement Zone (NIZ)	56.4	45.6	40.5	61.1	46.6	54.1
Neighborhood Assistance Programs	18.0	18.0	18.0	18.0	34.4	36.0
Coal Refuse Energy and Reclamation	5.4	8.8	9.8	17.1	10.8	20.0
Pennsylvania Resource Manufacturing	0.0	0.0	0.0	0.0	0.0	17.1
Keystone Innovation Zone (KIZ)	21.1	16.0	15.3	15.1	15.0	15.0
Resource Enhancement and Protection	5.4	5.4	5.4	5.6	11.2	13.0
City Revitalization and Improvement Zone (CRIZ)	3.6	3.9	7.2	7.8	9.5	8.7
Entertainment and Economic Enhancement	0.0	0.0	5.6	4.0	4.0	8.0
Tax Credit for New Jobs	10.1	10.1	10.1	3.0	3.3	6.0
Historic Preservation Incentive	3.0	3.0	3.0	5.0	5.0	5.0
Brewers' Tax Credit	0.0	0.0	4.9	2.6	2.1	5.0
Mixed-Use Development	0.0	2.0	2.0	3.0	3.0	4.5
Manufacturing Tax Credit	0.0	0.0	0.0	0.0	0.0	4.0
Computer Data Center Equipment Incentive	0.0	0.0	2.0	2.9	5.4	3.5
Waterfront Development	0.0	0.0	0.0	0.2	1.4	1.5
Video Game Production	0.0	0.3	1.0	1.0	1.0	1.0
Rural Jobs and Investment	0.0	0.0	0.0	0.0	0.0	0.0
Mobile Telecomm. Broadband Investment	0.2	4.2	4.6	3.0	0.0	--
State Spending or Grants						
RACP	221.3	234.4	172.8	139.6	101.0	275.0
GEDTF	68.0	74.5	95.5	25.5	25.5	66.3
PA Race Horse Development Fund	229.8	231.4	231.9	164.3	177.3	222.4
BFTDA - Challenge Grants	14.5	14.5	14.5	14.5	14.5	14.5
Business in Our Sites (CFA)	60.7	89.3	50.0	10.0	16.5	0.0
PA First	17.6	9.5	7.4	12.3	11.8	12.0
Building PA (CFA)	7.1	9.6	0.0	6.3	0.0	0.0
Infrastructure and Facilities Improvement	17.7	17.2	12.9	10.7	7.7	10.0

(continued on next page)

State Spending or Grants (cont.)

	Actual (\$ millions)					Est.
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
PIDA Industrial Parks	2.0	3.8	2.8	4.5	4.7	6.0
Marketing to Attract Tourists (Advertising)	1.5	1.4	2.2	5.5	2.6	6.6
BFTDA - Venture Investment	10.5	11.0	6.5	3.0	8.5	6.5
Office of International Business Development	5.6	5.8	6.0	5.6	5.1	5.8
Life Sciences Greenhouses	3.1	3.3	3.0	3.0	3.0	3.0
Marketing to Attract Business	2.1	2.0	2.2	4.9	2.7	2.0
PA Dairy Investment Program (CFA)	0.0	0.0	4.5	5.5	0.0	0.0
Infrastructure and Technology Assistance	1.3	2.1	1.8	1.5	1.2	2.0
State Loan Programs						
PIDA Loan Program	41.7	76.9	42.1	24.4	26.1	35.0
Machinery and Equipment Loans	4.8	3.3	7.6	4.7	12.8	11.8
Small Business First Loans	11.1	5.9	8.1	68.1	5.7	10.0
Minority Business	0.6	1.1	1.3	1.4	1.0	1.3
Jobs Training Programs						
Manufacturing PA	0.0	12.0	12.0	12.0	12.0	12.0
Labor and Industry	2.3	2.3	12.3	12.6	10.6	10.6
Partnerships for Regional Economic Perf.	12.4	9.1	8.0	13.0	6.7	9.9
WedNet	<u>8.8</u>	<u>6.7</u>	<u>7.9</u>	<u>6.5</u>	<u>8.2</u>	<u>8.0</u>
TOTAL	1,216.1	1,304.1	1,225.9	1,111.4	1,070.1	1,448.1

Note: Act 132 of 2020 abolished the Mobile Telecommunications Broadband Investment Tax Credit and established the Underserved Broadband Funding Program, a grant program administered by the CFA.

In July 2015, \$100 million in Innovate in PA Tax Credits were purchased by qualified insurance companies. The credits may be utilized to offset tax year liabilities for 2016 and thereafter, in an amount not to exceed \$20 million annually. The net amount transferred to DCED was \$85.4 million. The net benefit to purchasers is the differential between tax credits sold and monies received (\$14.6 million). The annual impact is the difference between the tax credit claimed in that year and the amount paid for the credit. Due to the technical nature of accounting for the differential, the Innovate in PA Tax Credits are omitted from this table.

The Strategic Development Areas, Keystone Special Development Zone, Organ and Bone Marrow Donation, Community-Based Services, Qualified Manufacturing Innovation & Reinvestment Deduction and Beginning Farmers' tax credits are not included due to a small number of filers or zero filers. The Local Resource Manufacturing tax credit and the Pennsylvania Housing tax credit have both been enacted, but are not included because they are not yet effective.

The Computer Data Center Equipment Incentive provides a tax refund. Repealed as of December 31, 2021.

PA Race Horse Development Trust Fund disbursements exclude transfers to the Farm Products Show Fund.

* FY 2020-21 values not released for BFTDA- Venture Investment Loan Program.

Source: PA Department of Revenue, PA Department of Community and Economic Development, Commonwealth Executive Budget FY 2022-23, Comprehensive Annual Financial Reports and state accounting system.

Minimum Wage Rates by State

Minimum Wage Rates by State (As of January 1st)				
State/Territory	2022 Rank	2022	2023	2024
Washington D.C.	1	\$15.20	\$15.55	\$15.90
California	2	15.00	15.36	15.71
Washington	3	14.49	14.84	15.18
Massachusetts	4	14.25	15.00	15.00
New York	5	13.20	13.52	13.83
New Jersey	6	13.00	14.00	15.00
Connecticut	6	13.00	14.00	14.32
Arizona	8	12.80	13.10	13.40
Oregon	9	12.75	13.50	13.80
Maine	9	12.75	13.05	13.35
Colorado	11	12.56	12.86	13.16
Vermont	12	12.55	12.85	13.15
Maryland	13	12.50	13.25	14.00
Rhode Island	14	12.25	13.00	14.00
Illinois	15	12.00	13.00	14.00
New Mexico	16	11.50	11.50	11.50
Missouri	17	11.15	12.00	12.30
Virginia	18	11.00	12.00	13.50
Arkansas	18	11.00	11.00	11.00
Delaware	20	10.50	11.75	13.25
Alaska	21	10.34	10.59	10.83
Minnesota	22	10.33	10.58	10.82
Hawaii	23	10.10	10.10	10.10
Florida	24	10.00	11.00	12.00
South Dakota	25	9.95	10.20	10.45
Michigan	26	9.87	10.10	10.33
Nevada	27	9.75	10.50	11.25
Ohio	28	9.30	9.50	9.70
Montana	29	9.20	9.40	9.60
Nebraska	30	9.00	9.00	9.00
West Virginia	31	8.75	8.75	8.75
Pennsylvania	32	7.25	7.25	7.25
Other	32	7.25	7.25	7.25

Note: Over 50 localities have adopted a minimum wage above their state's minimum wage.
 1 Inflation adjustments use an estimated 2.4% for 2023 for 2.3% for 2024.
 Source: The Economic Policy Institute. Minimum Wage Tracker (as of January 1, 2022).

PBB – Agency Reviews

Year 4 Performance-Based Budgeting Reports

In January 2022, the IFO transmitted six Performance-Based Budget Plan reports to the Performance-Based Budget Board as part of Act 48 of 2017. The agencies covered within these reports were the (1) Department of Human Services (part 3 of 3), (2) Department of Labor and Industry, (3) Department of Education, (4) Department of Agriculture, (5) Department of Aging and (6) Pennsylvania Historical and Museum Commission (PHMC). These reports provide performance metrics, benchmark data and funding levels for agency activities.

The metrics included below are a snapshot of measures included within four of the six reports. Additional metrics and details can be found within the individual reports, including the two agencies not listed below (Department of Aging and PHMC). All six reports can be downloaded from the IFO website.

Selected Metrics

	16-17	17-18	18-19	19-20	20-21	21-22
Department of Human Services						
CHC % NFCE individuals served by HCBS	--	--	72%	65%	68%	68%
CHC ED visits per 1,000 member months ¹	--	--	32.5	70.1	77.6	--
Child Care Works % enrolled in STARS 3/4 facilities	31%	33%	36%	36%	41%	42%
Children's uninsured rate (U.S. Census Bureau)	4.4%	4.4%	4.4%	4.6%	--	--
Department of Labor and Industry						
% UC payments w/in 14 days	93%	84%	87%	89%	62%	54%
UC overpayment rate	9%	11%	9%	9%	14%	--
Misclassified workers discovered (000s)	28.8	22.2	22.0	19.4	8.7	11.6
Dislocated worker employment rate (WIOA)	--	84%	84%	84%	77%	--
Department of Education						
4-Year cohort HS graduation rate	86.6%	85.9%	86.5%	87.4%	--	--
Special education graduation rate (regular diploma)	73.4%	72.7%	71.6%	76.3%	--	--
% Age 25 to 64 that hold a postsecondary degree or industry recognized credential	46%	50%	51%	--	--	--
Teacher instructional I certifications issued (000s)	6.5	8.0	7.6	6.9	--	--
Department of Agriculture						
Retail food inspections per inspector	495	485	676	387	406	526
Food distributed by SFPP (million lbs.)	40	34	38	25	47	30
Horse racing total handle (\$ millions)	--	\$702	\$671	\$678	\$541	--
Dog law kennel inspections (000s)	5.1	5.2	5.7	5.9	5.9	--

Notes: CHC stands for Community HealthChoices, NFCE stands for nursing facility clinically eligible; HCBS stands for home- and community-based services; ED stands for emergency department; STARS stands for Standards, Training/Professional Development, Assistance, Resources and Supports; UC stands for unemployment compensation, WIOA stands for Workforce Innovation and Opportunity Act; and SFPP stands for State Food Purchase Program.

¹ Data by calendar year, reported by measurement year and will not match the Healthcare Effectiveness Data and Information Set (HEDIS) report year. Data for 20-21 represents report year 2021.

PBB - Tax Credit Evaluations

Year 4 Tax Credit Reports

In accordance with Act 48 of 2017, the IFO transmitted four tax credit reports to the Performance-Based Budget Board in January 2022. The reports issued in year 4 were for the Educational, Coal Refuse Energy and Reclamation, Brewers' and Mixed-Use Development Tax Credits. The reports provide an overview of the credit, historical data, a comparison to similar programs in other states, an economic analysis (if applicable), general findings of the analysis and recommendations. Select highlights from the reports are included below. All four reports can be downloaded from the IFO website.

Did the tax credit accomplish the legislative intent?

Educational - Minimal data, not possible to reliably assess

Coal Refuse - Mixed results, some coal burning incentivized, depends on price

Brewers' - No, windfall to large brewers, small brewers cannot fully use

Mixed Use - Qualified yes, unclear if it actually incentivizes new units

Educational Tax Credits

Findings:

- The Public School Code expressly limits the data that DCED may collect related to the program.
- Compared to other states, PA has the highest allowance (20%) for administrative and other costs.
- Across states, PA has one of the largest tax credits, but collects the least amount of outcome data.

Recommendations:

- Student performance and demographic data should be collected to evaluate program effectiveness.
- There should be more accountability for contributions not used to fund ETC scholarships/programs.

Coal Refuse Energy and Reclamation

Findings:

- PA is the only state that provides a tax credit to incentivize the burning of coal refuse.
- For 2019, the effective tax credit of \$2.70 per ton of coal refuse burned was claimed by 12 firms.

Recommendations:

- Credits should be targeted to refuse piles that inflict greater environmental harm.
- Annual credit awards could be tied to an average monthly wholesale electricity price.

Brewers'

Findings:

- Most state brewer incentives place a limit on production and target small brewers.
- Roughly 50% of PA tax credits flow to large brewers.
- Most very small brewers cannot use credits before they expire at the end of four years.

Recommendations:

- Target smaller brewers. The credit is likely a windfall to large brewers.
- Provide mechanism for smaller brewers to use the credit (convert to a grant or make credit refundable).

Performance-Based Budgeting and Tax Credit Schedule

Year		Performance-Based Budgets				
1	Corrections	Board of Probation and Parole	PA Commission on Crime & Delinquency	Juvenile Court Judges' Commission	Banking and Securities	General Services
2	Economic & Community Development	Human Services – Part 1	Health	Environmental Protection	PA Emergency Management Agency	State
3	PennDOT	Human Services – Part 2	State Police	Military & Veterans Affairs		
4	Education	Human Services – Part 3	Aging	PA Historical & Museum Commission	Agriculture	Labor and Industry
5	Drug and Alcohol Programs	Insurance	Revenue	Executive Offices	Conservation and Natural Resources	
Year		Tax Credits				
1	Film Production	New Jobs	Historic Preservation Incentive			
2	Research and Development	Keystone Innovation Zones	Mobile Telecom and Broadband	Organ and Bone Marrow		
3	Neighborhood Assistance	Resource Enhancement and Protection (REAP)	Entertainment Economic Enhancement Program	Video Game Production	Keystone Special Development Zones	
4	Educational Tax Credits	Coal Refuse and Reclamation	Mixed-Use Development	Brewers'		
5	Resource Manufacturing	Manufacturing and Investment	Waterfront Development	Rural Jobs and Investment		

 Independent Fiscal Office