

HOUSE OF REPRESENTATIVES  
COMMONWEALTH OF PENNSYLVANIA

\* \* \* \* \*

Independent Fiscal Office

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House & Senate Finance Committees

Irvis Office Building  
Room G-50  
Harrisburg, Pennsylvania

Wednesday, February 17, 2010 - 9:05 a.m.

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BEFORE:

Honorable David K. Levdansky, Majority Chairman  
Honorable Dan Frankel  
Honorable Rick Mirabito  
Honorable Tim Seip  
Honorable Rick Taylor  
Honorable Scott W. Boyd  
Honorable Jim Cox  
Honorable C. Adam Harris  
Honorable Dave Reed

Honorable Patrick Browne, Majority Chairman  
Senate Finance Committee  
Honorable John H. Eichelberger

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1 ALSO PRESENT:

2

Bob Kassoway  
3 Majority Executive Director  
House Finance Committee

4

5 Bill Jordan  
Majority Research Analyst  
6 House Finance Committee

7

Sharon Snell  
8 Majority Legislative Assistant  
House Finance Committee

9

10 Jenny Stratton  
Minority Executive Director  
11 House Finance Committee

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Stacey Connors  
13 Majority Executive Director  
Senate Finance Committee

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1	C O N T E N T S	
2	SPEAKERS	PAGE
3	Opening remarks	
	Representative Levdansky.....	5
4	Senator Browne.....	6
5	Congressional Budget Office	
6	Leo K. Lex, Chief.....	7
	State & Local Cost Estimates Unit	
7	Mark Booth, Chief.....	10
8	Revenue Estimating Unit	17
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

SUPPORT INDEX

REQUEST FOR PRODUCTION OF DOCUMENTS

Page	Line	Page	Line	Page	Line
------	------	------	------	------	------

(None)

1                   CHAIRMAN LEVDANSKY: Good morning.  
2                   We're a few minutes late. We're just hoping to  
3                   catch members who I know have other committee  
4                   meetings, appropriations meeting, both House  
5                   and Senate I think are meeting today, so a lot  
6                   of the members of our committee are also  
7                   assigned to those committees as well.

8                   This is the second joint hearing  
9                   between the House and Senate Finance committees  
10                  to explore the idea embodied in legislation to  
11                  create an independent fiscal office. We  
12                  thought it would be instructive and helpful to  
13                  learn what Congress did relative to its  
14                  formation of a congressional budget office, I  
15                  believe back in 1974, with the enactment of the  
16                  Congressional Budget and Impoundment Control  
17                  Act.

18                  The agency currently employs about  
19                  250 people. The staff is comprised primarily  
20                  of economists and public policy analysts, and  
21                  most of their staff hold advanced degrees. The  
22                  Congressional Budget Office's mandate is to  
23                  provide the United States Congress with  
24                  objective, nonpartisan and timely analysis to  
25                  aid in economic and budgetary decisions on a

1 wider array of programs covered by the federal  
2 budget; and secondly, the information and  
3 estimates required for the congressional budget  
4 process itself.

5 Today we are pleased to have with us  
6 two representatives from the Congressional  
7 Budget Office, Mr. Leo Lex, the Chief of the  
8 State and Local Government (sic) Estimates  
9 Unit; and Mr. Kevin Booth, who is the Unit  
10 Chief of Revenue Estimation.

11 Mr. Lex will provide an overview of  
12 the CBO, discuss its history and current  
13 structure, and highlight some of the challenges  
14 that face the agency. Mr. Booth will talk  
15 about the CBO's revenue estimating practices.

16 Our discussion today is designed to  
17 give a broad overview of the agency and  
18 consider whether its design is something that  
19 we may be able to emulate here in Pennsylvania  
20 through the creation of the proposed  
21 independent fiscal office.

22 With that, let me recognize Senator  
23 Pat Browne, the Chairman of the Senate Finance  
24 Committee for his opening remarks.

25 CHAIRMAN BROWNE: Just briefly, Mr.

1 Chairman, I thank the members of the House  
2 Finance Committee for joining us today.

3 Just to summarize our efforts so far,  
4 we had our first hearing several weeks ago, on  
5 the third of February. During that hearing we  
6 heard from three separate parties with their  
7 opinions and suggestions on the bill. Sharon  
8 Ward from the Budget and Policy Center gave a  
9 good overview of what other states are doing  
10 and the value that an independent office has to  
11 them, but also suggestions to improve the bill,  
12 specifically in regards to access of  
13 information from the office to the public.

14 We had a gentleman here from the  
15 Mercatus Center at George Mason University, Mr.  
16 McTigue, who has extensive experience, actually  
17 across the world; not only in the U.S., but in  
18 other countries in Europe, that have used  
19 independent offices as a means to provide  
20 independent objective information. He had  
21 stressed the value of access to independent  
22 information as probably the most important item  
23 that this office could potentially provide.

24 Then Phil Durgin from the Legislative  
25 Budget and Finance Committee presented the

1 current mission of that committee, and provided  
2 the opinion that he doesn't believe that the  
3 creation of this office will be duplicative to  
4 their current mission. We really appreciate  
5 the comments from those three testifiers.

6 Today we are very pleased that we  
7 have available to us two gentlemen who have dug  
8 themselves out of the snow in Washington and  
9 made the trip up to provide the background and  
10 experience of one of the nation's foremost  
11 agencies providing independent objective  
12 information into the government budgeting  
13 process. I want to thank you both for  
14 attending. I look forward to this hearing.  
15 Thank you.

16 MR. LEX: We'll start by just kind of  
17 giving you a little bit of an introduction  
18 about ourselves and tell you where we come from  
19 and what we do at the Congressional Budget  
20 Office. Then I'm going to give an overview of  
21 the Congressional Budget Office and our  
22 responsibilities broadly. Mark will focus more  
23 on the revenue estimating responsibilities.

24 CHAIRMAN LEVDANSKY: If I may just  
25 briefly, before we get started, if I could have



1 the members of the committee that are present  
2 identify themselves, starting on my far left.

3 REPRESENTATIVE HARRIS:

4 Representative Adam Harris, Juniata, Mifflin  
5 and Snyder counties.

6 REPRESENTATIVE MIRABITO:

7 Representative Rick Mirabito, Lycoming County.

8 MS. CONNORS: Stacey Connors,  
9 Executive Director of Senate Finance Committee  
10 for Senator Browne.

11 REPRESENTATIVE KASSOWAY: Bob  
12 Kassoway, I'm the director of the committee for  
13 the House Democratic caucus.

14 REPRESENTATIVE BOYD: Scott Boyd from  
15 the 43rd district which is a portion of  
16 Lancaster County and vice chair of the  
17 Republican caucus.

18 MS. STRATTON: Jenny Stratton,  
19 Executive Director for the House Republicans.

20 SENATOR EICHELBERGER: Senator  
21 John Eichelberger from Blair, Bedford,  
22 Huntingdon, Fulton and a little piece of  
23 Mifflin counties.

24 CHAIRMAN LEVDANSKY: You may proceed.

25 MR. LEX: I have been at the

1 Congressional Budget Office now for about 15  
2 years. Before that I actually worked in the  
3 Executive Branch Budget Office in the State of  
4 Illinois. While I was there it was a good  
5 office. We always thought that we produced the  
6 best objective information for, at that time it  
7 was the Governor, to make his decisions.

8 It really wasn't until I came to CBO  
9 about six or seven years later that I really  
10 started to understand what it meant to be  
11 bipartisan, and I have been there ever since.

12 I am currently Chief of the State and  
13 Local Government Cost Unit at CBO. We  
14 primarily look at all legislation that moves  
15 through Congress and try and assess its impact  
16 on state and local governments. So, that's our  
17 role. It's one slice of the responsibilities  
18 that CBO has overall.

19 MR. BOOTH: My name is Mark Booth.  
20 I'm Chief of the Revenue Estimating Unit at  
21 CBO. We're responsible for projecting federal  
22 revenues over the next 10 years, as well as  
23 projecting effects -- legislative changes on  
24 revenues. I've been at CBO for over 20 years.  
25 I wasn't expecting to be that long. But,

1       nonetheless, look forward to any questions you  
2       have.

3                   MR. LEX: I just want to repeat what  
4       the Chairman said as far as CBO's mission is  
5       concerned because I think it's really  
6       important, especially a couple of key phrases.  
7       CBO's mission is to provide objective,  
8       nonpartisan and timely information analysis and  
9       estimates to help Congress make decisions. We  
10      take that responsibility very seriously, and it  
11      really is what guides our overall approach to  
12      the work that we do. Throughout the year we  
13      produce a number of reports and estimates that  
14      help fulfill that mission.

15                   In late January, which we just  
16      finished, we published the Budget and Economic  
17      Outlook. This is one of the largest documents  
18      that we produce throughout the year, and it  
19      ends up serving as the baseline for decision  
20      making regarding the budget throughout the  
21      year. It reflects our best judgment about how  
22      the economy and other factors will affect  
23      revenues and spending under existing laws.

24                   It's not taking into consideration  
25      proposed legislation or other things that may

1 be in the offing, but it's simply the way --  
2 The way current law is structured, this is our  
3 best estimate of how we see revenues and  
4 spending, and then as a result, any deficit or,  
5 you know, in some years it was surplus will  
6 result in the next 10 years.

7 We also analyze hundreds of pieces of  
8 legislation throughout the year. One of our  
9 primary responsibilities is to issue cost  
10 estimates about those pieces of legislation so  
11 that, given the baseline, any proposed  
12 legislation that comes through Congress will  
13 have additional information about how that bill  
14 might affect spending revenues going forward.

15 The cost estimates also include  
16 assessments of federal mandates on both state  
17 and local governments in the private sector.  
18 As I mentioned, that's the area that I  
19 supervise, primarily the state and local  
20 effects.

21 Now, the defining characteristic of  
22 all of this information, the baseline, cost  
23 estimates, any additional large analytic  
24 studies which we also do, is that it's  
25 objective and nonpartisan.

1 CBO was created in 1974 in the very  
2 waning days of the Nixon Administration. It  
3 was a politically-charged environment at the  
4 time, but there was a need on Congress's part  
5 to have an objective source of information  
6 about budget issues that they could rely on.  
7 So, they created a budget shop, namely, the  
8 Congressional Budget Office. That way Congress  
9 didn't have to rely solely on the President's  
10 office, and it would have its own objective  
11 source of information.

12 The key for us going forward was to  
13 stay independent and to provide that objective  
14 information even though we operate in what's  
15 obviously a very political environment. That  
16 doesn't mean that we're insulated from  
17 criticism. Recently there was an article about  
18 our current director in Time magazine that  
19 carried the headline, The Numbers Man Whom D.C.  
20 Trusts and Loathes. So we're not loved by  
21 everyone, certainly not all the time.

22 Another article in November in D.C.'s  
23 Roll Call called CBO the referee or the umpire  
24 of the budget system. But at the same time  
25 they said there are no lines to get into CBO's

1 fan club. So we operate in a politically-  
2 charged environment, but we recognize and we  
3 really strive to maintain our role as an  
4 objective source of information.

5 At the same time, while we may be  
6 what someone would term a referee in the  
7 process, what we say doesn't have any  
8 enforceable basis. Our role is purely  
9 advisory. Congress takes our information and  
10 uses it to make decisions themselves. Our  
11 primary clients on the Hill are the budget  
12 committees in the Senate and in the House.  
13 They are the ones that we work most closely  
14 with in terms of providing this information,  
15 and they can take it or they can leave it.  
16 Most often they take it. I think that comes  
17 from our history as being objective and  
18 nonpartisan.

19 Throughout the process we have to  
20 really work hard to make sure that we maintain  
21 a balance in terms of the information that  
22 we're providing and who we're providing it to.  
23 That can be a very difficult dance to do  
24 sometimes, but we have guidelines that help us  
25 achieve that so that we don't -- we certainly

1 avoid even the appearance of trying to play  
2 favorites to one side of the aisle or the  
3 other.

4 I think you all have copies of, some  
5 of them may be a nicer printed paper, CBO's  
6 guidelines for preparing and distributing its  
7 estimates and analyses. This will give you an  
8 overview of how we make information available.

9 By and large, the work that we do is  
10 not confidential. For any piece of legislation  
11 that has been introduced that is public  
12 information. There are times where we may work  
13 on a confidential basis with a member or with a  
14 committee staff that is in the process of  
15 developing legislation, but it has not been  
16 made public. In those cases we simply provide  
17 informal estimates or guidance about -- so that  
18 they have some idea of what budgetary  
19 implications it may have.

20 Now, once a piece of legislation is  
21 introduced, and CBO does an estimate either at  
22 the request or if it's been reported by  
23 committee--we have a statutory mandate to  
24 provide an estimate--then our estimates are  
25 publicly available and we issue them

1 simultaneously to both ranking members and  
2 chairmen of committees to both sides of the  
3 aisle, to the leadership of both parties. So  
4 that's the way we strive to make sure that our  
5 approach is balanced.

6 A little bit more about CBO's  
7 structure. Our director is appointed by the  
8 Speaker of the House and the President Pro Tem  
9 of the Senate or the most senior member of the  
10 Senate, after consultation, again, with the  
11 budget committees.

12 Beyond that, hiring practices at CBO  
13 are done without consideration to political  
14 affiliation, and that's actually part of the  
15 statute that created CBO; that directs all  
16 hiring practices to be carried out without  
17 regard to political affiliation. At the same  
18 time, employees work at the will of the  
19 director, but they're hired based purely on  
20 their professional abilities, academic  
21 credentials and experience.

22 With that I think I'll turn it over  
23 to Mark and he can talk to you a little bit  
24 more about revenue estimating at CBO and how  
25 that process unfolds.



1 MR. BOOTH: Great. It's a pleasure  
2 to be here today to talk about CBO's role in  
3 projecting federal revenues as a part of the  
4 federal budget. As stated by Leo, CBO issues a  
5 detailed federal budget projection every  
6 January. We update it again in July or August.  
7 It contains much detail about federal revenues  
8 and outlays with current year projections for  
9 the current year as well as for the following  
10 each of the next 10 years. Those budget  
11 projections provide Congress with a baseline  
12 against which measures the effects of proposed  
13 changes in the law.

14 I'll now focus on the revenue  
15 projections. By design the revenue projections  
16 are not intended to forecast actual budget  
17 outcomes. In order to serve as a baseline in  
18 which to measure the changes from -- of the  
19 effects of changes in law, the projections need  
20 to reflect what would happen over the next 10  
21 years under current policy.

22 So, as a result of the baseline  
23 revenue projections generally assume the  
24 current tax policies remain in place. The laws  
25 remain in place, schedule -- changes in law

1 occur on schedule. I've heard this described  
2 as effectively assuming that tax policy remains  
3 on auto pilot; no changes in the law, from  
4 hence forward.

5 Staff on Joint Committee on Taxation,  
6 another independent nonpartisan group within  
7 the Congress produce estimates of most of the  
8 effects of law changes on revenues.  
9 Legislation affecting revenue is enacted during  
10 that session of Congress, the CBO -- JTC  
11 estimates the effects of those law changes on  
12 revenues. CBO then builds those effects into  
13 the subsequent baseline estimate that it  
14 produces.

15 CBO and the Joint Committee on  
16 Taxation clearly have to work very closely  
17 together. CBO provides the baseline off of  
18 which the Joint Committee on Taxation estimates  
19 are based. CBO needs to know how the estimates  
20 are prepared in order to build them into the  
21 baseline, subsequent baseline, after which  
22 changes in economic -- the economic environment  
23 can change essentially effects of those law  
24 changes. That gets calculated into baseline  
25 projections.

1 CBO projects baseline revenues for  
2 all the major revenue sources.

3 CHAIRMAN LEVDANSKY: Can you get the  
4 microphone a little closer?

5 MR. BOOTH: Certainly. CBO projects  
6 revenues for all the major federal tax sources;  
7 either individual income tax, corporate income  
8 taxes, social insurance otherwise known as  
9 payroll taxes, excise taxes, state and gift  
10 taxes, customs duties, miscellaneous fees and  
11 fines. I can certainly answer any questions --  
12 try to answer any questions you might have  
13 about how we estimate those particular federal  
14 revenue sources.

15 As with all projections of economic  
16 activity, the revenue projections are subject  
17 to much uncertainty. We're continually working  
18 on our models to try to improve our methodology  
19 on our forecast and track record. We undertake  
20 a number of different activities to do this.  
21 We compare our models with those of other  
22 forecasters in the states and other forecasters  
23 within the federal government.

24 We consult with experts in academia,  
25 in the private sector, in think tanks. We also

1 undertake considerable analysis of our -- of  
2 our forecast errors as the federal revenue  
3 stream rises above or falls below anticipated  
4 amounts. We learn about the various factors  
5 that cause the -- cause the forecast errors,  
6 although typically it's with a delay. On the  
7 revenue side the information through tax  
8 returns, which is the most detailed information  
9 we get, it comes with somewhat of a lag.

10 Also CBO's budget projections  
11 especially in our annual report, we publish  
12 much detail about the revenue assumptions;  
13 provide much transparency for our projections  
14 and allows others to compare their results  
15 against ours. We believe that such  
16 transparency, in effect, allow others to  
17 critique our forecast assumptions aids in our  
18 ability to provide the best projections as  
19 possible.

20 I'll end with one note about the  
21 information available to the Congressional  
22 Budget Office in producing its revenue  
23 estimates. We generally have access to the  
24 same information from tax returns that are  
25 available to the Executive Branch when it

1 produces its forecast of revenues. Such  
2 information is subject to numerous safeguards.  
3 The tax return information provides us with  
4 critical detail, if necessary, to understand  
5 past activity of the economy and taxpayers and,  
6 therefore, enables us to project future  
7 activity better. I'll end there and welcome  
8 any questions.

9 CHAIRMAN LEVDANSKY: We have been  
10 joined by a couple of members, if they'll  
11 introduce themselves.

12 REPRESENTATIVE TAYLOR: Rick Taylor  
13 from Montgomery County.

14 REPRESENTATIVE COX: Jim Cox from  
15 Berks County.

16 CHAIRMAN LEVDANSKY: With that, any  
17 questions from members? Representative Boyd.

18 REPRESENTATIVE BOYD: Thank you, Mr.  
19 Chairman.

20 Mr. Lex, you mentioned the Executive  
21 Director is appointed, if I heard you  
22 correctly, by the ranking member of the Senate  
23 and ranking member of the House; is that  
24 correct?

25 MR. LEX: The Speaker of the House

1 and the President Pro Tem of the Senate.

2 REPRESENTATIVE BOYD: How long do  
3 they serve? Is that for a term, a period of  
4 time?

5 MR. LEX: They serve for four-year  
6 terms. They can be reappointed after that.  
7 Even if they are not reappointed, they can  
8 continue to serve until either they're  
9 reappointed or some -- a new director is  
10 appointed then after that.

11 REPRESENTATIVE BOYD: So, if --

12 MR. LEX: They can also be removed  
13 by, I think it's -- by resolution of one House,  
14 the House or the Senate. That is it. That's  
15 never occurred.

16 REPRESENTATIVE BOYD: That's never  
17 occurred?

18 MR. LEX: That's never occurred.

19 REPRESENTATIVE BOYD: Because I was  
20 going to ask, this whole issue of being  
21 nonpartisan, I'm trying to understand how in  
22 that environment it can be nonpartisan. Maybe  
23 the fact that public pressure, if somebody  
24 would be removed or something like that; the  
25 fact that it's never happened, maybe that has

1 something to do with it. And tied to that is,  
2 how are you funded? Where's your money come  
3 from to operate the office?

4 MR. LEX: We receive our funding  
5 through appropriations. We're part of the  
6 Legislative Branch so we receive our budget  
7 appropriations just like any other legislative  
8 agency, the Library of Congress, Government  
9 Accountability Office, things like that.

10 To get to your earlier question, it's  
11 a little bit of conjecture as to how it  
12 happened. But I think that you can look back  
13 probably at just, we have a history that we  
14 really benefit from in being nonpartisan, and  
15 as a result, being very well respected. So, I  
16 would suspect any attempt to remove a director  
17 purely out of a political motivation would  
18 raise a great deal of consternation. Also, the  
19 political balance of power shifts over time, so  
20 that's probably not a precedent that either  
21 party ever wants to set.

22 REPRESENTATIVE BOYD: And I  
23 understand that. I appreciate the historical  
24 context, that's important. Years ago the fed  
25 chairman would have been seen as a nonpartisan

1 issue, but it seems to be more and more,  
2 there's so much attention directed at who's in  
3 that seat, and the economic policies that come  
4 as a result of policies directed by the fed  
5 that it's becoming partisan.

6 I would like to know if there's any  
7 potential safeguards, if we create an office in  
8 the Commonwealth, I think it would be  
9 imperative that we would put some things in  
10 place to avoid some of the political --  
11 potential political pressures that can be put  
12 on the agency. It seems wherever your funding  
13 comes from that, ultimately, seems to be where  
14 pressure can be applied.

15 Is your funding -- If it's an  
16 appropriation it's subject to increases and  
17 cuts at will of the Congress at the time?

18 MR. LEX: Right.

19 REPRESENTATIVE BOYD: Then I actually  
20 have one more question specifically for Mr.  
21 Booth. 1974, 36 years of history roughly--I'm  
22 public educated so -- I'm just kidding. We  
23 have great schools in Pennsylvania, 501  
24 district levels. Say what?

25 CHAIRMAN LEVDANSKY: 45.



1                   REPRESENTATIVE BOYD: Question is,  
2                   how is your track record with projecting  
3                   revenue? I mean, how do you track with your  
4                   projections versus actuals? And real  
5                   specifically, 10 years ago the Congress  
6                   implemented a pretty substantive tax rollback  
7                   which is projected to sunset and go back to  
8                   prior levels.

9                   How did your revenue projections  
10                  track your 10-year history on what the effect  
11                  of those tax cuts would be, and what do you see  
12                  as the projection of the next 10 years based on  
13                  current policy being that those tax cuts will,  
14                  in fact, go away?

15                  MR. BOOTH: Certainly track records  
16                  are all -- it's all relative. Sometimes  
17                  they're very difficult, very volatile series to  
18                  project, and you'd expect to have higher --  
19                  higher errors for those series. Some series of  
20                  economic activity are much more stable, much  
21                  easier to project. Federal revenues, some  
22                  sources are very volatile, like corporate  
23                  income taxes, for example. Some components of  
24                  individual income taxes such as the element of  
25                  capital gains are very volatile.

1           I can cite some statistics for the  
2           current year, for example. The forecast we  
3           make typically in January for the year  
4           that's -- the fiscal year is three months  
5           already past, typically have a forecast error  
6           of about two percent of revenues for that year  
7           without regard to sign (phonetic) one way or  
8           the other is the average. That forecast error  
9           increases as the horizon lengthens; about four  
10          percent for the second year which is typically  
11          the budget year that Congress is considering.  
12          It increases as time -- as you go out further.  
13          Five years has been our -- the longest period  
14          that we have a good track record for. The  
15          estimates now for the conventional baseline go  
16          out 10 years, but we haven't been doing that  
17          long enough to have much of a track record. So  
18          it's relative and it's dependent on the tax  
19          sources.

20                    As far as -- Your other questions  
21                    were?

22                    REPRESENTATIVE BOYD: I guess, I  
23                    don't know if you did your 10-year  
24                    projection --

25                    MR. BOOTH: Going forward of the --

1 REPRESENTATIVE BOYD: Yeah. I

2 mean --

3 MR. BOOTH: -- of the 2001, 2003 tax  
4 cuts.

5 REPRESENTATIVE BOYD: Yeah. I mean,  
6 how did we track -- I mean, it's basically  
7 almost 10 years. With your revenue projections  
8 how do we track based on those? And then, what  
9 do you see in the next 10 years?

10 MR. BOOTH: The January 2001 forecast  
11 at that time projected surplus as far as the  
12 eye could see, the fed level and -- That was  
13 right before the recession of 2001 occurred.  
14 Other factors which dampened revenues  
15 substantially; capital gains with the stock  
16 market declined at that time, so those  
17 forecasts were very optimistic.

18 Part of the forecast error where the  
19 subsequent 10 years occurred because of  
20 legislative changes, tax cuts enacted  
21 especially in 2001 and 2003, but a greater part  
22 of the forecasting error at that time was due  
23 to underlying economic activity.

24 We never know with precise accuracy  
25 what the effects of law changes are looking

1 back. You can't separately identify what the  
2 effects of the law change are from the  
3 underlying economic activity. We can infer  
4 from available information. We don't believe  
5 the revenue estimates at the time were grossly  
6 off, but they build in certain behavioral  
7 assumptions. We can't just look at one line  
8 from data, from tax returns and say, this  
9 forecast of a change was spot on or not.

10           Going forward, the assumption built  
11 into the baseline is that the 2001, 2003 tax  
12 cuts will expire as scheduled at the end of the  
13 2010, and that causes a significant increase in  
14 projected revenues come 2011 and 2012. Again,  
15 that's not a forecast of what will actually  
16 happen. That's the base case against which the  
17 law changes that may well be enacted and would  
18 be measured against.

19           But with those -- With that  
20 assumption that those tax cuts will expire,  
21 federal revenues rise fairly substantially.  
22 They're currently at very, very low levels,  
23 historically relative to overall economic  
24 activity, 2009, and we expect in 2010 roughly  
25 60-year lows relative to G.E.P.

1                   Then after the tax cuts expire and  
2                   with some other factors built into the tax  
3                   system, they gradually cause revenues to rise  
4                   over time. We expect revenues to be some of  
5                   their highest levels relative to G.E.P. in the  
6                   past 60 years by the end of the 10-year period.  
7                   Much of that is caused by the expiration of  
8                   those tax provisions.

9                   REPRESENTATIVE BOYD: Thank you.

10                  CHAIRMAN LEVDANSKY: Mr. Booth, could  
11                  you move the microphone a little closer to you  
12                  and make sure it's on. I can see a few people  
13                  in the back can't quite hear.

14                  Representative Mirabito.

15                  REPRESENTATIVE MIRABITO: Thank you.

16                  Two questions. Mr. Lex, you stated  
17                  that you worked in state government. It wasn't  
18                  until you got to CBO that you realized that all  
19                  those years you had put in that you thought you  
20                  were doing objective analysis it didn't appear.  
21                  What was different and what made you realize  
22                  that?

23                  MR. LEX: I think one of the key  
24                  things -- When I worked for the Executive  
25                  Branch in Illinois, I certainly think the work

1 that I did there was of the same caliber as  
2 what I'm doing at CBO. It's just a bit  
3 different. At that time I was working in the  
4 budget office in a governor's office. Our role  
5 there was to do analysis, and also to make  
6 recommendations to the Governor about what  
7 actions he should take on particular measures.

8 At the Congressional Budget Office we  
9 don't make recommendations. We provide  
10 information. Decisions are left to the members  
11 of the House and the Senate. So our role  
12 really is focused on providing the best  
13 possible information; not to make policy  
14 recommendations or to direct decision making.  
15 I think that's probably the biggest difference.

16 REPRESENTATIVE MIRABITO: So, in  
17 other words, in your prior work the policy came  
18 and the numbers followed, and here the numbers  
19 come first and then you just let it die?

20 MR. LEX: I wouldn't necessarily say  
21 that. I don't know that -- that my work in  
22 that environment really was directed by the  
23 policy. But we might -- We would look at the  
24 numbers and then maybe take into consideration  
25 other factors, you know, and taking that all as

1 a package make recommendations.

2 I don't want to give the impression  
3 that our analysis -- The state at that time was  
4 purely directed to make the numbers fit.  
5 That's not the case. But there was much more  
6 of a policy recommendation component to it than  
7 there is at the Congressional Budget Office.

8 REPRESENTATIVE MIRABITO: And I  
9 wasn't implying that just so you know. I think  
10 I understand totally what you're saying. The  
11 fact there were no recommendations made by CBO  
12 makes a big difference.

13 MR. LEX: Right.

14 REPRESENTATIVE MIRABITO: You're  
15 looking purely at numbers.

16 The second question, you've been  
17 around about 36 years. Have you ever been  
18 wrong on something? Have you ever had the  
19 numbers wrong where someone has challenged it?

20 I mean, you mentioned that there's a  
21 feeling of respect, but have there been  
22 significant -- I'm sure people challenge all  
23 the time. But have there been significant --  
24 Can you give us an example of a significant  
25 issue where the numbers just didn't pan out the

1 way you thought? And if so, what's the --

2 MR. LEX: There are times.

3 Unfortunately, I can't give you a specific  
4 example, but there are times where we will  
5 issue revised estimates, for instance, on a  
6 piece of legislation. If we issue a cost  
7 estimate that makes certain assumptions given  
8 the information that's available at the time;  
9 then if time goes on, say a month or two, and  
10 the legislation is still in play, it's still up  
11 for consideration, it hasn't been withdrawn or  
12 things like that, and new information comes  
13 about that is -- that would change the nature  
14 of that estimate, then -- I think it's usually  
15 at the request of a member. When that comes to  
16 the floor, we will issue a revised estimate and  
17 make it clear why we're doing that.

18 Part of that is really the whole idea  
19 of openness. We do have a requirement under  
20 law, but it's also on the basis of principle,  
21 that when we do an estimate we make our  
22 assumptions known; that we put out a basis of  
23 estimate so that people understand why we're  
24 coming to the conclusions that we are. And  
25 then if circumstances change so that those



1 assumptions no longer would be considered  
2 reasonable, then we certainly would do a  
3 revised estimate.

4 REPRESENTATIVE MIRABITO: Thank you.  
5 Thank you for coming.

6 CHAIRMAN LEVDANSKY: Senator  
7 Eichelberger.

8 SENATOR EICHELBERGER: Thank you, Mr.  
9 Chairman. Couple questions.

10 Do you guys ever work with OMB, or do  
11 you do everything independent?

12 MR. LEX: We work very closely with  
13 OMB in terms of -- Individual analysts have  
14 ongoing relationships with their counterparts  
15 at the Office of Management and Budget. We're  
16 all working on the same programs.

17 Quite often, especially in March when  
18 we're re-estimating the President's proposals,  
19 it's necessary for our analyst to be able to  
20 talk with people at the Office of Management  
21 and Budget about what assumptions they used in  
22 terms of coming up with their estimates of cost  
23 of new proposals or new policies. There's  
24 certainly a lot of give and take between the  
25 two offices on a staff basis certainly.

1                   SENATOR EICHELBERGER: Do you think  
2 you still manage then to have an independent  
3 opinion, though?

4                   MR. LEX: Certainly. We're not --  
5 Our role is not beholdng to them in any way,  
6 but they're a primary source of information,  
7 just as any other -- just as agencies are  
8 outside resources. I mean, we will -- Our goal  
9 is to get the best possible information  
10 wherever we can. OMB is certainly a great  
11 source of information.

12                  SENATOR EICHELBERGER: Okay. I think  
13 I understand. You view them more of a resource  
14 than you do -- I don't know how to say it. You  
15 don't rely on their opinion. You use them for  
16 informational purposes?

17                  MR. LEX: Absolutely.

18                  SENATOR EICHELBERGER: I read through  
19 some of this this morning. I wanted to be  
20 clear about any political pressure that's put  
21 on your organization. Do you -- How many  
22 scheduled projects, just a ballpark, do you do  
23 a year versus special assignments? Do you get  
24 special assignments from people in Congress  
25 that ask you to look at various issues?

1 MR. LEX: We get individual requests.  
2 Over the course of a year we probably look at  
3 anywhere from 450 to 700 pieces of legislation.  
4 So those are cost estimates that CBO publishes.

5 SENATOR EICHELBERGER: Can I  
6 interrupt you? Those are the ones then that  
7 are referred out of committee. You  
8 automatically do those --

9 MR. LEX: Right.

10 SENATOR EICHELBERGER: -- so that's a  
11 guarantee. There's no political influence  
12 there. If it's referred out of committee, you  
13 folks do a report?

14 MR. LEX: Correct, correct. Within  
15 that, I should qualify that. The vast majority  
16 of those are bills that are reported out of  
17 committee. There is going to be some portion  
18 that may be special requests. They may be  
19 requests from leadership, from chairs of  
20 committees or ranking members. Our primary --

21 And CBO's policies, this kind of lays  
22 out how we respond to requests and what are our  
23 requirements are for making information  
24 available in terms of formal estimates.

25 The first priority is always things

1 reported out of committee. Then there are  
2 requests from leadership or committee chairs or  
3 ranking members. Individual members we will  
4 attempt to address to the extent that we have  
5 time and resources to do that.

6 In all of those, in all of these  
7 cases I should say, if we get a request to look  
8 at a piece of legislation that has been  
9 introduced, that's publicly available, it's not  
10 something that's just simply being drafted.  
11 Any estimate that we publish will be made  
12 available to all parties concerned. It may be  
13 the sponsor. If it's a request of the chair of  
14 a committee, it's also going to go to the  
15 ranking member.

16 SENATOR EICHELBERGER: I didn't quite  
17 understand that. You explained that before.  
18 Is that public information then?

19 MR. LEX: Yes.

20 SENATOR EICHELBERGER: So somebody  
21 else could, the press or anybody else could --

22 MR. LEX: Yes. It also goes up on  
23 our website almost immediately. I mean, there  
24 may be a few hours delay.

25 SENATOR EICHELBERGER: The criticism

1 I heard where the politics come into it is  
2 that, if the Speaker, for example, of the House  
3 says that she does or does not want something  
4 looked at, that's where I hear the interference  
5 comes in. I would think that, realistically, a  
6 committee chair or a ranking member would  
7 respect the wishes of the Speaker. If somebody  
8 came to, say, a member or group of members  
9 wanted something addressed, they would have  
10 probably a slimmer chance of getting something  
11 done by asking for it directly.

12 Your priority would be the ranking  
13 members and the committee chairs, particularly  
14 of committees that you listed on your sheet  
15 here, appropriations, ways and means and  
16 finance. If the Speaker told those folks,  
17 look, we don't want to see a report from CBO on  
18 this, then chances are probably pretty good  
19 that maybe you wouldn't do a report on that.

20 MR. LEX: Well, if the legislation  
21 was reported out of the committee --

22 SENATOR EICHELBERGER: Except, sure.  
23 Then you would certainly --

24 MR. LEX: -- then we'd do it.

25 SENATOR EICHELBERGER: Right. But if

1 it was something else that somebody wanted  
2 looked at you probably -- That's where there's  
3 some influence in the system. That's what I'm  
4 trying to get at. I'm trying to make sure that  
5 we address these concerns here.

6 MR. BOOTH: We certainly get requests  
7 from both sides of the aisle. If the request  
8 never comes to us, then certainly we would  
9 not --

10 SENATOR EICHELBERGER: Right, and  
11 that's no fault of yours. If you don't see the  
12 request, then you can't act on it. Did you  
13 have any experience with that in Illinois, or  
14 did you primarily get it from the Governor's  
15 office? Who did you work for?

16 MR. LEX: Yes, I was in the  
17 Governor's office. We were basically looking  
18 at legislation as it moved through the  
19 legislature to the point, you know, if it  
20 looked like it was actually going to pass and  
21 the Governor was going to have to take action.

22 I don't -- To be honest, it was a  
23 long time ago now, so I don't remember any  
24 particular -- I'm sure there were things going  
25 on, but I don't remember any particular things.

1                   SENATOR EICHELBERGER: Thank you very  
2 much. Thanks for being here today.

3                   CHAIRMAN LEVDANSKY: Senator Browne.

4                   CHAIRMAN BROWNE: Thank you again for  
5 being here and for your information.

6                   I appreciated your comments on  
7 independence. A lot some of the discussion  
8 relating to the provision of this bill address  
9 concerns regarding how an office can be  
10 perceived and/or act independently when it is  
11 created by a political body and the Chief  
12 Executive Officer is appointed through the  
13 political process. You pretty much defined how  
14 that's done is, because the balance changes  
15 back and forth it kind of balances itself out  
16 over time.

17                   It's something that our current  
18 proposal is written to do is to use the current  
19 leadership within the assembly to appoint the  
20 director who will then look to appoint staff to  
21 run the office. So you have 36 years of  
22 experience and you have been able to maintain  
23 that even with the same type of appointment  
24 structure.

25                   Some of the other comments regarding

1 what we're looking at addressing concerns  
2 regarding duplication of effort. That if you  
3 put this bill as a snapshot, incurring time on  
4 top of what we're doing right now within the  
5 Appropriations Committee, Governor's Budget  
6 Office, there potentially would be duplication  
7 of effort. Maybe the Congressional Budget  
8 Office has addressed that over time, but what  
9 is your, in terms of the function of staff,  
10 what is the current relationship between the  
11 work of the Congressional Budget Office and  
12 staff within the budget committees of the House  
13 and the Senate? Is there a lot of duplication  
14 of work?

15 MR. LEX: Well, to a certain extent I  
16 suppose there is some duplication of effort. I  
17 mean, you know, you have committee staff  
18 working on a piece of legislation they're  
19 intimately involved with. They know the  
20 legislation inside and out. So, I am sure  
21 there is some work; in fact, I know there's  
22 work done by some committees, at least in  
23 particular, where they delve a great deal into  
24 the cost of implications of a piece of  
25 legislation. That's good for the relationship



1 between us and them.

2 To the extent they are able to pull  
3 information, it's something they can also  
4 inform our cost-estimating process. Again, we  
5 try to seek information from all good sources.  
6 So I'm sure there is some duplication of  
7 effort.

8 I think our role is probably a little  
9 bit different, in that, it's all that we do. I  
10 mean, it's really -- it's our focus is to look  
11 at the numbers and come up with cost estimates  
12 or revenue estimates, and things of that  
13 nature.

14 CHAIRMAN BROWNE: So what you're  
15 saying is, even though there might be staff  
16 doing some of the same work, it results -- in  
17 the end it results in, when you're complete  
18 with your work, a better work product even if  
19 there is some duplication?

20 MR. LEX: I would suspect so. You as  
21 members would be the ones to best judge whether  
22 or not it's better to have only information  
23 from one source or if you have it from multiple  
24 sources. That would be a decision that you'd  
25 have to make as far as what's the best way to

1 structure it.

2 CHAIRMAN BROWNE: One of the roles  
3 we're considering for this office is a very  
4 significant role in regarding to the balance of  
5 responsibilities within our budget process.  
6 Right now under statute, some claim under our  
7 Constitution, I don't believe that, but under  
8 statute the Governor has sole authority over  
9 one-half of the process, and that is  
10 development and certification of the revenue  
11 estimate, which is essentially a significant  
12 amount of control when you're anticipating a  
13 bilateral negotiation process.

14 MR. LEX: Right.

15 CHAIRMAN BROWNE: The Congressional  
16 Budget Office provides a credible revenue  
17 estimate for purposes of the Legislative Branch  
18 to develop their budget. How is it eventually  
19 used, though? Is it something that has a  
20 significant influence on the final  
21 certification?

22 MR. BOOTH: What the information does  
23 is, it provides the budget committees who work  
24 on a budget resolution this spring a blueprint  
25 for the budget for revenue and the spending

1 stream that they expect to have for that year,  
2 including any legislative changes that are  
3 required to bring that about.

4 It's all advisory. They typically  
5 start from the CBO baseline and then propose  
6 various policies on top of that in very broad  
7 terms. Then that becomes a resolution. It's  
8 not signed by the President. It's a joint  
9 resolution within the Congress. It forms the  
10 blueprint by which the various committees act  
11 over the rest of the year.

12 And there's no balance budget  
13 requirement, of course, the federal government,  
14 so there's no specific target set as far as  
15 something that needs to be realized. So this  
16 becomes a part of the budget plan; that then  
17 Congress works through the appropriation bills  
18 and the various revenue legislation or other  
19 authorizing legislation that would fit within  
20 that plan through the rest of -- through the  
21 rest of the year.

22 CHAIRMAN BROWNE: Essentially what it  
23 results in is somewhat of a parallel certified  
24 estimate that the legislature can rely on, and  
25 is not dependent on the OMB and the Treasury to

1 tell them what the revenue is going to be?

2 MR. BOOTH: That's correct.

3 MR. LEX: That's true. When you say  
4 certified, I'm not sure about the terminology  
5 you're using, but I just want to reaffirm what  
6 Mark has said.

7 Our information is all provided on an  
8 advisory basis. The budget committees can use  
9 that when they pass the budget resolution.  
10 Then that carries the weight. Our information  
11 is advisory in that role, although it does  
12 start as the basis.

13 I think it's an interesting contrast  
14 between what you've described in terms of how  
15 things are structured in Pennsylvania currently  
16 and how CBO came about. The federal  
17 government, as you know, the constitutional  
18 authority for -- over the power of the purse  
19 was vested in the Legislative Branch. So  
20 really, the creation of CBO was Congress's  
21 attempt to reaffirm its jurisdiction over that,  
22 something that it had lost over time as power  
23 really started to move towards the Executive  
24 Branch. You may be faced with some -- a  
25 different circumstance there a little bit.

1                   CHAIRMAN BROWNE: I can see this as a  
2 mechanism to re-balance the equation. It's  
3 very difficult for four committees that  
4 potentially have circumstances, different  
5 interests to have -- to come together on one  
6 certified estimate that we can all stipulate  
7 to. That's one of the problems in our process  
8 is, we have nothing in our process we stipulate  
9 to. Any time you have parties at a negotiation  
10 table, the more they can stipulate to the  
11 more -- the smoother it's going to go, more  
12 efficient it's going to be. That's one of the  
13 goals of this is to perform that.

14                   One last question. One of the things  
15 we're looking to give the office is the ability  
16 to do more macro-analysis on tax changes; not  
17 just the current effects that tax modifications  
18 would do to the budget, but a more macro sense.  
19 I would suspect the Joint Committee on Taxation  
20 is responsible for that now. Is there a reason  
21 why that has to be separate?

22                   MR. LEX: I'm going to let Mark --

23                   MR. BOOTH: As you say, JCT is  
24 responsible for estimating most of the  
25 recommended proposals; not all of them. CBO

1 estimates some of the smaller set of proposals,  
2 mainly dealing with custom duties and  
3 miscellaneous fees and fines.

4 None of the estimates, as you're  
5 probably aware, are done using a, what we  
6 call -- often called a static basis. Purely a  
7 static basis would assume that if tax rates,  
8 for example, are cut in half then revenues are  
9 cut in half. Just pure arithmetic. Assumes no  
10 adjustment by taxpayers to the change of the  
11 law. It's not done.

12 There are a number of different  
13 behavioral effects that are taken into account  
14 in the estimates that are done both by JCT and  
15 CBO. For example, if capital gain tax rates  
16 are changed, you expect taxpayers to alter the  
17 number of capital gains they realize by selling  
18 of stock or a property. Or if tariff rates are  
19 changed, individuals consume more or less of  
20 the imported good.

21 These and many other types of changes  
22 are incorporated into the estimates. These are  
23 often called micro -- sort of a micro-dynamic  
24 changes are built into the estimate. What is  
25 not built in, as you say, are these

1 macro-changes, changes to overall economic  
2 activity, G.E.P., interest rates and the like.

3           There are a number of arguments,  
4 forward again, obviously, I'm not prepared to  
5 go into all detail. It's very important,  
6 obviously, to know and understand the potential  
7 of macro-economic effects of the policies.  
8 There are some practical difficulties as far as  
9 timing, how quickly the estimates could be  
10 turned around. Point estimates are required  
11 for the congressional budget process, and the  
12 science is not well developed enough to provide  
13 not much more than ranges.

14           What CBO does which is separate from  
15 the normal -- the normal scoring of bills  
16 themselves is to provide separate analyses of  
17 legislation which is believed to have  
18 potentially significant effects on the  
19 macro-economy, so that, the number of bills,  
20 mostly the Recovery Act enacted about a year  
21 ago, CBO has done some studies of the potential  
22 macro-economic impacts of that legislation.

23           As well, every year when the  
24 President proposes a budget, CBO undertakes an  
25 analysis of the potential macro-economic

1 impacts of those proposals. But again, it's  
2 done in a range, so a range of possible  
3 outcomes rather than a point estimate. It  
4 takes some time to produce.

5 CHAIRMAN BROWNE: Just to follow-up,  
6 is there, again, a structural reason why that  
7 function would need to be in a separate  
8 committee within Congress? What we're  
9 proposing is, if we did it in a parallel sense  
10 we would have a separate office to do tax  
11 analysis outside of the legislative fiscal  
12 office. Is there a structural reason why they  
13 can't be in the same office?

14 MR. BOOTH: I don't see any  
15 structural reason. Congressional process  
16 was -- CBO was layered on top of the existing  
17 structure. That's served Congress well we  
18 believe. But yes, there's no reason why that  
19 has to be the case if you would make the  
20 decision as to how you think that would best be  
21 done.

22 CHAIRMAN BROWNE: Thank you.

23 CHAIRMAN LEVDANSKY: Representative  
24 Mirabito.

25 REPRESENTATIVE MIRABITO: Just



1 following up on Senator Eichelberger's comment.  
2 We're on a clean slate here; we're writing on a  
3 clean slate. Without asking you to be too  
4 critical of CBO, but you've been there a long  
5 time, if you could see something different that  
6 would be done to ensure that politics stayed  
7 out of it, what would you recommend? What  
8 could be done that would help?

9 MR. LEX: Maybe Mark has some ideas.  
10 We really are benefiting from history, you  
11 know. I have been at CBO 15 years, but that's  
12 less than half of the life of the organization.

13 I guess the one thing that I would  
14 pay particular attention to is the executive  
15 director that you appoint. I mean, especially  
16 as you start a new agency, you will need to  
17 pick someone who is not only highly qualified,  
18 but someone who can establish an office with a  
19 back bone of independence. That's probably --  
20 As you proceed down this road, that's going to  
21 be one of the most important decisions you  
22 make.

23 We've benefited from eight very  
24 strong directors, certainly in terms of  
25 providing an independent voice to the Congress.

1 MR. BOOTH: I'm sure each of those  
2 eight, I believe, directors has their own  
3 stories for how they've been angered -- have  
4 angered both sides of the political aisles on  
5 numerous occasions. Yet, the Congress  
6 continues to point directors who are dedicated  
7 to the independence and the objective analysis  
8 of the organization.

9 REPRESENTATIVE MIRABITO: Thank you  
10 very much.

11 CHAIRMAN LEVDANSKY: Mr. Kassoway.  
12 And we are being joined, before Mr. Kassoway  
13 asks his questions, by Representative Tim Seip.  
14 Also we have been joined by Representative Dave  
15 Reed.

16 MR. KASSOWAY: Just a couple  
17 questions on the partisan, nonpartisan. Is  
18 there any requirement that you be registered as  
19 nonpartisan or anything? Do you retain your  
20 party registrations?

21 MR. LEX: Yeah, we retain our party  
22 registrations.

23 MR. BOOTH: I live in Virginia which  
24 doesn't actually register by party.

25 MR. LEX: And I live in a district

1 and we don't have voting representation in  
2 Congress, anyway, so it doesn't, you know.  
3 There are all kinds of odd little things that  
4 happen.

5 MR. KASSOWAY: What kind of  
6 portability is there within the organization?  
7 I mean, where do the people that are working  
8 for you go after they work for you? Where have  
9 people worked before they come to you? Have  
10 they come from the Hill, come from the caucuses  
11 on the Hill?

12 MR. LEX: It's rare that we have  
13 someone come from the Hill, from, say, one of  
14 the budget committees or one of the appros  
15 committees. It's not to say that it's  
16 completely out of the question, but it's rare.  
17 Part of that is because of our focus on  
18 independence, and looking at someone's  
19 experience as being part of the package when  
20 you hire someone, you want to hire someone who  
21 can emulate that independent voice that you  
22 have.

23 If someone has a significant number  
24 of years working for a committee or for a  
25 member, you know, not to say that it's

1 completely out of the question, but it may be  
2 more difficult to expect them to be able to  
3 take that purely objective approach that we  
4 value so highly.

5 Now, there are occasions when people  
6 come to CBO and they decide to go and work for  
7 the Hill. Even though our work is nonpartisan,  
8 that's not to say that people that work in the  
9 agency are not politically minded in their own  
10 personal life. We certainly have restrictions  
11 on what you can do while you're employed at  
12 CBO, but there are people that decide, this is  
13 just too constricting for me. I feel too  
14 strongly about particular issues and they may  
15 want to go work on the Hill.

16 There are a number of people that go  
17 work for think tanks; that go work for Urban or  
18 Brookings or Heritage, you know, something like  
19 that because those are the types of people that  
20 we tend to attract.

21 MR. KASSOWAY: The directors are  
22 hired by the congressional body?

23 MR. LEX: The director is appointed  
24 by the Speaker and by the President Pro Tem of  
25 the Senate with advice from the budget

1 committees.

2 MR. KASSOWAY: Are all the other  
3 employees hired within the organization without  
4 input from the outside?

5 MR. LEX: Yes. I actually -- Well,  
6 you can ask another question. I can look up --  
7 There's actually a phrase in our enacting  
8 legislation that speaks to how employees of the  
9 organization are hired.

10 MR. KASSOWAY: Do you have much  
11 interaction with state independent fiscal  
12 offices at all?

13 MR. LEX: My unit actually does. In  
14 terms of -- We rely on information from -- I  
15 don't know that they're necessarily  
16 independent, but we look at information from  
17 all kinds of states in terms of their revenue  
18 offices. In some cases they're independent;  
19 some cases most of the responsibility is in the  
20 Governor's office. Some of them have  
21 independent fiscal agencies that are putting  
22 together revenue projections. Sometimes it's a  
23 cooperative effort within the legislature.

24 There's not a whole lot of  
25 interaction with staff, I guess I should

1     qualify that. Most of it we're just trying to  
2     pull information just to give a sense to our  
3     own internal counterparts of how states are  
4     doing.

5                   MR. KASSOWAY: Would you feel  
6     comfortable giving us suggestions on one or two  
7     states that might have done it the right way,  
8     that we might be able to look at to model ours  
9     after?

10                   MR. LEX: I don't know about modeling  
11     after. The California Legislative Analyst  
12     office has a long and pretty well-established  
13     relationship as far as doing good work, and  
14     they are nonpartisan as well. That would be  
15     the one that would first come to mind.

16                   MR. KASSOWAY: They do revenue  
17     estimates out there?

18                   MR. BOOTH: They do.

19                   MR. LEX: I think so.

20                   MR. BOOTH: On the revenue side we  
21     consult with many different states. We go to  
22     conferences when states get together. We face  
23     many of the same issues, so that, we compare  
24     notes and try to learn from each other.

25                   MR. KASSOWAY: Are there any others?

1 They sort have been -- They're a little off in  
2 their numbers it seems.

3 MR. LEX: You know, the National  
4 Conference of State Legislatures I'm sure could  
5 give you information as far as how various  
6 fiscal offices are structured.

7 MR. KASSOWAY: Thank you.

8 MR. LEX: Do you want to hear my  
9 sentence from our enacting legislation? I just  
10 found it. All personnel of the office shall be  
11 appointed without regard to political  
12 affiliation and solely on the basis of their  
13 fitness to perform their duties. That makes it  
14 pretty clear.

15 CHAIRMAN LEVDANSKY: I have a few  
16 questions. I just want to make sure what the  
17 role of CBO is relative to the standing  
18 committees.

19 When a bill is reported from a  
20 committee, does it require -- here in  
21 Pennsylvania we call them fiscal notes, to  
22 understand the fiscal impact of the  
23 legislation, although we don't require it at  
24 the committee levels. It's required on the  
25 floor of the House when it's being considered.

1           In Congress, when a bill is being  
2 reported from committee, is that where the  
3 fiscal analysis provided by the CBO is required  
4 to be provided before the vote out of  
5 committee?

6           MR. LEX: After a committee has  
7 approved a bill, that's when the requirement  
8 is. It's a requirement that they include a CBO  
9 cost estimate in their report. The report is  
10 what accompanies the bill to the floor, so that  
11 the information available to everyone before  
12 any floor vote.

13           CHAIRMAN LEVDANSKY: After the bill  
14 is reported from committee, that's when CBO  
15 does its analysis of its overall fiscal impact  
16 to the budget, so that as the bill then moves  
17 from committee before it's brought up for floor  
18 consideration, the analysis has already been  
19 provided?

20           MR. LEX: Right.

21           MR. BOOTH: And CBO will provide  
22 information before as we see the legislation  
23 moving through the process.

24           CHAIRMAN LEVDANSKY: Right.

25           MR. LEX: Right.



1 MR. BOOTH: The requirement is once  
2 the bill is reported then, yes, cost  
3 estimates --

4 CHAIRMAN LEVDANSKY: So you may  
5 provide the infor -- The option is to provide  
6 your fiscal analysis prior to the markup in  
7 committee to the extent that would be helpful  
8 in the committee process?

9 MR. LEX: Again, it's a request. We  
10 would have to have a request.

11 CHAIRMAN LEVDANSKY: Request of the  
12 chair or ranking member.

13 MR. LEX: Right. That information  
14 again would be publicly available to everyone.  
15 And, we would issue another cost estimate then  
16 after its been approved by committee assuming  
17 there have been changes.

18 CHAIRMAN LEVDANSKY: So anything  
19 reported from committee requires the CBO fiscal  
20 note before it can move any further in the  
21 legislative process in Congress. So I'm just  
22 trying to think under Senator Eichelberger's  
23 concern how the Speaker could thwart a request  
24 from members.

25 It seems to me, then, if a rank and

1 file member on a committee wanted a fiscal  
2 analysis done, they could just go to their  
3 ranking committee chairman and request them --  
4 and ask them to request CBO to make -- to do  
5 its analysis; is that correct?

6 MR. BOOTH: Or introduce bills --

7 MR. LEX: That's correct.

8 MR. BOOTH: -- yes. If they're in  
9 the public domain, then CBO would produce the  
10 estimates for those bills, for the leadership,  
11 the various committees, and time permits, for  
12 the members.

13 CHAIRMAN LEVDANSKY: So the Speaker  
14 couldn't thwart the analysis there. It would  
15 seem to me that maybe one other possibility  
16 then. Could it be that if Minority members of  
17 a committee couldn't persuade their Minority  
18 Chairman to request a CBO fiscal analysis, then  
19 it wouldn't happen?

20 MR. BOOTH: If no request comes, then  
21 CBO would not produce an estimate.

22 CHAIRMAN LEVDANSKY: Maybe it says a  
23 lot about, if they can't get their own chairman  
24 to request a fiscal analysis, you've got to  
25 maybe wonder about the merit of the request.

1 MR. LEX: There is a natural  
2 prioritization of responsibilities that  
3 happens. Part of the reason that we only do,  
4 you know, the statutory requirement is on bills  
5 that are reported out of committee is that,  
6 alternative -- I mean, even then we have 450 to  
7 700, depending on the level of activity in any  
8 particular year. Beyond that we would have  
9 thousands. If we were doing estimates on every  
10 introduced bill, we could potentially have  
11 thousands of estimates. We simply don't have  
12 the resources to do that.

13 CHAIRMAN LEVDANSKY: I note in your  
14 testimony that the analysis that the CBO  
15 performs there is strictly advisory. They're  
16 not binding. You have no enforcement power.  
17 How then, or even do you resolve differences?  
18 Say there's a proposal on whatever issue and  
19 the CBO comes up with one estimate of the cost;  
20 and say, the President's OMB comes up with  
21 another estimate of the cost. Do those  
22 differing cost estimates get reconciled, or do  
23 they just -- two different cost estimates and  
24 Congress then decides what it wants to do?

25 MR. BOOTH: Two different cost

1 estimates. The CBO's estimates are the ones  
2 that are governing for the Congressional budget  
3 process as far as any points of order, other  
4 parliamentary issues, and -- People want to  
5 understand why we have differences with the  
6 administration. Typically, they're not  
7 substantial differences, but the congressional  
8 process is governed by the CBO estimates, and  
9 those of the Joint Committee on Taxation for  
10 revenues.

11 CHAIRMAN LEVDANSKY: And not only for  
12 the cost of proposed legislation, but in terms  
13 of just like the revenue estimate on a yearly  
14 basis, the CBO could say, here's where we see  
15 the economy. This is how much revenue we think  
16 the federal tax statutes will generate, and CBO  
17 could have an entirely different one, but they  
18 essentially don't get reconciled.

19 MR. BOOTH: They do not get  
20 reconciled. We try to -- We analyze the  
21 President's budget. We assess the President's  
22 estimates both for the proposals as well as for  
23 the underlying baseline we try to understand  
24 the differences between the two. But, they are  
25 never reconciled in the way you're describing.

1                   CHAIRMAN LEVDANSKY: I guess that's  
2 really not that critical as long as the federal  
3 government can engage in deficit financing.  
4 That's probably not that critical that that  
5 difference get resolved. Unlike at the state  
6 level where it is critical because we can't  
7 engage in deficit financing, so we're going to  
8 have to have both the Executive and Legislative  
9 Branch essentially agree on what the revenue  
10 estimate is. So that will be a little more  
11 challenging here.

12                   In terms of your budget, I think I  
13 read in your document--I want to make sure I  
14 have it right--your agency runs on an annual  
15 budget of about \$45 million? Did I read that  
16 correctly.

17                   MR. LEX: That might be right.

18                   MR. BOOTH: It sounds like it's in  
19 the right neighborhood.

20                   CHAIRMAN LEVDANSKY: In the right  
21 neighborhood. Is that set solely by Congress,  
22 or is that part of the entire government's  
23 budget resolution that requires approval by  
24 Congress and by the President as well?

25                   MR. BOOTH: Yes. It's part of the

1 normal congressional appropriations that  
2 requires President's signature as a law and  
3 appropriations bill.

4 CHAIRMAN LEVDANSKY: Okay. In terms  
5 of the revenue estimates that CBO does, you  
6 mention that you essentially -- My  
7 understanding is you do them in-house, so you  
8 have an econometric model that you operate and  
9 maintain and upgrade, and you use that to make  
10 your revenue projections; is that correct?

11 MR. BOOTH: That's correct. You have  
12 a macro-economic forecasting division which  
13 produces forecasts of the aggregate economic  
14 activity, and then we use the details from that  
15 to produce the individual revenue projections.

16 CHAIRMAN LEVDANSKY: Do you ever  
17 contract out with any outside econometric  
18 forecasting firm that does similar kind of  
19 work?

20 MR. BOOTH: We have access to their  
21 models, we use their models, but we have our  
22 own methodology. We have a panel of advisors  
23 who we describe the forecast to before we  
24 finalize it, a number of different methods, but  
25 we have these other sets of information

1 available to us but we have our own specific  
2 modeling.

3 CHAIRMAN LEVDANSKY: So if you wanted  
4 to actually run a check on your model to see if  
5 it's really -- if its predicted value is good,  
6 you could compare it?

7 MR. BOOTH: We have these other  
8 forecast models --

9 CHAIRMAN LEVDANSKY: To Global  
10 Insights --

11 MR. BOOTH: -- available.

12 CHAIRMAN LEVDANSKY: -- or DRI --

13 MR. BOOTH: Correct.

14 CHAIRMAN LEVDANSKY: -- or whoever  
15 else is out there. Do any states contract with  
16 CBO? Given the fact you have this econometric  
17 model that you utilize for federal purposes,  
18 any instances where states have contracted with  
19 CBO to do the econometric forecasting?

20 MR. BOOTH: I'm not aware of any.

21 MR. LEX: We wouldn't -- I don't  
22 believe we do state -- We don't do individual  
23 state forecasts.

24 MR. BOOTH: Right. Theirs would not  
25 be --

1 MR. LEX: So -- Yeah.

2 MR. BOOTH: -- applicable to specific  
3 states when done at a macro U.S. level.  
4 Obviously, all the regions, all the different  
5 states have their own specific issues.

6 CHAIRMAN LEVDANSKY: We use Global  
7 Insights as the vendor that the state has  
8 utilized for quite some time.

9 One final area I want to understand.  
10 This whole issue of static versus dynamic  
11 modeling on revenue projections, I mean, my  
12 understanding of it is, if you just use static,  
13 you just look at what the changes -- what the  
14 proposed changes are in the tax code and what  
15 the direct impact would be, the direct cost  
16 would be. It doesn't anticipate the taxpayer  
17 behavior would change one way or the other; is  
18 that correct?

19 MR. BOOTH: That would be a purely  
20 static, sort of an arithmetic type of method of  
21 forecasting changes.

22 CHAIRMAN LEVDANSKY: Whereas, dynamic  
23 would try to predict and say, well, if you have  
24 this change in the tax code, then these are the  
25 taxpayers that are directly impacted and they



1 are more or less likely to spend more here or  
2 invest more somewhere else. In that sense --  
3 In a sense it strikes me as though dynamic  
4 modeling is a little more risky, and a static  
5 modeling is more conservative in its approach.  
6 Is that a fair assessment?

7 MR. BOOTH: Certainly static  
8 forecast, static estimates are much easier to  
9 produce. They miss so much of the variation of  
10 the taxpayer activity. As I was describing  
11 earlier about sort of a micro-dynamic element,  
12 taxpayer changing their behavior in certain  
13 ways. Then there's the macro-dynamic where you  
14 can have addition, tax changes made, encourage  
15 people to enter the labor force and produce  
16 more, increasing overall economic activity, or  
17 businesses to invest more to increase overall  
18 activity. That's the aspect that is not built  
19 into the traditional cost estimates of  
20 legislation. They are built into the baseline  
21 once the bills are enacted, of course.

22 But those -- Science is not as  
23 developed for the macro-elements. We do produce  
24 analyses of possible effects of different  
25 bills. It requires a number of different

1 assumptions about how taxpayers look forward to  
2 changes in activity. If you cut taxes today,  
3 does that mean that tax rates have to be  
4 increased in the future? There are a number of  
5 different assumptions that may need to be made  
6 that make precise estimates difficult. You  
7 employ a variety of different models to try to  
8 capture different types of influences.

9           There are certain types of demand  
10 influences as we're experiencing now, clearly,  
11 with demand being so much weaker than the  
12 potential of the economy. Those types of  
13 effects of legislation are very different than  
14 the supply effects of different types of  
15 changes that change the potential for the  
16 economy to produce.

17           So we produce estimates of ranges of  
18 potential effects of macro-economy for bills  
19 that have, I believe significant effects on the  
20 economy at request of Congress. But, those  
21 effects are not built into the point estimates  
22 that are used for the congressional budgeting  
23 process.

24           CHAIRMAN LEVDANSKY: If you were  
25 engaged in a two or three concurrent policy

1 changes, say you wanted to change income tax  
2 rates; you wanted to change inheritance in the  
3 state tax rates, and you wanted to change  
4 capital gains rates, would probably be  
5 extraordinarily challenging and difficult to do  
6 a -- to construct a dynamic model with those  
7 three major factors being altered?

8 MR. BOOTH: It takes time to analyze  
9 all those things, and the Congressional budget  
10 process requires quick analyses and a whole  
11 slew of different proposals.

12 CHAIRMAN LEVDANSKY: So the safer  
13 route strikes me being the static modeling  
14 approach?

15 MR. BOOTH: Another element is that,  
16 the starting point for the analysis, the base  
17 case is very important for the effects of a  
18 policy on the macro-economy. So that, when  
19 you're in a period such as today clearly with  
20 much slack in the economy, you get different  
21 effects of a policy than if you were in an  
22 economy that had very low unemployment so that  
23 certain provisions might -- that would  
24 stimulate the economy currently and have  
25 certain types of effects, have different

1 effects if the economy were already operating  
2 potential G.E.P.

3 As a follow-up to that, since the  
4 starting point is so important, if one bill  
5 were enacted that would change the starting  
6 point. So that, a subsequent bill which may  
7 already have an estimate produced for it would  
8 then have a different estimate once other bills  
9 were enacted so that it could set -- make for  
10 some instability, you might say, in the  
11 estimating process if we were constantly  
12 updating the base case for enact legislation  
13 than having to re-score all previous bills  
14 under that new base-case scenario.

15 CHAIRMAN LEVDANSKY: But essentially,  
16 the policy that you have -- So I understand,  
17 the model that you have right now that you  
18 employ, the CBO, is the static model approach?

19 MR. BOOTH: No. We have built many  
20 micro-dynamic elements into the forecast. I  
21 would call static estimates to be, assuming  
22 that no economic activity changes if you lower  
23 tax rates, the example I used, if you cut tax  
24 rates in half or tariff rates in half, you get  
25 half of the revenue, there would be no change

1 in activity on the part of taxpayers.

2 When CBO does its estimates of tariff  
3 changes, for example, we assume that if tariff  
4 rates are cut in half that lowers the price of  
5 the good, that would encourage more consumption  
6 of that good. That would then change the  
7 subsequent tariff revenues. That could be  
8 independent of changes at G.E.P. people may buy  
9 more of the imported good and lesser domestic  
10 product and still have the same overall  
11 economic activity.

12 There are many, many types of  
13 assumptions of that ilk that are used in the  
14 process. It's just the macro dynamic, the  
15 changes to overall G.E.P. that are not built  
16 into the end, and the corresponding incomes, et  
17 cetera, that are not built into the revenue  
18 estimates.

19 CHAIRMAN LEVDANSKY: Okay. Any other  
20 questions from members? We have been joined by  
21 Representative Frankel from Pittsburgh and  
22 Allegheny County.

23 Representative Mirabito for a final  
24 follow-up.

25 REPRESENTATIVE MIRABITO: I notice

1 you have a panel of economic advisors.  
2 Apparently, they comment on twice a year or so.

3 MR. BOOTH: Yes.

4 REPRESENTATIVE MIRABITO: Is that  
5 something that you think is -- Is that more of  
6 just analysis or does it help direct the  
7 policy? What do they do?

8 MR. BOOTH: CBO presents to its  
9 economic advisors numerous issues that the  
10 agency is facing. We present our forecast.  
11 It's done right around the forecasting time,  
12 both right before our winter forecast is  
13 released and right before our summer forecast  
14 is released. So we share early version of our  
15 forecasts with them to get their opinion.

16 We get input as far as whether our  
17 forecasts in different components might be too  
18 high, too low, et cetera, so we get their  
19 expertise on that, as well as other issues that  
20 are facing the agency, and you invite them to  
21 address different issues that we're facing to  
22 some degree or other.

23 REPRESENTATIVE MIRABITO: Thank you.

24 CHAIRMAN LEVDANSKY: Mr. Kassoway.

25 MR. KASSOWAY: You said before that

1 you have a budget of roughly \$45 million and  
2 about 250 employees. What portion of the  
3 budget would be directly toward labor costs and  
4 what portion would be for overhead?

5 MR. BOOTH: I'm not really prepared  
6 for that, but we do know it's the overwhelming  
7 share is for labor, the labor costs.

8 CHAIRMAN LEVDANSKY: Any other  
9 questions?

10 (No response).

11 CHAIRMAN LEVDANSKY: Seeing none, I  
12 want to thank both of you for coming up to  
13 offer your insights that we've gained by  
14 learning about the CBO. Thank you.

15 (At 10:30 a.m., the public hearing  
16 concluded).

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