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COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES
APPROPRIATIONS COMMITTEE

MAIN CAPITOL
ROOM 140
HARRISBURG, PENNSYLVANIA

PUBLIC HEARING
INDEPENDENT FISCAL OFFICE

TUESDAY, FEBRUARY 21, 2012
11:02 A.M.

BEFORE:

- HONORABLE WILLIAM F. ADOLPH, JR.,
Majority Chairman
- HONORABLE JOHN BEAR
- HONORABLE MARTIN CAUSER
- HONORABLE JIM CHRISTIANA
- HONORABLE GARY DAY
- HONORABLE GORDON DENLINGER
- HONORABLE BRIAN ELLIS
- HONORABLE MAUREE GINGRICH
- HONORABLE GLEN GRELL
- HONORABLE THOMAS KILLION
- HONORABLE DAVID MILLARD
- HONORABLE MARK MUSTIO
- HONORABLE BERNIE O'NEILL
- HONORABLE MICHAEL PEIFER
- HONORABLE SCOTT PERRY
- HONORABLE SCOTT PETRI
- HONORABLE TINA PICKETT

BRENDA J. PARDUN, RPR
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1 BEFORE: (cont'd)

2 HONORABLE JEFFREY PYLE
3 HONORABLE THOMAS QUIGLEY
4 HONORABLE MARIO M. SCAVELLO
5 HONORABLE CURT SONNEY
6 HONORABLE JOSEPH MARKOSEK, Minority Chairman
7 HONORABLE MATT BRADFORD
8 HONORABLE MICHELLE BROWNLEE
9 HONORABLE H. SCOTT CONKLIN
10 HONORABLE PAUL COSTA
11 HONORABLE DEBERAH KULA
12 HONORABLE TIM MAHONEY
13 HONORABLE MICHAEL O'BRIEN
14 HONORABLE JOHN SABATINA
15 HONORABLE STEVE SAMUELSON
16 HONORABLE MATTHEW SMITH
17 HONORABLE RONALD WATERS

18 ALSO PRESENT:

19 HONORABLE KERRY BENNINGHOFF
20 HONORABLE JOHN EVANS
21 HONORABLE RON MILLER
22 HONORABLE BRENDAN BOYLE
23 HONORABLE VANESSA LOWERY BROWN
24 HONORABLE WILLIAM DEWEESE
25 HONORABLE DAN FRANKEL

ED NOLAN, MAJORITY EXECUTIVE DIRECTOR
MIRIAM FOX, MINORITY EXECUTIVE DIRECTOR
DAN CLARK, COMMITTEE CHIEF COUNSEL

BRENDA J. PARDUN, RPR
REPORTER - NOTARY PUBLIC

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P R O C E E D I N G S

CHAIRMAN ADOLPH: Thank you.

The next hearing will be with the Independent Fiscal Office. It's my pleasure to introduce Matthew Knittel, the director of the Independent Fiscal Office as well as Mark Ryan, the deputy director, and Jennifer Boger, senior budget analyst.

Good morning.

By way of background for the members, the Independent Fiscal Office was created by Act 120 of 2010. The Independent Fiscal Office was created to provide a nonpartisan fiscal analysis of economic, revenue, and budget issues to assist the general assembly and the governor.

The 2011-2012 budget made an appropriation of \$1.9 million to this office. The director was hired on September 19th, 2011, and there are currently three employees. The office expects to be fully staffed by this fall, with total a total of ten to eleven employees.

The major mandatory obligations of this office are, number one, publish a five-year outlook; number two, convene a revenue conference; and, number three, produce an initial revenue

1 estimate by May 1st of each fiscal year and produce
2 an official estimate by June 15th of each fiscal
3 year.

4 Thank you. And without further ado,
5 Mr. Director, the time's yours.

6 DIRECTOR KNITTEL: Thank you.

7 Chairman Adolph, Chairman Markosek, and
8 members of the committee, thank you for the
9 opportunity to testify before you today.

10 The Independent Fiscal Office was
11 created to provide revenue projections for the
12 annual budget process and impartial fiscal analysis
13 of economic, revenue, and budgetary issues. The
14 office seeks to provide the public and the general
15 assembly with information that can be used to
16 evaluate the potential fiscal and economic
17 implication of policy decisions.

18 Within that role, the office might
19 estimate the economic or fiscal impact of a
20 proposed policy, but will not recommend, support,
21 or oppose any specific proposal.

22 For all analysis, the office will
23 explain the methodology used as well as any
24 assumptions or research that are incorporated
25 therein.

1 I'd like to direct my brief comment
2 towards three issues: the current status of the
3 office, the economic outlook for 2012, and the
4 revenue outlook for the rest of the fiscal year.

5 Turning to the office status, I started
6 in my capacity as director of the Independent
7 Fiscal Office on September 19. Two additional
8 staff joined in November and December so that the
9 office currently employs three individuals.

10 We anticipate hiring two more staff
11 during the next few weeks. And we expect that the
12 office will be fully staffed by the end of the
13 fall, at which point the office will have ten to
14 eleven individuals.

15 For FY '12-'13, the executive budget
16 proposed an appropriation of 1.805 million. And
17 after taking into account expected operating costs
18 and miscellaneous, one-time expenditures, we do
19 anticipate that that appropriation will be
20 sufficient to fund the office for the current
21 fiscal -- the next fiscal year once we're fully
22 staffed.

23 Since its establishment a little more
24 than four months ago, the office has published a
25 five-year outlook report, convened a revenue

1 conference, and established an office website, and
2 we view those achievements as basic templates for
3 future activity, and we will expand upon those
4 efforts once the office is fully staffed and
5 acquired the necessary data and statistical
6 packages to perform more rigorous analysis.

7 Turning to the economic outlook, the
8 table submitted with this testimony details
9 selected series from the economic forecast provided
10 by IHS Global Insight for January 2012. That
11 forecast was used for the recent release of the
12 executive budget.

13 The 2012 forecast has weakened since
14 the official estimate for the current fiscal year
15 was released last June. The weaker economics
16 explain much of the decline in expected revenues
17 for the year.

18 For both the U.S. and PA, real output
19 and employment were revised down for most years,
20 while unemployment rates were revised up.

21 The January economic forecast calls for
22 modest real growth for the Commonwealth for 2012 of
23 1.6 percent and modest real growth in nominal wage
24 income of 3.5 percent. The projected unemployment
25 rate remains at 7.9 percent for the year, and

1 average unemployment -- average employment levels
2 increased by 66,000 jobs.

3 The forecast also suggests that the
4 housing market bottomed out in 2011, as existing
5 home sales and new homes sales increase in 2012.

6 Overall, we believe that the economic
7 forecast is plausible but leans slightly
8 pessimistic. Some very recent economic reports
9 suggest that growth could be a bit more robust than
10 the current forecast.

11 At the revenue conference the office
12 hosted last month, several presenters commented on
13 the improving outlook for states. The presentation
14 by the National Conference of State Legislatures
15 show that the state revenue collections are now
16 generally in line with projections. Another
17 presentation from the Philadelphia Federal Reserve
18 show that leading economic indicators for the
19 Commonwealth are positive, suggesting a guardedly
20 optimistic outlook.

21 We believe that if the labor market
22 continues to improve, then it will bolster consumer
23 confidence and imply additional spending, hiring,
24 and investment.

25 Turning to the year-to-date revenues,

1 through January, year-to-date general fund tax
2 revenues have fallen short of the levels projected
3 at the time the budget was enacted, by \$497
4 million, approximately 3.5 percent. However, they
5 have shown a modest increase year over year of \$326
6 million, approximately 2.4 percent.

7 Looking forward to the remainder of the
8 fiscal year, we expect a modest final payment for
9 April personal income taxes; continued growth in
10 sale taxes, especially motor vehicle taxes, which
11 have shown strong growth for the first half of the
12 fiscal year; a weak final payment for corporations;
13 and realty transfer tax payments that slowly
14 reflect an improving housing market.

15 Overall, we do not anticipate a spring
16 surprise similar to the one that occurred last year
17 when we had a surge in personal income and
18 corporate income tax final payments; however, we do
19 anticipate that revenues will reflect an economy
20 that is gradually gaining strength.

21 We also anticipate significant
22 head winds from the scheduled expiration of many
23 federal tax provisions in 2013. The expiring
24 provisions include the payroll tax cut; reduced
25 capital gains and dividend tax rates; lower tax

1 rate brackets; higher child tax credits; the
2 reinstatement of limitations on the itemized
3 deductions and personal exemption phaseout, known
4 as PEP and Pease; and the elimination of all
5 federal bonus depreciation and higher Section 179
6 expensing thresholds.

7 Automatic spending cuts are also
8 scheduled to occur. If current law remains
9 unchanged, these actions will have a significant
10 impact on the disposable income of Commonwealth
11 residents and general fund tax revenues. The
12 office is currently working to quantify that impact
13 as part of its preliminary revenue estimate on May
14 1st.

15 Thank you. And I'd be happy to answer
16 any questions that you might have.

17 CHAIRMAN ADOLPH: Thank you.

18 I have just a couple short, little
19 questions regarding the Independent Fiscal Office
20 itself. Where are you located?

21 DIRECTOR KNITTEL: We're currently
22 located in the North Office Building, on the first
23 floor.

24 CHAIRMAN ADOLPH: North Office
25 Building.

1 DIRECTOR KNITTEL: And we're scheduled
2 to move next week to the Rachel Carson Building, on
3 the second floor.

4 CHAIRMAN ADOLPH: Okay. And we had
5 appropriated \$1.9 million to your office for the
6 current fiscal year, and based upon -- we're
7 looking at the entire Independent Fiscal Office
8 right now?

9 DIRECTOR KNITTEL: That's correct.

10 CHAIRMAN ADOLPH: You three folks?
11 Okay. The \$1.9 million, I'm sure, is not being
12 divided among you three; is that correct?

13 DIRECTOR KNITTEL: That is correct.

14 CHAIRMAN ADOLPH: That's correct.
15 Okay.

16 So we should have some excess money
17 left over in the Independent Fiscal Office come
18 June 30th?

19 DIRECTOR KNITTEL: That's correct. We
20 do have some large, one-time expenditures coming up
21 for our office furniture, computers,
22 infrastructure, but we do anticipate there'll be
23 moneys left over.

24 CHAIRMAN ADOLPH: Okay. And I'm
25 looking forward to your first report to the general

1 assembly.

2 Chairman Markosek.

3 REP. MARKOSEK: Thank you, Chairman.

4 Just the question that you asked,
5 Chairman, was one of the best ones I've heard here
6 since we've been doing these: Where are you
7 located.

8 Your fiscal report is due in May?

9 DIRECTOR KNITTEL: That's correct. May
10 1st.

11 REP. MARKOSEK: Okay. What do you --
12 what do you base that on, and -- how do you get
13 your information, I guess, is a better way to ask
14 that question. You have -- I think I know the
15 answer, but perhaps for the -- just some general
16 information here, what kind of consultants do you
17 use or don't use? And where else do you get your
18 information from?

19 DIRECTOR KNITTEL: Yeah. Our main data
20 will be of two varieties. One will be nonpublic
21 data. This would be tax data, that the office is
22 currently work with revenue department to secure,
23 that we will be using for purposes of projections
24 and for scoring out proposed changes to tax
25 policy. The other ones are publicly available,

1 things that would be on the Bureau of Labor
2 Statistics BEA websites, things of that nature,
3 that we'll be using to -- constructing the models
4 and projecting revenues forward.

5 REP. MARKOSEK: Has the revenue
6 department been cooperative?

7 DIRECTOR KNITTEL: Yes. So far we've
8 met several times with the revenue department,
9 three or four times, and we've had good discussions
10 with them and are making good progress.

11 REP. MARKOSEK: Okay. They're going to
12 be in this afternoon, any questions that you have
13 for us to ask them?

14 DIRECTOR KNITTEL: Not immediately, no.

15 REP. MARKOSEK: All right.

16 Thank you, Mr. Chairman.

17 CHAIRMAN ADOLPH: Thank you, Chairman.
18 Rep. Gordon Denlinger.

19 REP. DENLINGER: Thank you,
20 Mr. Chairman.

21 Thank you for your testimony.

22 Two questions that are somewhat
23 unrelated, but as we're getting to know you and
24 you'll be a key part to this whole budget process,
25 first, could you give us -- we're not the Senate

1 side so we don't do the whole approval process --
2 could you give us a brief kind of biographical
3 snapshot of your professional background?

4 And I'm going to go ahead and give the
5 second question right away. You touched on the
6 subject of the bonus depreciation issue. We're
7 obviously very interested in that from a policy
8 standpoint. It effectively ended, I guess, at the
9 end of 2011. Do you have a metric that you can
10 share with us on what the impact to PA tax
11 collections and revenue will be as we're now
12 getting into this next cycle?

13 DIRECTOR KNITTEL: Um-hum. Sure.

14 Responding to your first question, I
15 receive my masters and doctorate from Michigan
16 State University. Shortly thereafter, I worked for
17 four years at the Michigan Department of Treasury,
18 which doubles as their revenue department. In
19 1998, I accepted a position with the U.S. treasury
20 department, where I was an analyst mainly for
21 corporate income taxes and business taxes
22 generally. And I worked there until 2011.

23 I have also taught at George Washington
24 and Johns Hopkins Universities periodically.

25 Regarding your second question on bonus

1 depreciation, yes, our office is tracking that very
2 closely, and moving forward, it does make a big
3 difference how one characterizes what's occurring
4 in this fiscal year, because if a lot of the
5 shortfall is due to bonus depreciation, those
6 revenues will be made up in the next three to four
7 years. However, if it is really a shortfall in
8 profits, then we won't make those moneys up.

9 Looking at the provision, we do think,
10 generally, that the bonus provision has contributed
11 to the shortfall this fiscal year. We cannot
12 exactly quantify that until we get the tax return
13 data in; however, we do think it was a bit more
14 than the official revenue estimate.

15 REP. DENLINGER: Are you hearing any
16 indications from your sources that the Obama
17 administration's considering a re-up of that
18 provision?

19 DIRECTOR KNITTEL: I have heard talk
20 about it. At the federal level, of course, we do
21 have 50 percent bonus depreciation for 2012. How
22 it will turn out, I'm unsure.

23 REP. DENLINGER: Thank you.

24 Thank you, Mr. Chairman.

25 CHAIRMAN ADOLPH: Thank you.

1 Rep. Mario Scavello.

2 REP. SCAVELLO: Thank you,
3 Mr. Chairman.

4 And thank you for your testimony.

5 The first question that I had, when the
6 chairman asked where you're located, you know, in
7 the Irvis Building, all the judicial moved out and
8 moved across the street. There's plenty of room up
9 there. Is there any inquiries about possibly
10 coming in-house and saving taxpayer dollars, rather
11 than renting? Was that a possibility? Did you
12 talk to anyone about that?

13 DIRECTOR KNITTEL: We're not paying --
14 in the Rachel Carson Building, we won't be paying
15 rent.

16 REP. SCAVELLO: You won't be paying
17 rent?

18 DIRECTOR KNITTEL: That's correct.

19 REP. SCAVELLO: What is your projection
20 for -- for revenue for this -- this coming year, in
21 dollars? What would you project added dollars to
22 the state budget?

23 DIRECTOR KNITTEL: The official
24 projection right now is a shortfall of about \$719
25 million, and our take on the economic assumptions,

1 we're a bit more optimistic moving forward. We do
2 think there's some reports that have come out that
3 suggest a bit more of an optimistic outlook. And,
4 in fact, if you look at the global insight forecast
5 for February versus the one that was used in
6 January for the budget, things have gotten a little
7 better.

8 So we do think that the shortfall will
9 be somewhat less than \$719 million.

10 REP. SCAVELLO: Okay. In our
11 projection for 2012-2013, what could we estimate in
12 increased revenue? Do you have an idea?

13 DIRECTOR KNITTEL: We haven't looked at
14 that year yet. We'll do that for our May 1st
15 release.

16 REP. SCAVELLO: Because for the
17 governor's budget, his spending numbers, we'd like
18 to see what the revenues would be to offset that.

19 I think -- I would have loved to have
20 your office for the past eight years, would have
21 been great for us. Unfortunately, you weren't here
22 then.

23 But thank you very much, and I wish you
24 the best.

25 DIRECTOR KNITTEL: Thank you.

1 CHAIRMAN ADOLPH: Thank you.

2 Rep. O'Brien.

3 REP. O'BRIEN: Thank you,
4 Mr. Chairman.

5 Welcome.

6 DIRECTOR KNITTEL: Thank you.

7 REP. O'BRIEN: As you know, your office
8 had a bit of a rocky birth.

9 DIRECTOR KNITTEL: I've learned that,
10 yes.

11 REP. O'BRIEN: Little bit of a rocky
12 birth. But I have to say, the three of you are --
13 come with good reputations and good regard.

14 But on the flip side, it has been said
15 that your office is tasked to do what the four
16 appropriation staffs have done over the years. So
17 let's take a moment and be prospective.

18 Where do you see your office in five
19 years, doing what? What will be your asset to the
20 Commonwealth five years down the road?

21 DIRECTOR KNITTEL: Long term, the way I
22 view the office, again, very broadly, as an
23 information provider. And I would fall back on the
24 federal model, where I view the office as combining
25 the duties of the joint committee on taxation and

1 the congressional budget office. So anything that
2 has to do with economic or fiscal or budgetary
3 issues, that our office would be able to provide an
4 analysis of that, both to the general assembly and
5 to the public.

6 And we will also have access to data
7 that are not currently available to the caucuses,
8 in particular tax data, to do those analyses.

9 REP. O'BRIEN: Thank you.

10 Thank you, Mr. Chairman.

11 CHAIRMAN ADOLPH: Thank you,
12 Representative.

13 Rep. Mauree Gingrich.

14 REP. GINGRICH: Thank you,
15 Mr. Chairman.

16 Welcome aboard.

17 DIRECTOR KNITTEL: Thank you.

18 REP. GINGRICH: You're going to find it
19 an interesting ride with all of us, I'm sure.

20 We talked a little bit just now about
21 your projections. I don't expect you to be a
22 soothsayer, but part of your job, of course, is the
23 revenue projections.

24 This morning, before this session, we
25 talked a lot about the global economy in general

1 and the factors there. So there's a differential,
2 obviously, in what you stated again this morning,
3 and I read before, the numbers that you project
4 versus what the governor shared with us in his
5 budget proposal.

6 So we're all kind of curious about
7 where that difference lies. For one thing, whether
8 this is the governor's floor, and, you know, an
9 expectation. As you said, things can get better,
10 but things don't necessarily have to get better.

11 DIRECTOR KNITTEL: True

12 REP. GINGRICH: There's a flip side to
13 that.

14 On the heels of what we discussed this
15 morning, and my filling up my tank on the way to
16 Harrisburg today, and everything I've heard this
17 past week from all the pundits on the news and our
18 projections for gasoline prices, how do you
19 anticipate things like that, and maybe even just
20 specifically the impact of gasoline cost, which is
21 a major driver in the economy at every level,
22 individually and on the business side? How
23 confident are you or can you continue to be -- tell
24 me how you're going to do this without firm
25 numbers. Or we just have to wait until you get

1 those firm numbers? We've got to make decisions
2 posthaste here.

3 DIRECTOR KNITTEL: Yeah. Absolutely.

4 REP. GINGRICH: Thanks.

5 DIRECTOR KNITTEL: Sure.

6 Regarding what we assume in all the
7 models that we're going to construct, of course
8 we'll be using the input from global insight,
9 the -- our economics providers, which is the same
10 as the Office of the Budget, the same as the
11 revenue department. So what their assumptions will
12 be about the price of gas or disposable income or
13 wage income will be fed into our models. And we
14 will be checking them closely to make sure they
15 look reasonable and plausible and to make sure that
16 they're lining up with what we're observing in the
17 receipts. And if they don't line up with what we
18 see in the receipts, then, of course, you want to
19 make some adjustment, a technical adjustment, to
20 your models, to adjust the output of it. So we'll
21 be watching those closely.

22 And as you noted, certainly gasoline,
23 the rising price of gasoline, is a major concern
24 moving forward, taking less -- having -- consumers
25 have less disposable income.

1 But broadly speaking, we do think that
2 the consumer outlook is very important. The
3 expectations, the sentiment appears to be
4 improving. We do hope that we'll get some more
5 wealth effects moving forward, both from the stock
6 market and from improving house prices, and that
7 will lead to more spending. We do think that
8 businesses are ready to expand, and they have the
9 liquidity to do so.

10 REP. GINGRICH: Thanks.

11 We talked this morning about confidence
12 in major industries, too, and how they're holding
13 on to an awful lot of their cash, and one of the
14 reasons it stuck with me is they have fresh
15 memories of what happened just a couple years ago.
16 So does the consumer.

17 And when the gas -- just, for instance,
18 when the gasoline prices go up, that's going to
19 alter how many times I go to the store to buy and
20 how many decision we make per vacations. And all
21 of those wonderful things that we were projecting
22 will continue to increase on the sales tax and
23 consumer side. So, I think we're all paying close
24 attention.

25 Thanks.

1 CHAIRMAN ADOLPH: Thank you,
2 Representative.

3 Rep. Paul Costa.

4 REP. COSTA: Thank you, Mr. Chairman.
5 And thank you all for testifying here
6 today.

7 I'm just curious, May 1st your first
8 report comes out. What happens if there's a
9 disparity between the four caucuses and your
10 group? Whose numbers do we follow?

11 DIRECTOR KNITTEL: We do hope to meet
12 with the caucuses on a regular basis and to share
13 information about what we're seeing, and there's a
14 lot of expertise out there, and we want to take
15 that into consideration.

16 I would anticipate that numbers would
17 differ, both between us and the caucuses, the
18 numbers that they're carrying, as well as the
19 Office of the Budget. And we view that not as a
20 bad thing, because then you can work through the
21 numbers and the differences and understand what's
22 driving them. Is it technical assumptions? Is it
23 economic assumptions? Are there behavioral
24 parameters therein?

25 So I would anticipate that the numbers

1 would be somewhat different, but as long as you can
2 pin them down to the reasons, reasonable people can
3 be looking at the same sets of figures and come up
4 with somewhat different numbers.

5 REP. COSTA: But there's no hierarchy
6 you would have to work it out. You don't have the
7 authority over the caucuses or vice versa?

8 DIRECTOR KNITTEL: No. We'll publish
9 our numbers on May 1st and again on June 15th. And
10 what the governor signs off on, our numbers can be
11 used or they need not be used.

12 REP. COSTA: So the governor has the
13 last say.

14 DIRECTOR KNITTEL: Yes.

15 REP. COSTA: Okay.

16 Thank you, very much.

17 CHAIRMAN ADOLPH: Thank you.

18 Rep. Gary Day.

19 REP. DAY: Thank you.

20 Thank you for being here today.

21 My questions are along the lines of
22 revenue forecasting as well. Can you explain --
23 I'll ask you the questions and then you can
24 answer.

25 Can you explain the methods for the

1 forecasting? You mentioned in your comments just
2 now that you intend to use the same data input or
3 variables in your forecasting.

4 The other specific question I want to
5 ask is, do you see in the future using a different
6 set of variables or data than we have been using or
7 that -- that maybe each of the caucuses would be
8 using different data than you?

9 DIRECTOR KNITTEL: That's certainly
10 possible. Again, I think there's some value to all
11 parties using the same underlying economic
12 assumptions, as long as they're plausible and
13 reasonable, because there's going to be a lot of
14 differences, even holding those assumptions
15 constant moving forward. Again, there's technical
16 parameters or behavioral assumptions that would be
17 built into the estimates. And if you add different
18 economic forecasts in there as well, then the
19 numbers, it's hard to compare them, to make an
20 apples-to-apples comparison.

21 However, again, we will be looking at
22 our economics provider very closely, making sure
23 that things look reasonable. We have had some
24 questions with them. They've been very responsive
25 to this point.

1 Regarding the models, there's a number
2 of different models one could use moving forward
3 for these projections. You can use a simple time
4 series model, you can use a structural equation
5 model, some extrapolations procedures. So there's
6 a lot of room for differences, depending on the
7 model one chooses and the explanatory variables
8 used with them.

9 REP. DAY: Have you explored -- you
10 mentioned time series. That was kind of -- my next
11 question is, judgmental, consensus, or time -- you
12 know, what methods -- have you seen that the
13 caucuses have used time series or -- and, you know,
14 whatever information you have about what current
15 methods are used and what which ones you're willing
16 to explore.

17 DIRECTOR KNITTEL: Yeah. I'm not sure
18 what methodology the caucuses use right now. Of
19 course, the revenue department puts out their
20 methodology guide. We have looked at that.

21 My experience has been, for very short-
22 run forecast, maybe one or two years out, that time
23 series models do very well. They performed -- it's
24 hard to beat them.

25 REP. DAY: And the last question is,

1 could you explain a revenue conference that's one
2 of things that you have to do, and could you just,
3 for my education, what is written, and also if you
4 plan to expand on what -- whatever you think it is,
5 and whatever you think it will be?

6 DIRECTOR KNITTEL: Absolutely. So this
7 past year, in January, we hosted our first revenue
8 estimating conference, and we -- in addition to our
9 office there were four other groups making
10 presentations. And the idea was to get a general
11 sense of the outlook of the -- the economic outlook
12 for the U.S. and the Commonwealth and see what the
13 revenue trends were like moving forward, to
14 exchanges ideas. And we do hope to expand on that
15 moving forward, and -- but, again, it would be
16 hosted in January. By statute, we have to host it
17 by January 31st.

18 REP. DAY: Thank you for your answers.

19 And thank you, Mr. Chairman.

20 CHAIRMAN ADOLPH: Thank you.

21 Rep. Matt Bradford.

22 REP. BRADFORD: Thank you, Chairman.

23 I just had a question in follow-up on
24 the question of capital -- of bonus depreciation,
25 the accelerated depreciation.

1 My understanding is that the federal
2 law, obviously at the federal level, said -- or
3 basically allowed the states to opt-in, and
4 Pennsylvania chose or elected to opt in to that.
5 How did that exactly work?

6 DIRECTOR KNITTEL: My understanding is
7 that with the -- it was a technical interpretation,
8 and with the hundred percent, the interpretation
9 was that PA could conform to the federal
10 provision.

11 REP. BRADFORD: Okay. So that was the
12 secretary of Revenue and the governor's decision,
13 basically, to elect into that?

14 DIRECTOR KNITTEL: I'm not sure whose
15 ultimate decision it was, but my understanding, it
16 was a technical interpretation.

17 REP. BRADFORD: What was the cost of
18 that tax expenditure to the Commonwealth? I know
19 you said it was higher than what was budgeted, but
20 do we have any idea what the final cost of that
21 corporate tax cut was?

22 DIRECTOR KNITTEL: For conforming to
23 the 100 bonus?

24 REP. BRADFORD: Yes.

25 DIRECTOR KNITTEL: Again, let me

1 emphasize we don't have the tax data yet to exactly
2 quantify that, but using some extrapolation from
3 existing data, we think it might be roughly 300 to
4 350 million in total. Again, most of those moneys
5 will be made up in the next three to four years.

6 REP. BRADFORD: And what was the -- do
7 you recollect what was the budgeted amount? Was it
8 like 200 million was what the governor expected the
9 cost of that tax break?

10 DIRECTOR KNITTEL: I believe 200 was
11 the official, the original estimate. Correct.

12 REP. BRADFORD: Okay.

13 Similar -- similar issue, I was
14 wondering about, one of your projection for modest
15 wage growth was 3.5 percent.

16 DIRECTOR KNITTEL: Correct.

17 REP. BRADFORD: One of the things
18 that's coming up a lot now is the issue of wage and
19 equality, and as we're talking about wage growth is
20 who's actually seeing more dollars in their bank,
21 who's seeing more dollars in their payroll. We're
22 seeing -- and the numbers earlier indicated that
23 corporations are seeing high bankrolls and are
24 sitting on that cash, and we're seeing modest wage
25 growth.

1 Even among that wage growth, have you
2 started to look at who's going to see that growth?
3 Is it the bottom? The top? Who's seeing the wage
4 growth in terms of our earners? Is it being evenly
5 distributed?

6 DIRECTOR KNITTEL: We haven't looked at
7 that issue yet. What we do see in the data, and,
8 again, the jobs data, payroll, employment numbers,
9 where most of the gains and the jobs are coming are
10 in the service sector. And those are generally a
11 bit lower paying than other jobs, say, in the
12 manufacturing sector. Although manufacturing is
13 also showing some gains moving forward, but,
14 disproportionately, the gains are in the service
15 sector, and that's just a trend of past job gains.

16 REP. BRADFORD: So the actual
17 employment gains are in the service sector?

18 DIRECTOR KNITTEL: Most of them.

19 REP. BRADFORD: Are we actually seeing
20 wage increases, though, at all levels in all
21 sectors, or are we seeing it --

22 DIRECTOR KNITTEL: That, we haven't
23 examined yet, whether it's being -- there's an even
24 distribution over all professions and income
25 distributions, whether they're all gaining in a

1 similar fashion, I'm not sure.

2 REP. BRADFORD: Thank you, Chairman.
3 Thank you for the questions.

4 CHAIRMAN ADOLPH: Thank you.

5 I believe that's the last question on
6 the first round. And second round, we'll start
7 with Rep. Mario Scavello.

8 REP. SCAVELLO: Thank you,
9 Mr. Chairman.

10 I want to go back to bonus
11 depreciation. I know that the governor had
12 estimated 200 million in the first year. And that
13 350 you mentioned is over the life, correct, in
14 which we get that back?

15 DIRECTOR KNITTEL: Yeah. The 350 would
16 be what we call a liability effect.

17 REP. SCAVELLO: Exactly. And, you
18 know, I was receiving e-mails all last year that
19 that number was like 750, 800 million, in that
20 area, and I knew that those numbers weren't
21 accurate. So it's money that we're going to get
22 back anyway, so 200 that first year was accurate,
23 that budget number was accurate.

24 DIRECTOR KNITTEL: My understanding was
25 that there was 70 million in last fiscal year and a

1 hundred thirty in this fiscal year, so --

2 REP. SCAVELLO: Okay. Thank you.

3 CHAIRMAN ADOLPH: Thank you.

4 Mr. Director, I guess my question would
5 be, regarding the gross receipts tax, something
6 specifically in the governor's budget that caught
7 many of our eyes. He calls for about a 30 percent
8 increase in the growth receipts collection for the
9 fiscal year '12-'13, which is about a 30 percent
10 increase. The last several years the gross
11 receipts tax has declined about -- maybe 15
12 percent, 16 percent. Your thoughts?

13 DIRECTOR KNITTEL: Yeah. We did meet
14 with revenue department on Friday of last week
15 and -- excuse me, the previous Friday, and we were
16 talking through that issue with them. And they
17 walked us through their reasoning for the large
18 increase. And it does appear to be that there's
19 some timing issues going on, some safe harbor
20 issues as well as customers switching providers.

21 And, clearly, when you look at the tax
22 data, there is a decline in the remittances, mainly
23 by telecom firms. So it does look a little strong
24 to us, and we're looking at it a bit more closely
25 and working with the revenue department to see if

1 that will hold up.

2 CHAIRMAN ADOLPH: Can you explain to
3 the committee members as well as the viewers out
4 there exactly what the gross receipts tax is?

5 DIRECTOR KNITTEL: It's just a levy on
6 telecom and electric utility providers to -- of 59
7 mills or 50 mills on the annual value of the
8 production.

9 CHAIRMAN ADOLPH: Thank you for that
10 explanation.

11 Next question is Rep. Matt Smith.

12 REP. SMITH: Thank you, Mr. Chairman.

13 Thank you for your testimony today.

14 Just a quick question on the timing as
15 it relates to your office's revenue estimates.

16 It's my understanding that on May 1st, annually,
17 you'll submit sort of a preliminary initial review
18 of the revenue estimate for the upcoming fiscal
19 year. Is that correct?

20 DIRECTOR KNITTEL: That's correct.

21 REP. SMITH: And then on June 15th
22 every year you'll submit what is the official
23 revenue estimate from your office. Is that
24 correct?

25 DIRECTOR KNITTEL: That's correct.

1 REP. SMITH: Is there a material
2 difference, in your estimation, between what you're
3 able to submit on May 1st versus June 15th, and if
4 so, what is the difference?

5 DIRECTOR KNITTEL: There shouldn't be
6 too much difference in terms of the economic data
7 that are fed into our models. We'll only have one
8 more month of data. It really won't change things
9 too much.

10 What could be a bit different are some
11 of the tax payments that come in. In particular,
12 we've been told that we could take the June 15th
13 final -- excuse me, estimated payment for
14 corporations into consideration. So that could
15 move things a bit.

16 REP. SMITH: So the June 15th estimate
17 would obviously be the -- I don't want to
18 overstate, but the much more accurate view of what
19 the revenue intake will be for the coming fiscal
20 year.

21 DIRECTOR KNITTEL: Yes. But I wouldn't
22 think things change too much between the May 1st
23 and the June 15th.

24 REP. SMITH: Okay.

25 Thank you, Mr. Chairman.

1 CHAIRMAN ADOLPH: Thank you.

2 Rep. Gary day.

3 REP. DAY: One more question about
4 projections.

5 Is there a measure of accuracy of
6 projections, like percent error or something like
7 that that you plan to use to monitor your own
8 performance?

9 DIRECTOR KNITTEL: Most definitely.
10 We'll be tracking those, much like the
11 congressional budget office does. They have a
12 methodology to track their forecast accuracy.

13 REP. DAY: What is that called? What
14 do you call that?

15 DIRECTOR KNITTEL: I'm not sure the
16 official term they give to it.

17 REP. DAY: Okay.

18 Do you plan to publish that measure for
19 your own office? The governor's going to give you,
20 in his budget, right, the governor and the four
21 caucuses. Is there a way that you can publish the
22 error difference on the estimates for everyone?

23 DIRECTOR KNITTEL: Sure. If there's
24 interest in that, we'd be happy to do so. That's
25 easily done.

1 REP. DAY: Thank you very much.

2 Thank you, Mr. Chairman.

3 CHAIRMAN ADOLPH: Thank you for that,
4 Representative.

5 Seems to be all the questions for
6 today.

7 I have one final question. I know
8 everybody that was on this committee last year and
9 was in this general assembly remembers the debate
10 that was going on regarding the amount of surplus
11 versus -- that was left over from last year.

12 Have you had an opportunity to analyze
13 last year's revenues over expenses, and could
14 you -- could you explain that to the members of
15 this committee briefly.

16 DIRECTOR KNITTEL: We haven't had a
17 chance to look at it too closely. I do know,
18 looking at the pattern of payments, there was some
19 very unusually large payments that one wouldn't
20 have expected last year, both on the corporate and
21 the individual side. They looked very usual.

22 CHAIRMAN ADOLPH: If I may, I would
23 appreciate if you could go into further detail for
24 this committee, because, you know, obviously, it's
25 a reaction that legislators will have that, you

1 know, coming out of the recession, and all of a
2 sudden you have one good month, that to react in a
3 way that, hey, happy days are here again.

4 And I think we can learn from just last
5 year that you still have to be very careful in this
6 fragile economy. And, I know, Rep. Smith, and I
7 would agree him, you know, the longer you go
8 towards the end of the fiscal year, you get a
9 better look at the revenue because you actually
10 know what came in, instead of projecting it. And I
11 can understand that.

12 But sometimes, current revenue is not
13 always what's going to be in next month and -- or
14 six months forthcoming, and I would look -- I'd
15 like, in your reports to us, I'd like you to
16 discuss that a little bit.

17 DIRECTOR KNITTEL: Sure

18 CHAIRMAN ADOLPH: And then, finally,
19 how does PA's economy compare to the surrounding
20 states, if not nationwide? If you could comment on
21 that a little bit for us. Thank you.

22 DIRECTOR KNITTEL: Sure. Be happy to.

23 Oh, right now?

24 CHAIRMAN ADOLPH: Right now. Right
25 now.

1 DIRECTOR KNITTEL: I do think the PA
2 economy has been performing well and outperforming
3 many of the surrounding states, and, certainly, if
4 you look across the nation, has been doing much
5 better than a number of states, and there are
6 various factors for that, both on the demographic
7 makeup and, of course, with the certain industries
8 that are experiencing very significant growth,
9 mining being one of them. But there's a number of
10 factors that are helping the Commonwealth moving
11 forward.

12 And I would anticipate, much like when
13 we went down into the recession, PA didn't suffer
14 as much as some others, coming out of it, we might
15 not have the growth that some of the others
16 experience for the same reasons.

17 CHAIRMAN ADOLPH: Okay.

18 At this time, I'd like to acknowledge
19 the presence of Rep. Scott Petri of Buck County,
20 who joined us earlier today.

21 Any other questions of any members?

22 Seeing none, hearing none, I'd like to
23 thank the Independent Fiscal Office for your first
24 appearance at testifying before the House
25 Appropriations Committee. I appreciate your

1 insight and looking forward to working with you.

2 For the members understanding, our next
3 presentation will be at 1:30 p.m.

4 Thank you.

5 (Whereupon, the hearing concluded
6 at 11:38 a.m.)

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REPORTER'S CERTIFICATE

I HEREBY CERTIFY that I was present upon the hearing of the above-entitled matter and there reported stenographically the proceedings had and the testimony produced; and I further certify that the foregoing is a true and correct transcript of my said stenographic notes.

BRENDA J. PARDUN, RPR
Court Reporter
Notary Public