

1 HOUSE OF REPRESENTATIVES
2 COMMONWEALTH OF PENNSYLVANIA

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4 DEPARTMENT OF INDEPENDENT FISCAL OFFICE

5 House Appropriations Committee

6
7 Main Capitol Building
8 House Chamber
9 Harrisburg, Pennsylvania

10 Tuesday, February 16, 2021

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12 MAJORITY COMMITTEE MEMBERS PRESENT:

13 Honorable Stanley Saylor, Majority Chairman
14 Honorable Rosemary Brown
15 Honorable Lynda Schlegel-Culver
16 Honorable Torren Ecker
17 Honorable Jonathan Fritz
18 Honorable Keith Greiner
19 Honorable Doyle Heffley
20 Honorable Johnathan Hershey
21 Honorable Lee James
22 Honorable John Lawrence
23 Honorable Zach Mako
24 Honorable Natalie Mihalek
25 Honorable Tim O'Neal
Honorable Clint Owlett
Honorable Chris Quinn
Honorable Greg Rothman
Honorable Meghan Schroeder
Honorable James Struzzi
Honorable Jesse Topper
Honorable Ryan Warner
Honorable Dave Zimmerman

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Key Reporters

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1 MINORITY COMMITTEE MEMBERS PRESENT:

2 Honorable Matt Bradford, Minority Chairman
3 Honorable Donna Bullock
4 Honorable Morgan Cephas
5 Honorable Austin Davis
6 Honorable Elizabeth Fiedler
7 Honorable Marty Flynn
8 Honorable Patty Kim
9 Honorable Emily Kinkead
10 Honorable Leanne Krueger
11 Honorable Benjamin Sanchez (virtual)
12 Honorable Peter Schweyer
13 Honorable Joe Webster

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NON-COMMITTEE MEMBERS:

Honorable Gary Day
Honorable Rob Mercuri
Honorable Mark Gillen
Honorable Carrie DelRosso
Honorable Steve Samuelson

1 STAFF MEMBERS PRESENT:

2 David Donley
3 Majority Executive Director

4 Ritchie LaFaver
5 Deputy Executive Director

6 Ann Baloga
7 Minority Executive Director

8 Tara Trees, Esquire
9 Minority Chief Counsel

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INDEX TO TESTIFIERS

INDEPENDENT FISCAL OFFICE

Matthew Knittel
Director

Brenda Warburton
Deputy Director

REQUEST FOR PRODUCTION OF INFORMATION

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1 MAJORITY CHAIRMAN SAYLOR: Two reminders
2 as we get started. As you're sitting at your seat
3 or if you move about the room is to wear your mask.
4 As you do so, also, when you go to the microphones
5 to ask questions, you are allowed to take your mask
6 off at the microphone. But also, please take your
7 name tent with you so the stenographer and the
8 public reviewing this can see who's asking the
9 question. If I see you haven't, I'll just kindly
10 remind you, because I know we all forget things at
11 times.

12 Anyway, I'm going to start off with the
13 IFO here this afternoon with their scheduled
14 hearing. We have the Executive Director of the
15 Independent Fiscal Office, Matt Knittel, here.
16 Matt, I'm going to ask you, if you would, to
17 introduce who you have here with you, and then we
18 will swear all of them in, if that's okay.

19 DIRECTOR KNITTEL: Yes. Matt Knittel,
20 Director of the Independent Fiscal Office. And
21 with me is Brenda Warburton, and she is Deputy
22 Director of Independent Fiscal Office.

23 MAJORITY CHAIRMAN SAYLOR: Very good.
24 If you would both, you can rise if you want or sit,
25 however, raise your right hand.

1 (Both testifiers were duly sworn by
2 Majority Chairman Saylor).

3 MAJORITY CHAIRMAN SAYLOR: We'll start
4 off with our first questioner, is Representative
5 Lee James.

6 REPRESENTATIVE JAMES: Here we go.
7 Thank you very much. Sorry for the trouble and
8 inconvenience.

9 Thank you, folks, for coming.
10 Appreciate you being here in person. It means a
11 lot. I'd like to start off immediately with
12 revenue estimates, please, for the upcoming year.

13 Last 12 months the Governor, many times,
14 had businesses closing their doors, different kinds
15 of restrictions, numbers of occupants, number of
16 people who could be in the business. I believe
17 this affected the small businesses, in particular,
18 and, of course, their employees as well.

19 So, for a small business owner, how does
20 the uncertainty of the Governor's actions impact
21 the ability to operate profitably and pay their
22 employees?

23 DIRECTOR KNITTEL: If I could address
24 the revenue estimate first, if that's okay.

25 REPRESENTATIVE JAMES: Sure.

1 DIRECTOR KNITTEL: Let me just note, for
2 those of you viewing at home, I'm using a packet
3 that we have posted to our website. And on page 12
4 of that packet, we have our revenue estimate, and
5 for this fiscal year, we are \$950 million higher
6 than the Administration. For next fiscal year, we
7 are \$300 million higher than the Administration.

8 Regarding the small businesses, what
9 we're finding is that there have been a number of
10 closures. I don't think they were quite as bad as
11 we thought they would be six or seven months ago.
12 I attribute that to the PPP program that's, really,
13 providing a shot in the arm for allowing these
14 businesses -- small businesses in particular.

15 REPRESENTATIVE JAMES: Okay. This year
16 the Governor, again, is proposing some tax
17 increases in his budget. It's going, I believe, to
18 particularly affect small businesses and their
19 employees as well. He's also promoting the concept
20 of, actually, ultimately, doubling the minimum
21 wage.

22 What impact do you think those proposals
23 are going to have on the underlying economy in your
24 baseline forecast?

25 DIRECTOR KNITTEL: Currently, we are

1 undertaking an analysis of both of those proposals,
2 both the PIT proposal and the minimum wage
3 proposal. We do have some materials in the packet
4 that I'm happy to talk about, if you'd like to do
5 that.

6 We do think the higher PIT with the
7 higher forgiveness thresholds will generate about
8 \$3.9 billion. For the minimum wage, we are
9 undertaking that analysis now. Last year, when we
10 undertook that analysis, we thought that it would
11 reduce job opportunities by about 27,000. We
12 thought it would generate about \$50 million in
13 additional revenues for the General Fund, and we
14 thought it would provide a pay increase for roughly
15 one million workers in the Commonwealth.

16 I will note also that there are some
17 material in the packet where we made a projection
18 out to calendar year 2022. The idea was to get
19 past the pandemic because the labor market in
20 Pennsylvania now looks very different than it did
21 in 2019. So, I'm happy to talk about that, but I
22 don't want to take up all the time.

23 REPRESENTATIVE JAMES: No, you actually
24 asked my next question -- or answered my next
25 question already, so I appreciate that.

1 Would you care to comment on the effect
2 on consumption with the higher taxes, please?

3 DIRECTOR KNITTEL: With the minimum wage
4 or the PIT increase?

5 REPRESENTATIVE JAMES: Both.

6 DIRECTOR KNITTEL: We do think, under
7 the minimum wage, it would overall increase
8 economic growth because it is, basically, an income
9 transfer from higher income individuals to lower
10 income individuals.

11 For the PIT increase, we haven't taken
12 that under consideration yet, how it would affect
13 consumption. But at the end of April or -- excuse
14 me -- late March or early April, we will be taking
15 a more comprehensive analysis of the revenue
16 proposal from the executive budget.

17 REPRESENTATIVE JAMES: Okay. And I
18 assume you'll share that with the Appropriations
19 Department?

20 DIRECTOR KNITTEL: That is correct.
21 We'll publish it to our website.

22 REPRESENTATIVE JAMES: Okay. I was an
23 economics major, and to be honest, I can't say that
24 I've ever seen any economic analysis that included
25 higher taxes making for more economic growth. So

1 I'll be interested in seeing what your findings are
2 too.

3 Final question from me would be
4 regarding the state -- the financial state of
5 Pennsylvania at present. Do you consider it to be
6 stable, structurally sound, or other?

7 DIRECTOR KNITTEL: Currently, I think
8 that's a difficult question to answer because of
9 the -- a lot of the uncertainty both with the
10 revenues to be received from the federal
11 government, and the economic situation, I don't
12 think we have a truly good snapshot exactly of the
13 implications from the pandemic.

14 Long term, we do think there is a
15 structural deficit. We had estimated that at about
16 two and a half billion dollars in our five-year
17 outlook, and I think the Administration is right
18 around that. If you take off all the proposals and
19 the initiatives, that they're closer to maybe three
20 or three and a half billion, so we do think there's
21 long-term challenges.

22 REPRESENTATIVE JAMES: Okay. I believe
23 I've used up my time, so I can't say I yield back
24 my time. But thank you very much for your
25 comments.

1 MAJORITY CHAIRMAN SAYLOR: I'm going to
2 recognize Representative Sanchez who's virtual.

3 REPRESENTATIVE SANCHEZ: Thank you,
4 Mr. Chairman.

5 Director, thank you for being here
6 today. I wanted to give you the opportunity to
7 discuss one of your reports issued by the IFO. As
8 you know, Act 20 of 2019, the budget that year,
9 along with a ban on banning plastic bags,
10 commissioned a study from the IFO for the related
11 costs and impacts of a fee or a ban on the bags.

12 Would you care to elaborate on that
13 report? Can you give us some of the key findings?

14 DIRECTOR KNITTEL: Yes. The report
15 you're alluding to is posted on our website, and we
16 completed it in June of this past year. And what
17 we did was to look at three policy options to
18 reduce plastic bag usage. The first was a ban.
19 The second was a 10-cent fee on bags, and the third
20 was a ban plus a fee. We modeled these after
21 normal approaches from other states and
22 municipalities.

23 And the high-level findings from that
24 report, we found that the fee scenario, a 10-cent
25 fee, was the superior policy. And a 10-cent fee

1 levied on all bags, lightweight and plastic --
2 excuse me -- and paper would reduce plastic bag
3 consumption in the Commonwealth by 1.83 billion
4 bags. It would reduce consumer costs by
5 82 million, and it would actually increase
6 employment by 260 jobs and labor earnings by
7 10 million.

8 And the reason we came to that result is
9 because a lot of the spending on paper bags, on
10 plastic bags actually flows out of the state. And
11 by implementing a fee and spending less on plastic
12 bags, those monies are retained in the state and
13 they're redirected to other purposes.

14 REPRESENTATIVE SANCHEZ: Director, in
15 your opinion, then that would be a prudent course
16 of action, especially given the obvious economic
17 impact with the reduction, single-use plastics,
18 and, you know, the toll it's taking -- the
19 single-use plastics are taking on the world, you
20 know, garbage patches in the ocean the size of some
21 of our states and the like. It seems like that
22 would be almost an economic boom to pursue that fee
23 on the bags.

24 Is that your opinion? Was that the
25 conclusion of the report to implement and pursue

1 that, when possible?

2 DIRECTOR KNITTEL: We did not make a
3 recommendation to the board. We can say that the
4 fee scenario was clearly superior to the other two.

5 I would also say that this was a rare
6 instance where a fee or a tax was imposed and it
7 had an economically beneficial impact where we
8 could see it would actually increase jobs and,
9 again, we thought that because it retained monies
10 in the state that would otherwise flow out of the
11 state.

12 REPRESENTATIVE SANCHEZ: Thank you very
13 much, Mr. Chairman. I yield back.

14 MAJORITY CHAIRMAN SAYLOR: Thank you,
15 Representative Sanchez.

16 Representative Greg Rothman.

17 REPRESENTATIVE ROTHMAN: Director
18 Knittel, thank you for being here. Your office has
19 been a leader as long as I have been in the
20 legislature in bringing about and pointing out --
21 bringing attention to and pointing out the alarming
22 demographic challenges currently facing
23 Pennsylvania.

24 The data provided in your packet shows
25 that between 2015 and 2020, the working population,

1 age 20 to 64, declined by 179,000 people, while the
2 population 65 and older has increased by 280,000.

3 It's also notable that the data provided
4 is in the growth of the baby boomers, age 65 to 79,
5 over the same period was 273,00. And probably the
6 most alarming statistic, school-age population, age
7 zero to 19, declined during that five-year period
8 by 84,000 people.

9 Director Knittel, I guess the numbers
10 don't get any better as we look forward over the
11 next five years. We expect a decline of 341,000 in
12 our population zero to 64, while 65 and over is
13 gonna grow by 307,000.

14 Given the challenging-age demographics,
15 is there some policy recommendations, including tax
16 structure, spending opportunities, creating
17 spending initiatives, creating spending other --
18 other concerns we should have about our
19 sustainability of our future budgeting when those
20 who are actually providing tax dollars to the
21 Commonwealth are going to exceed those who are
22 receiving tax dollars?

23 DIRECTOR KNITTEL: Yes. So this, as you
24 noted, Representative, again, the information is in
25 our hearing packet on page 8, and we undertake a

1 demographic analysis every year. We're finding the
2 same result, not surprising, every year to the
3 dynamic that you have alluded to, which do suggest
4 very long-term challenges.

5 I would point to the same dynamic that
6 you did; that the contraction of the labor force,
7 in particular, is most concerning in terms of
8 economic growth. And when we find -- when we look
9 at data, people move for a number of reasons so
10 that there's a couple of things that work here.

11 One is, lower child bearing that we're
12 finding, and certainly the pandemic has made that
13 worse; that the fertility rate has fallen. We are
14 also finding a small net out-migration from
15 Pennsylvania, and the challenges, how do we
16 encourage folks to move into the state.

17 One of the things I think is maybe under
18 appreciated is the inflow of students who come into
19 this state to attend higher -- the colleges and
20 universities. I think one good solution to this is
21 try to retain those individuals that come into the
22 state through either a subsidization of education
23 or potentially internships, or other job
24 opportunities before they return home.

25 REPRESENTATIVE ROTHMAN: Yeah, we noted

1 that they actually -- We import students, and when
2 they leave, they take some of our students with
3 them. It becomes an export of our -- of our -- the
4 next generation.

5 So I want to thank you. Keep up the
6 good work, and thank you for your time today.

7 Thank you, Mr. Chairman.

8 MAJORITY CHAIRMAN SAYLOR: Next is
9 Representative John Hershey.

10 REPRESENTATIVE HERSHEY: Thank you, Mr.
11 Chairman.

12 Thank you, Mr. Knittel, and Miss
13 Warburton, for being here.

14 First of all, this is unrelated to my
15 questions, but I do look forward to educating my
16 colleague from Montgomery County about the benefits
17 of single-use plastic bags. It's an important
18 issue to my district.

19 But, anyway, my question is about the
20 Governor's proposed minimum wage increase. My
21 colleague from Tioga County earlier focused on the
22 increase in costs associated with that. But, as
23 you know, the Governor proposed that we increase
24 the minimum wage to \$12 an hour immediately, and
25 then gradually escalate it to \$15 an hour over the

1 next five years.

2 I'm curious how you arrived at the
3 numbers that you reported last year. You mentioned
4 that this would result in a loss of 27,000 jobs in
5 Pennsylvania, while the Department of Revenue
6 estimates that it would result in a loss around
7 10,000 jobs in Pennsylvania. So I'm curious about
8 that discrepancy and how you arrived at that
9 number.

10 DIRECTOR KNITTEL: Part of it is
11 slightly different data sets that we use what's
12 known as the OES, the Occupational Employment
13 Statistics. After we plug in those data, we're
14 using standard economic methodology much like the
15 Congressional Budget Office used, is that, once we
16 identify the folks who are between 8 and 9, 9 and
17 10, and 10 and 11, and then we assume that they
18 would get paid \$12 an hour, and you can compute a
19 percentage change in their wage, then you apply
20 standard employment elasticity.

21 So, it's fairly mechanical. There's not
22 a black box. We're just applying data from
23 academic studies to the occupational employment
24 statistics.

25 REPRESENTATIVE HERSHEY: So then, how is

1 the Department of Revenue getting at that number --
2 at their number, do you believe?

3 DIRECTOR KNITTEL: I believe there's
4 probably two things. I cannot demonstrate it. But
5 one is a different data set. I believe they use
6 the American Community Survey, and it's also
7 possible that they're using slightly different
8 elasticities, which would change the number as
9 well.

10 REPRESENTATIVE HERSHEY: Okay. And are
11 you making any adjustments to how you calculate
12 that for the future, or do you still -- do you
13 still believe you're going to arrive at somewhat
14 the same numbers?

15 DIRECTOR KNITTEL: Yes. So we will make
16 an adjustment. If I can just quickly point out in
17 your hearing packet, this is important. And when
18 we're talking about the minimum wage is on page 22.
19 Again, we have a projection of what the labor
20 market looked like in 2019, and then we have it in
21 2022.

22 We think there's going to be 230,000
23 fewer jobs in 2022, and most of those jobs will be
24 low-income jobs. So, the minimum wage will have a
25 much different effect going forward than it did in

1 2019, and again, we're undertaking that analysis
2 right now.

3 REPRESENTATIVE HERSHEY: Okay. I
4 appreciate that. And I look forward to seeing the
5 analysis.

6 You know, I would just remind my
7 colleagues during this time that we are in the
8 middle of a pandemic, and unemployment is rising in
9 some areas, that Pennsylvania is not a monolith.

10 In my area, in the 82nd District, we
11 have a lot of ag and service sector jobs and
12 restaurant jobs. And my employers, a lot of them,
13 have told me that they simply can't afford an
14 increase in the minimum wage. They would be
15 cutting those jobs significantly in Juniata and
16 Mifflin counties.

17 So, what I'm afraid about with this
18 proposal is that, of those 27,000 jobs, maybe quite
19 a few of them would be from my rural area. And
20 that, you know, a wage can go further maybe in
21 Juniata County than it can in other parts of the
22 state.

23 I appreciate your time and I appreciate
24 you answering my questions.

25 Thank you, Mr. Chairman.

1 MAJORITY CHAIRMAN SAYLOR:

2 Representative Austin Davis.

3 REPRESENTATIVE DAVIS: Thank you, Mr.
4 Chairman.

5 You know, we know that many people have
6 dropped out of the labor force during this pandemic
7 for many reasons. Some can't find work. Some
8 can't find -- Some can't find child care and some
9 are just afraid, quite frankly, for the health
10 reason. How would these trends affect the budget
11 challenges in the years to come?

12 DIRECTOR KNITTEL: So, to your point,
13 and on page 5 of our hearing packet, we found that
14 in the latest quarter, the labor force in
15 Pennsylvania did fall by 206,000 individuals. And
16 if you -- We don't have data for Pennsylvania yet.
17 But, just proportionately, those are female
18 workers. I think for the U.S. it was 4 to 1.

19 I think this has very important strong
20 implications going forward. We don't know quite
21 yet why they left the labor force. Was it due to
22 taking care of a child or parents or out of fear.
23 But, going forward, I think that is a significant
24 challenge for economic growth.

25 REPRESENTATIVE DAVIS: So, you know, you

1 touched on many of the folks that have dropped out
2 of the workforce have been -- have been women.
3 Many families struggle to find child care during
4 normal years, yet alone, during a pandemic with all
5 the disruptions to providers and schools.

6 In your mind, what are the economic
7 impacts when families have access to formal child
8 care?

9 DIRECTOR KNITTEL: I reference a study
10 that we did three or four years ago on child care.
11 We found, actually, large economic impacts due to
12 the beneficial effects that you noted. So there's
13 high multiplier effects from that because it allows
14 other individuals to work and not to have to worry
15 about the child care and have to stay home with a
16 child.

17 REPRESENTATIVE DAVIS: And in the latest
18 -- in the latest version of the next round of
19 stimulus for the Commonwealth at the federal level,
20 they discuss an inclusion of a child tax credit, or
21 child income tax credit. Can you talk a little bit
22 about the benefits of that for Pennsylvania
23 families?

24 DIRECTOR KNITTEL: Sure. I believe
25 you're referring to a higher child tax credit, to

1 increase it. And, overall, of course, that would
2 serve to subsidize those who have children and need
3 child care. If that is occurring, it allows
4 individuals to work, or instead of working a part-
5 time or full-time job, of course, that's beneficial
6 to economic growth.

7 REPRESENTATIVE DAVIS: Thank you.

8 Thank you, Mr. Chairman. I yield back.

9 MAJORITY CHAIRMAN SAYLOR:
10 Representative Owlett.

11 REPRESENTATIVE OWLETT: Thank you, Mr.
12 Chairman.

13 Thank you, Director, for being here. I
14 really appreciate you coming out. It's great to
15 see you again.

16 I want to talk a little bit about the
17 Congressional Budget Office's release and the
18 report of, kind of the increases in wages. We
19 talked a little bit about it at the last hearing
20 and kind of how it affects our seniors.

21 I realize as wages go up, you're
22 possibly going to see that that will affect others
23 that may have more discretionary income to be able
24 to support higher increase of cost of living. Our
25 seniors might be left out in this conversation.

1 So, I just want to go over a couple of the findings
2 in that report.

3 They said that higher wages would
4 increase cost of producing goods and services. Is
5 that something you would agree with?

6 DIRECTOR KNITTEL: In general, we
7 believe about 60 percent of the higher minimum wage
8 would get pushed forward into prices.

9 REPRESENTATIVE OWLETT: Okay. So
10 businesses would pass that on into higher prices,
11 likely?

12 DIRECTOR KNITTEL: Yes, about
13 60 percent. Twenty percent is lower profit.

14 REPRESENTATIVE OWLETT: So, would it be
15 safe to say that, in this proposal, that our senior
16 citizens who are on fixed incomes would probably
17 also see an increase in their cost of living here
18 in the Commonwealth?

19 DIRECTOR KNITTEL: I'd say, to the
20 extent they're going to businesses that
21 disproportionately employ folks affected, such as
22 fast-food restaurants, that they would see a modest
23 price increase.

24 REPRESENTATIVE OWLETT: Okay. So, in a
25 proposal like this, our seniors who are on a fixed

1 income, barely making it month to month, they would
2 need to come up with additional income to support
3 some of this increase in cost of living; is that
4 accurate?

5 DIRECTOR KNITTEL: All else equal,
6 again, if they're going to those types of
7 businesses, I think it would be a modest cost
8 increase.

9 REPRESENTATIVE OWLETT: Do you see
10 anything in this budget proposal that would
11 decrease the cost of living for seniors in the
12 Commonwealth?

13 DIRECTOR KNITTEL: I have not, but I
14 haven't undertaken a comprehensive analysis of it.

15 REPRESENTATIVE OWLETT: Okay. I
16 appreciate it. That would be something I'm
17 concerned about and I'm looking at in this
18 proposal, just making sure that we keep an eye on
19 our cost of living for our seniors and making sure
20 they're taken care of. They do not have the
21 ability to increase their income, a lot of them
22 don't. So, we need to keep them in mind in any
23 proposals that we move forward with.

24 I appreciate you being here, and thank
25 you so much for taking the time.

1 MAJORITY CHAIRMAN SAYLOR:

2 Representative Bullock.

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

5 Mr. Director and Deputy Director, thank
6 you for being here with us today. The Economic
7 Policy Institute released a study early last year,
8 in June, the middle of last year, it states, if you
9 uplift black women or think of black women in your
10 economic plans, that you can actually improve the
11 lives of all. Black women are the core of our
12 nation's economy. They hold the frontline jobs,
13 they run small businesses, and more often than not,
14 are single heads of households.

15 Have you done any similar studies that
16 shows how both race and gender can impact our
17 economy if we were to take care of certain groups,
18 particularly black women, as we move forward and
19 think about economic recovery?

20 DIRECTOR KNITTEL: We haven't at this
21 time undertaken any specific studies.

22 I would say, when we undertook our
23 minimum wage studies in prior years, we did look at
24 gender, but we did not look at ethnicity or race at
25 that time.

1 REPRESENTATIVE BULLOCK: And when you
2 looked at that particular study, when you looked at
3 gender, were your findings that if we invested in
4 women, particularly, invested in their employment
5 and workforce that we improved the economy overall?

6 DIRECTOR KNITTEL: We did find that
7 minimum wage will affect female workers more than
8 males because they are a higher proportion down
9 under the minimum wage. So yes, it would affect
10 them, or they would have more of a benefit.

11 REPRESENTATIVE BULLOCK: And I noticed
12 that you did a study on our -- our state's
13 participation in the PPP loan program and our small
14 businesses. Did you have any -- Or did you notice
15 any racial disparities in those participation -- in
16 the participation of the federal loan programs?

17 DIRECTOR KNITTEL: So that I can't
18 comment on because we didn't -- we didn't dig deep
19 enough into the data to try to identify how the
20 loans were disbursed by race or ethnicity. Just at
21 the very high level.

22 REPRESENTATIVE BULLOCK: Thank you.

23 And my last question, I always ask about
24 our own agency's investments in racial equity and
25 gender equity, particularly coming after a year

1 like 2020 where our country is reckoning with our
2 own issues when it comes to systemic racism, and
3 knowing that employment with our own state agencies
4 can help move families into the middle class, and
5 has done so for many, many years.

6 Can you share with me your own office
7 commitment to racial equity, and what investments
8 have you made to get there?

9 DIRECTOR KNITTEL: So, currently,
10 excluding myself, we have a staff of 12
11 individuals. We have not hired in roughly two
12 years. So I'd have to say that, lacking an HR
13 department, we don't have an explicit director of
14 policy in order to further those goals. But going
15 forward, we would certainly be looking at that.

16 REPRESENTATIVE BULLOCK: Have you --
17 Given your staff, have you been paying attention,
18 or given any specific consideration to the studies
19 you are doing, because I have to be honest, hearing
20 that not many of your studies have specifically
21 looked at racial equity.

22 Have you made a commitment to do that in
23 the future?

24 DIRECTOR KNITTEL: We haven't made a
25 commitment, but I would say, the door is open. If

1 a member of the General Assembly reaches out and
2 they request a particular study, that we would try
3 to work with them. And if the data are available,
4 we generally undertake most requests, if we can
5 contribute and provide some insight on the economic
6 impact.

7 REPRESENTATIVE BULLOCK: Great. Thank
8 you very much.

9 MAJORITY CHAIRMAN SAYLOR:
10 Representative Jim Struzzi.

11 REPRESENTATIVE STRUZZI: Thank you,
12 Mr. Chairman.

13 Good afternoon, and thank you for being
14 here.

15 You heard their testimony. You painted
16 a rather grim picture for the five-year
17 projections. I believe you said two-and-a-half-
18 billion-dollar challenge we have to overcome
19 economically. And here we are in the midst of a
20 pandemic, people are struggling to survive.

21 Yet, the Governor's Administration and
22 the Department of Environmental Protection continue
23 to move forward with the Regional Greenhouse Gas
24 Initiative. That if it moves forward will take
25 effect in early 2022.

1 When you were crafting those projections
2 of our fiscal challenges, did you take into
3 consideration the Regional Greenhouse Gas
4 Initiative?

5 DIRECTOR KNITTEL: No, we did not. We
6 did not include that in the current law basis. We
7 hadn't build in any of the -- joining of the RGGI.

8 REPRESENTATIVE STRUZZI: I noticed in
9 the report, not to sound redundant, but I believe I
10 held this report up last year and there was no
11 mention of RGGI as well.

12 I'm deeply concerned that we are being
13 short-sighted in not considering those economic
14 impacts, the job losses, the potential leakage of
15 our energy industry to other states. And as we
16 talk about demographics, the people leaving, it's
17 already happening because of the threat of a
18 severance tax, the threat of RGGI.

19 So, I would implore you to make sure
20 those factors are consider when we do -- forecast
21 our economic outlook. And I'm asking you, from my
22 position as a state representative on behalf of --
23 and my colleagues in the General Assembly who are
24 very concerned with the implementation of the
25 Regional Greenhouse Gas Initiative and its economic

1 impact, how do we assess that? Can you work with
2 us to provide that assessment?

3 DIRECTOR KNITTEL: That would be
4 possible. The one item I would caution about, and
5 I saw of one study on it that they -- in order --
6 because it is a significant proposal, they employed
7 the REMI model, which my office does not have
8 in-house currently, and the cost of that model is
9 about \$130,000.

10 So, given the size of the RGGI, I would
11 recommend using that model. And if a study were to
12 be done, currently, my office would probably need
13 to contract out for it.

14 REPRESENTATIVE STRUZZI: Okay. That's
15 concerning, obviously, with something so big as
16 RGGI, as you said, it could have vast generational
17 implications on our economy that we haven't really
18 taken a look at it. I did mention that this
19 morning with the Department of Revenue.

20 I'm just deeply concerned that this is
21 going to have a long-term effect on our state that
22 will take us many, many years to overcome if it
23 moves forward. So, thank you.

24 MAJORITY CHAIRMAN SAYLOR:
25 Representative Cephas. Do you have your name tag?

1 REPRESENTATIVE CEPHAS: Thank you,
2 Chairman.

3 And thank you for coming in today.

4 Before I start on my question, I do want
5 to thank you for just raising and acknowledging the
6 disproportionate impact that this COVID-19 crisis
7 has had on women. Earlier I quoted a data point
8 from the National Women's Law Project that posted
9 that 2.2 million women have dropped out of the
10 labor force, whether that be to child care or their
11 industry being eliminated or their increased needs
12 for caregiving.

13 But, as you look at the data here in the
14 Commonwealth of Pennsylvania, I'd love to, as you
15 take that deeper dive, to look at the racial and
16 gender, how they combine, and what the impact has
17 been to black and brown women. That would be great
18 if you can take that deeper dive into the racial
19 impact when it comes to gender.

20 My other question -- My question relates
21 to the impact of different industries in the
22 Commonwealth of Pennsylvania. As you know, there
23 have been some winners and losers as it relates to
24 business. Some businesses, as you know, have
25 thrived during this difficult time, but others have

1 closed and other have managed.

2 Can you speak to, as we receive
3 additional federal dollars as we go through this
4 budget season and negotiate who we're supporting,
5 who we're providing additional assistance to, can
6 you provide some insight as to how we should
7 strategize with this new economy that we'll be
8 going into post- pandemic?

9 DIRECTOR KNITTEL: To your point, I just
10 again point to pages 3 and 4 of the packet. But,
11 clearly, certain sectors have been impacted much
12 more than others. I would point to three sectors,
13 in particular. That would be food service
14 accommodation, retail and wholesale trade, and now
15 it looks like education is starting to get hit.
16 Probably behind that will be even the government
17 sector, local government, local school districts.

18 So, I would recommend that those are the
19 hardest hit industries; that that's where the
20 federal stimulus money should be funneled to, to
21 the extent they can be.

22 REPRESENTATIVE CEPHAS: In addition to
23 that, how do you feel this budget that we're --
24 that was just proposed reflects that similar
25 recommendation?

1 DIRECTOR KNITTEL: I think the proposals
2 in the budget do tend to address the industries
3 that we're seeing get hit. In particular, I would
4 point to minimum wage. So, to the extent that the
5 workers retain their employment, they would get a
6 substantial pay increase. Of course, that would
7 mostly affect retail trade and the food service
8 accommodation industry.

9 REPRESENTATIVE CEPHAS: And then my last
10 question is, naturally, some industries aren't
11 gonna come back as strong as they used to. Can you
12 point to which industries those are, and how are
13 other states pivoting taken into that
14 consideration?

15 DIRECTOR KNITTEL: Yeah. So I think
16 there's just a difference in the spending patterns
17 here. Again, I point to anything to do with
18 travel, food service, dining out, and retail/
19 wholesale trade. In particular, I think this move
20 to online shopping, I don't see it reversing.
21 Again, I see those being the ones most affected.

22 REPRESENTATIVE CEPHAS: Thank you so
23 much.

24 MAJORITY CHAIRMAN SAYLOR:
25 Representative Greiner.

1 REPRESENTATIVE GREINER: Thank you,
2 Mr. Chairman.

3 Thank you for being here this morning,
4 Director Knittel. I have a few questions,
5 comments.

6 In September of last year, the Secretary
7 of Revenue appeared before our House Finance
8 Committee. I serve on that committee also. And he
9 was asked about H.B. 2420 which provides for the
10 indefinite carry forward of net-operating losses.
11 The Secretary had stated, we have a system now that
12 allows companies to create accounting fiction-type
13 losses, and extending the ability to use these
14 losses even more years seems like we're going in
15 the wrong direction.

16 I guess a couple questions. Do you
17 believe the net-operating losses are accounting
18 fiction-type losses?

19 DIRECTOR KNITTEL: I have not
20 investigated it. I would -- To the extent that
21 firms are following the law, that it would be a
22 legitimate law.

23 REPRESENTATIVE GREINER: And I didn't
24 wanna -- And I appreciate that answer because, to
25 the best of my knowledge, every other state around

1 us that has corporate income taxes, which we all
2 do, they allow for a carry-forward of those net --
3 those losses in prior years into future years. I
4 just wanted to confirm that that's your
5 understanding of that for C Corporations, which
6 then --

7 Seeing with C Corporations, there was
8 something that came up this morning where there was
9 some confusion when the Secretary of Revenue says,
10 not all corporations pay income taxes. At least
11 that's my understanding. I disagree with him on
12 that. Every corporation pays income tax. Every
13 partnership, LLCs -- I mean, I worked for a CPA
14 firm, they're all paying taxes, you know, unless we
15 have a loss.

16 I just wanted to -- I just wanted to --
17 that you would agree with that, that even though
18 you're an S Corporation, you might file that
19 S Corporation return, and although there might not
20 be tax due on that return, the income that flows
21 through to those shareholders goes to their
22 individual return and flows through to their 1040,
23 which is a 46 -- with the new tax increase would be
24 a 46 percent tax increase on small business people.

25 So, I just want to get on record, your

1 understanding is that every corporation pays income
2 tax in this Commonwealth, correct?

3 DIRECTOR KNITTEL: If they're declaring
4 taxable profit, though --

5 REPRESENTATIVE GREINER: If they're --

6 DIRECTOR KNITTEL: -- then yes.

7 REPRESENTATIVE GREINER: If they're
8 profitable.

9 DIRECTOR KNITTEL: Correct. If they're
10 declaring tax and profit, yes.

11 REPRESENTATIVE GREINER: Exactly. I
12 just wanted -- I wanted to get on record, and I did
13 ask -- Maybe they'll call me. Maybe Revenue will
14 call me. But I think that's very important for
15 everybody in this Commonwealth to know that
16 everybody is paying tax. And this is a significant
17 tax increase on small business in a time when we
18 have a tough economic environment. I think we need
19 to be cognizant of that.

20 One last question. I know we spoke
21 about this the last couple of years because I know
22 -- Maybe more than any other legislator have
23 reviewed this or, you know, with this combined
24 reporting idea. I noticed you had a -- in your
25 budget report you had some data in there. I've

1 always believed that if we're going to have
2 combined reporting --

3 If we're going to be serious about
4 decreasing corporate income taxes in this state, we
5 need to take it down at least five nine nine. We
6 need to do it immediately because, when you --
7 Because, if you don't do that, you're actually
8 going to expand the tax base much more than what we
9 need to. We're not even competitive with other
10 states. I'm not even talking about the difference
11 in the different types of combined reporting.

12 Would you agree with that assessment?

13 I mean, have you looked -- It looks like
14 you looked at the data to determine where we would
15 stand and how much that would affect the expansion
16 of our tax base if we go to combined reporting.

17 DIRECTOR KNITTEL: Yes. When we
18 undertook this analysis last year, and again, we'll
19 undertake it this year, we thought that combined
20 reporting was about a 12 percent base expansion or
21 about a 400-million-dollar increase in revenue.

22 Of course, the phase-in of the lower tax
23 rate down to about 6 percent, we have that about
24 1.2 billion in a tax reduction. But, of course,
25 it's phased in over several years.

1 REPRESENTATIVE GREINER: It's gonna have
2 to be -- My point is, though, to be competitive
3 with other states, at least my analysis, and have
4 to be something the entire legislature would have
5 to look at. But if we're serious about dropping
6 C Corporation tax rates and we are going to do
7 combined reporting, it needs to go to a five nine
8 nine. This is my analysis. In order for it to,
9 you know --

10 If you're gonna try to increase the
11 base, that's one thing. But all things being
12 equal, we need to drop that rate quickly to be
13 competitive with other states.

14 That's all the questions I had, Mr.
15 Chairman. I appreciate your time, Director. Thank
16 you.

17 MAJORITY CHAIRMAN SAYLOR:
18 Representative Fiedler.

19 REPRESENTATIVE FIEDLER: Thank you,
20 Mr. Chair.

21 Thank you for being with us.

22 So, as we struggle to get through this
23 pandemic and, hopefully, to emerge in a more just
24 and equitable and fair distribution of state
25 dollars, I think one of the most fundamental ways

1 that we can do that is to raise the minimum wage,
2 which we talked a lot about and you have
3 researched. I think it's so important that I'd
4 like to talk about it a little bit more.

5 Nearly a quarter of workers in PA would
6 benefit from raising the minimum wage. Nearly a
7 quarter of the people who benefit are parents, like
8 myself, and almost 40 percent are working full
9 time. I think that bears repeating. We're talking
10 not only about 18, 19, 20 years old. We're talking
11 about people who are raising children; people who
12 are already working full time. It's not that
13 they're lazy. It's not that they are not trying.
14 It's that we are paying them too low a wage to
15 survive.

16 A minimum wage increase, obviously,
17 would be life changing for so many of these people,
18 right? It would lower racial -- It could lower
19 racial inequality, lower child poverty, increase
20 mental health.

21 There was a recent study done by
22 Business Insider that looked at working families,
23 and 42 states that had not passed the minimum wage
24 increase of \$15. They felt two-thirds of them are
25 fast-food workers, half of them are child care

1 workers, and three out of five are home care
2 workers who are paid so little that they relied on
3 public assistance.

4 I don't think that there's any shame
5 relying on public assistance, I want to make that
6 clear. But I do think that there's a problem in
7 which we're paying people too little for them to
8 get by.

9 Could you talk a little bit more,
10 please, about the benefits to the state and the
11 human component of raising the minimum wage.

12 DIRECTOR KNITTEL: Sure. I refer back
13 to our analysis last year. Again, we're
14 undertaking the same analysis this year, and it
15 will be going out the end of next month.

16 So last year we found that those who
17 benefit from the proposal, again, about 1 million
18 workers in the state, they would have -- realize
19 about \$3.3 billion of higher income, and, on
20 average, per worker it was about \$2,300 on an
21 annual basis. So that's the average gain for the
22 person directly affected by a higher minimum wage
23 to \$12 an hour.

24 REPRESENTATIVE FIEDLER: And when you
25 look -- Thank you for that.

1 And when you look outside of the family
2 about the entire health of the state from a
3 financial perspective, I know we've talked and
4 certainly heard some about potential for job loss.
5 But, could you talk a little bit more about
6 potential revenue and other financial benefits for
7 the state?

8 DIRECTOR KNITTEL: Sure.

9 We did find, again, because we're,
10 basically, income transfer to lower-income
11 individuals who spend all the money that they
12 receive. We did find it would increase economic
13 growth. It would expand the economy. We did find
14 higher General Fund revenue of about \$45 million,
15 both in personal income and sales and use tax.

16 And we're currently participating this
17 round, we're working with the Department of Human
18 Services where we will try to estimate any cost
19 savings or additional cost, it is kind of
20 indeterminate right now, but we'll have that data
21 in the report.

22 REPRESENTATIVE FIEDLER: Are you aware
23 to whether there's other states that are
24 considering raising the minimum wage right now
25 during the pandemic as we look to sort of rebuild

1 our economy and get out of this difficult financial
2 period?

3 DIRECTOR KNITTEL: I'm unaware, but I
4 know there are many states that right now are
5 currently phasing into a higher minimum wage.
6 Again, there's a table in the packet for those who
7 are interested. I don't have the exact number, but
8 there are a number of states currently phasing in
9 even during the pandemic.

10 REPRESENTATIVE FIEDLER: Thank you.

11 MAJORITY CHAIRMAN SAYLOR:
12 Representative Quinn.

13 REPRESENTATIVE QUINN: Thank you, Mr.
14 Chairman.

15 First of all, thank you for being here.
16 I appreciate it. I want to take this more to an
17 organizational question from the standpoint of, as
18 an organization you have a huge responsibility to
19 the State of Pennsylvania, and we depend on the
20 Fiscal Office.

21 So, what I've seen is dramatic increase
22 in your responsibilities. For instance, in Act 15
23 of 2016, you now have responsibility for the
24 bargaining agreements. You have actuarial analysis
25 for the pension system, Act 100 of 2016. You've

1 got the performance-based budgeting analysis, Act
2 48 of 2017.

3 Is the IFO fully staffed, and are you
4 able to perform all these functions?

5 DIRECTOR KNITTEL: Thank you for that
6 question.

7 We are fully staffed right now. In page
8 1 of your hearing packet, again, we have 13 staff,
9 and we're currently running an operating deficit of
10 about \$100,000, and have one next year of about
11 \$200,000. I will say that we have good staff, but
12 they are putting in full time for those extra
13 duties.

14 REPRESENTATIVE QUINN: I appreciate
15 that. The reason I ask the question is, you're
16 also tasked with responding to the General Assembly
17 for everything we're required -- And how do you go
18 about deciding which requests you're going to
19 respond to, because I assume you can't respond to
20 every single bill that the General Assembly would
21 like to move. How do you work through those?

22 DIRECTOR KNITTEL: Generally, we have
23 what I call an open-door policy that any member
24 that makes a request, again, we'll meet with him or
25 her and try to identify whether we have some value

1 added.

2 I can say, fortunately, at this time, we
3 haven't had to deny a request from lack of time or
4 staff to get to it. It may take us a little while
5 to get to it, but there haven't been requests where
6 we've had to bump one in order to take on another.
7 So right now I think we're at a good point.

8 If it did come to that, and it hasn't
9 been, we'd have to work with the General Assembly
10 to see how we would put those requests in the
11 queue.

12 REPRESENTATIVES QUINN: Right. Thank
13 you. I appreciate you being here.

14 MAJORITY CHAIRMAN SAYLOR:
15 Representative Patty Kim.

16 REPRESENTATIVE KIM: Thank you,
17 Mr. Chairman.

18 Good afternoon, Director Knittel, for
19 being here today.

20 Back to minimum wage. The CBO in your
21 report will quote an estimated job loss if the
22 minimum wage is increased. During these difficult
23 times, any number is too high. But I'd like to
24 read a quote from a paper by an EPI economist, and
25 I want to get your take on it.

1 It says: Economists have warned that
2 focusing on the job losses ignores the high turn
3 and the low wage labor market. They say that it
4 gives a misleading impression that these workers
5 would lose jobs over an entire year. The more
6 likely scenario is that workers will lose job hours
7 who work a little less but earn more per year.

8 I know about 55 percent minimum wage
9 workers are full time. The rest are part time. I
10 know that people that work two, three part-time
11 jobs to make ends meet.

12 When you talk about the job losses, are
13 you talking about full-time jobs or part-time jobs,
14 and do you have an average of how long they are
15 unemployed? Again, the academic study that I just
16 quoted says that a more realistic scenario is less
17 hours but with a higher pay?

18 Do you agree or disagree?

19 DIRECTOR KNITTEL: I recognize that
20 there are those elements in the study that you
21 cited that there are fewer hours worked. When we
22 use the term job loss, let me just clarify.

23 I would characterize that as fewer
24 employment opportunities. In other words, if a
25 higher minimum wage was implemented, I wouldn't

1 expect that on that day there would be job loss.

2 It's kind of just a slower pace of hiring.

3 To your point on labor turnover, I agree
4 with that as well. There is a high-turn rate in
5 these lower-paying jobs. The academic studies that
6 I've seen, it is a robust result, that with a
7 higher wage it does reduce turnover. And,
8 therefore, in our study we assume that 15 percent
9 of the cost of the higher minimum wage, it really
10 wouldn't be a cost. It would be savings to a
11 business, and they wouldn't push those forward.

12 So, we've attempted to build those in
13 and we'll go back and look at the literature again,
14 and I'll certainly look at the study you just
15 cited, because every time I go back, there's better
16 work on it because the data are better.

17 REPRESENTATIVE KIM: Then my last
18 question is, I have a sister who moved to
19 California. The first thing she said -- moved from
20 California to southeast Pennsylvania. She said the
21 first thing that she noticed was that there were
22 older people at the registers, cash registers.
23 That was kind of a shock to her to see. I've
24 noticed that, too, with big box stores.

25 I know that somebody on the other side

1 of the aisle talked about senior citizens and not
2 being able to pay cost of living, because, you
3 know -- I think a lot more because of our workforce
4 is shrinking, as you said. It's attracting --

5 More senior citizens are working these
6 minimum wage jobs. I was also wondering if you had
7 a number. I know that our side of the aisle said
8 90 percent are 20 years and old. But, how many are
9 like 60 and older? Because I know just from my
10 observations, that more are working these minimum
11 wage jobs.

12 DIRECTOR KNITTEL: Sure. And to your
13 point, the labor force participation rate of those
14 65 and older are just -- it's increasing very
15 rapidly every year that we've seen the data. I
16 think the latest data is up at roughly 22 percent
17 of those 65 and older are working.

18 What I can say, we haven't done in the
19 past, but I think the data will be available if
20 you'd like to see that cut of 65 and older, we can
21 plan to include that in the analysis.

22 REPRESENTATIVE KIM: I'd appreciate
23 that.

24 Thank you, Mr. Chairman.

25 MAJORITY CHAIRMAN SAYLOR:

1 Representative Torren Ecker.

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

4 I'm gonna bring up a topic here that
5 we've heard a lot about from the Governor,
6 Lieutenant Governor, dealing with rolling and focus
7 on -- dealing with the legalization of recreational
8 weed, marijuana. And, you know, we've heard a lot
9 of ideas and grand proposals here, but the Governor
10 himself, I don't believe, has ever put out an
11 official tax plan or proposal as it relates to
12 this.

13 I think, folks, without getting into any
14 of the social or other issues here, just looking at
15 the fiscal impact this would have, a lot of folks
16 think that this is gonna be our cash cow, if you
17 will. I'm just wondering if you've done some --
18 done some looking at what other states are doing or
19 how well their revenue projections are as it
20 pertains to this, and if there's a state that's
21 more similarly situated to us. I know California,
22 Colorado.

23 Just kind of, again, we're using big
24 hypotheticals here because we don't even know what
25 kind of tax rate the Governor's proposing because

1 he's never really done that. Have you guys done
2 any studies looking at other states and the amount
3 of revenue they're generating from a recreational
4 weed tax?

5 DIRECTOR KNITTEL: So I point to
6 page 28 in our hearing packet where we outline how
7 much different states have collected and how they
8 tax recreational marijuana, because there's really
9 three ways one could go about it. And I'll put out
10 some numbers here.

11 In California, we think it's gonna be up
12 at about, roughly, \$1 billion for '19-20 once all
13 the collections are in. Colorado, as you
14 mentioned, is somewhere about 400 million, and they
15 both use an excise tax, which is a common approach
16 to this. So, we haven't scored it out officially.

17 Again, there's no details, but our sense
18 of the matter is based on how much other states
19 have raised. We could be somewhere between
20 Colorado and California if we use an excise tax
21 approach.

22 REPRESENTATIVE ECKER: So, in the grand
23 scheme of things, you know, from our larger General
24 Fund budget, from a revenue perspective, is this a
25 pretty substantial windfall for the state as it

1 pertains to a recreational marijuana tax?

2 DIRECTOR KNITTEL: Again, I think if we
3 use a similar approach and similar rate as Colorado
4 or California, we'd be up anywhere from 500 to
5 \$700 million, potentially. That's just ballpark.

6 REPRESENTATIVE ECKER: Okay.

7 And then, so that doesn't take into
8 account some of the -- Again, just -- So folks
9 understand, that's just looking at the pure revenue
10 generated. Not necessarily the other costs that,
11 obviously, could come with legalizing recreational
12 marijuana.

13 Thank you. That's all I have.

14 MAJORITY CHAIRMAN SAYLOR:
15 Representative Heffley.

16 REPRESENTATIVE HEFFLEY: Thank you,
17 Mr. Chairman.

18 I'll follow up on a couple of questions
19 regarding the minimum wage. Exactly what
20 percentage of the minimum wage earners right now
21 are between the age of, like, 16 to 21?

22 DIRECTOR KNITTEL: Representative, I do
23 not have the percentage in front of me. Again, I'm
24 looking back at our report last year. I'm looking
25 at the -- we have age groupings, and -- Yeah, I

1 can't compute the percentage right off here from
2 our report from last year.

3 REPRESENTATIVE HEFFLEY: I believe from
4 last year I think it was somewhere around 75 to
5 80 percent, if not a little bit higher.

6 So, I think it's so important that when
7 somebody turns 16, they get that first job, right?
8 Learning how to work in the workforce is key, as
9 important, if not more important, than some higher
10 education. Learning to punch a clock, be on time.

11 The responsibility that a job requires
12 is very important. So somebody that's 15 today and
13 turning 16 tomorrow, for an employer may be worth
14 7, 25, or maybe \$10 an hour, but maybe not \$15 an
15 hour. So, if you set that bar a little bit higher,
16 you're really gonna decrease the opportunities for
17 folks that are 16 years old to get that first job.
18 Maybe it's a part-time job.

19 I mean, has an analysis been done and
20 what we're gonna do to those people? People of all
21 backgrounds turning 16, is that gonna decrease the
22 amount of jobs available to those individuals by
23 increasing that minimum wage?

24 DIRECTOR KNITTEL: No. Much like we did
25 back 2019, when we come out with our next analysis

1 we will include the age breakdown so you can follow
2 how --

3 REPRESENTATIVE HEFFLEY: Because what
4 I'm hearing from my employers in the area is, yes,
5 it definitely will. I mean, they'll go to
6 automated systems right now. If you go to check
7 out at any big box store, they don't even have
8 people to check you out. They just have aisle
9 after aisle of self-checkout lanes because they
10 can't -- they can't afford that higher. When you
11 decrease those opportunities, folks don't learn how
12 to work.

13 A lot of times people come out of, you
14 know, universities and they don't have a work
15 ethic. The minimal thing that gets you ahead in
16 life, in my opinion, a lot of people is work ethic.
17 So, I think anything we do to minimize the
18 opportunities for young people to get a job would
19 be detrimental.

20 The other part is, when you raise the
21 bar to \$15 an hour, what does that do to the
22 current workforce making \$16 an hour?

23 DIRECTOR KNITTEL: In our analysis, when
24 it was raised to \$12 an hour, we assumed that
25 everybody from 12 to 15 would be indirectly

1 affected and would also get a bump. So, not only
2 would it raise everybody below, but everybody
3 above.

4 REPRESENTATIVE HEFFLEY: A lot of your
5 contracts, right, your public sector and private
6 sector contracts were negotiated off the minimum
7 wage, so that would really -- Essentially what it's
8 going to do, nobody is going to getting taller.
9 You're just gonna raise the floor, right?

10 So, at that point, you know, we're gonna
11 be taking a large segment of young people taking
12 away the opportunity to get that first job. And
13 we're also gonna be, really, raising the cost of
14 everything, because everybody is going to get,
15 essentially, a pay increase.

16 So you're really looking at a lot of
17 your counties, your school districts are going to
18 see increase in costs, because 75 to 80 percent of
19 costs in some of your school districts is salaries,
20 pension and benefits. So that cost goes up.
21 School districts are then, in turn, gonna have to
22 raise property taxes to cover that cost. Would
23 that be a correct analogy?

24 DIRECTOR KNITTEL: I'd say that we agree
25 that 60 percent of the higher minimum wage costs

1 would be pushed forward into prices.

2 REPRESENTATIVE HEFFLEY: And for the
3 school districts, they don't sell anything, right?
4 They rely on property taxes. They would have to
5 have increased revenue at some level to pay those
6 higher salaries, correct?

7 DIRECTOR KNITTEL: Well, for them the --
8 Yes, the cost is the price of labor. So, to the
9 extent it did affect folks who might be between 15
10 and 20, I think it probably would affect them.
11 They would also get above and could impact school
12 districts.

13 REPRESENTATIVE HEFFLEY: So, when we
14 look at the big picture of what all is gonna be
15 impacting, less jobs for young people, higher taxes
16 for senior citizens through property taxes, while,
17 at the same time, it's gonna force a lot of
18 companies to go to more automated process where
19 they don't have to pay those higher salaries. So,
20 while I think it's good to have this discussion, I
21 don't always see all the benefits. I see a lot of
22 drawbacks as well in limiting those opportunities.

23 So, thank you.

24 MAJORITY CHAIRMAN SAYLOR:

25 Representative Bradford, any comments? It's that

1 time.

2 MINORITY CHAIRMAN BRADFORD: Thank you,
3 Chairman. I've got to tell you, you snuck up on
4 me. I didn't realize. I apologize.

5 One thing, Director Knittel, you had
6 mentioned on the PIT that it would be a pro-growth
7 tax plan. Can you just give me some idea of what
8 kind of economic growth we might see on the tax
9 plan that the Governor has proposed; tax shift so
10 you put more money into the pocket of working-class
11 folks?

12 DIRECTOR KNITTEL: Yes. And so,
13 generally -- And I defer back to our minimum wage,
14 but it's the same dynamic at work. The economic
15 multipliers, to revert back to that, are higher
16 when income flows to lower-income individuals
17 because they will spend all of that income, and it
18 will have more of an immediate economic impact.

19 MINORITY CHAIRMAN BRADFORD: So, without
20 actually, necessarily having a progressive income,
21 because we, obviously, can't have a progressive
22 rate, but a progressive tax system of some kind
23 where you set the threshold, it's actually good for
24 economic growth that if poor folks or working-class
25 folks may be paid a smaller share of their taxes,

1 it's actually beneficiary to the economy as a
2 whole. It ripples through. It helps small
3 business, big business. It helps everybody to have
4 more velocity in the economy.

5 DIRECTOR KNITTEL: Well, for the PIT
6 proposal, I have to -- I defer on that because it
7 will depend also on how the extra revenues are
8 spent; how they are used. Are they education or
9 infrastructure? So that will drive that result,
10 too.

11 MINORITY CHAIRMAN BRADFORD: So, a
12 couple of things I just want to touch on real
13 quick. I think the one gentleman, maybe from
14 Juniata County, had mentioned, that in his county
15 7.25 an hour might be a living wage. I don't
16 pretend to understand the district or the dynamic.
17 But I think that might be an argument for
18 preemption, right?

19 I think there's an idea out there that
20 if 7.25 -- And again, I don't know if that's a
21 living wage anywhere in America, let alone any
22 county in Pennsylvania. But if one believes that
23 to be true, shouldn't we free up other counties?

24
25 Are you aware of other states that have

1 allowed county by county to set their own minimum
2 wage?

3 DIRECTOR KNITTEL: Oh, there's many,
4 yes, or cities.

5 MINORITY CHAIRMAN BRADFORD: Yeah.
6 Again, as parenthetically or to comment, I think
7 one should take a look at all the surrounding
8 states. Now, I believe every contiguous state to
9 Pennsylvania is on some kind of glide path, and in
10 some cases, frankly, to a 15-dollar-an-hour minimum
11 wage.

12 I'm wondering if it's almost like a
13 reverse analysis. I heard so much that if our tax
14 rate gets too high or our minimum wage gets too
15 high, that jobs are going to flee, right? And I
16 agree with that. I mean, I think if you become
17 uncompetitive in the market, inevitably, it will
18 have an impact.

19 I don't mean to be comical about it, but
20 I do think there's a point here. Under that logic,
21 we're the only state at 7.25 an hour in the
22 Mid-Atlantic. That would be an argument that we
23 should just be killing it in producing 7.25-an-hour
24 jobs here in Pennsylvania.

25 Now, I would argue, again,

1 parenthetically, I don't know if we want to be the
2 state that is just killing it in creating poverty
3 jobs. But, do you see an impact from other states
4 going to a higher minimum wage that we are killing
5 it in terms of attracting 7.25-an-hour minimum wage
6 jobs? Has anyone ever looked at it that way,
7 because, I mean, it almost argues for that point.

8 DIRECTOR KNITTEL: No, I'm not aware of
9 any study that's undertaken that point of view to
10 see if it was a disproportionate amount of lower
11 wage jobs produced. I'm not aware of any.

12 MINORITY CHAIRMAN BRADFORD: Yeah.

13 One other thing, and this is a topic
14 that I think we haven't really touched on, but it's
15 something that I think, coming out of a pandemic
16 that I really do -- I'm in the Philadelphia
17 suburbs, my legislative district.

18 And just the disruption, in terms of our
19 economy and long term, we've all talked about, you
20 know, we all Zoom to work now, and what's our tax
21 base going to be long term; you know, the Sterling
22 Act and where we're gonna pay our taxes to,
23 commercial office space, the values of it, going in
24 for reassessment, what's happening to our shopping
25 malls. There could be tremendous displacement in

1 our economy.

2 Is anybody really looking at what all of
3 this means in terms of the taxes, not just for the
4 Commonwealth? When you talk about property tax and
5 that level of disruption where you've got -- And I
6 represent some of those wealthy suburbs that will
7 do quite very well in that disruption, but I also
8 represent some that could do very poorly in that.

9 What that will do to the inequities when
10 we talk about school district funding and how that
11 blows up. It seems like this is a time where,
12 we're on the verge of some very big changes that
13 have been -- may have been in the works for a long
14 time, but this pandemic has just poured fuel onto
15 that fire.

16 And I guess I would just ask you to
17 comment on how you see that playing out. Has
18 anyone really looked at what that's going to mean
19 for the Commonwealth?

20 DIRECTOR KNITTEL: Sure. I think part
21 of the problem is, it just -- We don't have a good
22 sense of what that impact will be. For example,
23 the moratorium here, the forbearance programs are
24 ending here in a few months, and it's really a wild
25 card about how that is going to impact renters and

1 homeowners.

2 Regarding the local revenues, we did put
3 out a recent analysis where we thought property
4 taxes would come down about 2 percent statewide.
5 As you noted, it will depend on the county; how
6 many renters are there, how many commercial -- how
7 much commercial property is there. So I do think
8 it will have a real impact on local revenue.

9 MINORITY CHAIRMAN BRADFORD: Do you
10 think -- Again, I know everyone is trying to make a
11 concerted effort to look at it through an equity
12 lens. But when you look at de-concentration of
13 population, folks not going into cities, often
14 communities of color, what the impact is going to
15 be in terms of inflaming inequities that already
16 existed.

17 DIRECTOR KNITTEL: Yeah, I think there's
18 real challenges there, as you noted. Less
19 commuting, more teleworking. Folks who are
20 apparently moving out of the cities, want a little
21 more space or they're afraid of a future pandemic,
22 I think that has real implication for finances
23 going forward for localities.

24 MINORITY CHAIRMAN BRADFORD: Yeah. I
25 think I said that was going to be my last question.

1 But one more thing I wanted to touch on, which is
2 the structural deficit. I know sometimes I
3 jokingly said, like, you become like the magic
4 8 ball. Everyone has a question and you become the
5 answer.

6 But, if you look at how much we did in
7 one-time transfers, gimmicks, payment rolls, what
8 all of that looks like, how much did we do last
9 year?

10 DIRECTOR KNITTEL: For that I need to
11 defer to Brenda Warburton because she has
12 investigated that.

13 DEPUTY SECRETARY WARBURTON: So, in
14 2021, the current budget year we do see about --
15 let's see, I think in terms of one time our
16 temporary measures is probably over \$4 billion.
17 That includes the COVID relief from the federal
18 government, the coronavirus relief fund monies of
19 1.33 billion; the Enhanced FMAP, which was over
20 2 billion.

21 We are relying on 200 million from the
22 JUA to fund some DHS programs. There were some
23 payment shifts in the Community Health Choices,
24 payments that we thought were about 480 million.
25 There was a shift in the county child welfare

1 program of about 75 million out of 2021. And then
2 there was a lower rate used for retiree health
3 care. That we estimate was about 90 million. So
4 all of that adds up to about 4.2 billion.

5 MINORITY CHAIRMAN BRADFORD: For those
6 who don't know, what's a payment shift?

7 DEPUTY SECRETARY WARBURTON: A payment
8 shift, as I understand it, is simply delaying
9 payment. So in one year you might say 11 months
10 instead of the full 12 months, and you just delay
11 that last payment into the next year.

12 MINORITY CHAIRMAN BRADFORD: And then
13 the second year you make 13 payments?

14 DEPUTY SECRETARY WARBURTON: Typically,
15 you would make 12 payments. The payment shift can
16 become permanent.

17 MINORITY CHAIRMAN BRADFORD: So if I
18 told you that we've done this to the tune of about
19 \$2 billion over the last couple of years, that we
20 just paid that, does that sound about right in
21 payment shifts?

22 DEPUTY SECRETARY WARBURTON: I've not
23 added them all up, although I know that they have
24 been used multiple times.

25 MINORITY CHAIRMAN BRADFORD: Okay.

1 What is the cost of payment shifts? Do
2 those MCOs charge us some kind of interest payment?
3 Is there an assumed -- Obviously, they've got to
4 continue to provide services for our constituents.
5 How does this work?

6 DEPUTY SECRETARY WARBURTON: I believe
7 that the Commonwealth does pay interest on those
8 delayed payments.

9 MINORITY CHAIRMAN BRADFORD: And it was
10 480 million, basically, half a billion dollars.

11 And to follow up on the JUA, which, for
12 anyone who's been in the legislature for any amount
13 of time knows this is like Groundhog Day. How many
14 years have we been banking money from the JUA?

15 DEPUTY SECRETARY WARBURTON: That's a
16 good question. It has been challenged in court, as
17 you know, and it has been included in budgets
18 probably for at least three years.

19 MINORITY CHAIRMAN BRADFORD: And have we
20 ever gotten the 200 million?

21 DEPUTY SECRETARY WARBURTON: We have not
22 yet gotten the 200 million.

23 MINORITY CHAIRMAN BRADFORD: Right.

24 I don't mean to put you on the spot, but
25 I think what I'm trying to put some light on to

1 folks who think this is somehow conservative
2 budgeting or that these are balanced budgets,
3 you're talking about over 4 billion. I mean, my
4 office would show it over 5 billion. The fund
5 transfers of about 730 million we're showing.

6 The Enhanced FMAP, obviously, we're at
7 the good graces of the federal government to get
8 that in excess of 2 billion. The CARES Act, over
9 1.3, money that we were supposed to use for small
10 businesses and such. The delayed payments we had
11 -- we booked around 550 million, and then another
12 705 million, I think we're including above what
13 you're seeing, which is --

14 To my good friend, the Chairman from
15 York, we'll talk about this DHS overspend, but we
16 know when we write these budgets that there are
17 entitlement lines that we're gonna under fund, to
18 artificially deflate our spend number. Then at the
19 end of the year, we do this -- There's gambling in
20 this establishment. The DHS overspent their
21 budget.

22 You roll that all together, that's about
23 \$5 billion last year alone that will not recur this
24 year; will not recur in any year.

25 And again, I say all of this as a source

1 of commentary. That when those of us who are
2 advocating for an honest discussion about budgets
3 knowing that we have transportation shift coming;
4 knowing that we're at the mercy of what Nancy
5 Pelosi and Chuck Schumer passed out of Washington
6 D.C., if you're not having an honest discussion in
7 terms of how big the holes in this budget are and
8 how big the structural deficit is, you're not
9 beginning with an honest set of facts.

10 So I appreciate the information you guys
11 have both provided on these issues, as well as on
12 the budget issues.

13 Thank you, Chairman Saylor.

14 MAJORITY CHAIRMAN SAYLOR: Okay. Let me
15 start.

16 First of all, on the payment shifts,
17 it's this Administration whose asked for those
18 payment shifts we turned down last year a request
19 by this Administration to do it again; not pay our
20 bills in the current fiscal year, and we said no.
21 We pay our bills on a timely fashion.

22 As to the JUA, my good Chairman on the
23 other side of the aisle, the JUA is the only
24 purpose it's been carried is because this
25 Administration, Governor Wolf and his

1 Administration, asked us to continue to carry that
2 on the books when we wanted to eliminate it,
3 because we don't know that we're ever gonna get
4 those dollars and it makes no sense. But your side
5 of the aisle asked us to continue to put it in the
6 budget, so we did as a concession.

7 DHS you just mentioned, well, when you
8 have mismanagement and you can't stay within even
9 the budget that you proposed, of course there's
10 entitlements in that budget. But you know what?
11 You would think a Secretary who lost all of her
12 deputy secretaries as soon as she took over would
13 have found a way to make sure that her departments
14 were run more accurately, more better projections,
15 and give this General Assembly an accurate
16 accounting of why she constantly overspends the
17 budget that she requests--each year now for almost
18 a billion dollars. A businessman or a woman who
19 ran a business like that would either be bankrupt
20 or fired.

21 So let's go to minimum wage. Friends of
22 mine had gone to Seattle where they have a
23 15-dollar minimum wage. Cheeseburger and French
24 fries, \$30. If you're willing to tell families out
25 there that when they go to cheeseburgers and French

1 fries with the kids at a local diner, restaurant,
2 whatever, they're going to pay \$30 for French fries
3 and cheeseburger for each of the family members,
4 good luck with that.

5 How about Amazon? Amazon bought Whole
6 Foods. So when they did, they wanted a big PR.
7 Amazon said, we're going to raise the wages at
8 Whole Foods to \$15. So here's what happened. So
9 Whole Foods raised the minimum wage for part-time
10 workers who worked 30 hours a week to \$15, and then
11 went on to cancel their benefits and cut their
12 hours to 20 hours a week instead of 30 and lost
13 their benefits. Then, for the 40-hour workweek,
14 full-time employees who got \$15 an hour, their
15 wages were also sliced; their hours to 30 hours
16 from 40 hours.

17 If that's the cost effect of raising the
18 minimum wage to \$15, God bless those employees,
19 particularly those who lost their benefits. Look,
20 there's only so much profit that can be made for
21 any company. And anybody who believes that the
22 minimum wage being raised will not raise the cost
23 to seniors and people in poverty, as well as to the
24 rest of us, is just kidding themselves. Somewhere
25 along the line we have to start restoring some

1 common sense here, and let the free markets dictate
2 what we're doing.

3 You know, think about it. How many
4 companies -- The kids who are in college need
5 internships. Some of them are for free, some are
6 paid. How many companies do you believe, who are
7 gonna be required to pay \$15 an hour for an intern,
8 is going to continue that process? Now, maybe some
9 will because some of the interns might be very well
10 worth the \$15 an hour.

11 And when it comes to seniors, the reason
12 the seniors are competing with our college kids for
13 those jobs at minimum wage today is because this
14 Governor has yet to address the real issues for
15 seniors, and that's property taxes. If you want to
16 help people in poverty and make sure that people
17 can afford a home, and that senior citizens can
18 continue to stay in their homes, maybe we should
19 address property taxes at some point here instead
20 of raising the income tax.

21 So, the Governor also talked about weed,
22 marijuana. And what I would ask you, Mr. Knittel,
23 is, I've seen your projections on taxes what other
24 states do, and I appreciate that. But what I don't
25 see here, and I would ask if you would at some

1 point, is, in talking with people in Colorado, the
2 Attorney General and others, newspapers as well,
3 they've seen a huge increase in the cost of
4 hospital admissions by, I think, 25 percent due to
5 marijuana. DUIs have doubled. Of course, rehab
6 costs are skyrocketing.

7 So what I'd like to see, if you can, in
8 these different states, Colorado, California, so on
9 and so forth, to accumulate what the real costs
10 are, because, I think you said about 500, 550
11 million maybe for Pennsylvania, possibly. We don't
12 know.

13 The question is, really, when you deduct
14 the cost of -- the additional cost in our
15 hospitals, which we pay for as taxpayers, and the
16 DUIs and the cost it costs us in our insurance
17 rates, and the additional money we're gonna require
18 for rehab facilities and expanding that, and we
19 know in Pennsylvania already, we don't appropriate
20 enough money for rehab. We know there's a real
21 shortage.

22 So, really, what is the real income in
23 legalizing marijuana? Is it a hundred million
24 dollars? I don't know if it's worth all those
25 accidents where people die due to a marijuana

1 accident. Or how about school bus drivers? We're
2 already having a problem in this Commonwealth of
3 finding school bus drivers who have a record that's
4 not criminal or isn't smoking weed now.

5 Tractor-trailer drivers, how many of us
6 would like to have our tractor-trailer drivers on
7 weed? We're already catching people who are on
8 medical marijuana being arrested for driving while
9 under the influence. If you want your son or
10 daughter, your mom or dad, or even maybe grandma,
11 die in a car accident or be severely injured
12 because of somebody with marijuana.

13 And I've heard the excuse, well, you
14 know we allow -- that happens with alcohol. So, I
15 guess killing people with alcohol justifies the
16 reason to allow people to kill people with weed.

17 I think we all have to start using
18 common sense. Yes, we want to see better outcomes
19 in all the programs that Pennsylvania offers. But
20 let's get to the core of the problem that we have,
21 and that's how about Pennsylvania taxpayers are
22 looking for real solutions; not just another tax
23 increase. If they're gonna pay higher taxes, they
24 need real solutions for the problems they face
25 today. And I don't see any solutions for any real

1 problems in this Governor's budget. The minimum
2 wage doesn't solve the real problems out there. It
3 only creates more.

4 So, in the end here, we need more common
5 sense in government rather than more taxes, and
6 more responsibility by our Secretaries in
7 controlling how they spend dollars and know what's
8 going on in their own departments, rather than
9 sitting around and twiddling their thumbs and not
10 addressing the need that the taxpayers are
11 demanding.

12 Deb, Matt, I appreciate your time here
13 today. I appreciate all the work you've done over
14 the years. If you could, if you have time, when
15 you have time, I know you have a lot of other work
16 on your schedule, those costs would be appreciated.
17 If you would send them to the Appropriations
18 Committee, and I will share those with all
19 committee members, and the General Assembly, in
20 fact.

21 So, with that, if there's nothing else,
22 we will take a 5-minute break, and then we will
23 have the Secretary of Aging.

24 Thank you.

25 (Whereupon, the hearing concluded).

C E R T I F I C A T E

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