

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES

APPROPRIATIONS COMMITTEE HEARING

STATE CAPITOL
MAIN BUILDING
HOUSE FLOOR
HARRISBURG, PENNSYLVANIA

TUESDAY, FEBRUARY 15, 2022

PRESENTATION FROM
INDEPENDENT FISCAL OFFICE

BEFORE :

HONORABLE STANLEY SAYLOR, MAJORITY CHAIRMAN
HONORABLE MATT BRADFORD, MINORITY CHAIRMAN
HONORABLE LYNDA SCHLEGEL-CULVER
HONORABLE TORREN ECKER
HONORABLE JONATHAN FRITZ
HONORABLE KEITH GREINER
HONORABLE DOYLE HEFFLEY
HONORABLE JOHNATHAN HERSHEY
HONORABLE LEE JAMES
HONORABLE JOHN LAWRENCE
HONORABLE ZACH MAKO
HONORABLE NATALIE MIHALEK
HONORABLE TIM O'NEAL
HONORABLE CLINT OWLETT
HONORABLE CHRIS QUINN
HONORABLE GREG ROTHMAN
HONORABLE LOUIS SCHMITT
HONORABLE MEGHAN SCHROEDER
HONORABLE JAMES STRUZZI
HONORABLE JESSE TOPPER
HONORABLE RYAN WARNER
HONORABLE JEFF WHEELAND
HONORABLE DAVE ZIMMERMAN

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BEFORE (cont.'d) :

- HONORABLE AMEN BROWN
- HONORABLE DONNA BULLOCK
- HONORABLE MORGAN CEPHAS
- HONORABLE AUSTIN DAVIS
- HONORABLE ELIZABETH FIEDLER
- HONORABLE MANUEL GUZMAN
- HONORABLE PATTY KIM
- HONORABLE EMILY KINKEAD
- HONORABLE STEPHEN KINSEY
- HONORABLE LEANNE KRUEGER
- HONORABLE KYLE MULLINS
- HONORABLE BENJAMIN SANCHEZ
- HONORABLE PETER SCHWEYER
- HONORABLE JOE WEBSTER

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ALSO IN ATTENDANCE:

**DAVID DONLEY, REPUBLICAN EXECUTIVE DIRECTOR
RITCHIE LaFAVER, REPUBLICAN EXECUTIVE DIRECTOR
ANNE BALOGA, DEMOCRATIC EXECUTIVE DIRECTOR
TARA TREES, DEMOCRATIC CHIEF COUNSEL
HONORABLE MIKE PEIFER
HONORABLE KEVIN BOYLE
HONORABLE GARY DAY
HONORABLE CRAIG STAATS
HONORABLE NAPOLEON NELSON
HONORABLE DARISHA PARKER
HONORABLE STEVE SAMUELSON**

**JEAN M. DAVIS, REPORTER
NOTARY PUBLIC**

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1 P R O C E E D I N G S

2 * * *

3 MAJORITY CHAIRMAN SAYLOR: We'll call the
4 Appropriations Hearing for the Independent Fiscal Office to
5 order.

6 I'll ask everybody to take their seats and get
7 ready for the first question to start.

8 Director Knittel and Brenda, would you mind
9 standing and raising your right hand?

10
11 (Witnesses sworn en masse.)

12 MAJORITY CHAIRMAN SAYLOR: Thank you.

13 With that, we will start off with our first
14 questioner, which is Representative Culver.

15 REPRESENTATIVE SCHLEGEL-CULVER: Good morning.

16 Thank you for being here today. I just want to
17 start off by talking about some of the demographics in the
18 report. When I came to the House, my goodness, at the
19 beginning of -- it was six terms ago, I sat on the Aging
20 Committee for many years. And the Penn State Data Center
21 would come in each session and give us basically the data
22 within our districts and then an overall view of the
23 Commonwealth.

24 I noticed over the time period of 2010 through
25 2020, your office highlighted the change in demographic

1 challenges currently facing this Commonwealth and the impact
2 that these will have on both expenditures and revenues in
3 future budgets, which is why we are here today, to talk
4 about this budget and future budgets.

5 So the data in the package shows that for the
6 period of 2010 through 2020, the working population age 20
7 to 64 declined by approximately 60,000, while the population
8 65 and older has increased by 528,000.

9 But what is most noticeable in the data provided
10 is the growth in the baby boomers alone age 65 to 79. Over
11 that same time period it was 519,000. But the school-age
12 population, zero to 19, which is basically, I think, the
13 foundation in the structure for where the Commonwealth goes,
14 declined by 168,000.

15 Looking into the future, so over the next
16 four-ish years, 2020 to 2025, this picture doesn't seem to
17 be getting any better. That seems to be the going trend for
18 us as a Commonwealth. The population age zero to 64 is
19 anticipated to decline by 254,000, while the population age
20 65 years and older is anticipated to grow by 322,000.

21 Given our challenging age demographics, would you
22 say that the anticipated long-term growth, revenue growth,
23 will be able to meet the anticipated long-term expenditure
24 growth within the Commonwealth?

25 DIRECTOR KNITTEL: Yes. If I could, referring to

1 page 7 in the hearing packet where we have our demographic
2 projections. And I do think that we are looking at a
3 challenging picture going forward for the next five years.

4 As you noted, our working age cohort is actually
5 contracting. And on top of that, we have the lowest labor
6 force participation rate that we've had since 1984. So
7 these effects are compounding one other. And, of course,
8 with fewer people working, you have slower economic growth.
9 So on the revenue side, there's definitely challenges due to
10 both factors.

11 And then as you noted, due to the retirement of
12 the baby boomers, we are having very strong growth over the
13 five years, 2.7 percent per annum, in the retirees.

14 And I would also point out for those age 80 and
15 above where a lot of the costs demands are for long-term
16 living, they are going by 3.5 percent per annum, which for a
17 demographic growth is extremely strong. That's from 25 to
18 30. So, yes, challenges on both sides of the budget.

19 REPRESENTATIVE SCHLEGEL-CULVER: You know, like I
20 said, when I got here I was on the Aging Committee. And
21 they were trying to prepare us for what they termed the
22 Silver Tsunami. I believe we are there and we'll continue
23 to see the effects of that as we go into the next few years.

24 So what would you advise us as policymakers to
25 keep in mind, one, about our current tax structure; two,

1 about expanding and creating new service initiatives given
2 these demographic challenges? Because the concern is, if we
3 don't have the population to enter the workforce to generate
4 the revenues that we need, how do we pay for them? And if
5 you know anything about our aging population, your needs
6 don't decrease as you age. They certainly increase. And we
7 are already not meeting that need.

8 So what do you have for us? What advice do you
9 have for us as policymakers?

10 DIRECTOR KNITTEL: So this trend has been long
11 developing. And I think people understand where we are
12 right now, that there's a lot of significant challenges. As
13 policymakers, I think we, you, need to do what we can in
14 order to attract residents into the Commonwealth.

15 And there's a number of ways that could be done,
16 higher education institutions. But what we've seen in terms
17 of the overall demographic picture from Pennsylvania is that
18 the birth and death rates are about the same so there was no
19 organic growth. About the same number of folks are coming
20 into the state and leaving the state domestically. And that
21 just leaves international migration if we want any
22 additional growth.

23 So that's the picture over the next five to ten
24 years, challenging, but I think if we could attract
25 residents and retain college students who are from out of

1 state, that will help to address this issue.

2 REPRESENTATIVE SCHLEGEL-CULVER: I just want to
3 point out one of the things I had heard in the report that
4 you would think with the advances in medicine and the
5 advances in technology, that the upcoming generations would
6 be healthier, but the reports are showing that they are
7 actually not. And the cost of health care for them and the
8 cost of services will be more than any generation preceding
9 them. So I think it's important for us to have this data.
10 But I think it's also important that we need to really start
11 to buckle down and address them.

12 So thank you very much.

13 DIRECTOR KNITTEL: Thank you.

14 MAJORITY CHAIRMAN SAYLOR: Our next questioner is
15 Representative Lee James.

16 REPRESENTATIVE JAMES: Thank you, Mr. Chairman.

17 Director Knittel and staff, good afternoon.

18 Thank you for coming in today. I want to compliment you.
19 You may be the only organization here that's truly
20 nonpartisan in this whole building.

21 I do have two quick questions. Number 1, I was
22 looking at the brief budget numbers here. And I see for
23 '21-'22 your budget was flat-lined from the year before and
24 proposed to be flat-lined again but you're going to come up
25 about \$400,000 short. How do you propose to make that up?

1 DIRECTOR KNITTEL: Yes. In our budget material
2 we have an operating deficit of about \$400,000. And we have
3 a flat-line appropriation. Currently the way we are
4 addressing that is through unused appropriations from prior
5 years. We have about \$4.3 million of unused appropriations
6 from prior years and we're using them currently.

7 REPRESENTATIVE JAMES: There you go.

8 Thank you very much.

9 I'd like to talk a little bit about the labor
10 force and some of the data and graphs and so forth that you
11 have presented.

12 In the budget presentation here earlier today, I
13 believe it was in there that it was said that there was
14 approximately 350,000 jobs that were lost permanently in the
15 Commonwealth of Pennsylvania over the two-year COVID
16 program, which brings our employment levels down to 2007
17 level and labor participation all the way back to 1984.

18 I'm not so sure that statement or those
19 statistics are critical. What's critical, I think, is what
20 are we going to do tomorrow? I wonder if you could comment
21 today on your expectations and projections for our labor
22 force and labor participation as we go into the new year?

23 DIRECTOR KNITTEL: Sure. So as you noted in the
24 packet, we do have some data here on pages 3 and 4 about the
25 labor force and participation. Going forward, we are

1 projecting 80,000 jobs to be added in the current year. We
2 added 115,000 last year. We do think that the labor force
3 participation, which is at the lowest level since 1984, we
4 do anticipate that will turn around a bit here but still
5 remain low going forward.

6 So I characterize that as the jobs outlook as not
7 as good as last year where we picked up 115,000 jobs. But
8 ordinarily, we would add about forty to fifty thousand jobs
9 in a non-COVID year. So a little bit above normal, but
10 still not where we need to go.

11 We are down permanently about three hundred to
12 three hundred fifty thousand jobs.

13 REPRESENTATIVE JAMES: It may be unanswerable.
14 But do you have any clue as to where those jobs went, those
15 350,000?

16 DIRECTOR KNITTEL: So if we look across sectors,
17 they are particular sectors, such as restaurants or leisure.
18 We lost a lot of temp jobs. We lost a lot of residential
19 nursing care facilities. We think, again, due to
20 efficiencies in the economic and different ways of spending
21 patterns that the jobs won't be coming back, for example,
22 also for remote working.

23 The temp agencies, we lost about 30,000 jobs
24 there; building maintenance services, lost jobs there. So
25 it's pretty widespread. The only sectors that picked up

1 jobs have to do with transportation or warehousing or
2 delivery, such as FedEx and UPS. So we don't see these
3 trends reversing.

4 REPRESENTATIVE JAMES: Okay.

5 I yield back my time.

6 MAJORITY CHAIRMAN SAYLOR: Representative Bullock
7 is our next questioner.

8 REPRESENTATIVE BULLOCK: Thank you, Mr. Chairman.

9 Good afternoon.

10 We've talked a lot about -- or we've been talking
11 about the larger economic trends for the state as a whole,
12 how industries have been lost or we may not see come back.
13 But we also know that different parts of the state and
14 different groups experience the economy differently.

15 For example, in 2020 I believe Pennsylvania had
16 the highest black unemployment rate in the country. One in
17 five black Pennsylvanians were out of work. If we look
18 deeper, how does the recovery look for different demographic
19 subgroups, such as communities of color, different age
20 groups, low income, middle class, and higher income
21 communities in Pennsylvania?

22 DIRECTOR KNITTEL: So regarding the labor market
23 recovery -- and I, again, think it will be partial. We
24 think it will take about four or five years to get back to
25 where we were prior to COVID to the 2019 levels. And the

1 job losses were broad-based, but they were particularly
2 concentrated in certain industries, as we noted.

3 Going forward, as you noted, for the black
4 unemployment rate, it still remains higher than it is for
5 other groups. We haven't looked at that issue specifically.
6 If it's helpful, we can take a look at that and provide that
7 information.

8 REPRESENTATIVE BULLOCK: That would be helpful.

9 And do you know of any other demographics or
10 areas of the economy which certain groups, whether it be age
11 group or other demographics, that they're either hit
12 differently, harsher or faster or quicker, how those
13 economic trends impact those communities? Can you share
14 that with us today or share with us at a later point?

15 DIRECTOR KNITTEL: Sure.

16 We have some additional detail. This wasn't part
17 of the hearing packet. But as part of our midyear update,
18 we did look at the impact on age groups. And the
19 contraction was strong across all age groups. There's been
20 a lot of articles about early retirements. And certainly
21 that occurred in Pennsylvania.

22 But if you look across the younger groups, I'm
23 looking here, 19 to 24 and 25 to 34, the ratio of employment
24 to population for both of these groups fell by 5 or 6
25 percentage points. So it's not just older folks who are

1 retiring early. It was across the board for all age groups.

2 And I would say in Pennsylvania, at least, the
3 data that we're seeing, it did hit younger age groups more
4 so than older age groups.

5 REPRESENTATIVE BULLOCK: Great. That's very
6 helpful.

7 Moving on to another subject -- and I think you
8 touched on this briefly with the previous questions -- when
9 we are looking at the different industries that may be
10 leaving or coming during the last few years, what are your
11 thoughts on those trends and how can we address them going
12 forward?

13 DIRECTOR KNITTEL: Yes. So I turned to refer to
14 page 3 in the packet where we were looking at the trends
15 since COVID, since 2019. And clearly, the gains are in
16 anything to do with warehousing storage or transportation
17 jobs. We have some gains in real estate, some retail gains.

18 But going forward, I think, due to the
19 demographics that we're seeing in here in the state, the
20 real growth industry will be health care. And as people are
21 aging out in their home, home health care workers, the
22 number of employees in the nursing home and residential care
23 are down 30,000.

24 So this tells us -- and we have a report on
25 performance-based budgeting that shows that the percentage

1 of older Pennsylvanians in nursing homes is declining every
2 year. So health care and high tech is where we think the
3 growth will be going forward.

4 REPRESENTATIVE BULLOCK: So given that statement,
5 for Pennsylvania to move forward, what investments would you
6 recommend in the future of work in Pennsylvania? I'm
7 hearing health care. What are the ways that we can support
8 the future of work for the Commonwealth?

9 DIRECTOR KNITTEL: So I think certainly support
10 for higher education is beneficial. Right now one of our
11 main concerns is getting folks back into the labor force.
12 Employers have offered stipends to pay for college or
13 perhaps child care to get parents back into the workforce.
14 They are both beneficial.

15 REPRESENTATIVE BULLOCK: Thank you very much.

16 I have no further questions.

17 MAJORITY CHAIRMAN SAYLOR: Our next questioner is
18 Representative Natalie Mihalek.

19 REPRESENTATIVE MIHALEK: Thank you for being here
20 with us today and for the budget materials that you shared.

21 I wanted to follow up on my colleague's questions
22 regarding domestic migration. I noticed in the materials
23 that it provided information for mostly Mid-Atlantic states.
24 And generally speaking, the Mid-Atlantic states are doing
25 well on overall tax burdens.

1 Just yesterday the Wall Street Journal noted that
2 ten states with the most domestic migration growth had an
3 average state and local tax burden of 7.7 percent. The ten
4 states with the worst domestic migration figures had an
5 average state and local tax burden of 9.9 percent.

6 So when you're considering our population loss in
7 these trends, what role do you think our tax burden is
8 playing and how can we move forward in that as policymakers?
9 I know that you've told my colleague that we should focus on
10 policies that can attract residents into the state and
11 retain students. But are there any specific policies with
12 regard to tax reforms that you can comment on?

13 DIRECTOR KNITTEL: Yes. And in the packet, I
14 would refer to page 13 where we compare the Pennsylvania tax
15 burden to other states, to Mid-Atlantic states and some peer
16 states, we're relatively high for some, relatively lower for
17 others. But overall I would characterize us in the middle
18 of the pack.

19 I would say anything as far as economic growth
20 that can attract newer firms into the Commonwealth, start-up
21 firms, anything that's export-based industries, that you're
22 exporting out and bringing the monies in. We now have a new
23 dynamic from remote working. So if we can attract remote
24 workers into the Commonwealth, any policies that we can do
25 for that is a positive.

1 Just on the domestic migration issue, I would
2 like to note a positive. The latest data that we have
3 suggests that the inflows and outflows from Pennsylvania are
4 now about even. It used to be that about ten to twenty
5 thousand residents were leaving the state. The most recent
6 data suggests that it is now roughly even.

7 REPRESENTATIVE MIHALEK: And that data indicated
8 that -- because I think the big question is, where is
9 everybody going? And they're going to Florida, Texas,
10 Arizona, North Carolina, South Carolina, Idaho, Utah. And
11 many of those states that I just mentioned -- in fact, I
12 think all but Texas -- are in the top 15 for having the
13 lowest CNIT.

14 I wanted to shift very quickly to dynamic
15 modeling. I think this can be helpful for the Legislature
16 in developing tax policies moving forward. Act 77 of 2021
17 included a provision requiring the IFO to utilize dynamic
18 modeling in certain situations, specifically if there's a
19 fiscal impact expected in excess of \$50 million.

20 Could you just provide a brief description of
21 what dynamic modeling is? I think it's a term that's thrown
22 around a lot. Just for the benefit and the sake of the
23 hearing today.

24 DIRECTOR KNITTEL: Sure. Well, I compare dynamic
25 modeling to static modeling. Static assumes no behavioral

1 responses, macro-economic responses in the overall economy.
2 So that it does not allow the state economy to grow or
3 contract. It does take into account consumer behaviors or
4 taxpayer behavior. But the overall economy cannot grow or
5 shrink.

6 Dynamic modeling allows the economy to grow or
7 shrink in response to various policies, whether it be
8 spending or taxes. So it's probably more accurate for a
9 larger proposals way to estimate the impact for the economy.

10 REPRESENTATIVE MIHALEK: And the IFO had just
11 purchased a model in order to perform this dynamic modeling
12 required by Act 70. Could you just specifically comment on
13 what exactly was purchased and how it's been utilized so
14 far?

15 DIRECTOR KNITTEL: Sure. Prior to this purchase
16 we had a model called IMPLAN, which is an input/output
17 model. The model that we just purchased is known as REMI.
18 It's used by at least a dozen other states for dynamic
19 estimation. The capabilities of REMI are very broad and
20 widespread.

21 Right now, what we are doing with the model is to
22 populate it with Pennsylvania-specific data. So there's a
23 lot of data inputs. And we're also calibrating it. So what
24 we intend to do as soon as we calibrate it is to run some
25 simulations. And what we plan right now is to simulate a 1

1 and 2 percentage point increase in the corporate income tax
2 rate and the personal income tax rate to see what the
3 dynamic effect is from there.

4 REPRESENTATIVE MIHALEK: So when you're
5 performing those dynamics, it's under the request of a
6 specific list of officers. Could you say who those officers
7 are?

8 DIRECTOR KNITTEL: Sure. There are 14 requesting
9 officers. There's the Speaker and the President Pro
10 Tempore. There are the Majority and Minority Leaders of the
11 House and the Senate, the four Chairs of the Appropriations
12 Committees and the four Chairs of the Standing Committees to
13 which the bills are referred.

14 REPRESENTATIVE MIHALEK: And when a request like
15 that is made, does it trigger an automatic public
16 notification of the results?

17 DIRECTOR KNITTEL: Any material or analysis that
18 we do with regards to REMI or any other proposals, we do
19 post to our website. We send it to the requester three days
20 ahead of time, offer to meet with them. And then we post it
21 to our website and it's publicly available.

22 REPRESENTATIVE MIHALEK: Thank you so much.

23 DIRECTOR KNITTEL: Sure.

24 MAJORITY CHAIRMAN SAYLOR: Our next questioner is
25 Representative Kruger.

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REPRESENTATIVE KRUGER: Thank you.

MAJORITY CHAIRMAN SAYLOR: Representative, do you have your tent?

REPRESENTATIVE KRUGER: I do not.

MAJORITY CHAIRMAN SAYLOR: Okay. Thank you.

REPRESENTATIVE KRUGER: Thank you so much for joining us here today for this first official day of House Appropriations Budget Hearings.

I want to dive in a bit to the numbers because in the previous hearing this morning, some of my colleagues pointed out the difference between the projections from the Administration, specifically the Department of Revenue, and what we are seeing through the Independent Fiscal Office.

I want to note that for this year, your forecast is 364 million higher than the Department of Revenue's projections but both of you are off. We are currently looking at year-to-date revenues of 26.148 billion, which is \$2.2 billion higher than what you had initially projected.

And I understand that doing these projections, it's a moving target, right? And as we heard from a previous speaker, there's different kinds of economic modeling that get us to the projections so that we can budget accordingly just like we would at our own homes.

So my first question for you is this: Are you surprised by how strong revenues have been so far this

1 fiscal year? And what do you attribute the difference
2 between your projection and the revenues to date?

3 DIRECTOR KNITTEL: And you are speaking just for
4 this current fiscal year?

5 REPRESENTATIVE KRUGER: For the current fiscal
6 year that we're in, yes.

7 DIRECTOR KNITTEL: Correct. Yes.

8 So I can say first, yes, we were surprised by the
9 strength of the revenues. We think there are various issues
10 driving that, some of them technical. I put the first
11 reason as more of the stimulus monies are being spent than
12 we had assumed. The surveys about a year ago showed that
13 one-third of the monies, the economic impact payments, were
14 being spent. The latest surveys that we are seeing now
15 suggest it's closer to two-thirds.

16 I know there was discussion about durable goods
17 purchases before. And that is very notable in Pennsylvania.
18 That share has gone up about 3 percentage points versus
19 historical levels. Every percentage point is adding \$200
20 million on to sales and use tax revenues. So we're thinking
21 that will revert partially next year.

22 The final thing I would note, very unusual year
23 because of the massive Federal stimulus that came into the
24 state economy. I suspect, but we don't have the data, that
25 the economic multipliers were larger than they normally are

1 due to the massive infusions. So I think those are all
2 driving it.

3 In regards to the second question, yes, we are
4 about 306 million higher than the Department of Revenue. We
5 think there's a bit of an extra kick that's still out there.
6 The Federal Reserve data on checking account balances show
7 that they're still very flush through the third quarter. So
8 we still think there's some extra stimulus monies to be
9 spent. And we are expecting a strong final payment in
10 personal income tax due to the very significant gains in the
11 stock market. And we know that dividend payments were
12 strong as well.

13 REPRESENTATIVE KRUGER: Thank you.

14 Thank you for clarifying that.

15 So just as a followup, which of those revenue
16 sources do you think have the potential to continue to grow
17 next fiscal year? I heard a lot of it could be due to the
18 Federal dollars which will at some point be spent and then
19 be gone. What will continue next year?

20 DIRECTOR KNITTEL: So for next year, if there's
21 any upside to the forecast, I would look at withholding wage
22 growth. So the wage growth that we're seeing is very
23 strong. And if the labor force participation rate doesn't
24 increase, we think the strong wage growth could continue.
25 So there's a potential upside there depending on labor force

1 participation.

2 REPRESENTATIVE KRUGER: I appreciate that.

3 And can you just expand on that a little bit?
4 What is possible if we continue with this kind of wage
5 growth?

6 DIRECTOR KNITTEL: Speaking for IFO, we had a 5.1
7 percent wage growth. Again, that's coming off a very strong
8 year last year where the wage growth was about 8.3 or 8.4
9 percent of course coming off a weak year. So it's possible
10 that could be a percentage point or 1 and a half percentage
11 points higher, again depending on the labor force
12 participation.

13 REPRESENTATIVE KRUGER: So 1 and a half to 2
14 percent above the 5.1 percent?

15 DIRECTOR KNITTEL: I would say perhaps 1 to 1.5.
16 That's plausible.

17 REPRESENTATIVE KRUGER: And how would that
18 translate to revenues?

19 DIRECTOR KNITTEL: That I don't have in front of
20 me, the computation, a few hundred million. But I don't
21 have the exact figure.

22 REPRESENTATIVE KRUGER: Okay. Thank you very
23 much. I appreciate you joining us today.

24 DIRECTOR KNITTEL: Thank you.

25 REPRESENTATIVE KRUGER: Thank you, Mr. Chairman.

1 MAJORITY CHAIRMAN SAYLOR: Mr. Knittel, just a
2 clarification. There has been a lot of discussion about
3 forecast. Am I correct the forecast that you gave in last
4 year's was not inclusive of the Federal stimulus dollars
5 that came into the state after that forecast? Am I correct?

6 DIRECTOR KNITTEL: That is correct.

7 MAJORITY CHAIRMAN SAYLOR: Thank you.

8 Next is Representative Lou Schmitt.

9 REPRESENTATIVE SCHMITT: Thank you, Mr. Chairman.

10 Good afternoon, folks. Thanks for coming over.

11 I want to switch gears on you a little bit. One
12 of the responsibilities of the IFO is to respond to requests
13 of the members of the General Assembly to provide economic
14 revenue or fiscal analysis to the extent that staff
15 resources are available.

16 We always see when a piece of legislation comes
17 out, the IFO says it's going to have this impact. It's
18 going to have that impact. How do I -- as a member of the
19 General Assembly, how do I initiate that process to request
20 an analysis from the IFO on a piece of my legislation?

21 DIRECTOR KNITTEL: Sure. Any member of the
22 General Assembly can reach out to my office either through
23 our contact box, or you can contact myself or Brenda
24 directly. You can tell us what you're interested in. We
25 will meet either with you or with your staff and we will

1 discuss what the capabilities are. In general, our office
2 policy is that if we have the resources and we have data,
3 that we will undertake the analysis.

4 And again, once we undertake it, we will transmit
5 our results to the member and then three days following that
6 we will post it to our public website.

7 REPRESENTATIVE SCHMITT: Are you folks able to do
8 an analysis for all of the requests received? I think you
9 just mentioned that you don't do an analysis maybe for
10 substantive reasons.

11 DIRECTOR KNITTEL: In my ten years we had to turn
12 down two or three requests. Most of that was due to lack of
13 data. So if we don't have data to analyze, generally we
14 don't have any value to add and we would not undertake the
15 request.

16 REPRESENTATIVE SCHMITT: Does your office
17 prioritize requests that it receives in a certain manner?

18 DIRECTOR KNITTEL: Only on a first-come,
19 first-serve basis.

20 REPRESENTATIVE SCHMITT: Thank you very much. I
21 appreciate that.

22 Thank you, Mr. Chairman.

23 MAJORITY CHAIRMAN SAYLOR: Next is Representative
24 Kinkead.

25 REPRESENTATIVE KINKEAD: Thank you, Mr. Chairman.

1 Thank you for joining us today. I just have a
2 quick question about labor force participation, particularly
3 in regards to the prime age male participation in the
4 workforce. One of the things that we have seen in the
5 pandemic -- well, we were seeing before the pandemic was a
6 dramatic drop in 25- to 34-year-old men actually
7 participating in the workforce. We've seen an even more
8 precipitous drop since the pandemic.

9 Do you believe that one of the ways that we could
10 potentially alleviate that is by actually investing more
11 money to fully fund access to child care because we are
12 seeing more men choosing to be stay-at-home parents because
13 of the need and the pandemic?

14 DIRECTOR KNITTEL: Yes. I have seen the same
15 trend that you alluded to for working-age men in that age
16 group. I would say regardless of the age or gender, child
17 care is an important component of folks rejoining the labor
18 force and would only be a positive.

19 REPRESENTATIVE KINKEAD: Thank you.

20 Thank you, Mr. Chairman.

21 MAJORITY CHAIRMAN SAYLOR: Our next questioner is
22 Representative Owlett.

23 REPRESENTATIVE OWLETT: Thank you, Mr. Chairman.

24 And thank you, Director, for being here. I
25 appreciate you taking the time and your hard work in putting

1 these numbers together for us.

2 Looking back we really had no idea that -- like
3 the Chairman talked a little bit about not knowing how much
4 money would be coming from the Federal Government. Are you
5 anticipating any money coming from the Federal Government in
6 2022, this year?

7 DIRECTOR KNITTEL: No, not any additional
8 amounts. The only thing I believe -- the program that's
9 ongoing is the enhanced SNAP benefits. Those are still, I
10 think, through March. They could be extended further. But
11 that's all we have built-in right now.

12 REPRESENTATIVE OWLETT: We talked quite a bit
13 about the spike in sales tax from durable goods. I just
14 want to drill down a little bit more on that. What has been
15 the economic impact of that? We've seen an increase. Talk
16 a little bit about the numbers on that.

17 DIRECTOR KNITTEL: Sure. I think it's been very
18 dramatic. So there are two things happening here. One is
19 just a shift over towards goods. The second item, if you
20 look at Pennsylvania, durable goods inflation is really
21 what's driving the overall growth in the CPI. So not only
22 did you have greater demand for these goods but the prices
23 were going up rapidly.

24 As I noted prior, the share of money spent on
25 taxable items, durable goods, has increased by 3 percentage

1 points. And each percentage point is worth about \$200
2 million. So that shift after COVID hit we think was worth
3 about \$600 million in extra sales tax collections.

4 REPRESENTATIVE OWLETT: So when we look forward,
5 moving forward in drafting a budget that's reasonable and,
6 you know, responsible, the numbers really are different from
7 what you're projecting and what Revenue is projecting.

8 And the '22-'23 Budget, we're looking at about --
9 I mean, yours are about 3.2 percent lower, which is like a
10 billion dollars. I mean, it's a lot of money. So here we
11 are as policymakers. We have to make a decision on revenue
12 numbers and how to plan for the future.

13 If we went with this, with the Governor's Budget,
14 and the numbers come back that we're -- you know, given the
15 demographics that you're talking about and the challenges
16 we're facing here as a state, where is that going to leave
17 us as a state in our budget going into next year if we went
18 with the Governor's proposal and your numbers? What does
19 that do for us?

20 DIRECTOR KNITTEL: Well, if I could just say
21 about the differential here, because I know there's been
22 some discussion, we are a billion dollars lower than the
23 Administration for next year. We are not forecasting a
24 recession or a sales tax recession. What is happening here
25 is a partial reversion back to normality. There has been

1 \$120 billion of Federal stimulus injected into the state.
2 There are these technical issues that we talked about about
3 purchasing durable goods that we don't think can be
4 maintained. It will revert back.

5 And for basically those two reasons we have a
6 slight contraction of 3 percent in sales tax revenues. So
7 we've taken all these into account in our models. But the
8 \$120 billion of Federal stimulus is just massive and it's no
9 longer there.

10 REPRESENTATIVE OWLETT: I'll go back.

11 I mean, over the course of, you know, five or six
12 years, I mean, what the Governor is projecting is, you know,
13 a 4.2 percent growth and the IFO is at 1.8. I mean, those
14 are big numbers. I mean, I want to be responsible because,
15 I mean, that's quite a -- that would be quite a tax increase
16 that we'd have to come up with and money we'd have to find
17 for next year's budget if we had to come up with, you know,
18 \$700 million, \$800 million next year.

19 That's where we're at. I think the biggest
20 questions that we're going to have to face as policymakers
21 is, you know, do we really think that people are going to
22 spend money they don't have? You said it today. The money
23 has -- a lot of it's been spent.

24 DIRECTOR KNITTEL: Um-hmm.

25 REPRESENTATIVE OWLETT: And the Federal

1 Government is likely not going to be coming with additional
2 funds. So we have some really big decisions to make. I
3 just want people to realize that, you know, the numbers that
4 you're projecting are different than Revenue's and it would
5 put us in a hole if we went with the Governor's numbers
6 instead of yours.

7 So thank you for being here. And thank you for
8 crunching the numbers.

9 DIRECTOR KNITTEL: Thank you.

10 REPRESENTATIVE OWLETT: Thank you, Mr. Chairman.

11 MAJORITY CHAIRMAN SAYLOR: Our next questioner is
12 Representative Guzman.

13 REPRESENTATIVE GUZMAN: Thank you, Mr. Chairman.
14 And thank you so much for your time this afternoon.

15 We heard earlier on in this hearing about
16 population loss. Isn't it true that the Hispanic Latino
17 community here in the Commonwealth of Pennsylvania has an
18 increased population about over 45 percent?

19 DIRECTOR KNITTEL: I know it's been very strong.
20 I don't have the exact figure. But it has been robust.

21 REPRESENTATIVE GUZMAN: Yes. And so the Latino
22 community is the strongest performing demographic within the
23 Commonwealth over the last census -- to the census, would
24 you agree with that, or at least one of the best performing
25 subgroups?

1 DIRECTOR KNITTEL: That sounds correct to me,
2 yes.

3 REPRESENTATIVE GUZMAN: Correct. And so perhaps
4 maybe this body should be more in tune to the needs of the
5 Latino community.

6 Moving on though, in your packet you discuss the
7 types of industries with the largest impact to employment by
8 the COVID-19 pandemic both positively and negatively.

9 Can you talk about the sectors that took a hit,
10 which ones have shown strength, and the outlook for those
11 sectors?

12 DIRECTOR KNITTEL: Sure. You refer to page 3 of
13 our packet handout where we had the gains and losses. And
14 on the loss side, again, we were looking at the leisure and
15 hospitality sector. We're looking at temp workers where we
16 have contraction. We're looking at accommodations such as
17 hotels, amusements, and gamings. Those have been the very
18 noticeable contractions. I also noted nursing and
19 residential care. Less folks are going into nursing homes
20 and they're choosing to age out at their home.

21 We expect that those job losses are generally
22 permanent, that they wouldn't be recouped. On the positive
23 side, again, these are due to warehousing and storage,
24 couriers and messengers.

25 I should note that the data you see here and that

1 we're discussing, it doesn't include self-employed
2 individuals. It doesn't include, you know, Grubhub or
3 DoorDash or things such as that. We suspect there's been a
4 lot of growth there but we don't have the data to quantify
5 it.

6 REPRESENTATIVE GUZMAN: Great.

7 And then my final question, Mr. Chairman, and I
8 yield back after this.

9 Last week we had a committee meeting with the
10 Chancellor of PASSHE schools where, you know, we talked
11 about the difficulties that PASSHE is currently having in
12 light of declining student enrollment both from demographic
13 factors and because of the cost of attendance, of course.

14 So we know that we -- in the General Assembly we
15 know we need to do more on the cost front side by supporting
16 the system's budget request. But can you give us an update
17 on the demographic sides and how those trends are looking
18 for different age brackets?

19 Thank you, Mr. Chairman.

20 DIRECTOR KNITTEL: Yes. So for our demographic
21 projections, and we included it, but I'm going to look
22 specifically at the age group from 18 to 22. That number
23 for 2021 is 828,000. By the time we get to 2025, we have a
24 contraction of 44,000 down to 784,000. And then heading out
25 to 2030, we have another further contraction of 22,000

1 individuals in that age group. So very stark.

2 REPRESENTATIVE GUZMAN: Indeed.

3 Thank you, Mr. Chairman.

4 MAJORITY CHAIRMAN SAYLOR: Representative Guzman,
5 I would say that I've actually met with the Latino community
6 in Lancaster recently and look forward to having that
7 discussion with you on your ideas with the Latino community
8 because I agree with you. We need to be focused on how we
9 can help and better the community as its growth is here.
10 You are absolutely right. Our Latino population has soared.
11 I don't know what those exact numbers are but I look forward
12 to discussion with you.

13 REPRESENTATIVE GUZMAN: Thank you.

14 MAJORITY CHAIRMAN SAYLOR: With this we'll move
15 to Representative Greiner.

16 REPRESENTATIVE GREINER: Thank you, Mr. Chairman.

17 Thank you both for coming today. This is a
18 question to Director Knittel.

19 We have been focusing, as my one colleague said
20 here, we want to be responsible when we put the budget
21 together and look at the revenue side. But I'm concerned
22 about the expenditure side, too. And in particular, the
23 Department of Human Services, which is one of the biggest,
24 if not the biggest, agency we had to deal with here in the
25 Commonwealth.

1 Your five-year economic forecast, five-year
2 economic and budget outlook on page 30 shows DHS expenditure
3 is growing by \$611 million, \$611 million for the year
4 '23-'24. I just want to point that out.

5 The Governor's Budget proposes a General Fund
6 total increase for all departments and agencies of only --
7 of about \$119 million for years '22 and '23. I want to kind
8 of let everybody hear what I just said, what you said for
9 DHS and what the Governor is saying for all agencies.

10 Looking forward through '26-'27 over a four-year
11 period, your projections assume DHS expenditures increase by
12 about \$2.2 billion. However, the Governor anticipates total
13 General Funding expenditures for all departments -- for all
14 departments and agencies only to be increasing by about \$1.7
15 billion over that period.

16 Do you believe that the Governor's proposed
17 expenditure growth through '26-'27 is realistic in light of
18 the numbers that you have presented?

19 DIRECTOR KNITTEL: Sure. I can refer to our
20 five-year forecast that we put out in November. Over the
21 budget horizon through '26-'27, we have average growth and
22 expenditures of 3 percent per annum. Historically, it's
23 been about 3.4 percent per annum. In the Executive budget
24 the average growth over that time period from the budget
25 year through '26-'27 is 0.9 percent.

1 So there is a difference of opinion about how
2 expenditures will be growing.

3 REPRESENTATIVE GREINER: Correct. I mean, like I
4 said, I'm a CPA. I'm looking at this and the math is really
5 fuzzy looking at the Governor's budget moving forward into
6 future years. I'm having a hard time getting my hands
7 around it. I mean, you don't have to be an accountant to
8 try to figure out that something is not right with these
9 projections moving forward with inflation. It's about 7
10 percent right now. I'm just making that comment.

11 And you're probably not going to be able to
12 answer this. But in my thoughts for the Governor -- for the
13 Governor's Budget to even come close to coming true, that
14 means we're going to have to probably cut programs in DHS to
15 get to that spending level that he wants to or eliminate
16 programs or changing requirements or -- I mean, I don't
17 know.

18 All I'm saying is there's -- to me there's not a
19 degree of realism going out the next four years in the
20 Governor's Budget, at least in my thoughts. I mean, how
21 would we get -- how do we get to that -- you know, it's like
22 a half a percent growth or it's less than 1 percent growth,
23 as you said. I think we looked at that, too, and reviewed
24 that. Maybe you can shed some light on that.

25 DIRECTOR KNITTEL: Yes. The number we have

1 computed from the budget year through '26-'27 is 0.9
2 percent. The underlying detail or what the summations are,
3 I can't comment on that. Let me check with Brenda to see if
4 there was a specific policy on the expenditure side.

5 MS. WARBURTON: Not that I'm aware of. I think
6 we're waiting to see more budget detail during the hearing
7 process, especially for DHS.

8 REPRESENTATIVE GREINER: As my colleague to start
9 this hearing said, you probably are the most nonpartisan
10 agency here in the Commonwealth so I do appreciate you being
11 upfront on how you came up with your projections moving
12 forward for the next four years.

13 I mean, we, of course -- and we talked about the
14 revenues and the projections now putting together the budget
15 for the upcoming year. But we do have a responsibility to
16 look at how this is going to impact these out years
17 futurewise.

18 And I think you made another excellent point that
19 we've discussed earlier that this Federal stimulus money has
20 really created -- I want to say people are able to spend
21 more money. But as far as projections, it's a burden trying
22 to figure out where we're going to go in the future. And
23 obviously, we have seen the inflation that's been derived by
24 this money that's been, you know, put into the system.

25 I thank you for your time. Thank you for being

1 here.

2 Thank you, Mr. Chairman.

3 MAJORITY CHAIRMAN SAYLOR: Our next questioner is
4 Representative Fritz.

5 REPRESENTATIVE FRITZ: Much appreciated, Mr.
6 Chairman.

7 Good afternoon, Director Knittel.

8 Mr. Director, we have competing states across
9 this nation and neighboring states, in particular, Ohio,
10 that are seeing pronounced growth of business manufacturing
11 and industry. Can you kindly share your thoughts on what
12 gives them, what gives them, the advantage over our Keystone
13 State? Mr. Director, is it incentives, regulatory
14 environment, leadership, geographic proximity, workforce
15 availability, tax environment, etc.? Please speak to that.

16 DIRECTOR KNITTEL: We haven't examined that. We
17 did look around at our peer states. And again, I'll refer
18 to page 13 and the state and local tax burden about how we
19 rank relative to other states in terms of tax.

20 I'll note for the overall tax structure, we have
21 Pennsylvania being ranked 20th across all 50 states. Ohio
22 is somewhat lower. They're ranked 26th in terms of state
23 and local tax burden.

24 I suspect that, though we haven't looked at it,
25 demographics is also a key element of that. Pennsylvania is

1 an older state. And that's causing slower economic growth
2 here or contributing to it.

3 REPRESENTATIVE FRITZ: So you're speaking in
4 particular about tax burden. But really what I'm trying to
5 find is the X factor, states that see this growth and
6 expansion of their economy and wooing new people to their
7 state. What are those reasons? What are the most
8 compelling reasons that people are investing in business and
9 moving to those states?

10 DIRECTOR KNITTEL: I think it's probably a
11 variety of factors. Certainly where they're seeing most of
12 the growth now I would say is down south or out west is
13 potentially weather-related. People are moving there for
14 retirement or for other reasons.

15 The reason that Ohio is outcompeting
16 Pennsylvania, I can't point to a specific factor about
17 what's driving that.

18 REPRESENTATIVE FRITZ: Okay. Well, how about can
19 you share with us maybe -- again, you have a very unique
20 vantage point and access to data. So that's why I'm trying
21 to cull these answers from you. If you could speak to a few
22 things that Pennsylvania is doing well, share with us your
23 observation.

24 DIRECTOR KNITTEL: I think there's a number of
25 things that Pennsylvania is doing well. I know we have a

1 number of strengths. One of them is a diversified economy.
2 I think every state weathered the COVID pandemic generally
3 well. That was due to the Federal infusion of funds. If
4 that had not occurred, I think Pennsylvania would have been
5 better positioned to weather the storm due to the
6 diversified economy, due to the fact that we have an export
7 base, due to the fact that we have many institutions of
8 higher education where we attract individuals into the
9 state. So I think that's well done.

10 And I think we have a balanced tax portfolio when
11 we compare to other states. We are not particularly
12 vulnerable if the stock market goes up or down or people
13 switch their spending.

14 REPRESENTATIVE FRITZ: Okay. So I appreciate
15 that response. And for what it's worth, I concur.

16 So let's do the flip side of the coin. What are
17 three areas? And I really want to focus on the top three
18 areas where Pennsylvania could do better in order to be more
19 competitive.

20 DIRECTOR KNITTEL: Well, again, I would point to
21 demographics, to anything we can do to either retain
22 residents who are here or retain individuals who come into
23 the state for, say, higher education. In particular, that
24 younger demographic is very attractive.

25 Anything we can do to attract jobs, in particular

1 export-based jobs, that pull in monies into the economy.
2 And now with the new dynamic from remote working, anything
3 we can do to encourage remote workers to locate into the
4 state because, once again, they are pulling monies into the
5 state that can be spent here. So the dynamic is different.

6 REPRESENTATIVE FRITZ: Okay. That was two items.

7 You got a third for us?

8 DIRECTOR KNITTEL: I'll have to defer on that.

9 Nothing is coming to mind.

10 REPRESENTATIVE FRITZ: Okay. I appreciate your
11 responses.

12 Thank you, Mr. Chairman.

13 MAJORITY CHAIRMAN SAYLOR: Our next questioner is
14 Representative Jesse Topper.

15 REPRESENTATIVE TOPPER: Thank you, Mr. Chairman.

16 Good afternoon.

17 DIRECTOR KNITTEL: Good afternoon.

18 REPRESENTATIVE TOPPER: Director Knittel, you've
19 looked at the Governor's revenue estimates. If you had a
20 word that could describe those, what would it be?

21 DIRECTOR KNITTEL: Well, I'll phrase my comments
22 relative to our projections. And I'd say they lean
23 optimistic.

24 REPRESENTATIVE TOPPER: So one of the things that
25 we heard this morning was that the Department was using his

1 market data, which, you know, I asked the question, was that
2 what the IFO is using as well? So I think we've heard that
3 it is or at least part of it. Can you describe how you've
4 come to those? We've heard the Department describe how they
5 came to their estimates.

6 If you could just describe how you've come to
7 your revenue estimates, particularly in the sales tax
8 department over the next few budget cycles.

9 DIRECTOR KNITTEL: Sure. Let me speak to how our
10 process works. We will make a forecast internally using
11 real-time data for the next year or two. When we make
12 long-term projections, we're assuming the economy reverts to
13 a normal, steady state growth rate so we are not using IHS
14 market insight regarding the differential in sales tax and
15 the economics and the personal income tax. So I think
16 there's some technical factors that work here due to the
17 stimulus. It's very hard to interpret it.

18 However, regarding the economics, on page A-119
19 in the Executive Budget, you will see the economic
20 assumptions. And for 2022, IHS market is assuming that we
21 produce 214,000 jobs. We only produced 115,000 last year
22 coming off a historic contraction with \$120 billion of
23 Federal stimulus monies. So we don't think we're going to
24 double the number of jobs this year compared to last year.
25 And we have 80,000 jobs for this year.

1 That differential in the number of jobs created,
2 214,000 versus 80,000, is driving a lot of the differential
3 in sales tax revenues and personal income tax.

4 REPRESENTATIVE TOPPER: Look, we all understand
5 that we are -- we do have estimates, right? When you do a
6 budget, you have to have estimates. Those don't always come
7 to fruition. And as we acknowledge as well, there's no
8 crystal ball. However, there is the best data that's out
9 there that we can use to -- we have to use something.

10 Right?

11 So what we're trying to establish is, what is our
12 baseline going to be? And so with that, as we enter these
13 budget negotiations, so on the record you can just say, you
14 do stand by all of your estimates as we move forward?

15 DIRECTOR KNITTEL: Yes. Absolutely.

16 REPRESENTATIVE TOPPER: Thank you very much.

17 Thank you, Mr. Chairman.

18 MAJORITY CHAIRMAN SAYLOR: Our last questioner
19 before we get to Chairman Bradford is Representative Torren
20 Ecker.

21 REPRESENTATIVE ECKER: Thank you, Mr. Chairman.

22 Good afternoon, Director Knittel and Deputy
23 Director Warburton. Thank you for being here.

24 So I want to turn here to another function of the
25 IFO, which is one of their primary tasks is to deal with the

1 performance-based budget and reports. And before we get
2 into that, I just, you know, every year -- just to give some
3 background, every year the IFO has been tasked with Act 48
4 of 2017 to do some of these performance reports every year.
5 It's on a five-year cycle. You look at various agencies.
6 And, Director Knittel, can you just briefly describe the
7 IFO's role in those reports?

8 DIRECTOR KNITTEL: Sure. Every year we undertake
9 a study to develop five or six agencies. We reach out to
10 them roughly about March and set up meetings. At that time,
11 we work with them to identify their main activities and what
12 data they have available. And then we work with them over
13 the summer and fall to develop the performance metrics that
14 will go into the report.

15 REPRESENTATIVE ECKER: And under the statute, I
16 believe you are required to undertake performance measures,
17 you also include outcome-based measures, including
18 efficiency measures, activity costs analysis, ratio
19 measures, measures of status improvements, and recipient
20 population s, economic outcomes of performance, benchmarks
21 against similar state programs or other similar state
22 jurisdictions.

23 Does that sound accurate, as you understand it,
24 as your task?

25 DIRECTOR KNITTEL: Yes. There is a long list of

1 performance measures we can develop. We do have some
2 discretion when we're developing them.

3 REPRESENTATIVE ECKER: And as part of this
4 process, I believe, in keeping transparent and going through
5 this process, you've talked about you meet with the
6 individual departments. But it's my understanding you also
7 meet with the different caucuses as well that represent the
8 PBB Board, correct?

9 DIRECTOR KNITTEL: That is correct. For each
10 agency report we do meet with legislative staff from all
11 four caucuses.

12 REPRESENTATIVE ECKER: And the point here is
13 that, you know, when you do your work, you do your analysis,
14 it's completely independent of really anybody other than the
15 data that's before you, correct?

16 DIRECTOR KNITTEL: That is correct.

17 REPRESENTATIVE ECKER: So like turning to this
18 year's Performance-Based Budgeting Boards, as you are aware
19 we had the Department of Education in front of us and that
20 report was tabled by the Board. Because this stuff is
21 already put out in public, once you do the report, you
22 publish these immediately, correct?

23 DIRECTOR KNITTEL: That's incorrect. After we
24 transmit it to the Board, a few days thereafter and prior to
25 the hearing, we will put it up on our website.

1 REPRESENTATIVE ECKER: So in the past, usually
2 under the Performance-Based Budgeting Board there's been
3 requests for additional information and clarification and
4 those types of parameters from some of the Board members if
5 there was missing information, correct?

6 DIRECTOR KNITTEL: That's correct. We've
7 undertaken addendums in the past.

8 REPRESENTATIVE ECKER: So unfortunately this year
9 with the Education Report, that was not the case. And
10 unfortunately before the Board could even consider it, it
11 was tabled. So in turning to that report, since it is
12 public already, is there anything in that, in the Education
13 Report, as far as data is concerned that you question that
14 was inaccurate or you don't stand by it as of today?

15 DIRECTOR KNITTEL: No. We stand by all of the
16 data that is contained in the report.

17 REPRESENTATIVE ECKER: And, you know, I know
18 there was some letters that went back and forth after that
19 meeting. One of the hang-ups I think with some of the other
20 Board members was some data that suggested that there was
21 little or no correlation between expenditures per student
22 and proficient test scores; is that correct?

23 DIRECTOR KNITTEL: That is correct. There was
24 some concern over a graph that we had in the report that
25 presented the data and a sentence that made a general

1 observation about the data.

2 REPRESENTATIVE ECKER: So without going too far
3 down that road, when you do these reports for
4 performance-based budgeting, you make assertions in other
5 reports, correct? This isn't out of line with your duty
6 under the act, correct?

7 DIRECTOR KNITTEL: I would say that we make up
8 observations. For example, the data suggests X or it
9 appears that X and Y influenced this outcome. And we do
10 that in all our reports.

11 REPRESENTATIVE ECKER: With the idea that us as
12 policymakers then take that information or through
13 Appropriations hearings to, you know, extrapolate whatever
14 that means or whatever that data means. In this case maybe
15 that means there needs to be more money for education or
16 there needs to be, you know, are we sending money in the
17 right -- you know, the right areas? Those I guess
18 assertions or observations, if you will, are used for
19 policymakers to make those decisions and take them as they
20 will, correct?

21 DIRECTOR KNITTEL: That's correct. We're just
22 trying to provide context and background, not to make
23 recommendations .

24 REPRESENTATIVE ECKER: And real briefly, if I
25 could, under the -- and as part of this process, the

1 departments are allowed to respond to their various reports
2 before they're made public, correct?

3 DIRECTOR KNITTEL: Yes. For this particular
4 report, the Department of Education sought two draft
5 versions. And they submitted a letter that's in the
6 appendix.

7 REPRESENTATIVE ECKER: And nowhere in there do
8 they really raise any issues with the data or even the
9 observation that I alluded to there before, correct?

10 DIRECTOR KNITTEL: The only feedback we received
11 about this particular topic was that in the manner we
12 presented the data, they don't usually view the data in that
13 fashion.

14 REPRESENTATIVE ECKER: My time has expired.

15 And, Director Knittel and Deputy Director, I
16 appreciate your expertise. I know that that was questioned
17 at the Performance-Based Budget hearing, which was really
18 disappointing to hear. But I appreciate your work and look
19 forward to hopefully reconvening that Board in the near
20 future.

21 Thank you.

22 MAJORITY CHAIRMAN SAYLOR: Representative
23 Bradford, comments?

24 MINORITY CHAIRMAN BRADFORD: Thank you, Chairman.

25 And thank you. I have a couple questions about

1 dynamic scoring and the role it plays in demographics.

2 One of the issues that we've been banting around
3 a good bit this morning is the Governor's proposal to reduce
4 the Corporate Net Income Tax through a process called
5 add-backs. Has anyone ever suggested that we should look at
6 a dynamic scoring model for what a reduction of CNI would
7 do, whether done through prior sessions, combined reporting,
8 or through add-backs as the Governor is currently proposing?

9 DIRECTOR KNITTEL: No, nobody has requested that
10 as of yet.

11 MINORITY CHAIRMAN BRADFORD: Well, one of the
12 things that I can't help but keep thinking -- and, you know,
13 I was recently looking at a map of our Commonwealth and just
14 a population bleed that we have in western Pennsylvania.
15 And by western, I mean all the hardcore southeastern corner
16 is, you know -- literally it's not the cheapest place to
17 live in Pennsylvania. Sometimes it has a higher tax burden.
18 But those intangibles alone in terms of dynamic scoring,
19 looking at the broader picture of how it may change
20 behavior, clearly there is more at stake.

21 You know, I go down everything, from the quality
22 of schools, the quality of life, parks, amenities, existing
23 employers, access to transit proximity to big cities.
24 There's much more that goes into that type of model that you
25 would need to really look at in terms of how something like

1 that plays out.

2 I mean, on a cold day in south central
3 Pennsylvania, I think a lot of people would say the real
4 argument to go to Florida may not be the CNI. It may be
5 spring training or the 65 degree weather.

6 DIRECTOR KNITTEL: So just to rephrase that
7 question, are you asking about dynamic modeling in regards
8 to a specific part of the state or region?

9 MINORITY CHAIRMAN BRADFORD: I guess what I'm
10 saying is tax rate alone isn't enough to tell the entire
11 story but tax rate is certainly part of the story that we
12 need to look at in terms of Pennsylvania's desirability.

13 DIRECTOR KNITTEL: I would agree with that
14 statement.

15 MINORITY CHAIRMAN BRADFORD: So one of my
16 concerns as we look at the pushback about doing something on
17 CNI reduction is Pennsylvania. And I think the Revenue
18 Secretary came in earlier and said right now our rate is a
19 giant stop sign to the outside world. We have challenges.
20 We recognize that. But if we don't do something about our
21 corporate debt income rate, we're going to continue to be
22 viewed as a less-than-desirable place for employers to
23 relocate. To revert some of our demographic problems, you
24 look at the aging population in the Commonwealth, which
25 we've talked about. We've looked at the brain-drain. We

1 have so much to offer but we're not leading with our
2 strongest foot, so to speak, and we need to do a lot better
3 in that regard. I think that's a point that there's
4 Democrat and Republican agreement on. No real question
5 there, just a comment.

6 One of the other issues that came up at quite a
7 bit of length was, you know, I jokingly said crystal ball
8 with the Revenue Secretary. And this is truly not to put
9 anyone on the spot or to say who is right or wrong because I
10 think that's kind of a very difficult spot to be put in.
11 Revenue projection is an art, not a science. I guess it is
12 a science, too, but it's not a perfect science.

13 You would concede that revenue projections last
14 year for 2021, I should say, you guys missed the mark by
15 about 4.3 billion?

16 DIRECTOR KNITTEL: Well, I believe that 4.3
17 billion was made last June and not in November when the
18 budget was certified. So I think the proper comparison
19 would be later on when we did our midyear estimate, if we
20 want to make comparisons .

21 MINORITY CHAIRMAN BRADFORD: Well, if you want to
22 say it's a moving target, sure. But that was the number, is
23 it not?

24 DIRECTOR KNITTEL: Well, it depends if one is
25 comparing us to other groups. So if we're comparing apples

1 to apples, then we would want the later estimate.

2 MINORITY CHAIRMAN BRADFORD: All right.

3 Well, let's talk about apples to apples. The
4 performance-based budgeting, which I know the gentleman I
5 think from Adams just raised, let me ask you some of the
6 academic peer-reviewed research that you've done.

7 One of the concerns that was raised -- and
8 obviously there's a pretty significant constitutional case
9 taking place across the street right now on a lot of these
10 issues. Certain -- I don't want to call them amenities. A
11 lot of us believe they're essentials. Things like full-day
12 kindergarten. They cost money.

13 Did you look at what the impact of full-day
14 kindergarten is in terms of driving outcomes for your
15 Performance-Based Budgeting Report?

16 DIRECTOR KNITTEL: So let me defer to Brenda to
17 talk about that because she leads it with regards to that
18 particular activity.

19 MS. WARBURTON: No, we did not. The activity for
20 K-12 education funding was really just looking at the latest
21 performance data that we had for the state, which is for
22 Fiscal Year '18-'19. It was looking at basically a snapshot
23 in time and comparing school districts funding levels as
24 well as standardized score results.

25 And also we looked at the percent of low-income

1 students in each district. And we just created a visual
2 plot of that. So because we were looking at data for Fiscal
3 Year '18-'19, that really would factor in, you know, funding
4 over several years. Several prior years would go into that.

5 MINORITY CHAIRMAN BRADFORD: And again, in the
6 hearing that the gentleman referenced, I'm one that truly
7 doesn't like to put people on the spot with specifics like
8 this and would prefer to have a process which the
9 Performance-Based Budgeting process is typically allowed,
10 which is more collaborative, but we don't take into account
11 class-size. When you don't take into account the ability
12 for kids to get AP classes, dual enrollment, you know,
13 universal pre-K for three- and four-year-olds.

14 The advantages -- I mean, I see them in my own
15 Legislative District. My children go to the Methacton
16 School District. I represent the Norristown District. You
17 know, I often joke the only thing in between those is
18 Township Line Road. But the experiences and the
19 opportunities between those districts -- again, when the --
20 the Director rightfully says we make generalized
21 observations when we're not using high-level, peer-reviewed,
22 academic research and we're forgetting about things like,
23 you know, school lunch programs, which seem pretty obvious
24 to our wealthier suburban districts. Those are needs in our
25 poorer districts. They are not options.

1 So again, I'm happy to have a discussion about
2 it. I look forward to the next meeting of the
3 Performance-Based Budgeting meeting, which I never thought I
4 would use those words in my life. But I honest to God can't
5 wait for us to have a full-throated conversation about
6 whether resources are necessary to educate children because
7 we have a very different view on the issue and we look
8 forward to having that conversation.

9 So thank you.

10 MAJORITY CHAIRMAN SAYLOR: Mr. Knittel and
11 Brenda, both of you, I want to thank you. Over the years
12 you have served this Commonwealth very well, the taxpayers
13 in your performance-based budgeting, as well as many of your
14 other functions. So I want to first extend a thank you for
15 your dedication to our Commonwealth and to the taxpayers in
16 particular.

17 I always find it interesting when my colleague
18 across the aisle only chooses to complain about the
19 Education Report, which goes against everything he knows to
20 be fact. And that is that schools like the Philadelphia
21 School System that has over the years gotten lots of money.

22 98 percent of all school districts have dealt
23 with lead paint asbestos while they have not. They don't
24 have an elected school board. They have a politically
25 appointed school board who has totally and completely

1 mismanaged that school. When charter schools in
2 Philadelphia outperform for poor students, minority
3 students, more than the public schools -- and the
4 Philadelphia School System is still considered the worst
5 school district in the state of Pennsylvania -- I don't know
6 how he continues to make his arguments because it's just not
7 the way it is. School lunches and all those kinds of
8 things, they definitely play a part.

9 But bottom line is we are not seeing improvement
10 in our schools. Performance-based budgeting is not about
11 money. It's about how you spend the dollars you receive.
12 It's very clear there are poor school districts who are
13 scoring very high on the test results based upon your
14 dynamics that you have put in as well as poor districts who
15 perform poorly and vice versa with the rich districts.

16 So I think that's not exactly proper to sit here
17 and say it's all about money when it really comes down to
18 where you spend those dollars. Right now I know the
19 Chairman on the other side of the aisle and I have been
20 receiving e-mails constantly every day for the last several
21 days about a new program called, I think, Math 1, that we
22 should do something about that for all our school districts.

23 Look, bottom line is we've been putting more
24 money and more money into education for all school
25 districts. And last year we invested more money for poor

1 school districts in particular. So I believe that you have
2 been a big help to this General Assembly and to the
3 taxpayers as a whole to hold school boards more accountable
4 about how they're spending the dollars that they get locally
5 as well as the dollars they're receiving from the State and
6 Federal Government.

7 But moving on and talking about again, my
8 colleague keeps forgetting that your projections were before
9 the Federal stimulus money came into this state. You can't
10 -- he wants to talk apples and apples. Well, he's talking
11 peaches and apples. So let's be honest here. When you want
12 to downgrade what the IFO has done, I'll put it that way
13 more politely, it's not ingenuous.

14 It's just not genuine because you're doing
15 something after something else has come in to change those
16 projections. Had we asked you to do a different projection,
17 which you may have done -- I think in the midyear you did
18 some stuff, review -- you probably would have been a lot
19 closer to correct.

20 And I think that the public needs to understand
21 that. Instead of trying to downgrade what the IFO did,
22 let's be realistic and let's be honest with the public. The
23 reason your projections in June of last year didn't match up
24 is because the Federal stimulus money didn't come through
25 until a lot later.

1 Second of all, my colleague on the other side of
2 the aisle keeps talking about pushback about the CNI Tax.
3 There's no pushback from this side of the aisle about CNI
4 Tax. We are all happy and have been having these
5 discussions for years versus the Governor, who has been
6 wanting to increase taxes on small business in particular
7 and individuals.

8 What we do need to talk about is giving the
9 authority to an appointed official the ability to raise
10 taxes without the approval of the General Assembly. And
11 that's what the Governor is proposing here. So every year
12 allow the Secretary of Revenue or his Department decide
13 about add-backs.

14 The people sent us here as members of the General
15 Assembly to make those decisions, not bureaucrats. So my
16 colleague on the other side of the aisle should recognize
17 the fact we are all for reducing the CNI Tax and keeping
18 taxes on individuals and small businesses as low as
19 possible.

20 But the only way to do that is to listen to
21 exactly the report you gave this General Assembly, to be
22 fiscally responsible moving forward, to understand why we
23 have surpluses now and where we're headed with our
24 workforce.

25 And I really do appreciate that. I'm not an

1 economist. But I have followed your projections ever since
2 I've been Appropriations Chairman. And you have been
3 basically right on all along. And that is helpful to every
4 member of the General Assembly on both sides of the aisle,
5 because we have to make decisions that are in the best
6 interest of the taxpayers. And in this case, we're making
7 decisions that will impact the next General Assembly elected
8 this year and the Governor.

9 So I say thank you to both of you for your hard
10 work and your dedication and to your staff as well. They
11 have been very professional. I appreciate you coming here
12 today.

13 Thank you very much.

14 We'll reconvene in ten minutes for the Department
15 of Aging.

16 (Whereupon, the hearing concluded.)
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I hereby certify that the proceedings and
evidence are contained fully and accurately in the notes
taken by me on the within proceedings and that this is a
correct transcript of the same.

Jean M. Davis
Notary Public