

Greater Pittsburgh Non-Profit Partnership

Matthew Knittel
Director, Independent Fiscal Office
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Disclaimer: The Independent Fiscal Office does not support or oppose any existing or proposed tax or budget policies. Consistent with its mission, the office will not make any policy recommendations.

Overview

- Introduction to Independent Fiscal Office (IFO).
 - Who we are.
 - What we do.
 - Official Revenue Estimate.
 - Other analyses.

- Brief Economic Update.
 - What do tax data show?

IFO Concept

- IFO combines two federal agencies.
- **Congressional Budget Office.**
 - Annual budget projections.
 - Special studies on revenues or expenditures.
- **Joint Committee on Taxation.**
 - “Scoring” of changes to tax policy.
 - Analysis of various tax code provisions.

IFO Staff

- Office currently has nine staff.
 - Anticipate 10-11 once fully staffed by fall.
 - Two transfers from GA, others are recent grads.

- Nearly all analysts have economics background.
 - Staff are “number crunchers”. Data analysis.
 - Not an accounting or “watchdog” agency.

Some Specific Mandated Duties

- Per Act 120 of 2010:
 - Initial (May 1) and Official (June 15) revenue estimate. ✓
 - Five-Year Outlook Report (November 15). ✓
 - Annual Revenue Conference (January 31). ✓
 - Two Studies: (1) Sales and Use Tax, (2) Shared Risk Pension Contributions.
 - Performance measures for executive agencies.
 - Establish office web-site. ✓

IFO Role in Budget Process

- May 1st: Initial Revenue Estimate.
 - Kick off to budget season.
 - Meet with staff from Appropriations Committees and Revenue and Budget Offices.
 - Allows General Assembly to focus time and energies over the allocation of resources, as opposed to debating the size of the pie.

- Revenue Estimate used for deliberative purposes.

IFO Mission Statement

The Independent Fiscal Office (IFO) *provides revenue projections* for use in the state budget process along with impartial and timely *analysis of fiscal, economic and budgetary issues* to assist Commonwealth residents and the General Assembly in their evaluation of policy decisions. In that capacity, *the IFO will not support or oppose any policy it analyzes*, and *will disclose all methodologies, data sources and assumptions* used in published reports and estimates. The IFO will seek to establish collaborative relationships with the General Assembly, executive agencies and various non-governmental organizations that have an interest in the policy making process.

Official Revenue Estimate (June 12th)

- Uses Global Insight economic forecast May 2012.
- Assumes modest recovery for PA.
 - Real Gross State Product 1.5% (2012) and 2.3% (2013)
 - Unemployment Rate 7.4% (2012) and 7.1% (2013)
 - Home Sales 10.0% (2012) and 11.9% (2013)
- But recent economic reports are disappointing.
- Another summertime slowdown?

Official Revenue Estimate, FY 2012-13

\$ millions

<u>Revenue Source</u>	<u>Preliminary FYE 2012</u>	<u>Projected FYE 2013</u>	<u>Change</u>	
			<u>Dollar</u>	<u>Percent</u>
Corporate Income	2,022	2,302	280	13.8%
Capital Stock	837	536	-301	-36.0%
Sales and Use				
Non-Motor Vehicle	7,612	7,948	336	4.4%
Motor Vehicle	1,160	1,235	75	6.5%
Cigarette and Liquor	1,394	1,404	10	0.7%
Inheritance	828	860	32	3.9%
Personal Income Taxes				
Withholding	8,296	8,582	286	3.4%
Non-Withholding	2,504	2,666	162	6.5%
All Other Tax	<u>2,496</u>	<u>2,564</u>	<u>68</u>	<u>2.7%</u>
General Fund Taxes	27,149	28,097	949	3.5%

General Fund Tax Growth Rates

<u>FYE</u>	<u>Total</u>	<u>corp. net inc.</u>	<u>other corporate</u>	<u>sales and use</u>	<u>personal income</u>	<u>all other</u>
2000-01	1.4%	-13.8%	-3.1%	2.6%	6.0%	-0.2%
2001-02	-2.6%	-11.5%	-3.4%	1.2%	-4.7%	0.6%
2002-03	4.7%	-1.5%	7.8%	3.1%	-0.5%	37.7%
2003-04	7.6%	20.1%	13.6%	2.8%	8.8%	5.2%
2004-05	7.6%	14.5%	5.8%	3.5%	13.1%	-0.8%
2005-06	7.0%	19.8%	2.0%	4.2%	8.9%	4.9%
2006-07	5.2%	8.3%	3.3%	3.1%	7.7%	1.4%
2007-08	2.3%	-3.0%	1.9%	-1.1%	6.3%	3.2%
2008-09	-7.3%	-18.1%	-6.2%	-4.2%	-6.5%	-12.4%
2009-10	-1.5%	-9.5%	-2.3%	-1.3%	-2.3%	9.6%
2010-11	6.2%	19.0%	-1.0%	7.0%	4.7%	9.0%
2011-12	2.5%	-5.1%	6.5%	2.1%	3.4%	2.3%
2012-13	3.5%	13.8%	-7.9%	4.7%	4.1%	2.0%

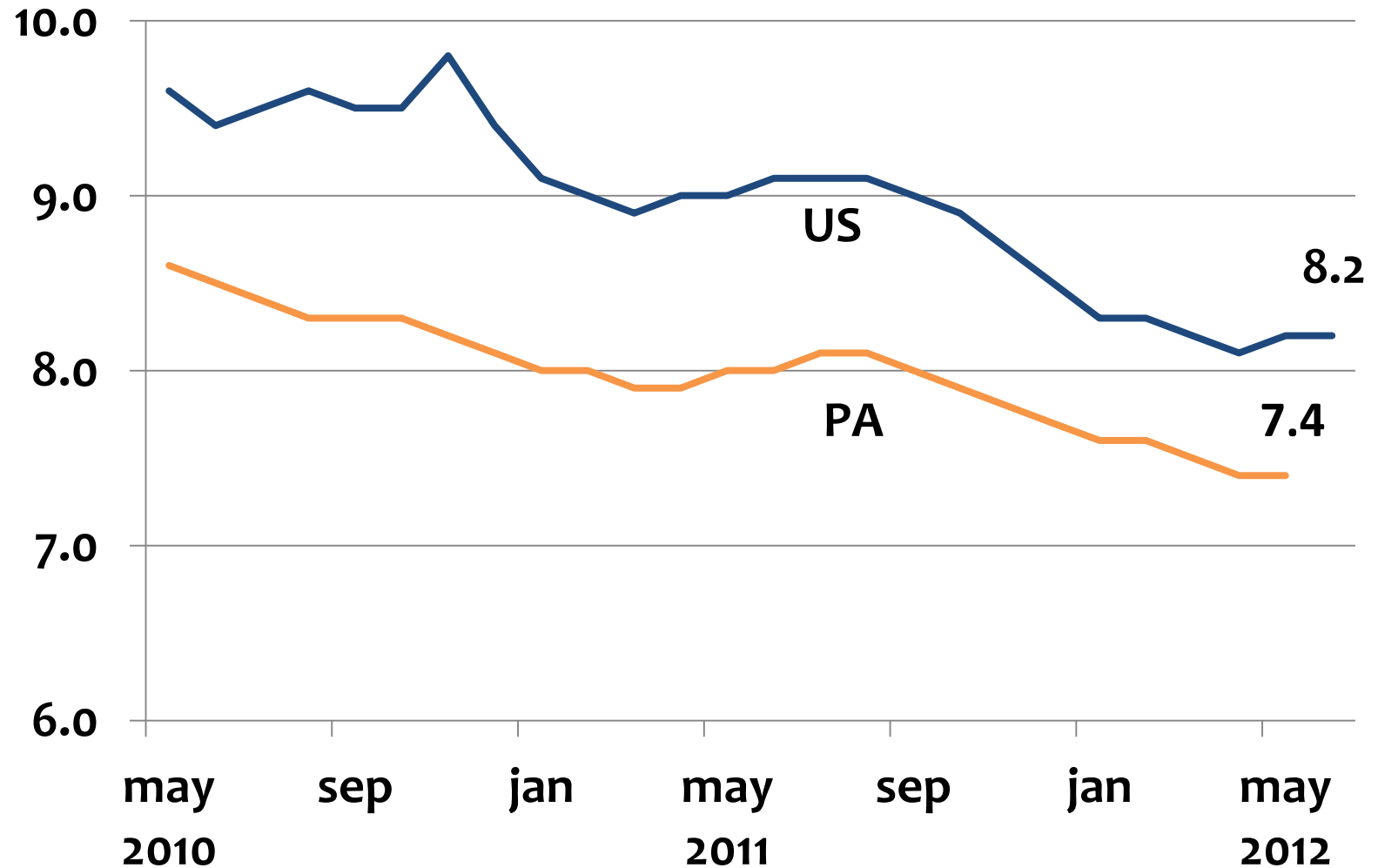
Other Reports and Analysis

- Office will be posting regular reports and analysis.
- Monthly Economic Update (later this month).
- Legislative Requests: Property Tax Proposals (late September).
- Interstate comparison of tax structures and tax burdens (later this month).

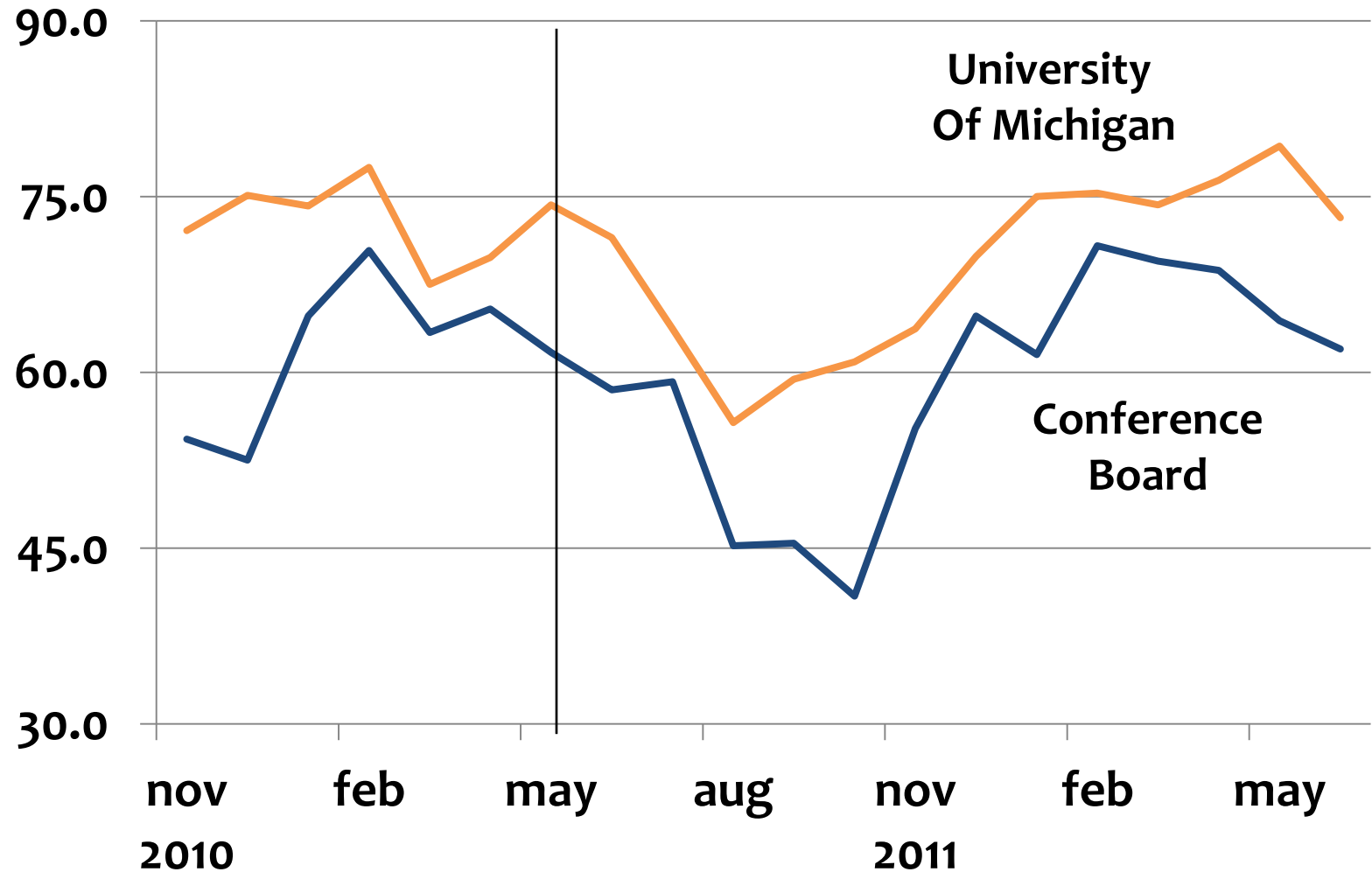
Economic Outlook: Another Summer Slowdown?

- European debt crisis continues to simmer.
- Weak employment reports for May and June.
- Uncertainty over federal tax and spending policy.
- Consumer confidence declining.

Monthly Unemployment Rates

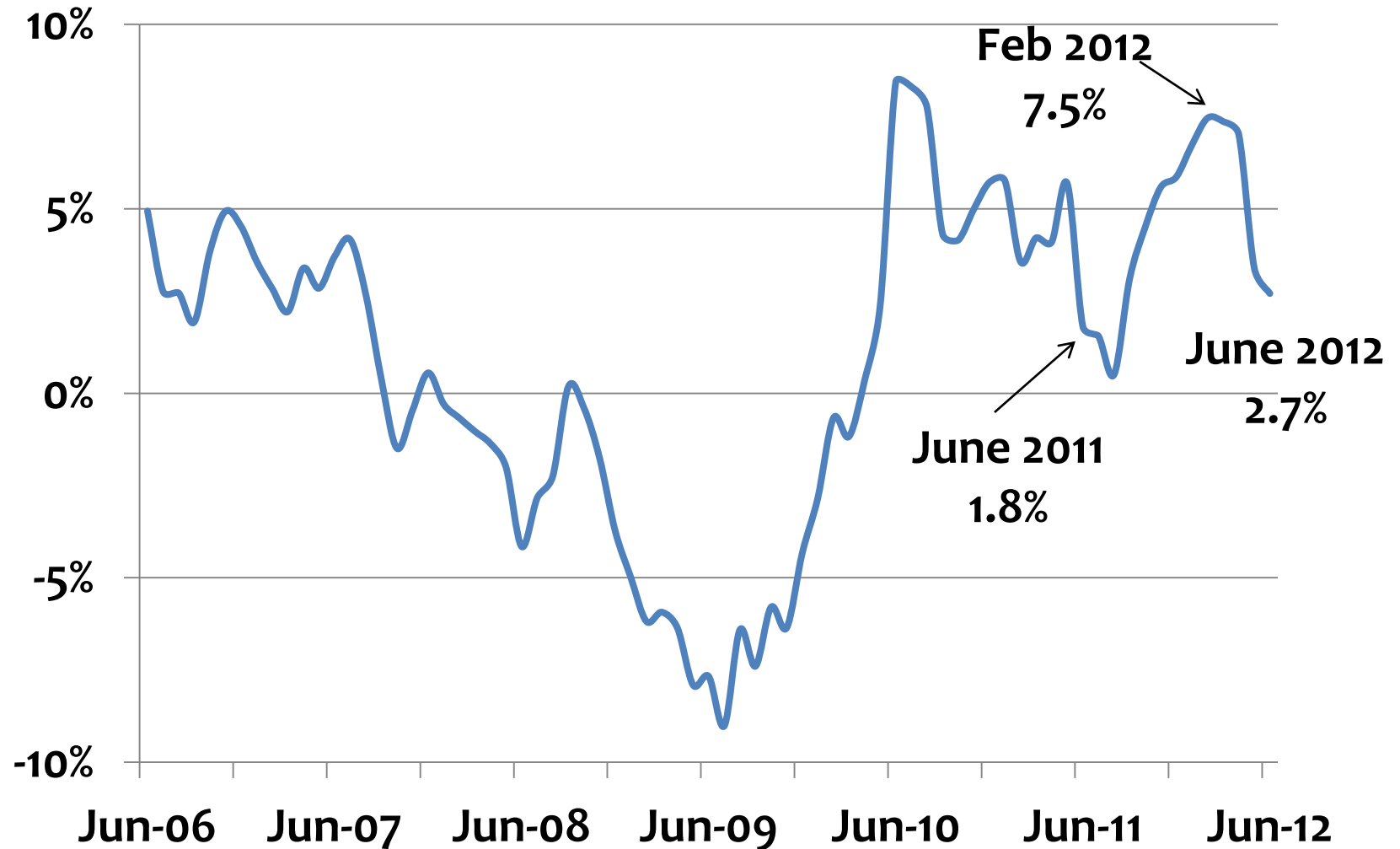


Index of U.S. Consumer Confidence



Annual Growth PA Sales Tax Revenue

3 month moving average

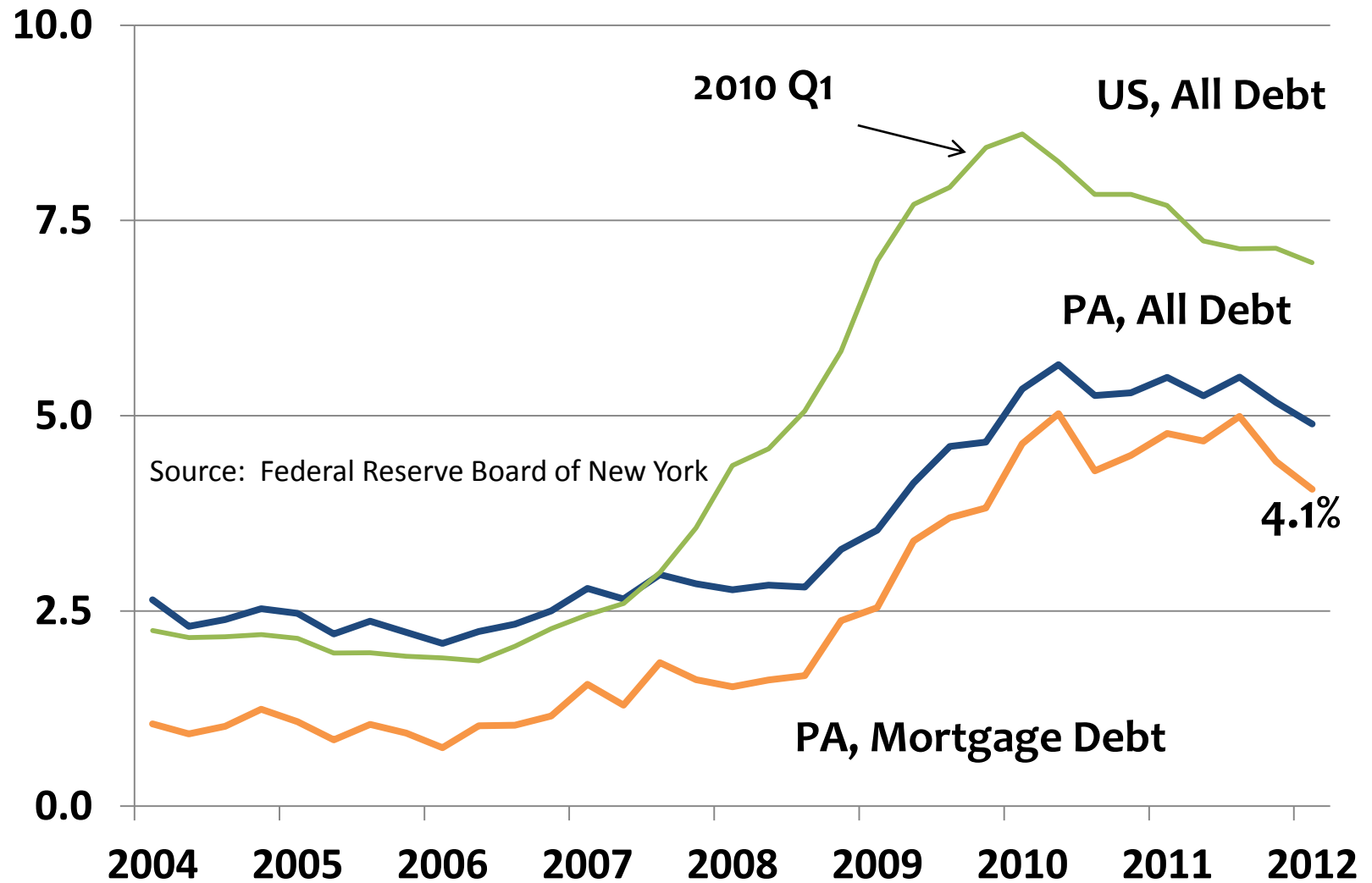


But, Some Positive Fundamentals

- Housing Market
 - Forecast: 2011 is bottom of PA housing market.
 - Mortgage rates at historic lows.
 - PA mortgage delinquencies declining rapidly.

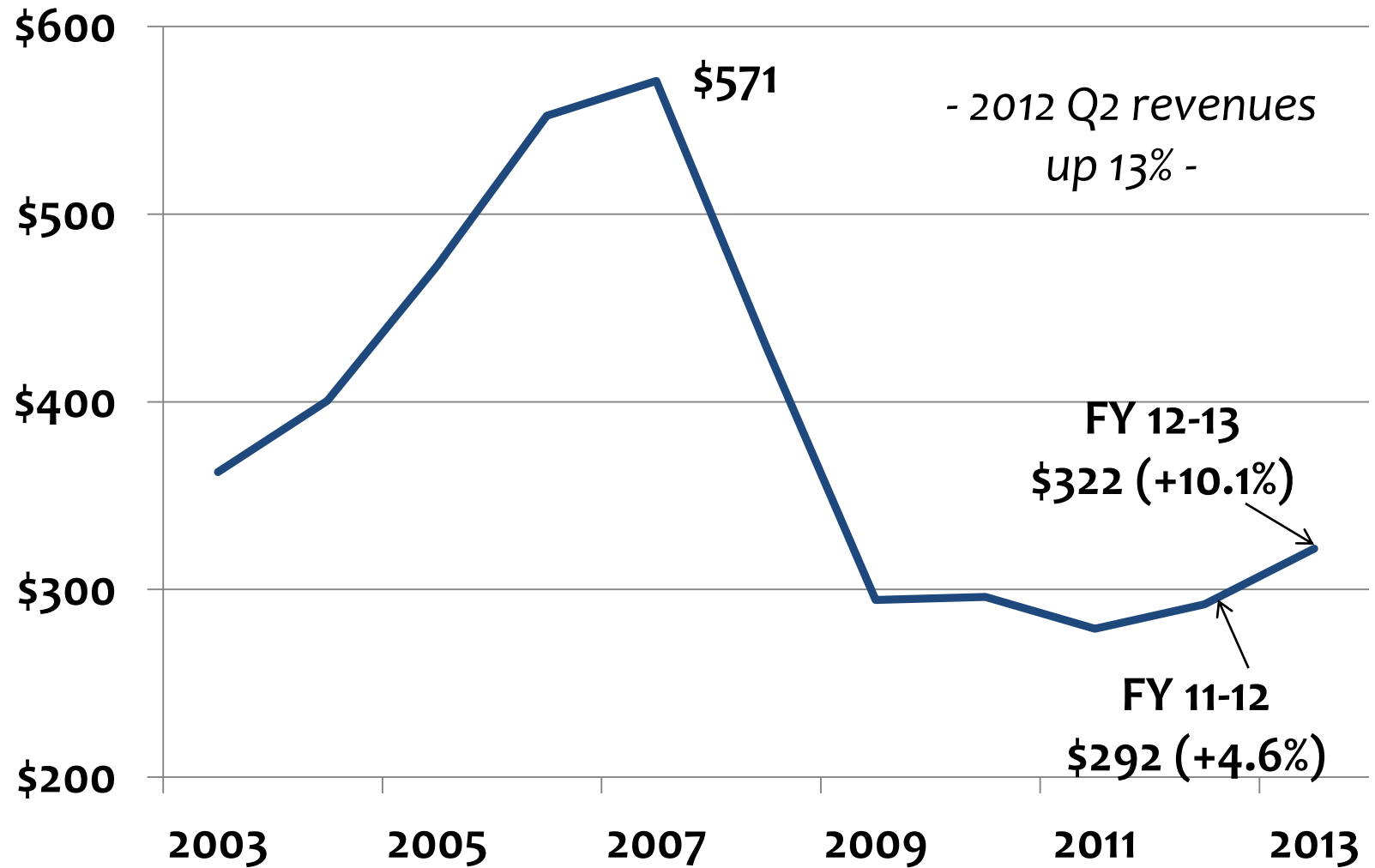
- Consumers
 - Vehicle sales remain strong. Some pent up demand remains.
 - Gasoline prices have declined and are stable.

Share of Debt “Seriously Delinquent”

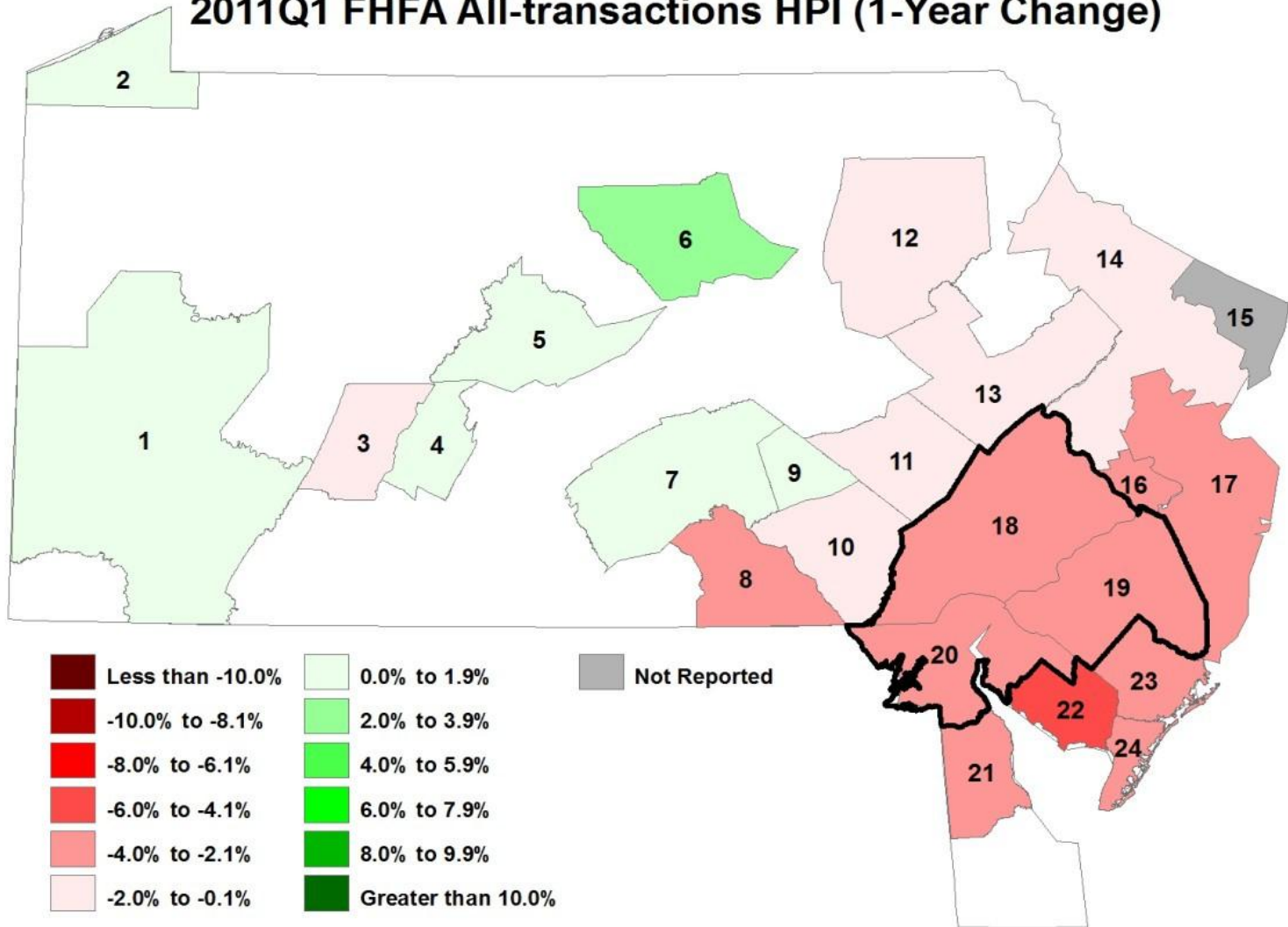


Realty Transfer Tax Revenues

\$ millions

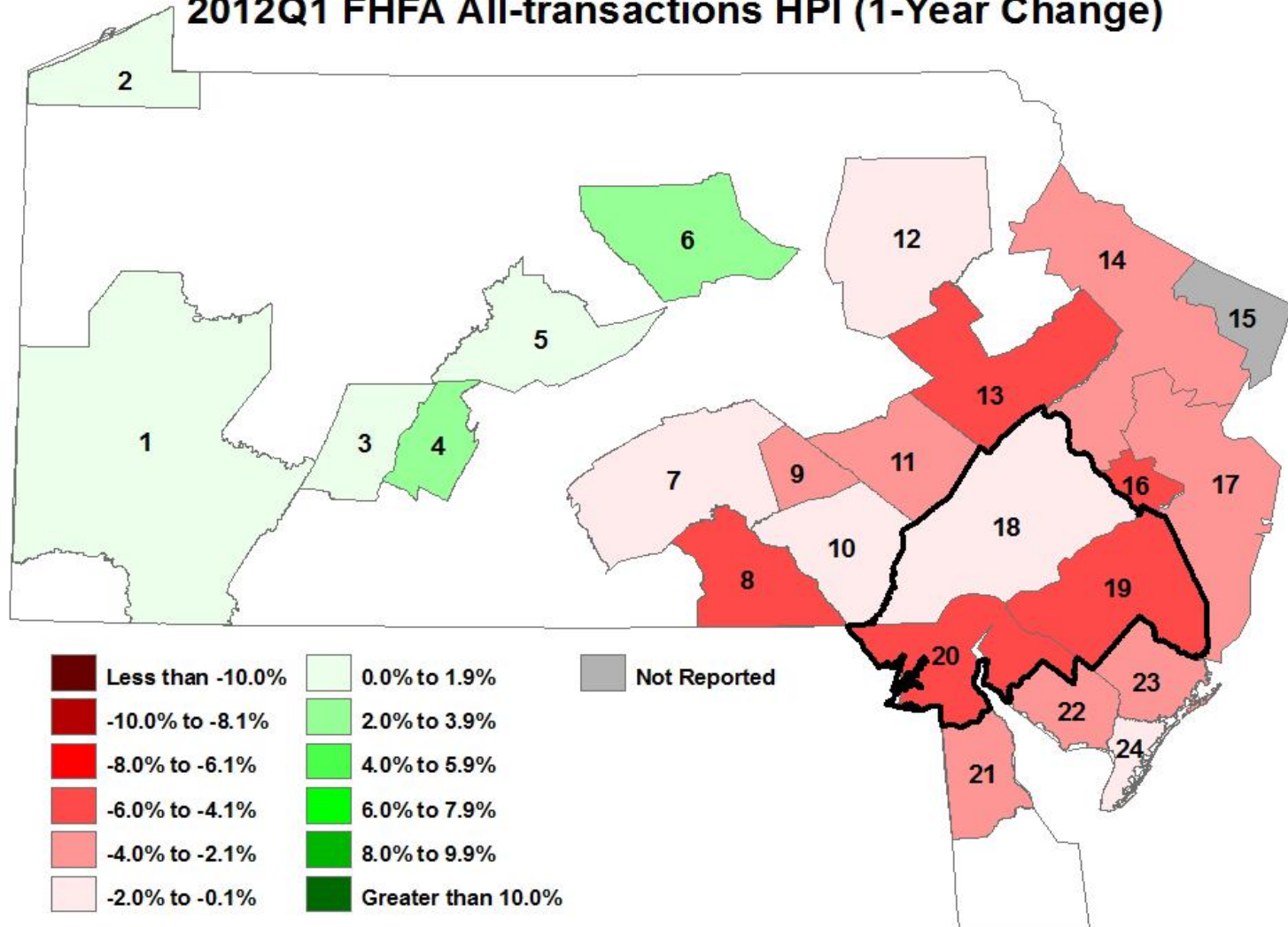


2011Q1 FHFA All-transactions HPI (1-Year Change)



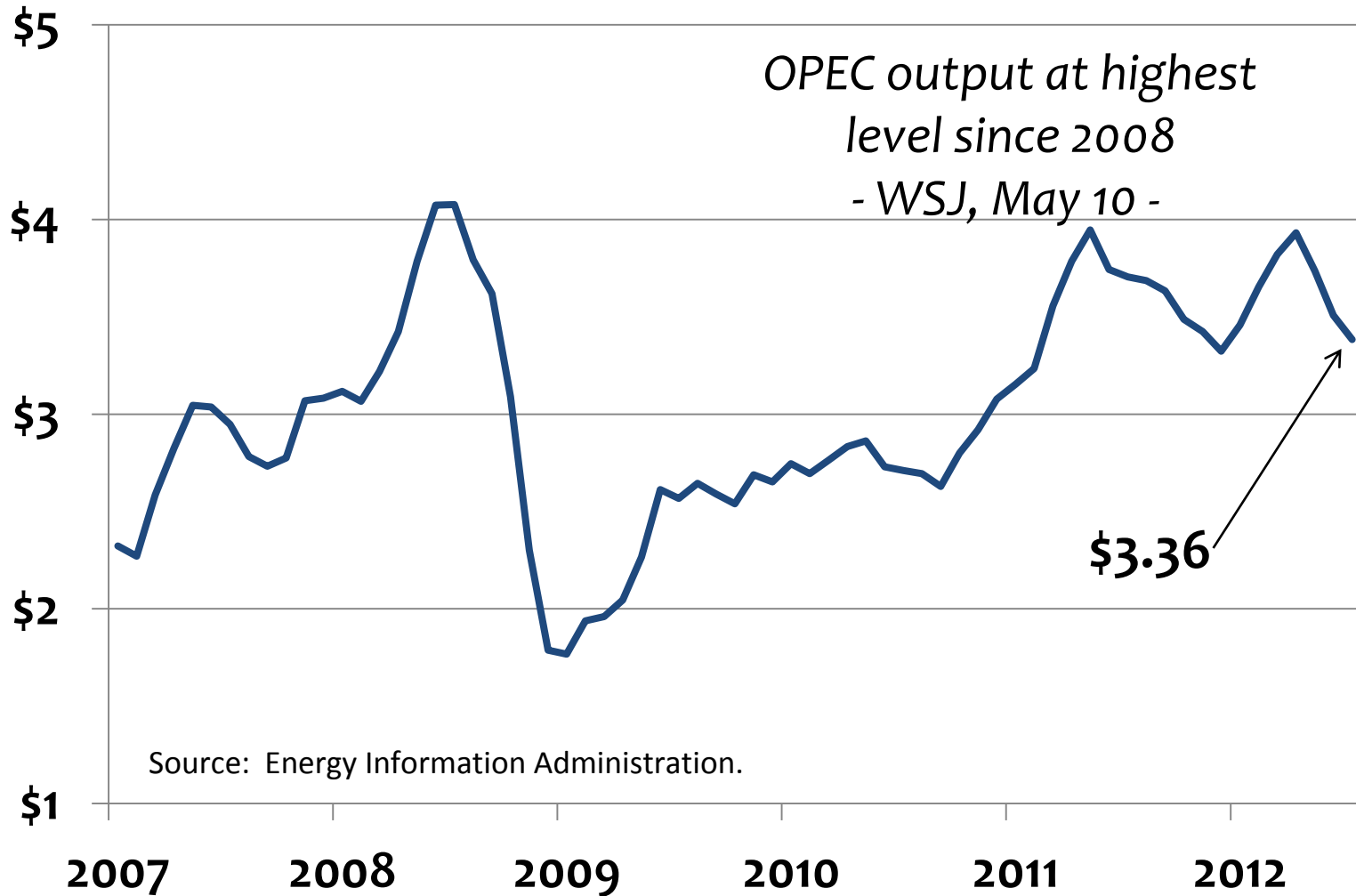
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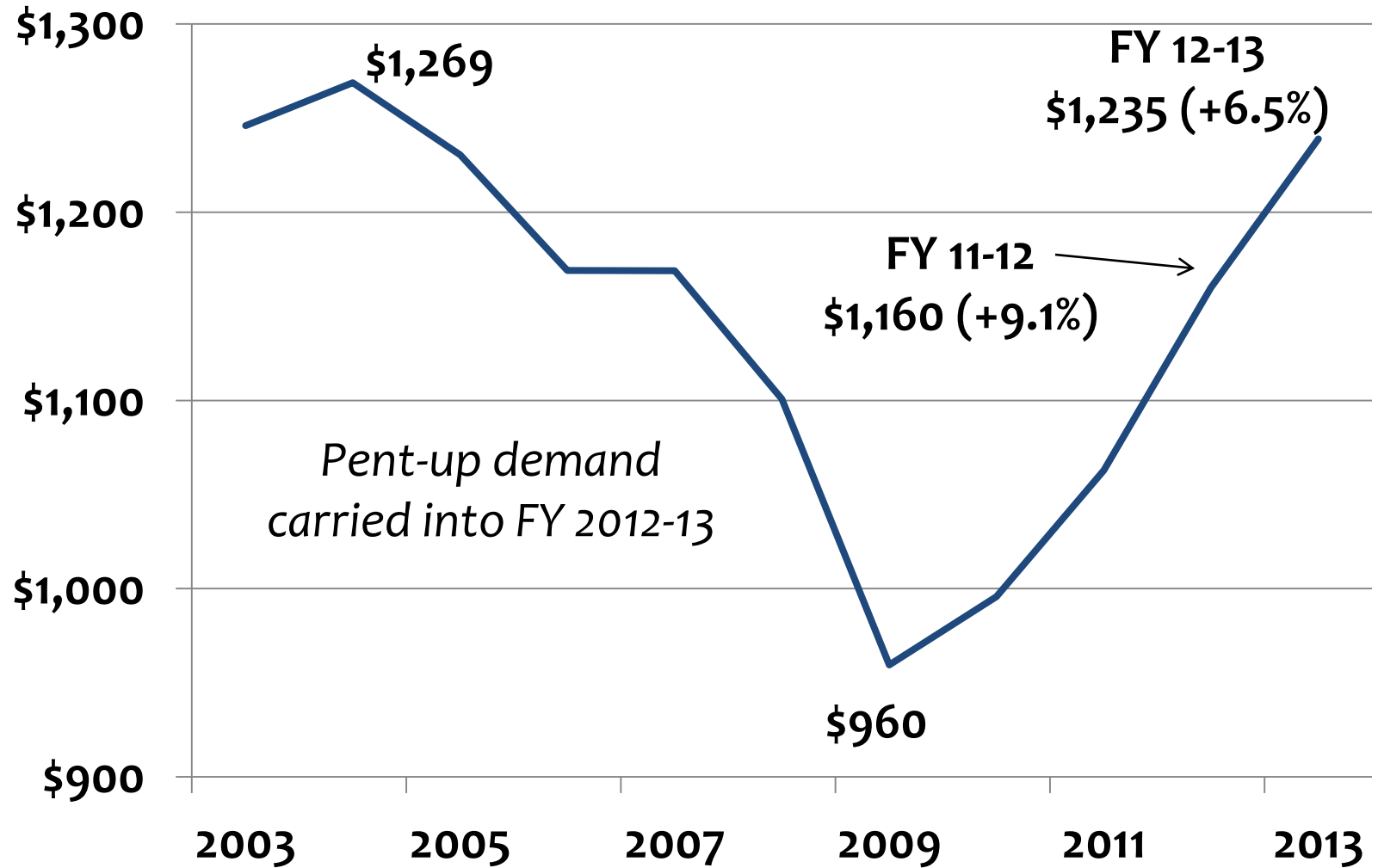
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Mid-Atlantic Average Price, Gallon Unleaded



Motor Vehicle Sales Tax

\$ millions



Summary

- It appears that economic growth has downshifted again heading into summer.
- A combination of factors are responsible:
 1. A warm weather “pull forward” of economic activity into February and March.
 2. Uncertainty: Europe, election, tax and spending policies.
 3. Businesses take wait and see approach. Consumers follow.
- Psychology is important.

Summary (continued)

- Likely scenario: slow, plodding growth through the election ~ 1.5% real growth. Small decline, if any, in unemployment rate.
- Stronger fundamentals suggest little chance of another recession.