INDEPENDENT FISCAL OFFICE

Second Floor, Rachel Carson State Office Building
400 Market Street
Harrisburg, Pennsylvania 17105

March 13, 2017

Mr. Glenn Pasewicz
Executive Director
Joint State Government Commission
108 Finance Building
Harrisburg, PA 17120

Dear Director Pasewicz:

Act 7 of 2016 required the Independent Fiscal Office (IFO) to provide assistance to the Joint State Government Commission (JSGC) for a study related to various aspects of the Pennsylvania horse racing industry. Based on discussions with your office, the IFO agreed to provide technical analysis and text necessary to address the statutory requirement that the report include "a determination of the economic return to the Commonwealth, racetrack operators, horsemen, breeders and other stakeholders on the investment of gaming assessments collected under the act of July 5, 2004 (P.L.572, No.71)." The IFO has strong concerns and objections regarding how JSGC altered its final submission without approval, and in certain cases, without notice.

Specifically, two actions by JSGC yielded a final work product that was materially different than the submission made by the IFO to your office. They are as follows:

- JSGC removed three paragraphs of text and part of a table from the IFO submission. The IFO informed JSGC that it did not consent to the removal because the text and figures were relevant and necessary to provide context for policymakers. The figures that remain after this unilateral decision lack meaning and clarity. This decision was made two days prior to publication, even though the IFO had submitted a draft copy nearly a month earlier, and answered a dozen questions from the JSGC director two weeks prior to publication.
- Upon publication, the IFO discovered that the final version of its submission (1) includes a wholly new table and new calculation that were not part of the original submission, along with new text, (2) alters certain table titles, sub-section headings and labels and (3) introduces grammatical and typographical errors that were not part of the original submission. The newly created table and text only serve to confuse readers because they are inconsistent with numerous other studies that were cited in the same sub-section.

The IFO was neither consulted nor informed of the second set of alterations, although they appear in the section for which the office had responsibility. They were made solely at JSGC's discretion, and they now appear to be part of the IFO submission. Both sets of alterations are described in the enclosure to this letter.

Based on these unauthorized alterations, the IFO has reservations regarding the provision of future technical assistance or economic analysis. The IFO cannot stand behind the final product if its submissions are altered without consent, consultation or notice. As a result, future technical assistance or economic analysis that the IFO is required to provide to the JSGC will necessitate a written agreement that specifies the scope of work and details JSGC's treatment of any IFO submission. The unilateral alteration of IFO work product by another office or agency is not consistent with the office's mission to provide non-partisan analysis. If an office or agency can simply override the IFO work product solely at its own discretion, then it is not a productive use of office resources to provide assistance.

Sincerely,

Matthew J. Knittel
Director
Independent Fiscal Office

Enclosure

Alterations Made to IFO Submission

The following alterations were made to the IFO's original submission to JSGC. The page numbers refer to the final report issued on March 1, 2017. The IFO's original submission has been posted to the IFO website.

Pages 64 and 68 Original sub-section headings were changed without consultation.

Page 72 Table 12 was altered in three respects relative to the original submission. First, the bottom portion of the table was eliminated. That part of the table contained other output multipliers (e.g., economic development and education) so that policymakers could have some general understanding of the potential tradeoffs from different uses of the PRHDF transfer. Without these figures and discussion, the results of the IFO analysis lack context because they cannot be compared to anything. Although other industry studies are cited, they are used for the purpose of comparing the size of economic multipliers used for the horse racing industry. The IFO output figures cannot be compared directly to the studies because those studies are a snapshot of the entire horse racing industry, whereas the IFO analysis only considers the "economic return" from the PRHDF transfer. The IFO was informed that the figures and text would be eliminated and communicated that it strongly objected to the decision. The second alteration changes the middle portion of the original table and was turned into Table 13. Finally, Tables 12 and 13 now appear in the incorrect sub-section.

Page 73 Contains Table 13 (not a separate table in the original submission), for which a new title was created by JSGC: "Output Multiplier Effect of PRHDF Disbursements." New text was inserted at the bottom of page 74 that describes Table 13. Table 13 does not note that the economic impact figure is in millions of dollars.

Page 75 Contains an entirely new table (Table 14, "Value-added Multiplier Effect of PRHDF Disbursements") that does not appear anywhere in the original IFO submission and was created without the IFO's knowledge or approval. The table uses figures noted in the original text and makes a new computation. New text was also created on page 75 to describe the manufactured computation. The IFO did not make this computation because it is not relevant to the study, and cannot be compared to any other studies, because those studies did not use what is known as the "value-added" concept. The new table does not note that the economic impact figure is in millions of dollars. The table also uses an incorrect name for one of the multipliers that does not appear anywhere else in the original document.

Various pages Miscellaneous grammatical, typographical and formatting errors that were not part of the original submission. For example, on page 68, the original title for Table 11 was "Pennsylvania Taxable Handle" but was changed to "Pennsylvania Taxable Hand."