



INDEPENDENT FISCAL OFFICE

March 15, 2024

The Honorable Scott Martin
Chairman
Senate Appropriations Committee
281 Main Capitol Building
Harrisburg, PA 17120

Dear Chairman Martin:

This letter responds to requests for additional information raised at the recent budget hearing for the Independent Fiscal Office (IFO).

Chairman Martin requested an adjusted financial statement to reflect: (1) Department of Human Services (DHS) spending that increases by \$875 million annually, (2) \$425 million in annual spending for existing programs/line items that were not funded in the Executive Budget, (3) basic education funding that increases by \$650 million annually, (4) phase down of State Police funding from the Motor License Fund, (5) \$279 million annually for the Governor's proposal to increase higher education financial aid for low-income students (i.e., Student & Family Affordability) and (6) a cumulative deficit computation.

In the adjusted financial statement (next page), the main Expenditures line represents the amount displayed in the IFO budget hearings packet, which uses FY 24-25 spending from the Executive Budget and out-year growth rates from the IFO's Five-Year Outlook. Those projections assumed that (1) DHS spending grows by an average of \$830 million per annum, (2) basic education grows by \$200 million per annum (2.3%), (3) the Motor License Fund provides \$375 million annually to fund the State Police and (4) it excludes the proposal to increase higher education financial aid by \$279 million per annum starting in FY 25-26.

Adjusted General Fund Financial Statement						
	23-24	24-25	25-26	26-27	27-28	28-29
Beginning Balance	\$8,160	\$6,855	\$1,860	\$0	-\$5,456	-\$14,422
Baseline Revenues (no policy)	45,028	45,278	46,012	47,277	48,393	49,690
Less: Refunds plus Lapses	<u>-961</u>	<u>-1,178</u>	<u>-1,189</u>	<u>-1,188</u>	<u>-1,186</u>	<u>-1,183</u>
Net Revenues	44,067	44,101	44,823	46,089	47,207	48,507
Expenditures (w/ FY 24-25 policy)	44,610	48,338	50,262	51,941	53,609	55,217
Additional DHS Spending	0	0	45	90	135	180
Unfunded Existing Programs	0	425	425	425	425	425
Additional Basic Ed Spending	0	0	450	900	1,350	1,800
Transition PSP Funding to GF	0	125	250	375	375	375
Student & Family Affordability	<u>0</u>	<u>0</u>	<u>279</u>	<u>279</u>	<u>279</u>	<u>279</u>
Total Expenditures	44,610	48,888	51,711	54,010	56,173	58,276
Current Year Surplus/Deficit	-543	-4,788	-6,889	-7,921	-8,965	-9,769
Budget Stab. Fund (year end)	6,969	7,385	2,465	0	0	0
Cumulative Deficit	0	0	0	-5,456	-14,422	-24,191

Note: Millions of dollars. Baseline Revenues assume an annual transfer of \$115 million from cigarette taxes. The balance sheet utilizes revenue estimates from the IFO's Mid-Year Update (FY 23-24 and FY 24-25) and out-year growth rates from the IFO's Five-Year Outlook (Nov 2023). Refunds and lapses are from the FY 2024-25 Governor's Executive Budget. Expenditures for FY 23-24 and FY 24-25 are from the FY 2024-25 Governor's Executive Budget. Out-year expenditure estimates use growth rates from the IFO's Five-Year Outlook. Assumes the Budget Stabilization Fund accrues 3% interest per annum.

Senator Haywood requested economic modeling from the (1) impact of investments in higher education and related demographic impacts and (2) economic investments proposed in the Executive Budget.

This analysis would require the use of REMI, the dynamic economic model maintained by the IFO. Under section 605-B (e)(2) of the Administrative Code of 1929, requests to model the potential dynamic or macroeconomic impacts of proposed policy changes can only be made by a "requesting officer" as defined by statute. Moreover, these requests would likely not be completed until the summer months.

Senator Haywood requested the estimated public assistance savings that would result from a higher minimum wage.

According to the FY 2024-25 Executive Budget, the minimum wage initiative (increase to \$15 per hour) results in higher costs for DHS as reflected in the Child Care Services (+\$3.1 million) and Child Care Assistance (+\$2.3 million) line items. DHS informed the IFO that any public assistance savings resulting from the higher minimum wage would be "immaterial".

Senator Haywood requested a comparison of Pennsylvania tax liability and the tax liability that would result if the Ohio graduated income tax rate structure was used.

The table below displays total Pennsylvania personal income tax (PIT) liability by income group and the computed Pennsylvania tax liability if the Ohio rate structure (recently lowered) was applied to taxable income.¹ For tax year 2024, Ohio levies three rates on taxable income: 0% (under \$26,500), 2.75% (\$26,500 to \$100,000) and 3.50% (above \$100,000). The comparison also allows for Ohio personal exemptions that range from \$1,900 to \$2,500 per filer or dependent. The net result is a \$2.7 billion (-20%) reduction in total tax collections, with lower income groups paying less overall, and higher income groups paying more. Note that the Ohio tax generally applies more broadly and uses federal adjusted gross income (AGI) with additions and deductions as the tax base. The computations below merely apply the Ohio rate structure (and personal exemptions) to Pennsylvania taxable income by range and do not apply any tax credits. In particular, many lower income filers would not have Pennsylvania tax liability due to tax forgiveness.

Impact of OH Rate Structure on PA Liability			
	PA Tax Liability	OH Tax Liability	\$ Diff
PA Income Group			
\$1 - \$29,999	\$1,000	\$0	-\$1,000
\$30,000 - \$49,999	1,243	626	-617
\$50,000 - \$74,999	1,480	960	-521
\$75,000 - \$99,999	1,294	932	-362
\$100,000 - \$249,999	4,009	3,480	-529
\$250,000 - \$499,999	1,625	1,658	33
\$500,000 - \$999,999	939	1,015	75
\$1,000,000 or more	<u>1,776</u>	<u>1,999</u>	<u>223</u>
Total	13,367	10,670	-2,696

Note: Dollar millions. For purposes of computing the Ohio tax liability, it is assumed that all income is non-business income.
Source: Personal Income Tax Statistics (2019), Pennsylvania Department of Revenue. Ohio computations by IFO.

¹ Ohio taxpayers can deduct the first \$250,000 of business income included in their federal adjusted gross income. Any income not deducted is taxed at a flat 3.00% rate. That deduction was not included and would further reduce tax liability computed using the Ohio tax regime.

Senator Farry asked several questions related to the proposals to legalize recreational marijuana and regulate games of skill.

To the extent possible, this information will be included in the IFO's analysis of the Governor's revenue proposals that will be released later this month.

Senator Vogel requested information regarding the long-term stability of transfers to the Pennsylvania House Affordability and Rehabilitation Enhancement (PHARE) Fund.

To the extent possible, this information will be included in the IFO's analysis of the Governor's revenue proposals that will be released later this month.

Senator Santarsiero requested data on migration by age group, by socioeconomic scale and source.

The IRS Statistics of Income Division (SOI), in collaboration with the U.S. Census Bureau, releases migration data for the United States. These data are an important source of information because they detail the movement of tax filers across states, along with the AGI reported on income tax returns. It is noted that state AGI gains or losses related to migration do not necessarily imply that state income changed by that amount. For example, a filer could retire and move to Florida, while another Pennsylvania resident fills the job vacancy.

The dataset contains the latest state-level migration from 2019 to 2020, based on returns filed and processed during calendar years 2020 and 2021. It only includes those who filed tax returns (including dependents), so the data will not reflect certain individuals who migrated but were exempt from filing due to income limits or other factors, and the total migration counts differ from the migration data submitted in the IFO's hearing packet, which used U.S. Census data. (Migration data for returns filed and processed during calendar years 2021 and 2022 are expected to be released in April 2024.)

Migration To and From Pennsylvania: 2020 to 2021

	Inflow		Outflow		Net Flow	
	Individuals	AGI	Individuals	AGI	Individuals	AGI
PA Age of Primary Filer						
25 and under	24,733	\$696	26,112	\$735	-1,379	-\$39
26-34	68,037	\$2,750	69,563	\$2,702	-1,526	\$48
35-44	50,668	\$2,074	51,781	\$2,119	-1,113	-\$45
45-54	26,206	\$1,356	28,251	\$1,783	-2,045	-\$427
55-64	17,919	\$1,501	22,143	\$2,398	-4,224	-\$897
65 and over	<u>19,515</u>	<u>\$1,264</u>	<u>24,364</u>	<u>\$1,894</u>	<u>-4,849</u>	<u>-\$630</u>
Total	207,078	\$9,641	222,214	\$11,631	-15,136	-\$1,990
PA Income Group						
\$1 - \$9,999	15,598	\$58	15,992	\$60	-394	-\$2
\$10,000 - \$24,999	34,637	\$393	34,754	\$404	-117	-\$11
\$25,000 - \$49,999	49,688	\$1,111	51,308	\$1,186	-1,620	-\$75
\$50,000 - \$74,999	30,766	\$1,153	34,449	\$1,279	-3,683	-\$126
\$75,000 - \$99,999	20,272	\$980	23,196	\$1,070	-2,924	-\$90
\$100,000 - \$199,999	36,104	\$2,280	40,027	\$2,485	-3,923	-\$205
\$200,000 or more	<u>20,013</u>	<u>\$3,666</u>	<u>22,488</u>	<u>\$5,147</u>	<u>-2,475</u>	<u>-\$1,481</u>
Total	207,078	\$9,641	222,214	\$11,631	-15,136	-\$1,990
Selected Other States To and From PA						
<u>Net Inflows</u>						
New York	37,343	\$1,714	17,288	\$702	20,055	\$1,012
New Jersey	30,092	\$1,706	26,208	\$1,339	3,884	\$368
Maryland	14,892	\$635	11,308	\$498	3,584	\$137
California	10,072	\$680	8,465	\$491	1,607	\$189
<u>Net Outflows</u>						
South Carolina	3,331	\$119	7,927	\$442	-4,596	-\$323
Delaware	5,994	\$270	11,083	\$529	-5,089	-\$259
North Carolina	6,927	\$244	12,257	\$519	-5,330	-\$275
Florida	15,535	\$677	32,420	\$2,605	-16,885	-\$1,928

Note: Flows reflect number of individuals, not tax returns. Adjusted Gross Income (AGI) in dollar millions. Age of Primary Filer and Income Group data do not include returns with adjusted gross deficit.

Source: IRS Statistics of Income Division, SOI Tax Stats, Migration Data 2020-2021.

Senator Santarsiero requested data on total state student debt rankings and a comparison of average debt balances based on the student’s home state.

Data from the Federal Student Aid Office's Enterprise Data Warehouse show that Pennsylvania residents held \$65.5 billion in federal student loan debt as of September 2023, 7th highest among all states. The average balance of those borrowers was \$35,119, which ranked 24th. The table below compares the total debt and average balance in Pennsylvania to select border states.

State	Debt (\$ billions)	U.S. Rank	Avg. Balance	U.S. Rank
Pennsylvania	\$65.5	7	\$35,119	24
Maryland	\$35.9	14	\$42,334	3
New Jersey	\$44.3	12	\$35,929	19
New York	\$93.3	4	\$37,482	10
Ohio	\$61.5	9	\$34,014	30

Note: Federal student loans only.
Source: Enterprise Data Warehouse, Federal Student Aid Office.

Senator Santarsiero requested data on minimum wage part-time workers and how many have multiple jobs.

To the extent possible, this information will be included in the IFO’s analysis of the Governor’s revenue proposals that will be released later this month.

Senator Phillips-Hill requested data related to electricity generation rates and electricity exports.

On March 7, the IFO will release its annual Pennsylvania Electricity Update that contains these data for Pennsylvania and regional states.

Senator Dush requested data on the net tax loss associated with retirees moving into Pennsylvania that have never paid state income taxes.

No data are available on the net tax loss associated with retirees moving into Pennsylvania that have not previously paid state income taxes. The prior table (page 5) on state migration shows that most new Pennsylvania residents migrate from New York and New Jersey. To illustrate the impact of the retiree's state of residence on tax burden, the table on the next page displays the computed personal income tax (PIT) and property tax liabilities for three "prototype" retiree homeowner households in Pennsylvania, New York and New Jersey and the resulting state average effective tax rate for each household. It is noted that due to complexities and specific homeowner circumstances, the property tax computations do not reflect various property tax relief programs across the three states. Those programs could materially reduce property taxes in each state, particularly for the lowest prototype taxpayer. Overall, the results show that compared to taxpayers domiciled in Pennsylvania:

- A taxpayer with household income of \$50,000 has an effective tax rate that is 2.8 percentage points (ppts) higher (PIT and property tax only) in New York and 3.9 ppts higher in New Jersey.
- A taxpayer with household income of \$100,000 has an effective tax rate that is 2.2 ppts higher in New York and 1.9 ppts higher in New Jersey.
- A taxpayer with household income of \$200,000 has an effective tax rate that is 3.5 ppts higher in New York and New Jersey.

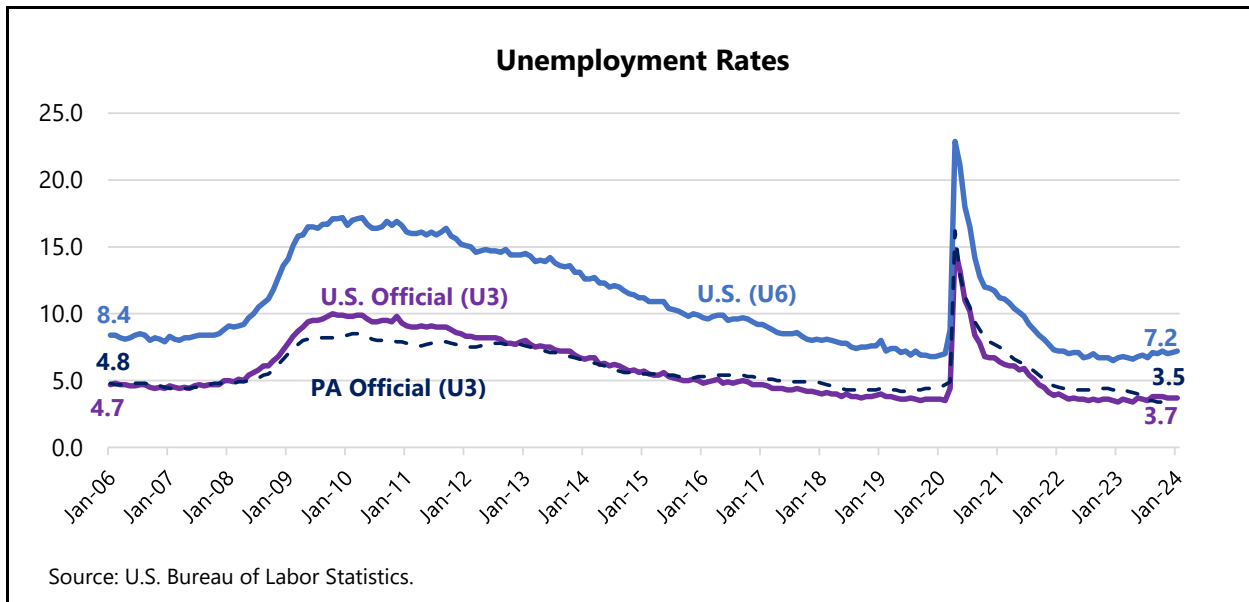
Computed State Tax Liability for Retired Homeowners

	Age 65+ Prototype Taxpayers		
	Low	Median	High
Total Income	\$50,000	\$100,000	\$200,000
Wages	10%	15%	20%
Pension-IRA	15%	25%	30%
Interest-Gains-Dividends	20%	25%	25%
Social Security	50%	25%	15%
Business Income-Other	5%	10%	10%
<u>Pennsylvania</u>			
Tax Liability	\$3,640	\$5,040	\$10,280
Personal Income Tax	\$540	\$1,540	\$3,380
Property Tax	\$3,100	\$3,500	\$6,900
Effective Tax Rate	7.3%	5.0%	5.1%
<u>New York</u>			
Tax Liability	\$5,060	\$7,240	\$17,280
Personal Income Tax	\$60	\$1,540	\$6,080
Property Tax	\$5,000	\$5,700	\$11,200
Effective Tax Rate	10.1%	7.2%	8.6%
<u>New Jersey</u>			
Tax Liability	\$5,610	\$6,930	\$17,190
Personal Income Tax	\$110	\$630	\$4,890
Property Tax	\$5,500	\$6,300	\$12,300
Effective Tax Rate	11.2%	6.9%	8.6%

Note: Assumes that all taxpayers are married filing a joint return with no additional dependents and that any income is distributed to both spouses equally. Property tax amounts are estimated based on American Community Survey Data from the U.S. Census Bureau. Excludes the impact of any property tax relief programs, which could materially reduce property taxes in each state, particularly for the lowest prototype taxpayer.

Senator Dush requested updated U3 and U6 unemployment data.

The figure below displays the official unemployment rate (also known as the U3 series) and the U6 rate for the U.S. from January 2006 through January 2024. (U6 unemployment rate data are unavailable at the state level.) The U6 rate includes the unemployed (U3) plus those marginally attached to the labor force, discouraged, or working part-time for economic reasons. As illustrated by the graph, the gap between the U3 and the U6 rates widened during the 2008-2009 recession, but steadily declined through the start of the COVID pandemic in early 2020. Recent data show that the gap between the two series has reverted to pre-pandemic levels as job openings and a tight labor market result in fewer discouraged workers.



Senator Brown asked several questions related to the proposal to legalize recreational marijuana.

To the extent possible, this information will be included in the IFO’s analysis of the Governor’s revenue proposals that will be released later this month.

Sincerely,

Matthew J. Knittel
Director, Independent Fiscal Office