

Week of February 20, 2017

HEADLINES

BUDGET HEARINGS BEGIN IN ERA OF "NEW NORMAL"

The legislature Tuesday began its three-week slate of budget hearings in what one ranking Appropriations Committee member called an era of "new normal." Tuesday's hearing in the House kicked off with members questioning representatives from the Independent Fiscal Office about the current state of Pennsylvania's economy and financial pictures, as well as the various financial implications of the governor's initiatives as outlined in his budget proposal. Majority Chairman Stan Saylor (R-York) relayed a new policy that those appearing before the committee not able to fully answer member questions will remain subject to recall within 48 hours to reappear before the committee for a public release of their eventual answer. In their testimony to the committee, IFO Director Matthew Knittel and Deputy Director Matt Ryan said the office has large consensus on the deficit forecast for next year that sits between \$2.5 billion and \$3 billion, something they said will need changes on either the revenue or expenditure side to address. They also said that the office is largely in agreement with the Department of Revenue on the growth rate of 0.3 percent, which was slower than anticipated when the budget was enacted. Lastly, on the revenue sources put forward by Gov. Wolf in his budget proposal, the IFO is currently reviewing their accuracy with a final report due out in March. Currently, Knittel noted, the office is finding some similarities with the numbers the governor assumes from the revenue proposals, but noted there are also differences. Budget hearings are expected to wrap up the week of March 6, 2017, and Pennsylvania's new fiscal year starts July 1, 2017.

PA TREASURER TORSSELLA: WE WILL BE TRANSPARENT IN ALL WE DO ON BEHALF OF TAXPAYERS

State Treasurer Joe Torsella told the Pennsylvania Senate Appropriations Committee Tuesday that the PA Treasury Department would pursue the highest levels of transparency, accountability and integrity in all aspects of its operations. Torsella noted that last year the PA Treasury provided a line of credit of \$2.5 billion to the Commonwealth to prevent the General Fund from falling into negative territory, the largest in Commonwealth history. The Treasurer offered these highlights of the Department's recent accomplishments: Treasury banned investment firms from paying fees to middlemen, implemented its first code of conduct on Department investment activities that identifies and prohibits actual and perceived conflicts of interest for Treasury investment staff and their immediate family members, and Treasury's Bureau of Unemployment Compensation processed an additional 8.2 million payments totaling over \$2.45 billion in benefits. These payments included \$2.1 billion in unemployment payments, \$97 million in Supplemental Social Security payments and \$237 million in State Workers' Insurance Fund Payments. In 2017, Treasury has decreased costs by making a reduction in its automotive fleet and through better efficiency in advertising of Unclaimed Property. In 2016, Treasury reorganized work responsibilities in peak times and began the use of new human resource software to streamline operations. The PA 529 College Savings Program ended 2016 with a fund balance of \$3.9 billion in assets, the highest year-end amount in the program's history. The PA 529's Guaranteed Savings Plan is fully funded at 118 percent.

AGRICULTURAL BUILDING TAX EXCLUSION

Representative Mindy Fee circulated co-sponsorship memorandum for legislation which would exclude building materials for the construction and maintenance of animal production buildings from the Commonwealth's sales and use tax. The estimated total tax liability would be less than \$4.2 million annually.

SODA COMPANIES, SUPERMARKETS REPORT 30-50 PCT. SALES DROP FROM SODA TAX

Two months into the city's sweetened-beverage tax, supermarkets and distributors are reporting a 30 percent to 50 percent drop in beverage sales and are planning for layoffs. One of the city's largest distributors says it will cut 20 percent of its workforce in March, and an owner of six ShopRite stores in Philadelphia says he expects to shed 300 workers this spring. In response, the city questioned the legitimacy of the early figures and predicted that customers responding to the initial sticker shock by shopping outside the city would return. Mayor Kenney harshly rebuked reports of coming layoffs late Tuesday night. To hit its annual target, the city needs to collect \$7.6 million a month in tax revenue. The first collection was due Feb. 21 but collection information won't be available until next month. Early projections from the city's quarterly manager's report predict only \$2.3 million will come through in the first collection. Dunn says that figure is expected to rise and the city still anticipates hitting its goal for the year. The city predicted a 27 percent sales decline industry-wide as a result of the tax but early returns from some beverage sellers show higher losses, fueling a resurgence of the anti-soda tax coalition that fought vigorously against the tax last summer.

PHILLY MAYOR: \$5.7M BEVERAGE TAX HAUL DOUBLES PROJECTIONS

Philadelphia Mayor Jim Kenney says the city's sweetened-beverage tax raised \$5.7 million in January, more than double what city officials had projected. Kenney's announcement Thursday comes a day after some supermarkets and beverage distributors said they're gearing up for layoffs after seeing beverage sales fall by 30 percent to 50 percent. The city has projected the tax will raise about \$91 million this year and that its revenue collections would pick up steam as the year progressed. City officials expect soda sales to rebound once customers get used to the higher prices, and they say talk of layoffs is fearmongering meant to keep other cities from imposing a similar tax.

PA. REVENUE SECRETARY 'VERY CONFIDENT' TAX AMNESTY PROGRAM WILL CHIP AWAY AT TAX DEBT OWED TO STATE

Revenue Secretary Eileen McNulty is "very confident" that Pennsylvania will take a chunk out of the \$1.1 billion in delinquent taxes owed to the commonwealth through the upcoming tax amnesty program. McNulty shared with the House Appropriations Committee on Tuesday that the program that allows delinquent taxpayers to pay up without penalty and only pay half the interest they owe is expected to generate \$150 million. She estimated that will result in a net collection of about \$100 million once expenses are deducted that can be used to help the state address this year's revenue shortfall. The amnesty program will begin on April 21 and run through June 19 and apply only to back taxes owed as of Dec. 31, 2015.

PERSONAL INCOME TAX: OFFSETTING GAINS AND LOSSES

Senator Stewart Greenleaf circulated co-sponsorship memorandum for legislation to permit a spouse filing jointly to offset a gain in a class of income with a loss by the other spouse in the same class of income or in another class of income when filing a state tax return. The proposal also permits an individual taxpayer to offset a gain in one class of income with a loss in another class of income.

LOTTERY WINNINGS AND STATE TAX DELINQUENCIES

Representative Aaron Bernstine introduced co-sponsorship memorandum for legislation to provide a winnings intercept for state delinquent taxes and outstanding court costs. Specifically, this legislation would require the Department of Revenue to conduct a background check on any individual that wins more than \$2,500 as a result of playing the Pennsylvania Lottery to determine if the individual owes back taxes to the Commonwealth. In the event the background check leads to a determination of taxes owed, the amount owed will be deducted from any winnings and remitted to the Commonwealth. Current state law only

requires the Department of Revenue and the Department of Public Welfare to work together to garnish lottery winnings when back child support is owed.

PENNSYLVANIA GENERAL ASSEMBLY SESSION SCHEDULE:

2017 SENATE SESSION SCHEDULE

March 20, 21, 22, 27, 28, 29

April 17, 18, 19, 24, 25, 26

May 8, 9, 10, 22, 23, 24

June 5, 6, 7, 12, 13, 14, 19, 20, 21, 22, 26, 27, 28, 29, 30

2017 HOUSE SESSION SCHEDULE

March 13, 14, 15, 20, 21, 22

April 3, 4, 5, 18, 19, 24, 25, 26

May 8, 9, 10, 22, 23, 24

June 5, 6, 7, 12, 13, 14, 19, 20, 21, 22, 26, 27, 28, 29, 30

DEPARTMENT OF REVENUE UPDATE

None

IRRC UPDATES

None