

TESTIMONY OF SHARON WARD
PENNSYLVANIA BUDGET AND POLICY CENTER
JOINT SENATE/HOUSE FINANCE COMMITTEE HEARING
PROPOSAL FOR AN INDEPENDENT FISCAL OFFICE
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Chairman Browne, Chairman Levdansky, Chairman Ferlo, Chairman Rohrer, Finance Committee members, thank you for the opportunity to address the creation of a proposed independent fiscal office.

The Pennsylvania Budget and Policy Center is a non-profit, non-partisan research organization based in Harrisburg that provides information and analysis of state tax and budget policies. We review tax policy proposals for their impact on revenue adequacy and equity, and budget proposals for their impact on Pennsylvania's families and communities.

My testimony today will cover four topics. I will start with some observations about budget transparency and the goals of the legislation. I will provide a brief overview of the language of Act 50 of 2009, then discuss the structure and function of legislative fiscal offices in the 50 states to offer some points of comparison. I will discuss in more detail one of the main issues addressed by the legislation, that of the responsibility for revenue forecasting and certification. Lastly, I will offer some observations and recommendations for the future.

The legislature's growing interest in the budget process and budget transparency is welcome. As I travel around the state and talk to groups, it is clear that most Pennsylvanians know very little about the state budget, about how state tax dollars are spent, or about the role of state funding in services they rely upon. The General Assembly's efforts to improve the process will be a success if it allows citizens to participate more fully, invites them to help set budget priorities, and gives them a real understanding of the fiscal choices confronting lawmakers and the consequences of those decisions.

The state budget is a statement of priorities. States that provide quality, timely and understandable budget information to the citizenry have transparent budget processes. Better information can aid in achieving other critical goals – most notably, fiscal stability, accountability and informed public debate.

Current Proposal

Act 50 of 2009 provides language for the establishment of a non-partisan, bi-cameral, legislative fiscal office (LFO) which would be created by a commission consisting of the majority and minority leadership of the House and Senate, appropriations committee chairs and the Governor. Responsibilities would include the following:

- (a) Prepare revenue estimates
- (b) Establish a baseline budget that reflects current spending levels and statutory requirements
- (c) Provide analysis of the executive budget
- (d) Develop models to forecast state revenue
- (e) Provide an annual assessment of the state's fiscal condition and five-year forecast
- (f) Monitor tax receipts
- (g) Develop performance measures and evaluate outcomes-based performance measures
- (h) Establish a website

The legislation, as drafted, would effectively transfer responsibility for setting the official revenue estimate from the executive branch to the legislative branch, as represented by the legislative fiscal office. The LFO would establish an initial revenue estimate and set a binding revenue number on June 15th of each year that would serve as the maximum for purposes of the General Appropriations Act. The estimate could only be changed under certain circumstances. The Governor's role in the process would be to certify that the General Assembly's budget does not exceed the General Assembly's revenue estimate.

The legislation would make available to the LFO certain information, including monthly and daily revenue reports, monthly expenditure data, and performance data, and offer access to the Commonwealth's accounting system. The director of the LFO could take civil action to compel agencies and political subdivisions to provide information.

The bill would give the fiscal office access to data that is currently available to legislative appropriations staff under the Administrative Code, including daily revenue reports and information in the Commonwealth's accounting system. Some of this information is also available to the general public (although not always in a user-friendly format). For example, departmental expenditure reports can be found on the budget office website at <http://www.portal.state.pa.us/portal/server.pt?open=512&objID=4574&&PageID=473531&mode=2>. Monthly revenue data can be found at http://www.portal.state.pa.us/portal/server.pt/community/monthly_revenue_reports/14801.

Non-partisan fiscal offices in the states

Across the country, legislative fiscal offices provide a range of research and information for both lawmakers and the general public. They have become – in many states – a trusted source of information about the state budget, appropriations, state revenue and fiscal conditions, and revenue changes.

Several sources provide information about the structure and function of legislative fiscal offices. For example, the National Conference of State Legislatures provides a single website that links to each state's office. The National Association of State Budget Officers (NASBO) periodically publishes reports describing state budget procedures. A review of these and other sources suggests the following:

Most states have non-partisan fiscal offices

36 states have a non-partisan fiscal offices, 30 of those are joint, serving both houses of the legislature; six states have one non-partisan office for each chamber; 10 other states, including Pennsylvania, have either completely partisan fiscal offices or none at all.

Legislative fiscal offices provide a wide range of services

Virtually all legislative fiscal offices have missions and provide services that are much broader than those included in Act 50. For example:

- 29 provide fiscal analysis for legislators
- 26 provide fiscal notes
- 25 prepare revenue forecasts
- 24 conduct state budget analysis
- 23 monitor revenue
- 20 conduct other research projects
- 15 draft appropriations bills
- 11 conduct performance reviews
- 11 provide research beyond fiscal topics ranging from demographics to redistricting
- 4 certify revenue
- 2 provide tax incidence

Legislative fiscal offices generally replace partisan staff

In the vast majority of cases (29), joint or independent offices take the place of caucus fiscal or appropriations staff, performing many of the duties currently undertaken by caucus staff. This is probably the most significant effect of the legislative fiscal offices, to provide a comprehensive platform and shared information for legislative decision-making.

Legislative fiscal offices are a critical source of information for the general public

One flaw in the current Pennsylvania proposal is that it doesn't address the information needs of the general public. Many of the offices provide citizens' guides, reports and publications that synthesize complex information, making it

more accessible to the general public and easy to use for lawmakers. For example, Ohio produces a simple analysis of state general fund spending by county, a copy of which is attached.

Revenue forecasting and certification

While most state legislative fiscal offices do independent revenue forecasting, it is a rare for the legislative body to certify the revenue estimate, as is proposed in Act 50's language.

In all states, the executive branch, through an administrative office or commission, develops the revenue estimate for the state budget. In Florida, Michigan, Nebraska, New Mexico, North Carolina and Vermont, the legislature has a role in developing the estimate for the executive budget.

The question of who gets the final word on revenue estimates is a bit different. According to NASBO, 26 states use a form of consensus revenue estimating, while the executive branch certifies the estimate in 17 states. In 7 states (Colorado, Connecticut, Delaware, Mississippi, Montana, New Hampshire and Wisconsin), the legislature may subsequently revise the Governor's revenue estimate.

Many states rely upon independent revenue agencies or commissions to help prepare revenue forecasts for either the executive or the legislature or both. The commissions may prepare the estimates and participate in the consensus process.

It is clear that determining the official revenue estimate is a source of conflict between the executive and legislative branch. The process anticipated in Act 50 would raise the stakes in that conflict.

Connecticut was the second to last state to finalize its 2009-10 budget, coming in shortly before Pennsylvania. In Connecticut's case, the conflict was not over the spend number, but the revenue estimate, with the Governor and legislature failing to agree. This disagreement added to the budget gridlock. Connecticut was

one of the seven states in which the legislature could revise the Governor's revenue estimate but, as a result of the disagreement, has moved to a consensus process.

The language in Act 50 suggests the General Assembly would like to expand its role in the revenue certification process. Developing a consensus revenue estimate would give the General Assembly more authority to shape the estimate and a means of reaching agreement in resolving conflict.

The consensus estimation process differs among the states and depends on the needs of the state. In some states, differing revenue forecasts trigger public hearings that invite public testimony. In New York and now in Connecticut, failure to reach consensus on revenues triggers a decision by another independently elected official – in those cases, the comptroller. Most states rely upon a more congenial process, using a combination of the legislature, executive branch and independent commissions or advisors to certify revenue.

The legislation, as proposed, creates a new area of conflict with the executive branch; the consensus forecast provides the means to resolve the conflict.

Budget Transparency and Recommendations

When it comes to budget information, there are some things the Commonwealth does well. The Executive Budget format, first adopted by Governor Tom Ridge, has received awards from the Government Finance Officers Association for the last 12 years. In 2007, the Center on Budget and Policy Priorities established a transparency scorecard to rank executive budgets on a series of indicators and Pennsylvania scores well on those measures.

Providing the public with information on state programs and services is critical to informed decision-making and public understanding of the budget process, the work of the legislature and the use of tax dollars. This information is also

important to ensure that public expenditures are sustainable over time and our dollars are well spent.

Pennsylvania provides key information that helps to meet these goals. The executive budget provides data over multiple years, provides detail on the source of revenue – whether state, federal or from a dedicated fund – and provides detailed information on expenditures, including enrollment and utilization, cost of services, and other programmatic data. The budget provides detailed information on proposed expenditures, and the cost and purpose of each change in each line item. The budget helps to ensure fiscal stability by including a Tax Expenditure Report, which provides information on the annual cost of each tax credit and tax exemption, describes the justification for the tax expenditure, and identifies the individuals or businesses that benefit. Tax expenditures play the same role as budget items: they are a different means to provide tax revenue to support a particular purpose. It is important that lawmakers keep tabs on these expenditures which represent more than \$12 billion in costs annually.

There are many good reasons to adopt a non-partisan legislative fiscal office.

First, the office can and should be established to meet the needs of the public as well as the General Assembly. It should provide research, access to legislative documents, and budget information that provides context as well as cost. Numbers pulled out of a website or database can be misrepresented or misconstrued. Good information can be provided simply for the public. The General Assembly should consider expanding the functions of the office to provide more information to the public. Without a clear plan for communication with the public in a non-partisan way, the proposal could be misconstrued as a plan to spend additional taxpayer dollars to provide fodder for press releases.

Second, the legislative fiscal office, if properly established, can help to restore confidence in the General Assembly as an institution. A non-partisan office can produce quality information and create a public presence for the body that is authoritative, accountable and competent. It can help to assure the public that

your decisions are based on some objective criteria. Too often decisions are construed by the public as driven by lawmakers' individual needs.

Third, there is room for improvement in the budget information that comes out after the appropriations act is approved, and the legislative fiscal office can help with that goal. There is little explanation for the decisions in the final budget, and no way to find statutory changes in the fiscal, welfare or education code bills that impact appropriations. Remind members that the General Assembly voted to increase welfare funding this year, and rejected the Smart Pharmacy proposal, which has saved taxpayers millions of dollars in other states and could have done the same here. There are defensive reasons for both of those decisions, but you presently have no real vehicle to explain them. The public has a right to know and you have an obligation to tell them.

I would respectfully suggest that the current proposal for an independent fiscal office be modified before it is adopted. The general idea is good, but lawmakers should consider expanding the office's functions. The proposal, as constructed, seeks to hold the executive branch more accountable, but the General Assembly needs, in turn, to be more accountable to the public and an independent fiscal office is a good way to start.

Thank you.