

**Malady & Wooten, LLP**

Legislative Report  
November 15, 2013

For questions, contact:

**Drew Lyons**

Phone: 717.236.9600

Email: [dlyons@malady-wooten.com](mailto:dlyons@malady-wooten.com)



**Pennsylvania Golf Course Owners Association**

**LEGISLATIVE UPDATE**

---

**Session Schedule:**

**2013 HOUSE SESSION SCHEDULE**

November 18, 19, 20

December 9, 10, 11, 16, 17, 18 (NV)

**2013 SENATE SESSION SCHEDULE**

November 18, 19, 20

December 3, 4, 9, 10, 11

## **IFO RELEASES ANNUAL ECONOMIC AND BUDGET OUTLOOK**

---

The Independent Fiscal Office (IFO) released [Pennsylvania's Economic & Budget Outlook: 2013-14 to 2018-19](#) today at an event at the Harrisburg University of Science and Technology Conference Center. The report outlined the economic, demographic, and fiscal trends that will affect the Commonwealth's budget over the next five years.

Matthew Knittel, Director of IFO, provided a summary of the study's findings. He said the demographic forecast projects modest population growth of around 4.3 percent between 2010 and 2020. Knittel explained a decline in residents of working age will pose a risk of lackluster economic growth, though a recession has not been forecast. He said the downside risks are greater than the upside risks via the current projections.

Knittel pointed out mandatory pension contributions, debt service, and health care inflation drive expenditure growth averaging 4.1 percent per year. "Expenditures are projected to outpace revenues through Fiscal Year 2018-2019 under current laws, policies, and trends," stated Knittel. "The General Fund balance carried forward from prior years will be exhausted by the end of Fiscal Year 2013-2014."

On the demographic outlook, Knittel explained the relevant trends for both revenue and expenditure projections. He said the amount of people between ages 20 and 64, considered working age, will not increase; this implies that unemployment rates could fall if hiring picks up because the size of the potential labor force does not increase. Knittel said the aging population could negatively affect the growth of the sales tax base because they generally spend more on non-taxable income and services. "The large increase in the 65-plus age cohort implies significant growth for general health care programs and long-term care services covered under Medical Assistance," stated Knittel.

Knittel then discussed the economic outlook portion of the report. He said the projected average annual growth rates and levels are stronger compared to the previous decade because of the severe economic recession brought on by the financial and housing crisis. "The forecast projects relatively strong economic growth, low inflation and lower unemployment rates for both the US and Pennsylvania," said Knittel. "The long-run forecast is optimistic and assumes that the US and Pennsylvania economies return to a historical rate of growth." Knittel said it is unclear how the Affordable Care Act will affect economic growth. On the employment outlook, Knittel explained Pennsylvania's job market has changed drastically; he said job losses have been seen in the manufacturing sector as well as the retail, government, finance, and construction sectors. Knittel said large job gains can be seen in the health care service sector, with gains also being seen in the professional service, leisure-hospitality, and accommodation-food sectors.

The coal and natural gas outlook was explained Knittel. He said despite the recent surge in Pennsylvania's natural gas market, the Commonwealth coal production remains larger when measured in terms of energy units. It was noted natural gas production has nearly doubled from 2011 to 2012. "Bentek Energy LLC, an energy consultancy firm, estimates that Pennsylvania's average daily natural gas production increased more than ten-fold from 2007 to 2012," said Knittel.

Pennsylvania's natural gas development and the US market outlook information was presented by Angelina LaRose, Team Leader of Natural Gas Market Analysis for the US Energy Information Administration. She explained the growth of shale gas in Pennsylvania as well as the outlook for natural gas consumption. LaRose said the Marcellus Shale gas production is the most productive in the United States. She said there has also been a shift in where drilling has occurred in Pennsylvania because of the difference between dry natural gas and wet natural gas. The natural gas liquids are priced closer to crude oil prices, higher than dry natural gas, which encourages drillers to seek wet natural gas.

LaRose said Northeast Pennsylvania holds the largest share of Marcellus Shale gas currently. She said the pricing point for Pennsylvania natural gas is much lower than prices in other states because it is

difficult to move the natural gas out of the state. LaRose explained average shale gas wells can have steep decline curves which require continued drilling to grow production.

LaRose gave long-term projections for shale gas production through 2040. She projected shale gas production to continue moving forward, for shale gas to make up 50 percent of US natural gas production by 2030. "Domestic natural gas production will grow faster than consumption and the US should become a net exporter of natural gas by the year 2020," said LaRose. "The exports can be looked at as their own demand source so production can be boosted due to export demand."

In terms of consumption, LaRose said natural gas consumption will grow in all sectors except for the residential sector. She explained electric power and industrial sectors will grow as consumers of dry natural gas through the year 2040.

LaRose then presented five different possible natural gas prices through the year 2040 based on the possibilities of high or low economic growth, high or low oil and gas resources, and a reference point.

Jennifer Boger, Senior Budget Analyst for IFO, gave an overview of expenditures. She said Education, Public Welfare, Corrections, and Treasury agencies compromise 89 percent of General Fund appropriations for Fiscal Year 2013-2014. Boger said pension costs will consume a growing share of General Fund appropriations through Fiscal Year 2018-2019. She projected the education expenditures will grow from \$11.2 billion to \$13.4 billion by Fiscal Year 2018-2019. Boger said the Department of Public Welfare's appropriated funds are also projected to grow by \$2.9 billion in the next five years. Boger said Corrections expenditures are projected to grow \$384 million by Fiscal Year 2018-2019 due mostly to personnel expenditures.

Stacey Knavel, Senior Revenue Analyst for IFO, presented information on the revenues section of the outlook. She explained personal income, sales and use, and corporate net income taxes comprise 80 percent of General Fund revenues. "For Fiscal Year 2013-2014, the forecast projects General Fund revenues of \$29.2 billion, a \$507 million increase over the prior fiscal year," said Knavel. "The forecast projects that revenues will grow by an average rate of 3.1 percent per annum from the base year through Fiscal Year 2018-2019." She said the aging population negatively affects tax revenues because they are not subject to the personal income tax nor do they purchase as many durable goods as younger individuals. Knavel said the housing recovery should improve household balance sheets and encourage consumer spending, yielding stronger realty transfer tax collections and higher sales and use tax growth over the forecast period. Knavel also said various tax law changes will affect corporate income tax revenues over the next five years.

Mark Ryan, Deputy Director of IFO, gave an overview of the fiscal assessment relevant to the five-year outlook of revenue expenditures. He said the IFO's analysis has shown that a structural deficit exists. "The economic forecast, on which the revenue and expenditure projections are based, anticipates that economic growth will approach historical norms by the end of the five-year window," said Ryan. "A key question is whether the revenues produced by 'normal' economic growth are sufficient to sustain the current level of expenditures."

Ryan presented information on the historical balance of former years' revenues and expenditures. He explained revenues and expenditures must balance over the long run because the Pennsylvania Constitution requires enactment of balanced budgets. Ryan explained the revenue decline seen in Fiscal Year 2008-2009 was unprecedented in recent history as a result of the financial crisis. He presented the five-year outlook, saying revenues will increase at an average annual rate of 3.1 percent while expenditures will increase by an average annual rate of 4.1 percent. Ryan also warned that mandatory pension contributions will increase by approximately \$2 billion over the next five years. "The projections indicate the presence of a structural deficit, and in contrast to recent years, a balance carryforward will not be available to cover a portion of the gap," said Ryan. "The economic forecast does not include a recession which would greatly exacerbate the future fiscal challenges."

## COMMITTEE MEETINGS

---

### Senate Local Government

TUESDAY - 11/19/13

10:00 a.m., Room 8E-A, East Wing

To consider:

**HB 1523 Toepel, Marcy**

Amends the Act authorizing the Commonwealth of Pennsylvania and the local government units thereof to preserve, acquire or hold land for open space uses further providing for local taxing options.

### Joint Legislative Conservation Committee

MONDAY - 12/9/13

1:00 p.m., Room 8E-A, East Wing

Environmental Issues Forum with a presentation by analyst and researcher Eric Jespersen entitled "Pennsylvania Water Data - Retrospective and Forward"

## BILL REPORT

---

**\*ATTACHED TO THE REPORT\***

## STATE NEWS

---

### LEGISLATORS, ADVOCATES CALL FOR ADOPTION OF A HYBRID APPROACH TO JUDICIAL SELECTION

Rep. Bryan Cutler (R-Lancaster) and Rep. Brian Sims (D-Philadelphia) joined together with advocates to call for passage of an amendment to the Pennsylvania Constitution that would allow for merit selection of state judges in Pennsylvania. Rep. Cutler remarked "For far too long, we've relied on a political process that rewards turnout, name recognition, or ability to raise money" over the ability of judicial candidates. He offered a proposal that provides for judges elected in statewide races to instead be nominated by the governor from a list of suggested candidates and confirmed by the Senate. After four years, the judges would stand for retention election. He explained this hybrid approach provides for merit selection and allows voters to have input in the retention election after the judge has served for a time and created a record. Rep. Cutler opined judicial system should be above reproach and judges should have the highest credentials possible. He concluded the judicial system should be "based on much more than politics," remarking that the bill transcends political ideology.

### SEN. SCARNATI COMMISSIONS GAMBLING STUDY

New competition from surrounding states and sluggish revenue reports are prompting a Senate Republican leader to seek a formal study of the future viability of Pennsylvania casinos. President Pro Tempore Joseph Scarnati, R-25, Jefferson County, is introducing a resolution to have the Legislative Budget and Finance Committee, a research arm, conduct the study. A legislative memo refers to the emergence of an "extremely competitive" gambling market in the Mid-Atlantic region as Pennsylvania's neighbors pursue new venues.

## IN THE NEWS

---

- 11-13-2013 **Proposed government regulations a concern for owners of small farms**  
Organic farmer Don Kretschmann walked around his picturesque but ancient barn and stepped up to a rustic barrel root crop washer. It's a simple machine, he said, consisting of long, wooden planks that form a cylinder, which he uses to clean freshly harvested produce on his Beaver... - [Pittsburgh Tribune-Review](#)
- 11-13-2013 **Chesapeake Bay Foundation excluded from bridge run**  
Organizers of a charity race on the Bay Bridge next year have eliminated the Chesapeake Bay Foundation as a potential partner because the group opposes a proposed waterfront housing development on Kent Island. Sparrow Rogers of Chesapeake Bay Run LLC said last week that run organizers... - [Baltimore Sun](#)
- 11-12-2013 **Tourism agency now "Visit Philadelphia"**  
THE GREATER Philadelphia Tourism Marketing Corp. has a new and much-less-cumbersome name: Visit Philadelphia. Meryl Levitz, president and chief executive of the city's official tourism agency, said in a statement that the new name is "a strong call to action... - [Philadelphia Inquirer](#)
- 11-12-2013 **Report: Regional travel down, transit ridership up**  
The latest travel numbers are in, and likely due to the recession, they show that overall travel activity in the Delaware Valley dropped between 2005 and 2010. That's roughly on par with the national trends, as is the region's growing transit ridership. In Philadelphia, highway travel to... - [Philadelphia Inquirer](#)

## WEEK IN REVIEW

---

- 11-15-2013 **Pa. judge delays decision in Melvin's sentencing**  
Former Pennsylvania Supreme Court Justice Joan Orié Melvin's trial judge has postponed a decision on whether to delay her entire sentence while she appeals her conviction... - [AP](#)
- 11-15-2013 **Pa. not saying if insurers can undo cancellations**  
Gov. Tom Corbett's administration could not say whether it would heed President Barack Obama's call Thursday for states to allow insurers to reverse policy cancellations stemming from the federal health care law, and it remained unclear whether insurers would even try to reverse their... - [AP](#)
- 11-14-2013 **House gives OK on bill to expand gambling in taverns**  
HARRISBURG -- The state House of Representatives on Wednesday narrowly approved legislation that would expand gambling -- in the form of raffles, pull tabs and daily drawings -- into Pennsylvania bars and taverns while allowing social and fraternal clubs more control of gaming revenue.... - [Pittsburgh Post-Gazette](#)
- 11-14-2013 **Pa. transportation bill could get vote next week**  
The leader of the Republican majority in the Pennsylvania House says it's possible there may be a vote next week on a bill to fund highways, bridges and mass transit systems.... - [AP](#)
- 11-13-2013 **New Pa. budget challenge surfaces for Corbett**  
HARRISBURG, Pa. — A drop in the amount of federal Medicaid matching dollars for Pennsylvania's services for the poor and disabled could be the latest significant budget challenge facing Gov. Tom Corbett, administration officials said Tuesday... - [AP](#)
- 11-13-2013 **Casino applicants say they remain high on Philly**  
PHILADELPHIA — Casino operators vying for a license in Philadelphia said Tuesday they remain high on the city despite Las Vegas entrepreneur Steve Wynn's decision to drop out of the running... - [AP](#)

- 11-12-2013 **Wagner considers run for governor**  
HARRISBURG — Former Auditor General Jack Wagner, defeated in the Democratic primary for Pittsburgh mayor, said on Monday he will decide by year's end whether to run for governor. Elected twice statewide as fiscal watchdog, Wagner would be the first Western Pennsylvanian to join a field of eight announced Democratic... - [Pittsburgh Tribune-Review](#)
- 11-12-2013 **Schwartz continues to lead Democratic Corbett challengers**  
Congresswoman Allyson Schwartz remains the most popular candidate Democrats choose to challenge Gov. Tom Corbett next year. But Schwartz's 7 point margin in Tuesday's Harper Polling survey is nearly half that of other polls released earlier in the year. The veteran Montgomery County congresswoman was favored by 22 percent of... - [Harrisburg Patriot-News](#)
- 11-11-2013 **Pa. open records law faces legislative changes**  
READING, Pa. — Right-to-know requests from a private citizen recently uncovered an alarming lack of accountability and oversight in the finances of the Oley Valley School District... - [AP](#)
- 11-11-2013 **State house panel to consider foreclosure bill**  
HARRISBURG - A bill to enable delinquent low-income homeowners to work out hardship payment agreements with local tax bureaus is scheduled for a vote next week by a House committee. The measure, sponsored by Rep. Chris Ross, R-158, Unionville, provides for a major rewrite of state tax foreclosure laws dating back to the 1920s. The... - [Hazleton Standard-Speaker](#)