



Pennsylvania Senate Appropriations Committee

Senator Pat Browne
Chairman



May 2017

Monthly Report

IFO's Updated Forecast Predicts \$1 Billion Shortfall

The Independent Fiscal Office (IFO) recently released (May 2nd) its latest revenue projection for the current fiscal year and determined that the Commonwealth is likely to end Fiscal Year 2016-17 with a \$1 billion shortfall compared with the Governor's Official Revenue Certification from last July. The IFO also provided an initial revenue estimate for Fiscal Year 2017-18 of \$32.4 billion, nearly \$200 million lower than the Governor projected in his February budget.

The IFO noted that current-year revenues lagged estimate in most revenue categories but that depressed collections in Corporate Net Income Tax (CNIT), Sales and Use Tax (SUT) and Personal Income Tax (PIT) were the main drivers of the shortfall and were influenced by several factors. While the IFO noted that job growth has been higher than estimated, growth in the Commonwealth's Gross Domestic Product (GDP) and wages was lower than when previous estimates were made. In addition, corporate profits declined in 2015 and 2016, and taxable consumer spending has been very weak, growing only 0.1% from January 2017 through April 2017.

The \$1 billion shortfall for the current fiscal year and the estimate for next fiscal year are within the ranges estimated by our Senate Appropriations Committee staff. The IFO will continue to monitor current-year collections and economic data over the next month and will release a final revenue estimate by June 15. The IFO's final revenue estimate will help shape the development of the Governor's Official Revenue Certification for the upcoming fiscal year budget.

Change to PA Economic Forecast

		Growth Rates or Change		
		2016	2017	2018
Real PA GDP	June 2016	1.9%	2.0%	n.a.
	May 2017	0.6%	1.8%	1.9%
Philly CPI-U	June 2016	1.0%	1.6%	n.a.
	May 2017	0.6%	2.0%	2.0%
Wages-Salaries	June 2016	3.2%	3.7%	n.a.
	May 2017	2.8%	3.5%	3.8%
Job Gains (000s)	June 2016	50.1	50.6	n.a.
	May 2017	52.2	55.7	54.1

Senate Appropriations Committee

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Inside This Issue

Lottery Fund Struggling	2
Tax Amnesty Program	2
Report on States' Tax Revenue Growth...	3
April Revenue Numbers	4
Detailed General Fund Revenues	5

State Employees' Retirement System Reduces Return Assumption

At its April board meeting, the State Employees' Retirement System announced it would reduce the assumed rate of return from 7.5% to 7.25%. While the reduction increases the likelihood of achieving the estimated rate of return, it also increases the system's unfunded liability, last estimated at \$19.5 billion, by an additional \$1 billion.

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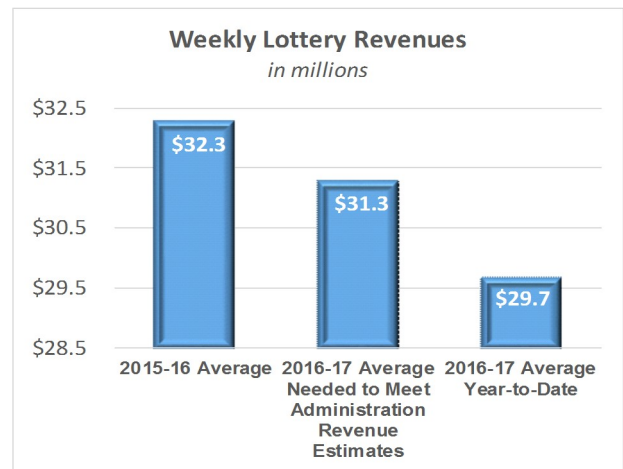
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Lottery Fund Struggling to Meet Revenue Projections

As we have reported over the last year, the Commonwealth's Lottery Fund, which supports programs for older Pennsylvanians, is struggling to meet revenue projections and is on target to end the current fiscal year with a deficit that could range from \$30 million to \$60 million. The size of the deficit is dependent on Lottery sales through the end of the year, which could improve if there is a large Powerball or MegaMillions jackpot, and reductions in spending that could be part of the Administration's Spring Budget Update.

Through the end of April, weekly Lottery revenues averaged \$29.7 million, about 5% below the amount needed to meet the Administration's full-year revenue estimate. Last year's Lottery revenues averaged \$32.3 million each week but were heavily influenced by the historic \$1.6 billion Powerball jackpot.



The Pennsylvania Lottery is a mature lottery system and over the last two years has begun to explore ways to improve player convenience and increase revenues, including the ability to offer Lottery gift cards, acceptance of credit cards as a form of payment and opportunities for individuals to purchase Lottery tickets at gas pumps. In addition, the Administration has assumed the Lottery will be approved to offer internet purchases of Lottery products next year, increasing net profits by \$19 million in FY 2017-18 and \$31 million in FY 2018-19.

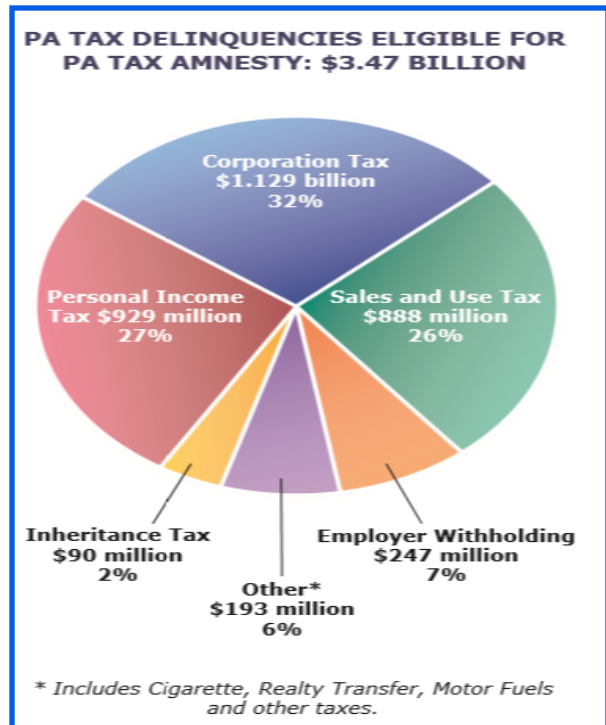
Amnesty Program Available for Unpaid Delinquent State Taxes

The Pennsylvania Department of Revenue is offering a limited opportunity until June 19, 2017, for individuals and businesses with past due taxes to come into compliance.

Act 84 of 2016 established the Pennsylvania Tax Amnesty Program, which applies to nearly all overdue state taxes for most individuals and businesses not paid as of the end of 2015. To participate, taxpayers must file an online amnesty return, which can be found on the Pennsylvania Department of Revenue's website.

Those eligible must make the required tax payment and, in return, the Department of Revenue will waive all penalties incurred, the collection and lien fees assessed and half of the interest due. Individuals and businesses that are eligible for the Amnesty program and do not participate will be subjected to a five percent participation penalty to be added to their past due balance.

Taxpayers who participated in the 2010 tax amnesty program are ineligible to participate. The Amnesty program is only for unpaid Pennsylvania taxes. Unpaid local, federal and property taxes do not fall under the purview of this program.



Unpaid or underpaid taxes eligible for amnesty include: Cigarette Tax, Corporate Net Income Tax, Fuel Use Tax, Employer Withholding, Inheritance and Estate Tax, Personal Income Tax, Sales and Use Tax and Liquid Fuels Tax. The 2017 Pennsylvania Tax Amnesty program is expected to provide an estimated \$100 million to the General Fund. Previous Pennsylvania Tax Amnesty programs yielded \$93 million in 1995-1996 and \$254 million in 2010.

The Online Amnesty form and more information about the Pennsylvania Tax Amnesty Program can be found on the Department of Revenue's website <http://www.revenue.pa.gov/taxamnesty>.

National Report Finds States' Tax Revenue Growth Meager

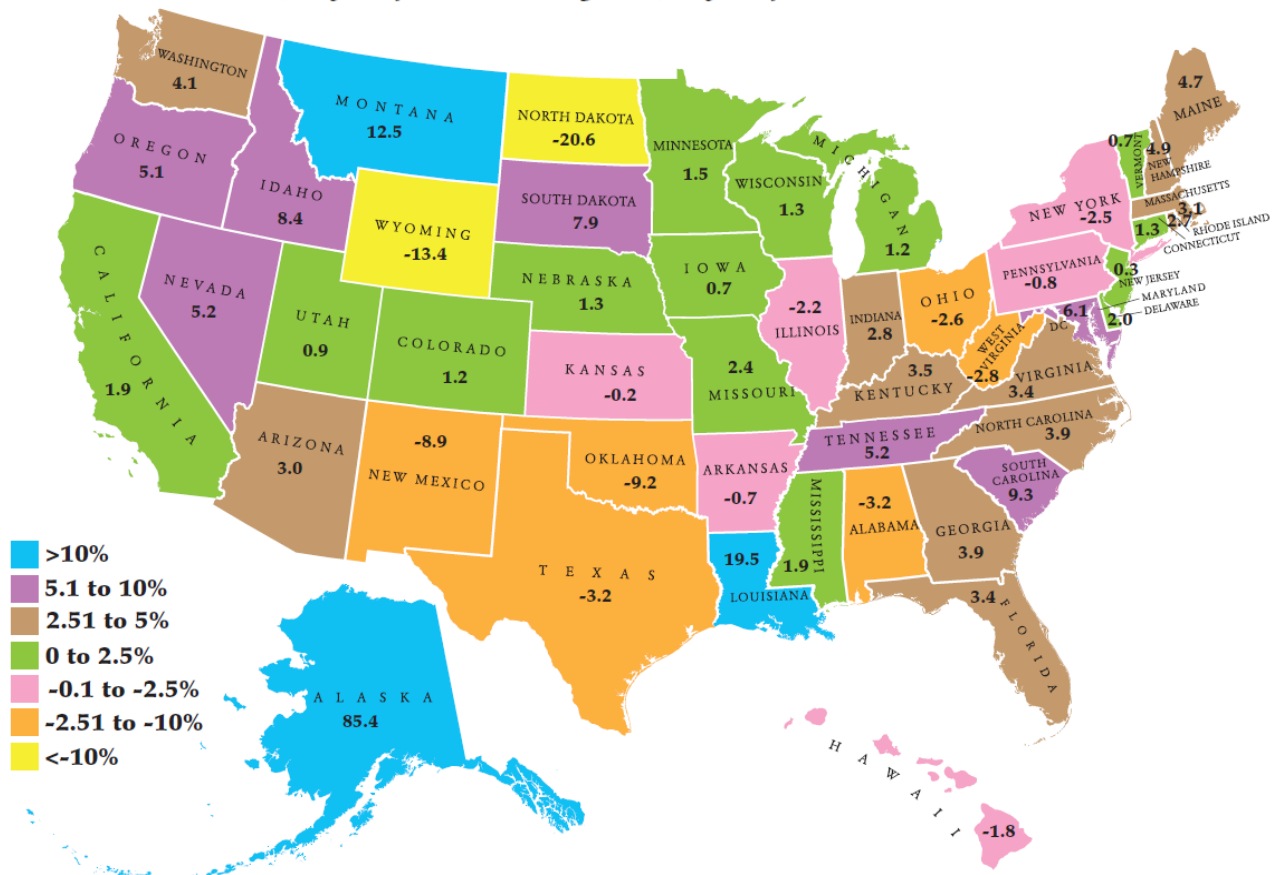
According to data provided by the Rockefeller Institute, the growth rate of Pennsylvania's tax collections from the third quarter of 2015 compared to the third quarter of 2016 was below the U.S. average, ranking 39th among the 50 states. Overall, Rockefeller reported that total state tax revenue increased by only 1.2% in the third calendar quarter of 2016.

Nationwide Change in Quarterly State Tax Revenues 3 rd Quarter 2015 vs. 3 rd Quarter 2016	
Tax	Percentage Change
Personal Income Tax	2.7%
Corporate Income Tax	-10.4%
Sales Tax	2.0%
Motor Fuels Tax	1.1%

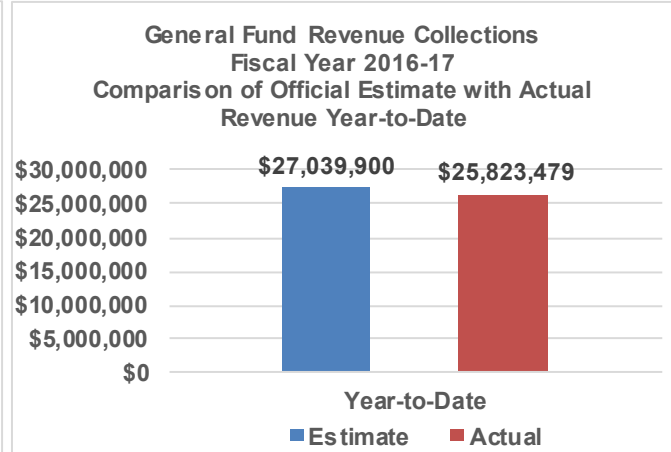
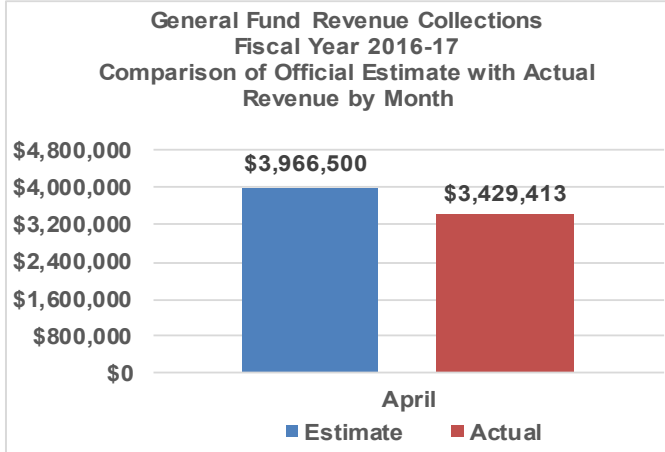
Rockefeller attributes the weakness in state tax revenues to a weak stock market in the first part of 2015, a decline in purchases of durable goods, and a decline in corporate profits. Major energy producing states, such as North Dakota, Wyoming, Oklahoma, New Mexico and Texas, saw significant declines in their revenues, which are driven by commodity prices. Alaska, another major energy state, realized a rebound in its revenues after two years of depressed oil revenues. Other states, such as Louisiana, saw tax revenues grow well above the national average following increases in its tax rates.

The Rockefeller Institute noted even lower preliminary growth data for the last quarter of 2016. The data from Rockefeller is consistent with the tepid year-over-year revenue collections Pennsylvania has experienced over the last year.

Annual Change in Quarterly Tax Revenue July-September 2015 vs. July-September 2016



Revenues Come Up Short of Projections Again for Month of April

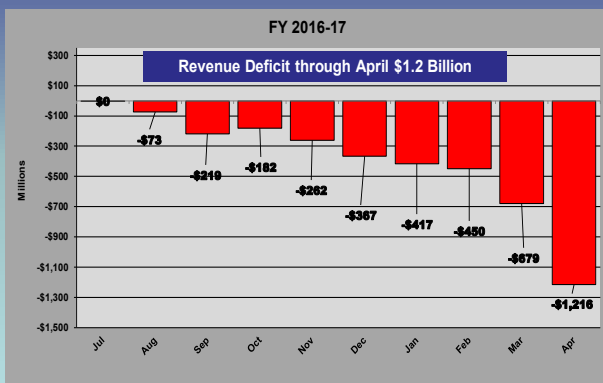


General Fund revenue collections for the month ended **April 2017** totaled **\$3.43 billion**, which was **\$537.1 million**, or **13.5%, below the monthly estimate**. Fiscal year-to-date collections total **\$25.8 billion**, which is **\$1.2 billion**, or **4.5%, below estimate for the year**.

Due to an error when factoring in which month to include this year's corporate net income tax (CNIT) annual payments, April's collections will appear to be approximately \$200 million less than expected and May's collections should appear to be approximately \$200 million more than expected. Without that calculation error, April General Fund revenue collections would have been approximately \$337 million under estimate for the month and \$1 billion under estimate for the year-to-date.

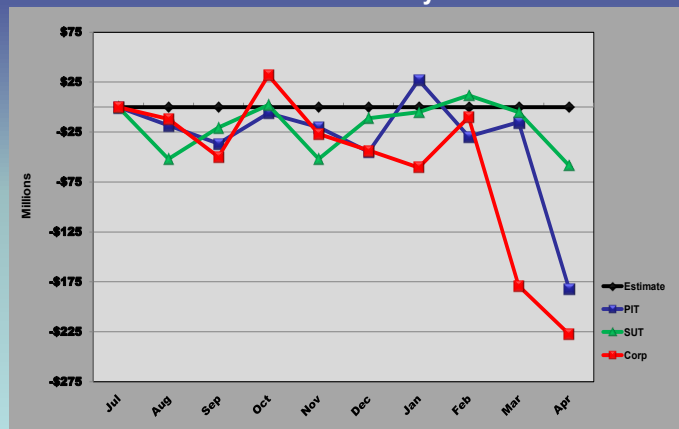
**In Thousands	April 2017 Actual	April 2017 Estimated	Over/under Estimate	Fiscal Year-to-Date Actual	Fiscal Year-to-Date Estimated	Over/Under Estimate
Corporation Taxes	\$238,510	\$465,900	\$227.4 million or 48.8%	\$3,934,796	\$4,512,200	\$577.4 million or 12.8%
Sales and Use	\$830,970	\$889,300	\$58.3 million or 6.6%	\$8,187,771	\$8,377,800	\$190 million or 2.3%
Personal Income Tax (PIT)	\$1,847,018	\$2,028,500	\$181.5 million or 8.9%	\$10,531,851	\$10,856,600	\$324.7 million or 3.0%
Cigarette Tax	\$110,981	\$115,000	\$4.0 million or 3.5%	\$1,034,453	\$1,075,900	\$41.4 million or 3.9%
Other Tobacco Products	\$11,023	\$6,900	\$4.1 million or 59.8%	\$64,238	\$47,600	\$16.6 million or 35.0%
Liquor Tax	\$28,319	\$30,200	\$1.9 million or 6.2%	\$302,312	\$311,000	\$8.7 million or 2.8%
Realty Transfer Tax (RTT)	\$34,143	\$43,800	\$9.7 million or 22.0%	\$377,325	\$445,100	\$67.8 million or 15.2%
Inheritance & Estate Tax	\$80,185	\$88,200	\$8.0 million or 9.1%	\$771,552	\$794,200	\$22.6 million or 2.9%
Non-Tax Revenues	\$215,126	\$286,900	\$71.8 million or 25.0%	\$553,721	\$598,200	\$44.5 million or 7.4%

General Fund Collections Year-to-Date Revenue Comparison with Official Estimate



Senate Appropriations Committee, Patrick M. Browne, Chairman

Fiscal Year 2016-17 Performance of Major Tax Types Above/Below the Monthly Estimate



Senate Appropriations Committee, Patrick M. Browne, Chairman

General and Motor License Fund Revenue Detail

Fiscal Year 2016-17

Senate Appropriations Committee Monthly Revenue Report

(\$ thousands)

REVENUE SOURCES	YTD FY 2015-16	April 2017 Actual	April 2017 Estimated	Surplus/ (Deficit)	YTD Actual	YTD Estimated	Surplus/ (Deficit)
TOTAL - GENERAL FUND	25,896,690	3,429,413	3,966,500	(537,087)	25,823,479	27,039,900	(1,216,421)
TOTAL - NON-TAX REVENUE	574,485	215,127	286,900	(71,773)	553,722	598,200	(44,478)
TOTAL - TAX REVENUE	25,322,204	3,214,285	3,679,600	(465,315)	25,269,757	26,441,700	(1,171,943)
TOTAL - Corporation Taxes	4,495,972	238,510	465,900	(227,390)	3,934,797	4,512,200	(577,403)
Accelerated Deposits	7,210	5,166	0	5,166	8,110	0	8,110
Corp. Net Income	2,254,097	190,765	402,600	(211,835)	1,928,918	2,377,500	(448,582)
Cap. Stock & Franchise	139,160	2,787	3,800	(1,013)	32,550	13,400	19,150
Gross Receipts	1,293,478	3,655	6,500	(2,845)	1,210,078	1,275,800	(65,722)
PURTA	22,664	2,773	9,000	(6,227)	5,680	11,800	(6,120)
Insurance Premiums	449,315	28,178	40,400	(12,222)	433,582	473,300	(39,718)
Financial Institutions	326,878	5,186	3,600	1,586	315,878	360,400	(44,522)
Other Selective Bus. Taxes	3,170	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL - Consumption Taxes	9,146,964	983,304	1,043,500	(60,196)	9,608,809	9,832,300	(223,491)
Sales and Use	8,085,730	830,970	889,300	(58,330)	8,187,771	8,377,800	(190,029)
General (net of transfers)	6,983,757	719,899	768,800	(48,901)	7,071,405	7,227,200	(155,795)
Motor Vehicle Sales	1,101,972	111,071	120,500	(9,429)	1,116,367	1,150,600	(34,233)
Cigarette Tax	748,701	110,981	115,000	(4,019)	1,034,454	1,075,900	(41,446)
Other Tobacco Products	0	11,024	6,900	4,124	64,238	47,600	16,638
Malt Beverage	20,550	2,009	2,100	(91)	20,034	20,000	34
Liquor	291,983	28,320	30,200	(1,880)	302,312	311,000	(8,688)
TOTAL - Other Taxes	11,679,269	1,992,472	2,170,200	(177,728)	11,726,151	12,097,200	(371,049)
Personal Income	10,473,511	1,847,018	2,028,500	(181,482)	10,531,852	10,856,600	(324,748)
Withholding	7,846,657	743,173	760,300	(17,127)	8,001,322	8,112,500	(111,178)
Non-Withholding	2,626,854	1,103,845	1,268,200	(164,355)	2,530,530	2,744,100	(213,570)
Realty Transfer	389,231	34,144	43,800	(9,656)	377,325	445,100	(67,775)
Inheritance & Estate	769,581	80,186	88,200	(8,014)	771,553	794,200	(22,647)
Minor & Repealed	(37,959)	20,714	400	20,314	(54,487)	(98,400)	43,913
Table Games	84,904	10,410	9,300	1,110	99,909	99,700	209
TOTAL - MOTOR LICENSE FUND	2,158,457	278,805	259,180	19,625	2,235,828	2,236,510	(682)
TOTAL - Liquid Fuels Taxes	1,370,585	173,250	148,300	24,950	1,434,579	1,419,200	15,379
Liquid Fuels	(851)	1	0	1	59	0	59
Fuels	38	0	0	0	0	0	0
Motor Carriers/IFTA	75,361	2,882	3,700	(818)	74,635	78,600	(3,965)
Alternative Fuels	7,784	1,012	900	112	8,910	9,000	(90)
Oil Company Franchise	1,288,251	169,355	143,700	25,655	1,350,975	1,331,600	19,375
TOTAL - Licenses, Fees & Other	787,873	105,555	110,880	(5,325)	801,249	817,310	(16,061)
Licenses and Fees	759,863	103,709	108,900	(5,191)	780,720	793,800	(13,080)
Other Motor Receipts	28,010	1,846	1,980	(134)	20,529	23,510	(2,981)