



# Pennsylvania Senate Appropriations Committee

Senator Pat Browne  
Chairman



June 2017

## Monthly Report

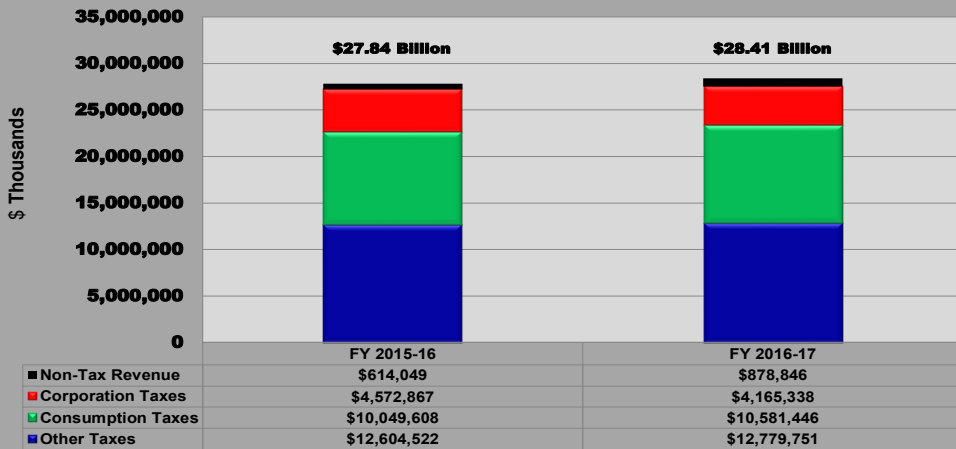
### Fiscal Year 2016-17 Revenue Collections Disappoint

Despite early optimism, FY 2016-17 revenue collections are disappointing, to say the least. All indications are that this year's General Fund budgetary deficit will be \$1.5 billion to \$1.6 billion by fiscal year's end. Bolstered by targeted revenue enhancements such as increased tobacco taxes and sales tax on digital goods, along with hope for an improving economy, FY 2016-17 total tax revenue was projected to grow by 5.1% over FY 2015-16.

In actuality, tax revenue is up by a mere 1.1% compared to the 5.1% growth projected by the Official General Fund Revenue Estimate. In addition, total FY 2016-17 General Fund revenue was forecasted to increase by 6.1% over the prior year due to increased profits from Liquor reform, a tax amnesty program and a loan from the Joint Underwriters Association (JUA). With 11 months of the fiscal year behind us, total General Fund revenue collections are just 2% ahead of last year.

#### General Fund Year-to-Date Revenue Compared with Prior Year

Through May



Other Taxes include Personal Income, Realty Transfer and Inheritance Taxes. Consumption Taxes include Sales and Use, Tobacco and Liquor Taxes. Corporation Taxes include CNIT, CSFT, GRT, Insurance Premiums and Bank Shares Taxes. Non-Tax Revenue includes Liquor Store Profits, Escheats and Fines & Penalties.

Senate Appropriations Committee, Patrick M. Browne, Chairman

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### Where We Are in the Annual Budget Process

As the end of fiscal year 2016-17 approaches, the Appropriations Committee is closely monitoring revenue collections to determine trends for the remainder of the current fiscal year and the next fiscal year. Committee staff are also developing final spending estimates in anticipation of budget negotiations over the coming weeks.

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## Revenue Collections Continued

To make matters worse, the tepid FY 2016-17 revenue performance comes on the heels of a lackluster showing in FY 2015-16 when total General Fund revenue collections grew by just 1% and tax revenue grew by just 2.6%.

Together, the personal income tax (PIT), sales and use tax (SUT) and corporate net income tax (CNIT) make up approximately 80% of all General Fund revenue. Thus far through FY 2016-17, PIT revenue is growing by 1.8% over last year, SUT is growing by 1.5% and CNIT is actually down by 7.8%.

To put matters into perspective, the year-over-year increase to the consumer price index (CPI) from April 2016 to April 2017 is 2.2%. Therefore, after adjusting for inflation, tax revenue actually decreased by about 1% so far this fiscal year. In addition, the Commonwealth is not likely to receive several planned non-tax revenue transfers: \$200 million from the JUA, \$100 million from gaming expansion and \$75 million in anticipated gaming license revenue from a second casino in Philadelphia.

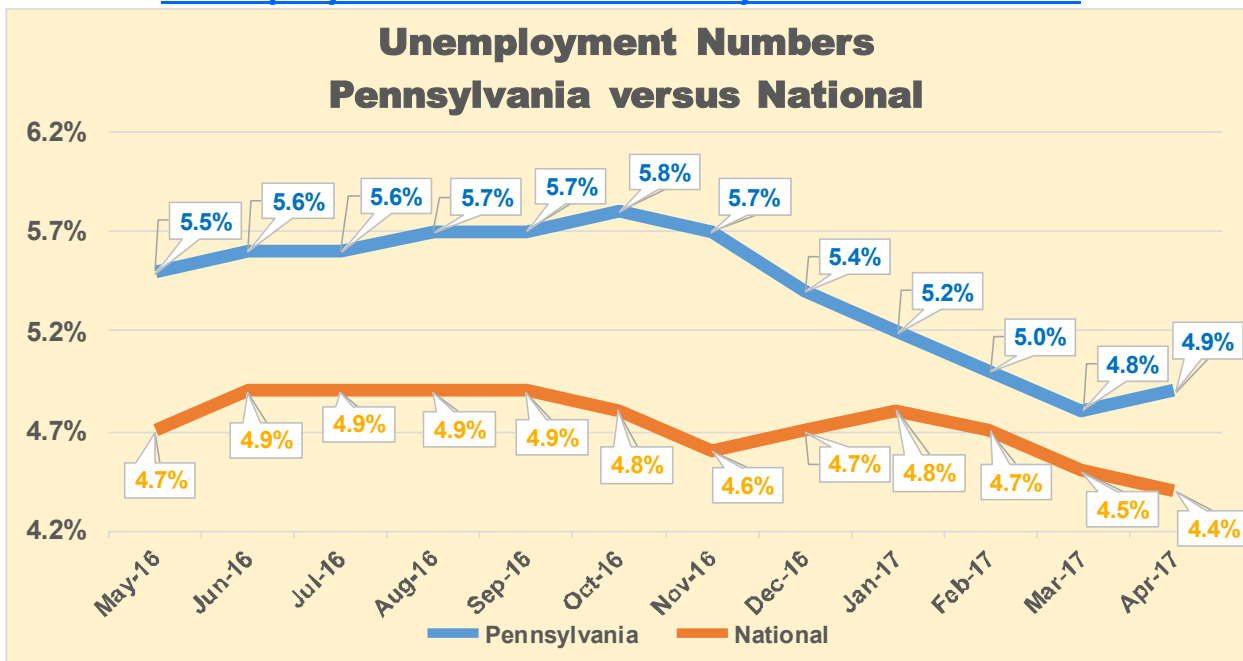
The weak results for FY 2016-17 mark yet another year of slow recovery nearly a decade after the Great Recession. According to a report released in May 2017, the Rockefeller Institute of Government indicates that state revenue forecasters across the nation are generally anticipating continued slow growth in tax revenues for the remainder of fiscal 2017 and fiscal 2018. Combined with Pennsylvania's demographic trend of an aging population and shrinking working-age cohort, the Commonwealth cannot rely on a vastly-improved revenue outlook as a solution to its structural deficit.

## Joint Underwriting Authority Attempts to Block \$200 Million Transfer

As part of the FY 2016-17 budget, the Governor and the General Assembly agreed to a \$200 million transfer from the Pennsylvania Professional Liability Joint Underwriting Association (JUA) to the Commonwealth's General Fund. This year's budget also provided that the Commonwealth would repay the transfer over five years beginning in July 2018.

On May 18, the JUA filed a suit in the U.S. District Court for the Middle District of Pennsylvania seeking to block the transfer. Because the suit was filed with only five weeks remaining in the fiscal year, it is likely the legal questions surrounding the suit will not be resolved quickly and the Commonwealth might not receive the \$200 million loan before the end of the year, adding to our current-year deficit.

## Unemployment Numbers: Pennsylvania vs. National



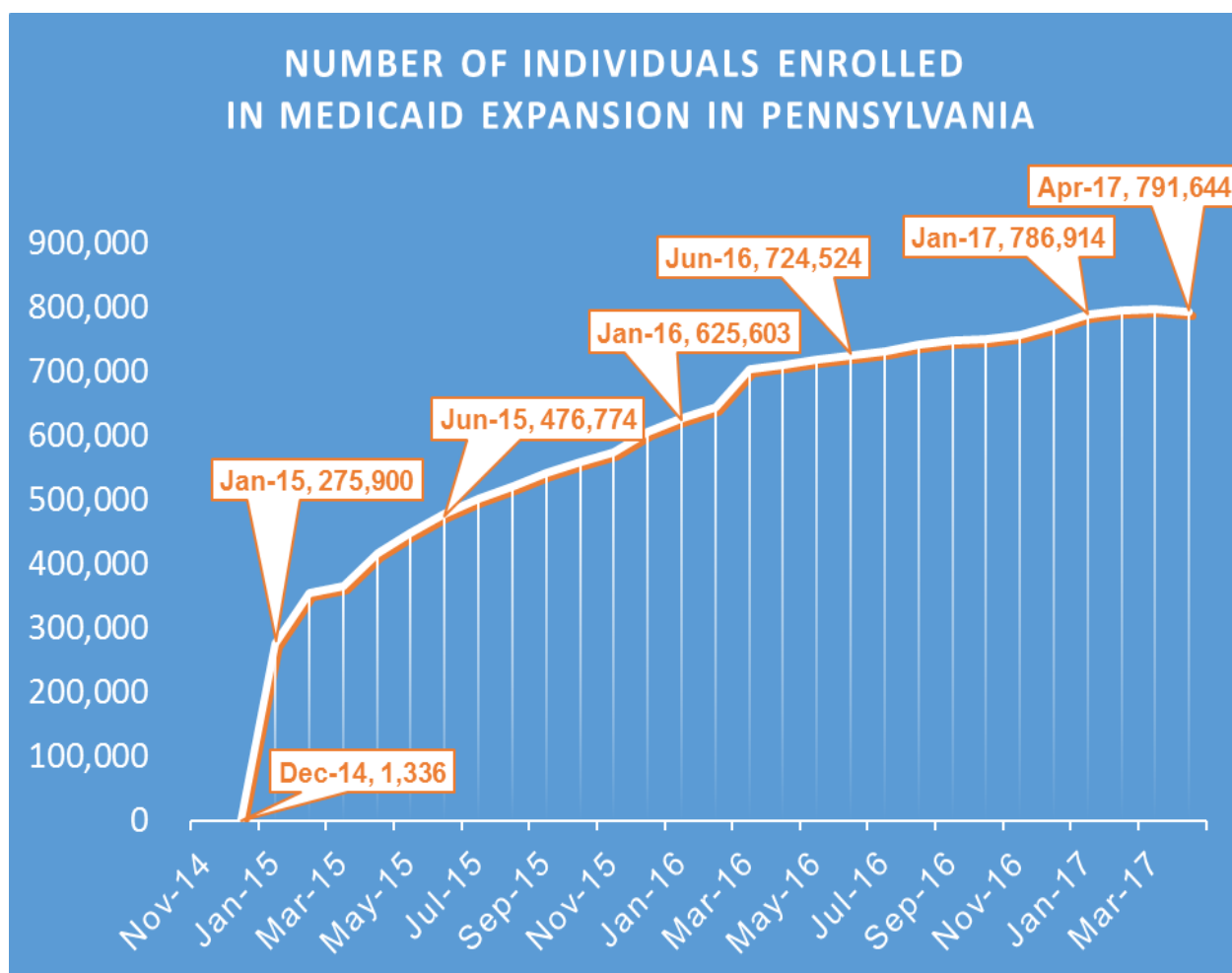
## Update on Medicaid Expansion in Pennsylvania

Medicaid is a jointly-funded, federal and state health insurance program for low-income and needy individuals. One of the major coverage provisions of the Affordable Care Act (ACA) is the expansion of Medicaid eligibility to nearly all low-income individuals with incomes at or below 138 percent of federal poverty levels (about \$34,000 a year for a family of four in 2017). When the ACA became law, the federal government promised to pay most of the cost for the Medicaid expansion. Pennsylvania, like other states, did not have to pay any of the cost for the expansion until 2017, at which point, the federal government gradually began to reduce its share to 90 percent by 2020.

Under Governor Tom Corbett, a Medicaid expansion demonstration was implemented in January 2015. Governor Tom Wolf transitioned from the Medicaid expansion demonstration to a different ACA Medicaid expansion plan that was completed in September 2015. As of April 2017, there were approximately 792,000 individuals enrolled through Medicaid expansion in Pennsylvania.

Recently, the U.S. House of Representatives proposed changes to the health care program through the American Health Care Act. The changes proposed by the House could result in the loss of coverage for the 792,000 individuals who were added to Pennsylvania's Medicaid rolls after passage of the ACA.

Pennsylvania, like every other state, is closely monitoring federal action on this bill given the potential significant impact to states' residents and budgets. If the federal government reduces its support for the Medicaid expansion population, states will have to determine whether to remove individuals from Medicaid rolls or to continue to provide them health care, making up any reduction in federal support with state dollars. For Pennsylvania, this could mean an additional \$3 billion annual cost to our General Fund budget.



## President's Budget for 2018

The Federal Funds Information Service recently released estimates of funding for state grant programs that will be provided through the President's Budget for Federal Fiscal Year 2018, which begins October 1. Nationwide, the President's budget would reduce major state grant programs by about \$17 billion, or 3%. States utilize these programs to provide pass-through grants to school districts, medical providers, non-profits and individuals and to operate their own programs.

Of the \$17 billion reduction in spending, the President's budget cuts discretionary programs by \$12 billion, or 10.5%, and mandatory programs by about \$4.9 billion, or 1.1%. Pennsylvania's discretionary grant allocations would be reduced by nearly \$600 million, or 13.4%, while mandatory grants would drop by nearly \$300 million, or 1.4%.

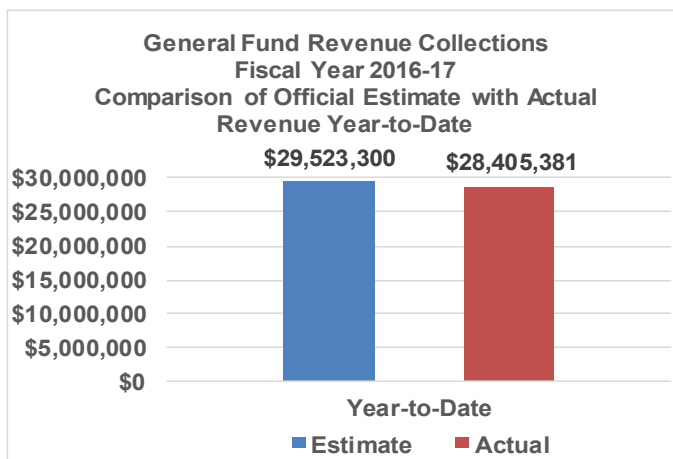
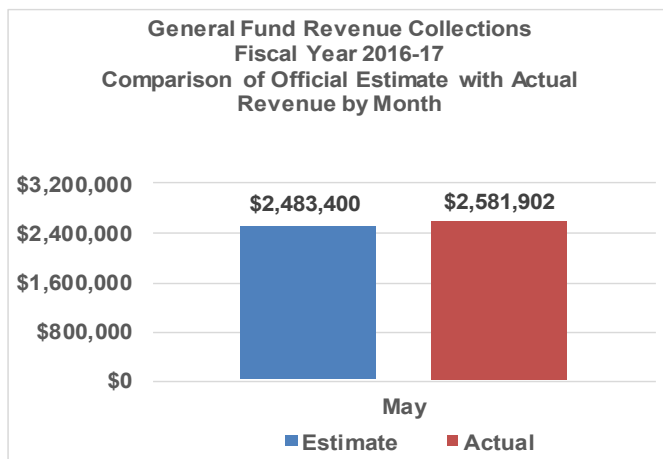
<b>Summary of Federal Grant Programs to States</b> <i>(in billions)</i>			
		<b>FY 2017</b>	<b>FY 2018</b>
Nationwide	Mandatory	\$445.5	\$440.6
	Discretionary	\$113.8	\$101.8
Pennsylvania	Mandatory	\$20.1	\$19.8
	Discretionary	\$4.4	\$3.8

The overall reductions noted above include the following proposed program eliminations: Low Income Home Energy Assistance Program, Supporting Effective Instruction (Teacher Quality), Social Services Block Grant, Community Development Block Grant, Community Services Block Grant, Student Support and Academic Enrichment, Weatherization Assistance Program and State Criminal Alien Assistance Program.

<b>Pennsylvania Allocation for Programs Proposed for Elimination in Federal Budget</b> <i>(in millions)</i>		
<b>Federal Program</b>	<b>FY 2017</b>	<b>FY 2018</b>
Low Income Home Energy Assistance Program	\$208.8	\$0
Supporting Effective Instruction (Teacher Quality)	\$83.2	\$0
Social Services Block Grant	\$62.7	\$0
Community Development Block Grant	\$168.9	\$0
Community Services Block Grant	\$30.1	\$0
Student Support and Academic Enrichment	\$15.1	\$0
Weatherization Assistance Program	\$14.6	\$0
State Criminal Alien Assistance Program	\$2.8	\$0

The U.S. Congress will now review the President's budget proposal and begin the process of crafting a final budget for the upcoming fiscal year.

## Revenues Come Up Short of Projections Again for Month of May

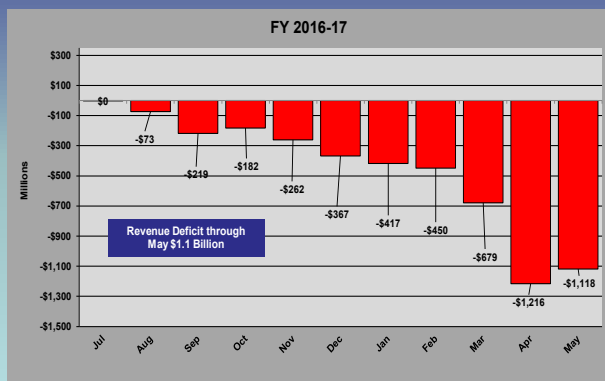


General Fund revenue collections for the month ended **May 2017** totaled **\$2.58 billion**, which was **\$98.5 million**, or **4%**, **above the monthly estimate**. Fiscal year-to-date collections total **\$28.4 billion**, which is **\$1.1 billion**, or **3.8%**, **below estimate for the year**.

As noted last month, due to an error when factoring in which month to include this year's corporate net income tax (CNIT) annual payments, April's collection appeared to be \$212 million less than expected, while May's collections appear to be \$142.3 million more than expected. Without that calculation error, May General Fund revenue collections would have been approximately \$111.5 million under estimate for the month and \$1.3 billion under estimate for the year-to-date.

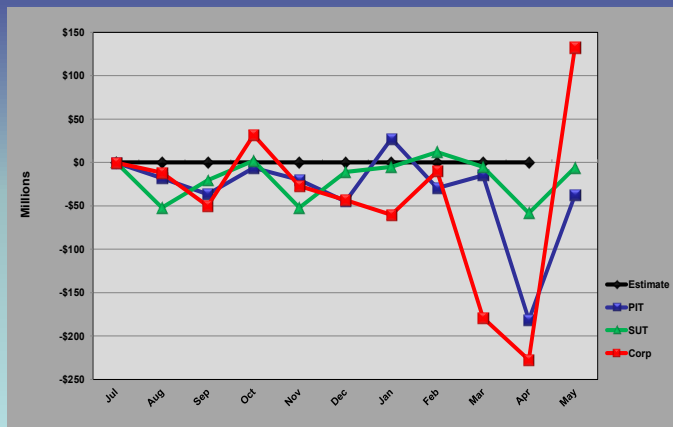
**In Thousands	May 2017 Actual	May 2017 Estimated	Over/under Estimate	Fiscal Year-to-Date Actual	Fiscal Year-to-Date Estimated	Over/Under Estimate
Corporation Taxes	\$230,541	\$98,100	\$132.4 million or 135.0%	\$4,165,337	\$4,610,300	\$445 million or 9.7%
Sales and Use Tax (SUT)	\$823,687	\$829,500	\$5.8 million or 0.7%	\$9,011,458	\$9,207,300	\$196 million or 2.1%
Personal Income Tax (PIT)	\$911,816	\$949,800	\$38 million or 4.0%	\$11,443,668	\$11,806,400	\$362.7 million or 3.1%
Cigarette Tax	\$107,791	\$116,900	\$9.1 million or 7.8%	\$1,142,244	\$1,192,800	\$51 million or 4.2%
Other Tobacco Products	\$9,262	\$7,300	\$2 million or 26.9%	\$73,500	\$54,900	\$18.6 million or 33.9%
Liquor Tax	\$29,845	\$32,100	\$2.3 million or 7.0%	\$332,157	\$343,100	\$11 million or 3.2%
Realty Transfer Tax (RTT)	\$46,849	\$46,900	\$50.4 thousand or 0.1%	\$424,174	\$492,000	\$67.8 million or 13.8%
Inheritance & Estate Tax	\$83,719	\$86,200	\$2.5 million or 2.9%	\$855,271	\$880,400	\$25.1 million or 2.9%
Non-Tax Revenues	\$325,124	\$286,700	\$38.4 million or 13.4%	\$878,846	\$884,900	\$6.1 million or 0.7%

**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**



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# General and Motor License Fund Revenue Detail

## Senate Appropriations Committee Monthly Revenue Report

(\$ thousands)

REVENUE SOURCES	YTD FY 2015-16	May 2017 Actual	May 2017 Estimated	Surplus/ (Deficit)	YTD Actual	YTD Estimated	Surplus/ (Deficit)
<b>TOTAL - GENERAL FUND</b>	<b>27,841,045</b>	<b>2,581,902</b>	<b>2,483,400</b>	<b>98,502</b>	<b>28,405,381</b>	<b>29,523,300</b>	<b>(1,117,919)</b>
<b>TOTAL - NON-TAX REVENUE</b>	<b>614,050</b>	<b>325,125</b>	<b>286,700</b>	<b>38,425</b>	<b>878,846</b>	<b>884,900</b>	<b>(6,054)</b>
<b>TOTAL - TAX REVENUE</b>	<b>27,226,996</b>	<b>2,256,778</b>	<b>2,196,700</b>	<b>60,078</b>	<b>27,526,535</b>	<b>28,638,400</b>	<b>(1,111,865)</b>
<b>TOTAL - Corporation Taxes</b>	<b>4,576,439</b>	<b>230,541</b>	<b>98,100</b>	<b>132,441</b>	<b>4,165,338</b>	<b>4,610,300</b>	<b>(444,962)</b>
Accelerated Deposits	1,487	(5,798)	0	(5,798)	2,312	0	2,312
Corp. Net Income	2,311,054	200,734	58,400	142,334	2,129,652	2,435,900	(306,248)
Cap. Stock & Franchise	147,911	1,367	1,200	167	33,916	14,600	19,316
Gross Receipts	1,293,724	(2,517)	4,500	(7,017)	1,207,562	1,280,300	(72,738)
PURTA	39,226	34,498	27,800	6,698	40,178	39,600	578
Insurance Premiums	452,464	1,500	4,300	(2,800)	435,082	477,600	(42,518)
Financial Institutions	327,001	758	1,900	(1,142)	316,636	362,300	(45,664)
Other Selective Bus. Taxes	3,572	\$0	\$0	\$0	\$0	\$0	\$0
<b>TOTAL - Consumption Taxes</b>	<b>10,049,608</b>	<b>972,637</b>	<b>987,800</b>	<b>(15,163)</b>	<b>10,581,446</b>	<b>10,820,100</b>	<b>(238,654)</b>
Sales and Use	8,876,975	823,687	829,500	(5,813)	9,011,459	9,207,300	(195,841)
General (net of transfers)	7,653,993	693,167	700,900	(7,733)	7,764,572	7,928,100	(163,528)
Motor Vehicle Sales	1,222,981	130,520	128,600	1,920	1,246,887	1,279,200	(32,313)
Cigarette Tax	829,734	107,791	116,900	(9,109)	1,142,245	1,192,800	(50,555)
Other Tobacco Products	0	9,263	7,300	1,963	73,501	54,900	18,601
Malt Beverage	22,671	2,050	2,000	50	22,084	22,000	84
Liquor	320,228	29,846	32,100	(2,254)	332,158	343,100	(10,942)
<b>TOTAL - Other Taxes</b>	<b>12,600,949</b>	<b>1,053,599</b>	<b>1,110,800</b>	<b>(57,201)</b>	<b>12,779,751</b>	<b>13,208,000</b>	<b>(428,249)</b>
Personal Income	11,246,582	911,817	949,800	(37,983)	11,443,668	11,806,400	(362,732)
Withholding	8,566,608	860,731	872,300	(11,569)	8,862,053	8,984,800	(122,747)
Non-Withholding	2,679,973	51,085	77,500	(26,415)	2,581,615	2,821,600	(239,985)
Realty Transfer	427,074	46,850	46,900	(50)	424,175	492,000	(67,825)
Inheritance & Estate	852,261	83,719	86,200	(2,481)	855,272	880,400	(25,128)
Minor & Repealed	(17,890)	1,377	18,600	(17,223)	(53,110)	(79,800)	26,690
Table Games	92,922	9,837	9,300	537	109,746	109,000	746
<b>TOTAL - MOTOR LICENSE FUND</b>	<b>2,412,311</b>	<b>265,434</b>	<b>269,530</b>	<b>(4,096)</b>	<b>2,501,262</b>	<b>2,506,040</b>	<b>(4,778)</b>
<b>TOTAL - Liquid Fuels Taxes</b>	<b>1,520,552</b>	<b>147,222</b>	<b>162,100</b>	<b>(14,878)</b>	<b>1,581,801</b>	<b>1,581,300</b>	<b>501</b>
Liquid Fuels	(851)	1	0	1	60	0	60
Fuels	38	0	0	0	0	0	0
Motor Carriers/IFTA	90,877	20,292	17,500	2,792	94,927	96,100	(1,173)
Alternative Fuels	8,603	1,102	1,000	102	10,012	10,000	12
Oil Company Franchise	1,421,885	125,828	143,600	(17,772)	1,476,803	1,475,200	1,603
<b>TOTAL - Licenses, Fees &amp; Other</b>	<b>891,759</b>	<b>118,212</b>	<b>107,430</b>	<b>10,782</b>	<b>919,461</b>	<b>924,740</b>	<b>(5,279)</b>
Licenses and Fees	861,367	118,543	105,900	12,643	899,263	899,700	(437)
Other Motor Receipts	30,392	(331)	1,530	(1,861)	20,198	25,040	(4,842)