



Pennsylvania Senate Appropriations Committee

Senator Pat Browne
Chairman



November 2017

Monthly Report

2017-18 Budget Completed Four Months into Fiscal Year as Revenues Keep Pace

The General Assembly and the Administration finalized the legislative pieces necessary to complete the fiscal year 2017-18 budget. The enacted legislation includes a Tax Code bill (Act 43 of 2017) that authorizes the securitization of up to \$1.5 billion in tobacco settlement payments to help close the one-time deficit carried over from fiscal year 2016-17. Despite having express authority to securitize a portion of the tobacco settlement payments, the Administration has been sending mixed signals by moving forward with a plan to sell a specified amount of monies derived from the Pennsylvania Liquor Control Board. The sale would generate upfront proceeds of approximately \$1.35 billion, including \$1.25 billion that would be transferred to the General Fund. In addition to the uncertainty of its borrowing plan, the Administration is contemplating raising significant revenue by applying new rules regarding the net operating loss deduction (NOL) retroactively to the 2017 tax year in light of the PA Supreme Court's decision in *Nextel*. Also, they have unveiled a plan to suspend tax credits that were set to take effect in FY 2017-18.

A gaming expansion bill is also part of the package, and it will provide much-needed revenue to support both the General Fund and Property Tax Relief Fund. The gaming legislation modernizes the Pennsylvania Lottery by allowing it to offer new and exciting games over various platforms, including the Internet and on-site monitored draw games.

Total General Fund revenue for October 2017 was \$2.18 billion, which was \$59.3 million, or 2.7%, less than General Fund revenue collected in October 2016. The Independent Fiscal Office's (IFO) monthly estimate for October projected General Fund revenue collections of \$2.21 billion, and so actual revenues were \$34.6 million less than the IFO estimate for the month. General Fund revenue collections for the fiscal year-to-date are \$9.108 billion. The IFO estimate projected collections of \$9.118 billion, and so General Fund revenues are \$10 million, or 0.1%, below the IFO estimate thus far this fiscal year.

Inside This Issue

Least Prepared States to Handle Recession.....	2
Performance-Based Budget Bill.....	2
Rainy Day Fund Balances.....	3
General Fund Revenue Summary.....	4
General Fund Revenue Detail.....	5

Senator Mensch's Performance-Based Budgeting Bill Becomes Law



Benefits of Performance Based Budgeting

~Article on Page 2~

Senate Appropriations Committee

281 Main Capitol Building
Harrisburg, PA 17120
Phone: 717-787-1349
Fax: 717-772-3458

Senator Browne's District Office

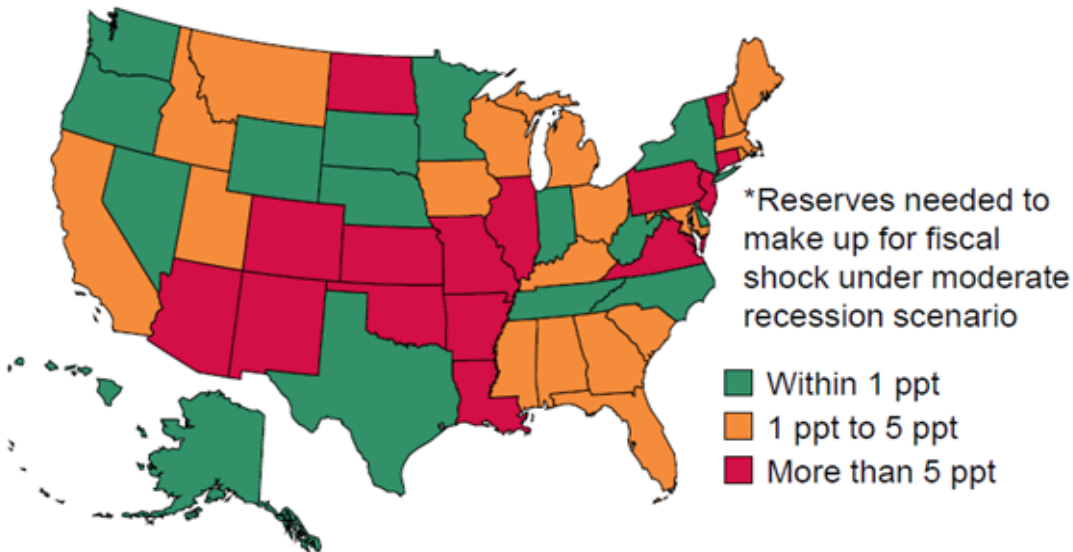
702 W. Hamilton Street, Suite 101
Allentown, PA 18101
Phone: 610-821-8468
Fax: 610-821-6798

Moody's Analytics Notes PA Among Least Prepared States to Handle a Recession

A recent report by Moody's Analytics rated Pennsylvania among the least prepared states in the nation to handle a recession as illustrated in Chart 11 below. The study assessed states' reserve levels, the potential for tax revenue shortfalls and increased needs for Medicaid spending that often occur during economic downturns. The report also noted that it has been more than eight years since the end of the last recession, which is the third longest expansion period recorded. If we were to enter a recession in the near term, Pennsylvania would again face very significant financial challenges since the state has effectively no reserves.

Chart 11: Most States Are Relatively Prepared

Difference between actual reserves and necessary* reserves:



Sources: NASBO, Moody's Analytics

Please note, "ppt" refers to percentage. In a moderate scenario Pennsylvania is approximately 9% short of the reserves needed to weather a recession.

The full report can be viewed by accessing the link below. The Rainy Day Fund chart on the following page will provide additional information on how Pennsylvania's reserve balance compares to those of other states.

<https://www.economy.com/getlocal?q=91a42834-85af-4773-b408-5da811028c00&app=eccafire>

Senator Mensch's Performance-Based Budgeting Bill Becomes Law

Senate Bill 181 (Act 48 of 2017) was signed into law on October 30, 2017. The landmark legislation requires the Governor's Budget Office and the Independent Fiscal Office (IFO) to establish a schedule of performance-based budget reviews for all agencies at least once every five years. The reviews will include the following:

- Detailed descriptions of all agency line item appropriations and programs.
- Descriptive information and data related to existing performance measures for appropriations and programs.
- An agency mission statement and goals and objectives for the budget year and successive planning years.
- Any other information as the IFO may require.

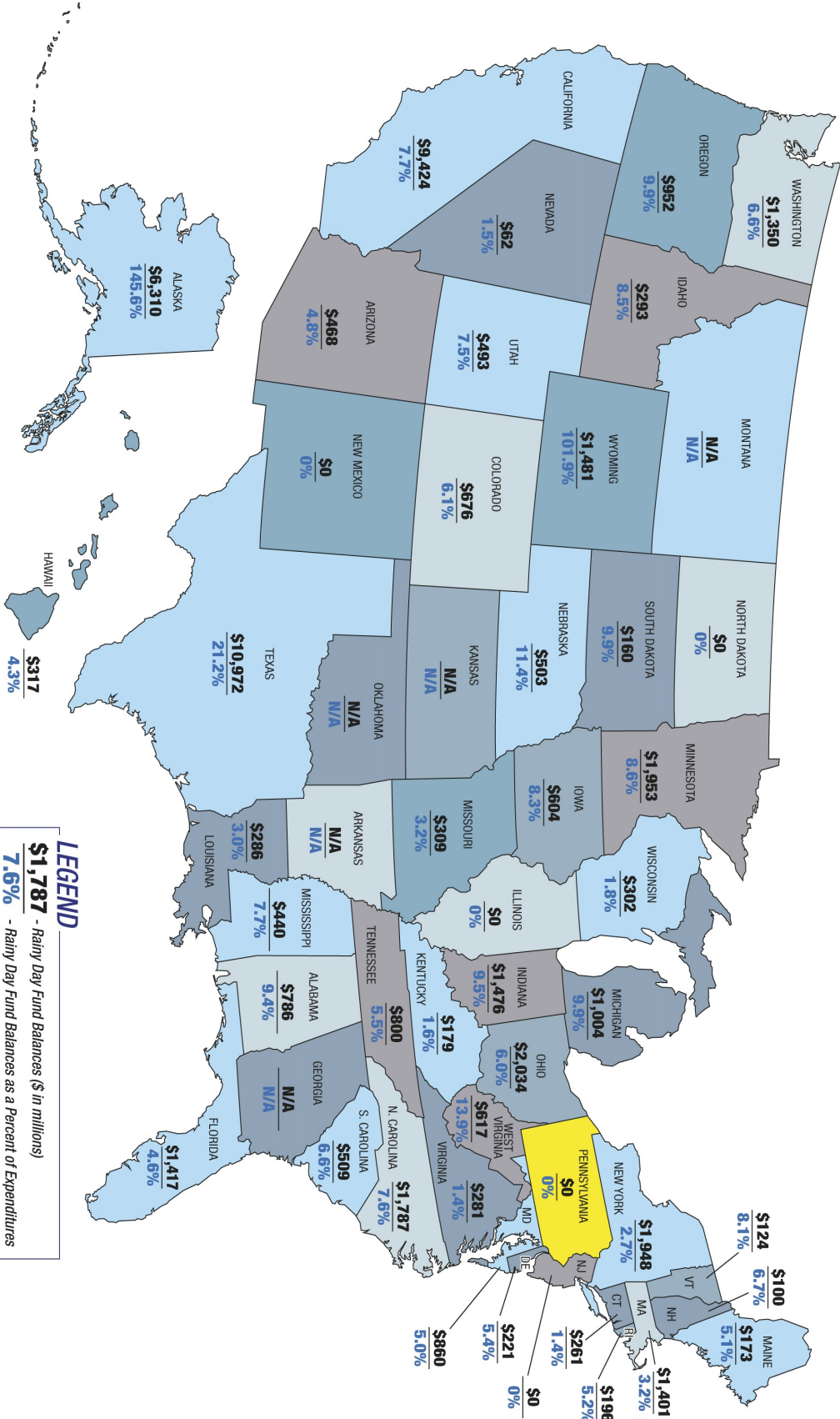
The new law also establishes an independent Performance-Based Budget Board to review the budget plans developed by the IFO and to make recommendations on how each agency's operations and programs may be made more transparent, effective and efficient.

Performance reviews will also be required for all state tax credit programs.

Rainy Day Fund Balances and Rainy Day Fund Balances as a Percentage of Expenditures

(Fiscal Year 2018)

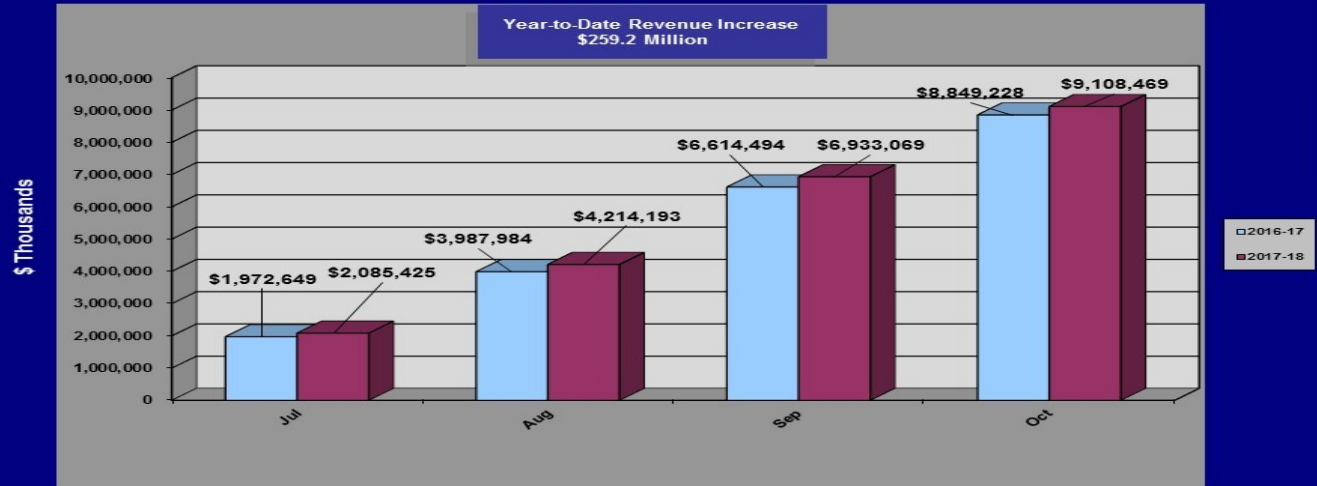
The national median value of state Rainy Day Fund balances is 6% of annual spending. Pennsylvania's balance is only \$475,000. If Pennsylvania had a 6% balance, we would have nearly \$2 billion set aside in the event of an economic downturn.



LEGEND
\$1,787 - Rainy Day Fund Balances (\$ in millions)
7.6% - Rainy Day Fund Balances as a Percent of Expenditures

Source: National Association of State Budget Officers. The Fiscal Survey of States, Spring 2017

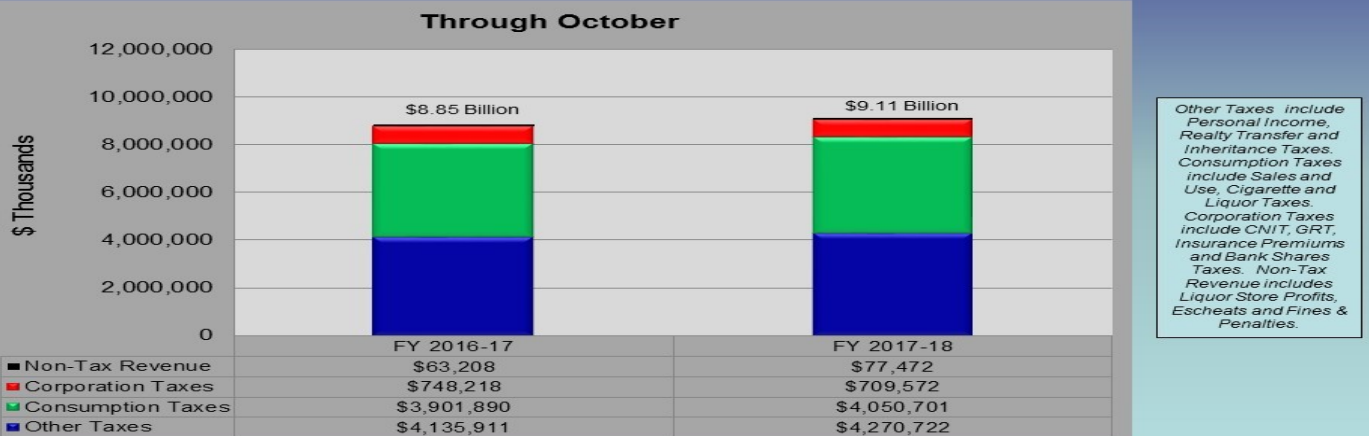
General Fund Revenue Collections
Fiscal Year 2017-18
Revenue Comparison with Last Year



Oil and Gas Lease Fund
Year-to-Date Revenue Compared with Prior Year



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



Fiscal Year 2017-18

Senate Appropriations Committee

Monthly Revenue Report

(\$ thousands)

REVENUE SOURCES	October 2017 Actual	October 2016 Actual	% Change vs. Prior Year	YTD Actual	Prior YTD Actual	% Change vs. Prior Year
TOTAL - GENERAL FUND	2,175,400	2,234,733	-2.7%	9,108,469	8,849,228	2.9%
TOTAL - NON-TAX REVENUE	15,752	4,171	277.6%	77,472	63,208	22.6%
TOTAL - TAX REVENUE	2,159,648	2,230,562	-3.2%	9,030,996	8,786,019	2.8%
TOTAL - Corporation Taxes	92,382	182,359	-49.3%	709,572	748,218	-5.2%
Accelerated Deposits	(21)	(334)	93.7%	(39)	829	-104.7%
Corp. Net Income	85,943	166,031	-48.2%	673,086	695,200	-3.2%
Gross Receipts	5,572	16,859	-66.9%	8,936	34,525	-74.1%
PURTA	52	95	-45.2%	1,147	2,289	-49.9%
Insurance Premiums	402	(441)	191.1%	10,286	2,849	261.0%
Financial Institutions	433	150	188.9%	16,156	12,526	29.0%
TOTAL - Consumption Taxes	1,025,921	1,036,133	-1.0%	4,050,701	3,901,890	3.8%
Sales and Use	881,511	871,855	1.1%	3,472,673	3,366,411	3.2%
General (net of transfers)	761,497	760,713	0.1%	2,997,963	2,897,290	3.5%
Motor Vehicle Sales	120,014	111,142	8.0%	474,710	469,122	1.2%
Cigarette Tax	103,410	134,967	-23.4%	412,806	414,718	-0.5%
Other Tobacco Products	9,664	314	2977.7%	39,475	337	11611.0%
Malt Beverage	1,878	2,091	-10.2%	8,798	9,077	-3.1%
Liquor	29,459	26,906	9.5%	116,950	111,347	5.0%
TOTAL - Other Taxes	1,041,345	1,012,070	2.9%	4,270,722	4,135,911	3.3%
Personal Income	906,664	874,117	3.7%	3,743,222	3,605,686	3.8%
Withholding	773,387	750,659	3.0%	3,152,490	3,028,895	4.1%
Non-Withholding	133,277	123,457	8.0%	590,732	576,792	2.4%
Realty Transfer	46,246	41,858	10.5%	176,337	161,546	9.2%
Inheritance & Estate	82,933	76,319	8.7%	316,636	299,875	5.6%
Minor & Repealed	(3,665)	10,944	-133.5%	(5,445)	30,382	-117.9%
Table Games	9,168	8,832	3.8%	39,972	38,422	4.0%