



Pennsylvania Senate Appropriations Committee

Senator Pat Browne
Chairman



February 2018

Monthly Report

Revenue Collections Remain Steady in New Year

General Fund revenue collections for the month ended January 2018 totaled \$3.1 billion, which was \$93.8 million, or 3.1%, above estimate. Fiscal year-to-date collections total \$17.4 billion, which is \$89.7 million, or 0.5%, above estimate. Of the \$93.8 million monthly overage, \$68 million was attributable to one-time, non-tax revenue sources.

Total General Fund revenues for FY 2017-18 are \$1.27 billion, or 7.9%, more than last fiscal year at this time. Of the \$1.27 billion, tax revenues are \$947 million, or 6%, ahead of last year, and non-tax revenues are \$324 million, or 146.8%, above last year, mostly because of one-time revenue sources such as gaming license fees and transfers from special funds.

Corporation tax collections were above estimate by \$31.7 million, or 29.3%, for the month. However, corporation tax collections are \$24.1 million, or 1.6%, short of estimate for the year-to-date.

Sales and Use Tax (SUT) collections were below estimate by \$45.4 million, or 4.7%, for the month. January's general SUT collections are the highest of the fiscal year because the taxes collected in December, during the peak of the holiday shopping season, are remitted in January. General SUT was \$32.9 million, or 3.9%, below estimate. SUT on motor vehicles was \$12.5 million, or 10.3%, short of estimate for the month. SUT collections are \$6 million, or 0.1%, below estimate for the fiscal year-to-date.

Personal Income Tax (PIT) collections were above estimate by \$52.8 million, or 3.5%, for the month. PIT from employers' withholding missed the estimate by \$3.7 million, or 0.4%, for the month. Quarterly estimated PIT collections were \$64.9 million, or 13.5%, ahead of estimate for January. Payments on annual tax returns were \$8.4 million under estimate for the month. Total PIT collections are \$133.1 million above estimate for the year, which is 1.9% ahead of estimate. PIT collections are running 8.6% ahead of last year at this time.

Cigarette tax collections were \$11.3 million, or 15.4%, below estimate for the month and are \$16.6 million, or 2.3%, short of estimate for the year. Other tobacco products tax collections were \$699,247, or 7.2%, below estimate for the month. Liquor tax collections missed the estimate by \$842,760, or 3.2%, for January. Table games tax revenue was \$145,456 above estimate for the month.

~Continued~

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Revenue Collections Remain Steady in New Year, Continued.....

Realty Transfer Tax (RTT) collections beat the estimate by \$2.4 million, or 5.9%, for the month. RTT is now \$1.2 million, or 0.4%, above estimate for the year. Inheritance tax collections were \$5.3 million, or 6.2%, below estimate for the month, and they are \$9.6 million, or 1.7%, below estimate for the year.

Non-tax revenue collections totaled \$293.3 million, which was \$68 million, or 30.2%, above estimate. The non-tax revenue is mainly attributable to Category 4 gaming license auction fees of approximately \$90 million and special fund transfers of nearly \$200 million, including revenue from the Farm Show lease/leaseback transaction.

Motor License Fund collections were \$9.4 million, or 4.4%, below estimate for the month of January. The Motor License Fund is \$32.2 million, or 1.9%, above estimate for the year.

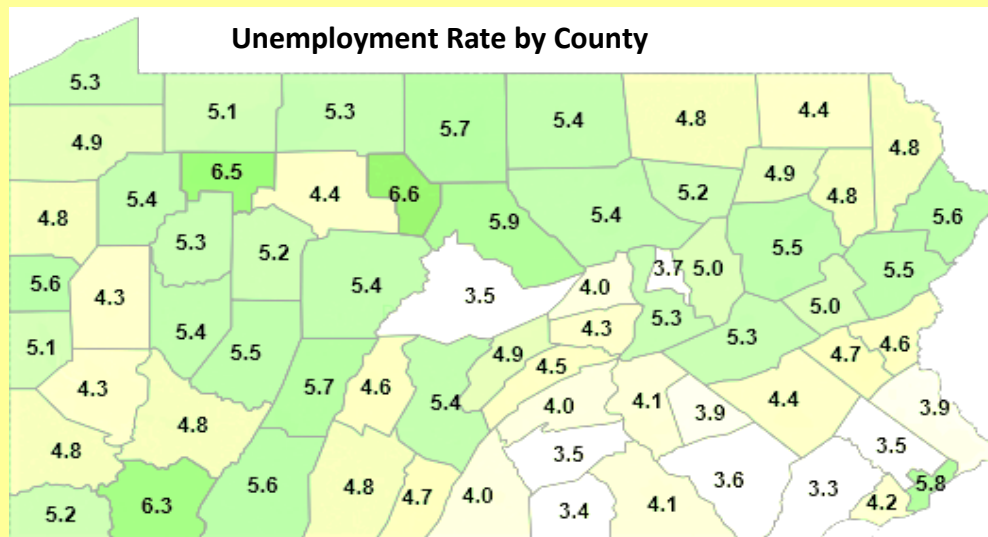
Employment, Wage Growth and the Personal Income Tax

The United States and Pennsylvania are experiencing an extended run of low unemployment not seen in recent memory. Having gone through a period after the great recession where the unemployment rate in Pennsylvania hovered above 7% for almost 3 years, being at or below 5% since the beginning of 2017 is a welcome sign for citizens and public officials alike. Those of us who work closely with the Commonwealth's budget will also be watching to see if this produces growth in our state revenues, specifically regarding the Personal Income Tax.

The number of Pennsylvanians employed since 2012 has increased by more than 150,000. In a recent article published in the Wall Street Journal, a survey of economists showed that about 90% believed the US is at, or close to, full employment. A common misconception is that full employment means everyone who wants a job has a job. Full employment, as used by economists, is described as the point where unemployment cannot go any lower without generating price and wage pressures.

Economics tells us that supply and demand determine the price of a commodity, including labor. When available labor reaches a point of scarcity, employers will be forced to offer a higher price (wages or benefits) to attract the required labor. Another recent Wall Street Journal article spoke to the tightest labor markets in the US showing signs of this happening.

While it is difficult to tell if Pennsylvania is approaching this point as a state, the most recent data shows that nine counties have unemployment rates below 4%, and 27 other counties are below 5% unemployment. In the Independent Fiscal Office's most recent 5-Year Outlook, their projections show increases in wage growth year over year, compared to the recent past. These extended periods of low unemployment, the increase in demand for labor, and subsequent driving up of wages are all positives for our state and economy, and we hope to see those positives reflected in our future Personal Income Tax revenues.



Governor Wolf Proposed Budget FY 2018-19

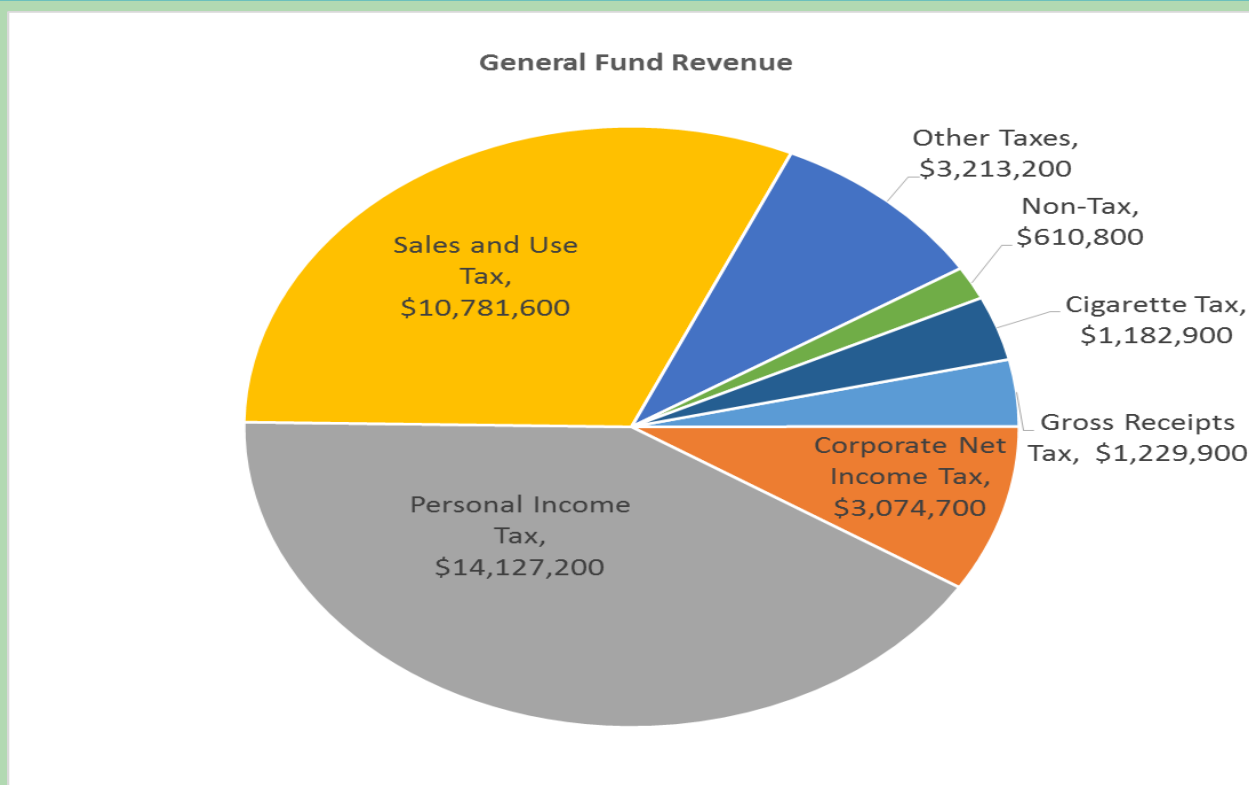
On February 6th, Governor Wolf unveiled his 2018-19 budget with a \$33.2 billion spending plan, which is an increase of \$1.2 billion, or 3.7%, from last year's budget. Approximately \$300 million of the \$33.2 billion is allocated to fund new or expanded initiatives proposed by the Wolf Administration.

Once again, Governor Wolf's budget includes a severance tax on natural gas drilling which is projected to generate \$248.7 million in 2018-19. The budget also proposes to institute mandatory combined reporting (effective January 2019) and to begin a phase-down in the Corporate Net Income Tax rate to 7.99% by 2023. Re-introduced again this year, the Governor is recommending a fee of \$25 per person be charged to municipalities reliant on State Police coverage if they do not have a full-time police force. This is projected to raise \$63 million for the State Police budget. Additionally, Governor Wolf is proposing an increase of the minimum wage to \$12 per hour. This proposal assumes a savings of \$101 million could be realized for the Commonwealth due to increased earnings from the direct care and child care workforce.

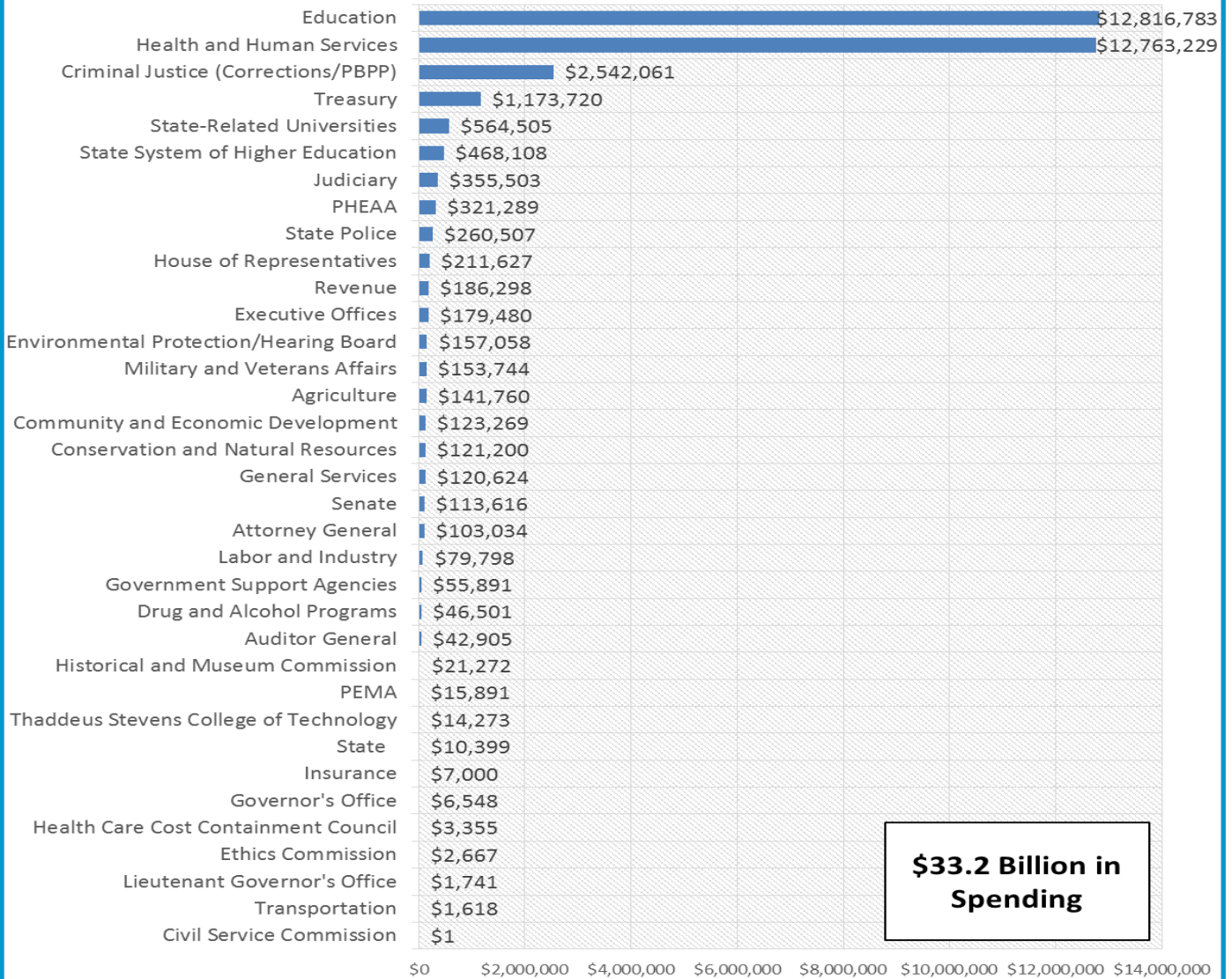
As part of his budget, Governor Wolf is again proposing the merger of the departments of Health and Human Services into a consolidated Department of Health and Human Services. Unlike last year's proposal, no programmatic savings from the merger are assumed in the budget.

The revenue changes adopted as part of last year's budget appear to have stabilized the Commonwealth's General Fund budget as revenues are \$90 million above projected estimates through January. While this is a positive step for Pennsylvania, it is crucial that spending levels be brought in line with the rate of revenue growth as to avoid the cycle of budget deficits that have plagued the state for years. The average rate of appropriations growth over the past 10 years has been 1.2%; Governor Wolf has proposed a 3.7% increase in spending for the 2018-19 budget.

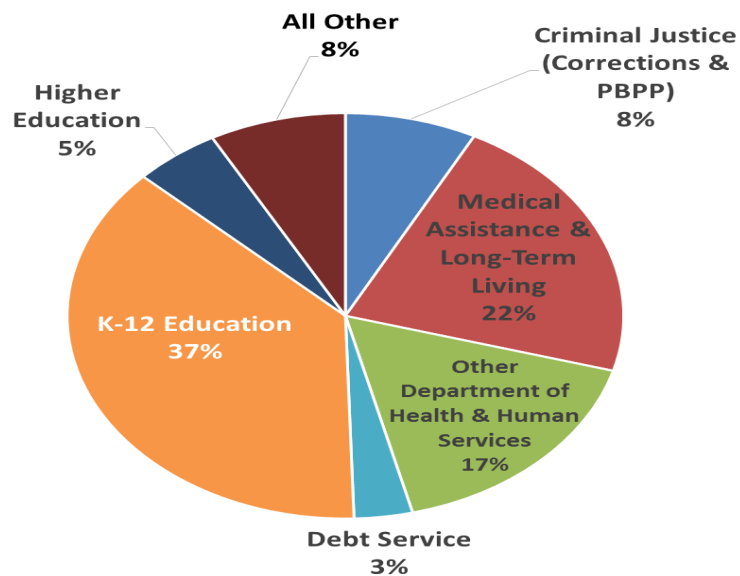
In the coming weeks, the Senate Appropriations Committee will be holding a series of hearings to gain greater insight into Governor Wolf's budget proposal from department and row office officials. The complete hearing schedule and other budget materials can be found on the committee's website: <http://appropriations.pasenategop.com/>.



General Fund Spending by Department *amounts in thousands*



\$33.2 Billion of General Fund Spending



Fiscal Year 2017-18

Senate Appropriations Committee

Monthly Revenue Report

(\$ thousands)

REVENUE SOURCES	YTD FY 2016-17	January 2018 Actual	January 2018 Estimated	Surplus/ (Deficit)	YTD Actual	YTD Estimated	Surplus/ (Deficit)
TOTAL - GENERAL FUND	16,097,396	3,137,152	3,043,400	93,752	17,367,783	17,278,100	89,683
TOTAL - NON-TAX REVENUE	220,426	293,335	225,300	68,035	544,062	542,600	1,462
TOTAL - TAX REVENUE	15,876,970	2,843,817	2,818,100	25,717	16,823,721	16,735,500	88,221
TOTAL - Corporation Taxes	1,378,364	139,895	108,200	31,695	1,440,724	1,464,800	(24,076)
Accelerated Deposits	1,874	1,931	0	1,931	2,382	0	2,382
Corp. Net Income	1,243,434	103,645	79,500	24,145	1,323,673	1,371,800	(48,127)
Cap. Stock & Franchise	33,009	0	0	0	0	0	0
Gross Receipts	43,068	2,462	13,500	(11,038)	39,792	38,000	1,792
PURTA	2,314	1	100	(99)	1,503	1,300	203
Insurance Premiums	32,925	31,236	14,200	17,036	48,238	26,400	21,838
Financial Institutions	21,740	619	900	(281)	25,135	27,300	(2,165)
TOTAL - Consumption Taxes	6,890,514	\$1,019,080	\$1,077,400	-\$58,320	\$7,135,232	\$7,165,000	-\$29,768
Sales and Use	5,894,242	920,417	965,800	(45,383)	6,125,387	6,131,400	(6,013)
General (net of transfers)	5,101,748	811,916	844,800	(32,884)	5,325,671	5,318,900	6,771
Motor Vehicle Sales	792,494	108,501	121,000	(12,499)	799,716	812,500	(12,784)
Cigarette Tax	727,836	62,555	73,900	(11,345)	704,034	720,600	(16,566)
Other Tobacco Products	35,500	9,001	9,700	(699)	68,799	69,500	(701)
Malt Beverage	14,676	1,749	1,800	(51)	14,468	14,400	68
Liquor	218,259	25,357	26,200	(843)	222,544	229,100	(6,556)
TOTAL - Other Taxes	7,608,092	1,684,842	1,632,500	52,342	8,247,765	8,105,700	142,065
Personal Income	6,723,331	1,548,612	1,495,800	52,812	7,304,014	7,170,900	133,114
Withholding	5,495,701	981,531	985,200	(3,669)	5,847,753	5,836,000	11,753
Non-Withholding	1,227,630	567,081	510,600	56,481	1,456,261	1,334,900	121,361
Realty Transfer	281,943	42,150	39,800	2,350	306,660	305,500	1,160
Inheritance & Estate	530,105	80,868	86,200	(5,332)	558,073	567,700	(9,627)
Minor & Repealed	4,324	3,766	1,400	2,366	9,188	(8,500)	17,688
Table Games (Gaming)	68,388	9,445	9,300	145	69,829	70,100	(271)
TOTAL - MOTOR LICENSE FUND	1,494,703	203,559	213,000	(9,441)	1,693,523	1,661,330	32,193
TOTAL - Liquid Fuels Taxes	988,504	117,132	152,700	(35,568)	1,105,719	1,105,000	719
Liquid Fuels	57	2	0	2	5	0	5
Fuels	0	0	0	0	0	0	0
Motor Carriers/IFTA	51,082	1,073	3,900	(2,827)	68,407	64,500	3,907
Alternative Fuels	5,939	1,283	1,000	283	8,319	7,600	719
Oil Company Franchise	931,427	114,774	147,800	(33,026)	1,028,988	1,032,900	(3,912)
TOTAL - Licenses, Fees & Other	506,200	86,426	60,300	26,126	587,804	556,330	31,474
Licenses and Fees	498,543	84,881	61,900	22,981	546,549	513,600	32,949
Other Motor Receipts	7,657	1,545	(1,600)	3,145	41,255	42,730	(1,475)