



## Senate Appropriations Committee

# The Monthly Report

October 2015

Pat Browne, Chairman



## Total General Fund Revenue for September 2015 was \$2.73 billion

Once again, the Monthly Report compares September's revenue collections against prior year collections because an Official Revenue Estimate has not been certified by the Budget Secretary. The lack of an official revenue estimate is a direct result of the Governor's vetoes of the General Appropriation and the Stop-Gap Appropriation bills enacted by the General Assembly in June and September.

Total General Fund revenue for September 2015 was \$2.73 billion, which was \$156.2 million, or 6.1%, higher than General Fund revenue collected in September 2014. However, September 2015 included five Wednesdays, which are large Personal Income Tax (PIT) collections days, and September 2014 had only four Wednesdays in the month. For purposes of comparison, September 2015 revenue collections include an "extra" \$100 million relative to September 2014. Absent this mismatch in the number of large PIT collections days, September 2015 revenue collections would have been about \$50 million, or 1.9%, higher than September 2014. This same issue has an effect on the fiscal year-to-date revenue collections comparison between the first quarter of 2015 and the first quarter of 2014. The period from July 2015 through September 2015 included 14 large PIT collection days (i.e. Wednesdays), but the period from July 2014 through September 2014 included only 13 Wednesdays.

For the fiscal year-to-date, total General Fund revenue is 1.8% higher than FY 2014-15. Fiscal Year 2014-15 included over \$200 million of special fund transfers made in July 2014 that did not occur in this fiscal year. This

has the effect of boosting last year's revenues when compared with this year's. Excluding these transfers and other non-tax revenues in the comparison shows that tax revenue collections in FY 2015-16 are 5.1% more than last year. However, after accounting for the aforementioned mismatch in the number of Wednesdays during the first quarter of the fiscal years, FY 2015-16 tax revenue collections would have been nearly 3.5% ahead of last year through the first quarter of the fiscal year.

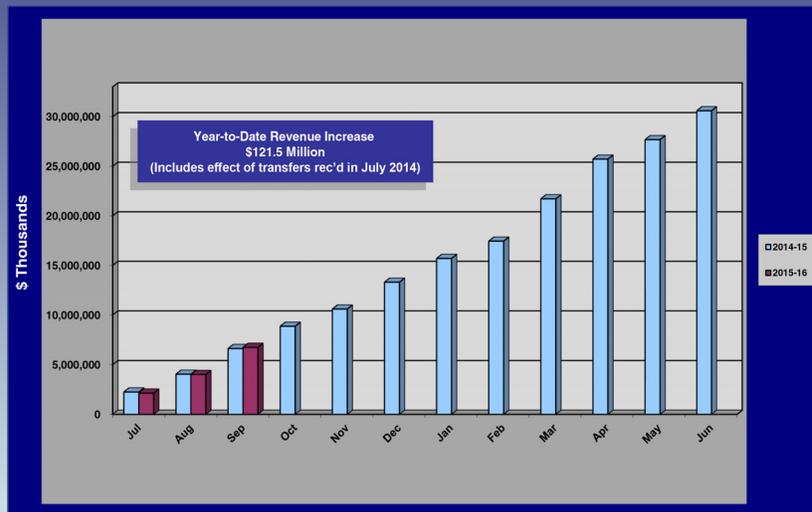
The Independent Fiscal Office (IFO) recently released the quarterly distribution of its FY 2015-16 estimate. Through the first quarter of the fiscal year, the IFO had anticipated total General Fund revenue collections of \$6.662 billion. Actual General Fund revenue collections through

September are \$6.736 billion, or \$74 million more than expected in the IFO quarterly distribution. Therefore, with one full quarter of the current fiscal year on the books, General Fund revenue collections appear to be on track to meet expectations.

September 2015 corporation tax collections were \$22 million, or 4.1%, below last year. September is an estimated quarterly payment month for corporate tax collections, and 2015 estimated quarterly Corporate Net Income Tax (CNI) payments were 10.7% below 2014 payments. Similar payments related to the 2015 tax year will be due again in December, and so the relative weakness in this source of revenue could materialize again later in the fiscal year. Corporate Net Income Tax collections received from

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### General Fund Revenue Collections Fiscal Year 2015-2016 Revenue Comparison with Last Year



Senate Appropriations Committee, Pat Browne, Chairman



annual tax payments (mostly due from the 2014 tax year) were \$30.4 million, or 39.9%, more than September 2014, but these annual tax payments are less significant on the future performance of CNI collections during the remainder of the fiscal year.

Sales and Use Tax (SUT) collections were \$5.7 million, or 0.7%, ahead of last September, which is a slowdown compared with collections received in July and August. General SUT grew by \$5.6 million, or 0.9%, over last September, while SUT on motor vehicles was \$175,000, or 0.1%, more than September 2014. Sales and Use Tax collections so far during FY 2015-16 are 2.5% ahead of last year at this time. However, the IFO's FY 2015-16 revenue estimate calls for SUT growth of 3.5% over the entire fiscal year. Therefore, after the first quarter of the fiscal year, SUT collections are slightly off pace as compared with the IFO revenue estimate. Because Sales and Use Tax collections make up approximately 32% of all General Fund revenue collections, a small difference in SUT revenue growth has more overall impact on revenue collections

than larger differences in other tax types such as Corporate Net Income Tax, which makes up only about 9% of General Fund revenues.

Personal Income Tax (PIT) collections, which make up the largest source of General Fund revenue at approximately 41% of the total, were \$162.8 million, or 16.0%, ahead of last year. After accounting for the fifth Wednesday, PIT withholding would have been about 2.9% higher than last year instead of 17.8% higher. Non-withheld PIT received from estimated quarterly payments was a strong \$37.2 million, or 11.4%, higher than September 2014. Total PIT collections during FY 2015-16 are approximately 5.3% higher after adjusting for the number of collection days. The IFO revenue estimate forecasted PIT revenue growth at 4.8% for FY 2015-16. Therefore, PIT collections thus far this fiscal year are running just ahead of the IFO forecast.

Combined, Personal Income Tax and Sales and Use Tax collections typically make up almost three-quarters of total General Fund revenue. Through September 2015, combined PIT and SUT collections are \$14 mil-

lion higher than the forecasted collections included in the IFO's quarterly distribution of its revenue estimate. After the first quarter of collections, General Fund revenue appears to be on track to meet the IFO forecast, but it is important to note that the combined PIT and SUT amounts are just slightly ahead of projections.

Realty Transfer Tax (RTT) collections for September were just about equal to last year's, but RTT is \$23.1 million, or 20.4%, higher than last year through the first quarter, Inheritance Tax is \$15.4 million, or 7.3%, more than last year, and Table Games Tax is \$1.7 million, or 7.6%, higher than last year through the month of September. Cigarette Tax and Liquor Tax are just about on pace with the IFO's quarterly distribution. Capital Stock and Franchise Tax collections are 29.9% below last year at this time, which is expected because of the continued phase-out of the tax. The CSFT rate will be zero for taxable years beginning in 2016.

Motor License Fund collections are \$26.6 million, or 4.1%, ahead of last year at this time.

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## Governor Vetoes Budget

The General Assembly has acted upon and sent to the Governor two budgets for Fiscal Year 2015-16. The first, House Bill 1192, was a balanced, full-year budget that provided increased investments in education and other vital program areas without increasing taxes. The Governor vetoed House Bill 1192 in its entirety within hours of it reaching his desk. The total veto of a general appropriation act is unprecedented, and, prior to the Governor's veto of June 30, 2015, had

not occurred for more than 40 years. The justification for the veto was essentially that House Bill 1192 and its companion legislation did not provide funding at the levels requested by the Governor and did not enact a massive tax increase to support the Governor's requested funding.

The Governor's veto left the Commonwealth without a spending plan and unable to make payments to school districts, colleges and universities, local governments, human service providers and vendors doing

business with the Commonwealth. Payments owed to school districts are currently estimated to exceed \$1.7 billion.

The General Assembly, recognizing the severity and hardship resulting from a prolonged budget impasse, in September, took the responsible step of approving a four-month emergency budget to provide temporary relief to the aforementioned entities and organizations while budget negotiations continue.

Senate Bill 1000 provided \$11.2

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billion in General Fund appropriations (including \$1.87 billion for the Basic Education Subsidy), \$24 billion in Federal spending authority and full funding for special fund appropriations. This legislation would have provided immediate authority to Commonwealth agencies to make payments that are in arrears through the first quarter of the fiscal year, thus providing much needed fiscal and cash flow relief to our providers. On September 29th, the Governor vetoed Senate Bill 1000 for the reasons cited in his earlier veto of House Bill 1192.

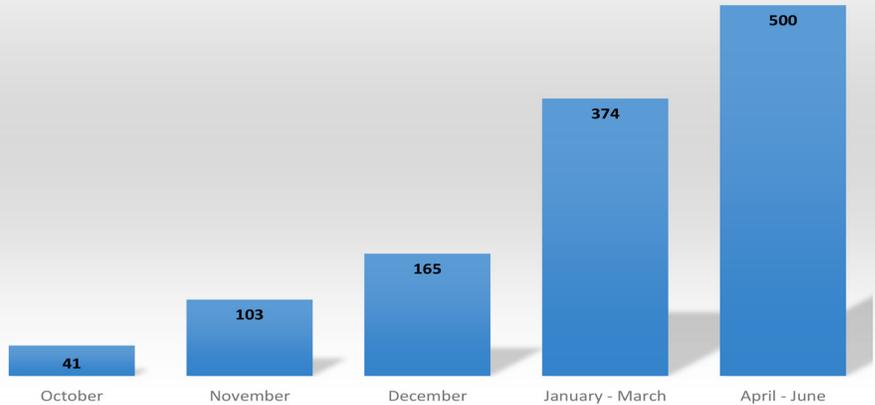
The Governor's prolonging of the budget impasse will have significant consequences. Schools will experience increasing cash flow difficulties and many will be forced to borrow money to support operations. Those that cannot obtain commercial loans, may be forced to close. Similarly, service providers may have to borrow funds, furlough workers or curtail services.

On the very day that the Governor vetoed Senate Bill 1000, Auditor General Eugene DePasquale released a report indicating that 17 school districts and two intermediate units had to date borrowed more than \$346 million to meet expenses and keep classrooms open. The Auditor General indicated that interest and fees on the borrowed education dollars could reach \$11.2 million.

All of these actions could have been avoided had the Governor affixed his signature to Senate Bill 1000. His approval of limited emergency funding would have enabled our schools and social service programs to continue operations while discussions toward a final budget agreement continue.

The graphics to the right illustrate the timing of cash flow difficulties that are anticipated to be experienced by school districts and profiles for certain school districts that are representative of urban, suburban and rural school districts.

School Districts Experiencing Cash Flow Difficulty Due to the Governor's Two Budget Vetoes



### Erie City SD Budget

**URBAN**

State/Federal	65%
Local/Other	35%

### Fiscal Stress Indicator - Extreme Cash Flow Difficulty - September

**Stopgap Budget**  
Stopgap Budget Funding - \$28,639,262

**School District Budget**  
Total Expenditures - \$175,207,627  
Funds Available - \$48,484,927  
Monthly Spending - \$14,600,636

**School District Characteristics**  
Students - 13,577  
Median Household Income - \$33,049  
Students in Poverty - 8,320 (61.3%)  
English Language Learners - 1,102 (8.1%)  
Charter School Students - 1,928 (14.2%)

### Ferndale Area SD Budget

**RURAL**

State/Federal	77%
Local/Other	23%

### Fiscal Stress Indicator - High Cash Flow Difficulty - October

**Stopgap Budget**  
Stopgap Budget Funding - \$2,469,010

**School District Budget**  
Total Expenditures - \$10,311,245  
Funds Available - \$3,519,401  
Monthly Spending - \$859,270

**School District Characteristics**  
Students - 729  
Median household Income - \$38,317  
Students in Poverty - 334 (45.8%)  
English Language Learners - 5 (0.7%)  
Charter School Students - 18 (2.5%)

### Central Dauphin SD Budget

**SUBURBAN**

State/Federal	22%
Local/Other	78%

### Fiscal Stress Indicator - Low Cash Flow Difficulty - April

**Stopgap Budget**  
Stopgap Budget Funding - \$12,197,621

**School District Budget**  
Total Expenditures - \$185,933,150  
Funds Available - \$152,547,871  
Monthly Spending - \$15,494,429

**School District Characteristics**  
Students - 11,776  
Median Household Income - \$63,820  
Students in Poverty - 3,048 (25.9%)  
English Language Learners - 434 (3.7%)  
Charter School Students - 445 (3.8%)



## Debunking the “Junk Bond” Myth

Governor Wolf’s September 30, 2015 comments on KQV radio that Republican fiscal policies over the past four years are causing the Commonwealth’s bond ratings to accelerate toward “junk bond” status are completely unfounded.

The Commonwealth’s current bond ratings from the major rating agencies are considered “high grade, investment grade” per the Official Statement for the Wolf Administration’s May 27, 2015 \$1.2 billion borrowing.

### Current Commonwealth Bond Ratings

Commonwealth of Pennsylvania Official Statement  
General Obligation Bonds - Second Series of 2015  
May 27, 2015

	Moody's	S&P	Fitch	
Investment Grade	Aaa	AAA	AAA	Prime
	Aa1	AA+	AA+	High Grade
	Aa2	AA	AA	
	Aa3	AA-	AA-	
	A1	A+	A+	Upper Medium Grade
	A2	A	A	
	A3	A-	A-	
	Baa1	BBB+	BBB+	Lower Medium Grade
	Baa2	BBB	BBB	
Baa3	BBB-	BBB-		
Junk	Ba1	BB+	BB+	Non Investment Grade Speculative
	Ba2	BB	BB	
	Ba3	BB-	BB-	
	B1	B+	B+	Highly Speculative
	B2	B	B	
	B3	B-	B-	
	Caa1	CCC+	CCC+	Substantial Risks
	Caa2	CCC	CCC	Extremely Speculative
	Caa3	CCC-	CCC-	In Default with Little Prospect for Recovery
Ca	CC	CC+		
	C	CC	In Default	
D	D	D		

NEW ISSUE – BOOK-ENTRY ONLY

Underlying Ratings:  
Fitch: AA-  
Moody's: Aa3  
Standard & Poor's: AA-

AGM (Insured Bonds):  
Kroll: AA+  
Moody's: A2  
Standard & Poor's: AA  
(See "Ratings" herein)

*In the opinion of Bond Counsel, interest on the Bonds (as defined herein) is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions, subject to the condition described in "TAX EXEMPTION AND OTHER TAX MATTERS" herein. Interest on the Bonds is not treated as an item of tax preference under Section 57 of the Internal Revenue Code of 1986, as amended (the "Code") for purposes of the individual and corporate alternative minimum taxes. However, under the Code, such interest may be subject to certain other taxes affecting corporate holders of the Bonds. Under the existing laws of the Commonwealth of Pennsylvania, interest on the Bonds will be free from Pennsylvania personal income taxation and Pennsylvania corporate net income taxation but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the Bonds or the interest thereon. For a more complete discussion, see "TAX EXEMPTION AND OTHER TAX MATTERS" herein.*



\$1,242,425,000

Commonwealth of Pennsylvania

General Obligation Bonds

\$460,000,000 Second Series of 2015

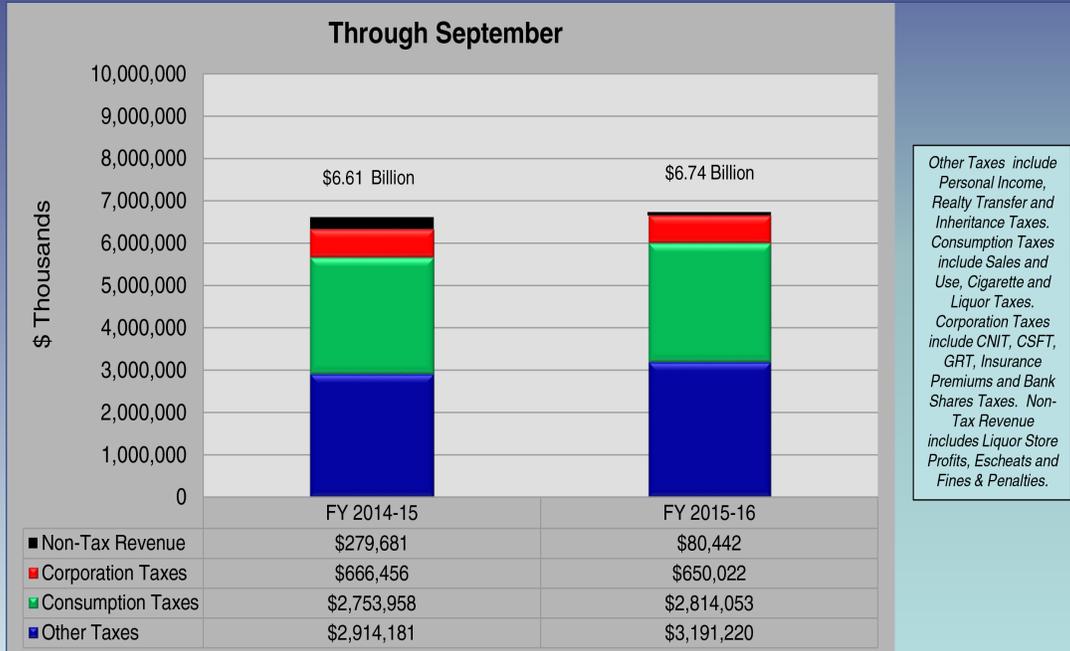
\$782,425,000 First Refunding Series of 2015

The Commonwealth's current bond ratings issued by the three major rating agencies are considered High Grade Investment Grade and are the fourth highest ratings possible under the industry ratings schedules.

The chart above clearly indicates that the Commonwealth's bond ratings are not approaching "junk bond" status as was indicated by Governor Wolf in his recent comments on KQV radio.

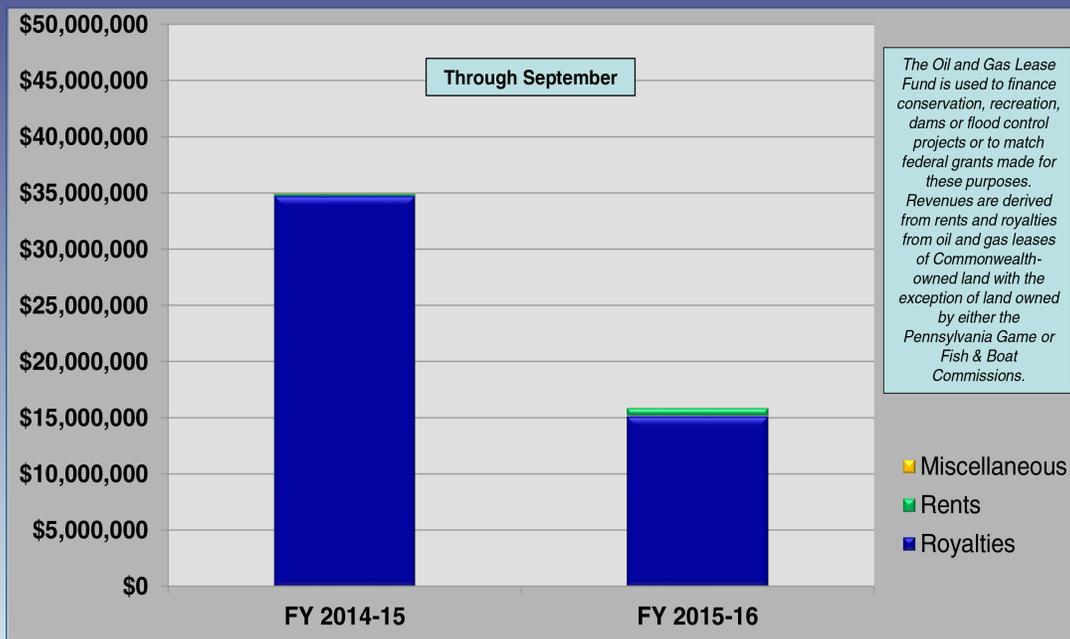


## General Fund Year-to-Date Revenue Compared with Prior Year



Senate Appropriations Committee, Pat Browne, Chairman

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



Senate Appropriations Committee, Pat Browne, Chairman



## Appropriations Committee Monthly Revenue Report

REVENUE SOURCES	September 2015 Actual	September 2014 Actual	% Change vs. Prior Year	YTD Actual	Prior YTD Actual	% Change vs. Prior Year
<b>TOTAL - GENERAL FUND</b>	<b>2,732,997,839</b>	<b>2,576,780,291</b>	<b>6.1%</b>	<b>6,735,737,253</b>	<b>6,614,276,461</b>	<b>1.8%</b>
<b>TOTAL - NON-TAX REVENUE</b>	<b>23,048,201</b>	<b>12,286,750</b>	<b>87.6%</b>	<b>80,441,934</b>	<b>279,681,176</b>	<b>-71.2%</b>
<b>TOTAL - TAX REVENUE</b>	<b>2,709,949,638</b>	<b>2,564,493,541</b>	<b>5.7%</b>	<b>6,655,295,318</b>	<b>6,334,595,285</b>	<b>5.1%</b>
<b>TOTAL - Corporation Taxes</b>	<b>517,881,209</b>	<b>539,847,415</b>	<b>-4.1%</b>	<b>650,022,185</b>	<b>666,455,908</b>	<b>-2.5%</b>
Accelerated Deposits	981,873	1,474,260	-33.4%	929,992	3,191,922	-70.9%
Corp. Net Income	465,558,343	478,097,043	-2.6%	572,563,629	570,191,639	0.4%
Cap. Stock & Franchise	28,587,106	38,487,414	-25.7%	38,824,512	55,406,821	-29.9%
Gross Receipts	5,030,229	4,029,425	24.8%	17,154,415	16,568,580	3.5%
PURTA	2,554,573	1,517,340	68.4%	2,652,937	1,809,408	46.6%
Insurance Premiums	577,178	282,297	104.5%	1,961,923	1,925,738	1.9%
Financial Institutions	13,649,827	15,423,034	-11.5%	14,244,783	16,306,431	-12.6%
Other Selective Bus. Taxes	942,080	536,602	75.6%	1,689,994	1,055,369	60.1%
<b>TOTAL - Consumption Taxes</b>	<b>898,004,944</b>	<b>893,536,769</b>	<b>0.5%</b>	<b>2,814,053,286</b>	<b>2,753,958,110</b>	<b>2.2%</b>
Sales and Use	783,045,193	777,302,934	0.7%	2,489,745,260	2,429,103,918	2.5%
General (net of transfers)	658,132,691	652,565,052	0.9%	2,121,426,030	2,062,407,013	2.9%
Motor Vehicle Sales	124,912,501	124,737,881	0.1%	368,319,231	366,696,905	0.4%
Cigarette Tax	86,733,517	89,827,231	-3.4%	236,450,250	240,152,002	-1.5%
Malt Beverage	2,281,285	2,236,517	2.0%	7,112,960	6,904,131	3.0%
Liquor	25,944,950	24,170,089	7.3%	80,744,816	77,798,059	3.8%
<b>TOTAL - Other Taxes</b>	<b>1,294,063,484</b>	<b>1,131,109,357</b>	<b>14.4%</b>	<b>3,191,219,847</b>	<b>2,914,181,267</b>	<b>9.5%</b>
Personal Income	1,179,714,843	1,016,955,993	16.0%	2,799,233,221	2,564,029,259	9.2%
Withholding	790,193,606	670,609,101	17.8%	2,310,787,130	2,133,753,721	8.3%
Non-Withholding	389,521,238	346,346,892	12.5%	488,446,091	430,275,538	13.5%
Realty Transfer	36,246,474	36,197,055	0.1%	136,788,829	113,654,045	20.4%
Inheritance & Estate	71,534,774	70,321,309	1.7%	228,033,618	212,574,931	7.3%
Minor & Repealed	(420,334)	383,172	-209.7%	2,341,933	852,219	174.8%
Table Games	6,987,728	7,251,828	-3.6%	24,822,246	23,070,814	7.6%