



Senate Appropriations Committee

The Monthly Report

February 2015

Pat Browne, Chairman



General Fund Collections Above Estimate for January

General Fund revenue collections for the month ended January 2015 totaled \$2.4 billion, which was \$89.7 million, or 3.9%, above estimate. Fiscal year-to-date collections total \$15.7 billion, which is \$360.4 million, or 2.3%, above estimate. January is a “quarterly estimated tax payment” month for personal income taxes and is typically the month having the largest share of sales and use tax collections for the entire fiscal year. The \$80 million Liquor Store Profit transfer, which was anticipated in September 2014, was paid in January. Absent this payment, January’s monthly surplus would have been \$9.7 million instead of \$89.7 million.

Receiving the Liquor Store Profit transfer has resulted in the year-to-date surplus of \$360.4 million finally matching up with the monthly distribution of the Official Revenue Estimate.

The year-to-date revenue surplus is expected to be negatively impacted late in the fiscal year because certain revenues assumed in the official revenue estimate will not accrue to the General Fund. These include \$125 million for casino license revenue and \$95 million for non-impact drilling revenue. This \$220 million negative revenue adjustment should be kept in mind when considering the year-to-date surplus amount.

Corporation tax collections were below estimate by \$940,743, or 0.7%, for the month. January is not a particu-

larly important month for corporation taxes because no large quarterly or annual payments are due for calendar year tax filers. Corporation tax collections are \$162.6 million, or 11.7%, ahead of estimate for the year-to-date.

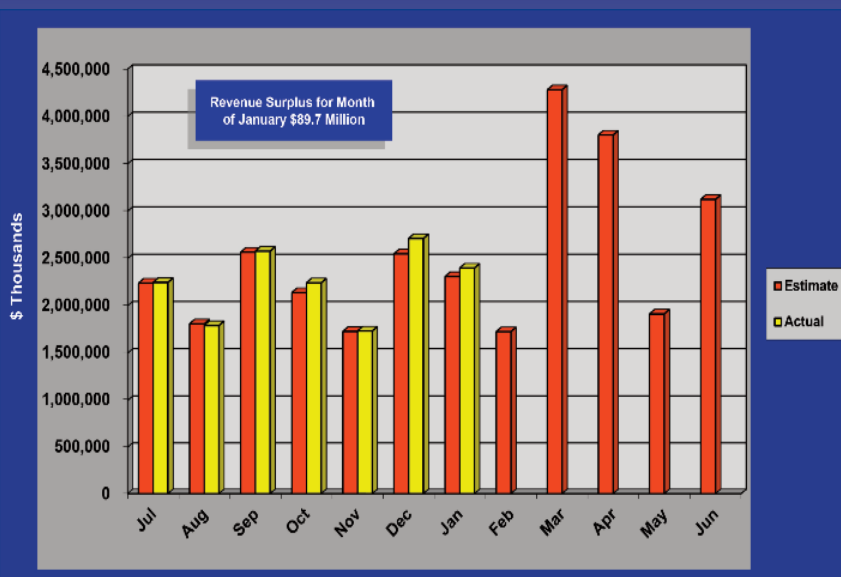
Sales and use tax (SUT) collections were ahead of estimate by \$6.9 million, or 0.8%, for the month. January’s general sales and use tax collections are the highest of the fiscal year because the taxes collected in December, during the peak of the holiday shopping season, are remitted in January. General SUT was \$3.5 million, or 0.5%, above estimate.

Sales and use tax on motor vehicles was \$3.4 million, or 3.7%, ahead of estimate for the month. Sales and use tax collections are \$66.6 million, or 1.2%, above estimate for the fiscal year-to-date. Overall, sales and use tax revenues are 4.7% ahead of last year at this time. The Official Revenue Estimate anticipates year-over-year sales and use tax growth of 3.8%.

Personal income tax (PIT) collections were below estimate by \$14.1 million, or 1.3%, for the month. PIT from employers’ withholding missed the estimate by \$10.5 million for the month.

Continued...

General Fund Tax Collections
Fiscal Year 2014-15
Comparison of Official Estimate with Actual Revenue by Month



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Quarterly estimated PIT collections were \$5.1 million, or 1.4%, short of estimate for January. The quarterly payments due in January represent the final installments for the 2014 tax year. Payments on annual tax returns were \$1.6 million over the estimate for the month. PIT collections are \$441,894 above estimate for the year, and they are running 3.1% ahead of last year at this time. The Official Revenue Estimate calls for 5.2% annual growth over last year, much of which is expected to be realized in April annual payments.

Realty transfer tax (RTT) collections missed the estimate by \$7.3 million, or 19%, for the month. RTT is now \$28.4 million, or 10.3%, below estimate for the year. Inheritance tax collections were \$1.4 million below estimate for the month, but they are \$81.5 million over estimate for the year.

Cigarette tax collections were \$4.8 million below estimate for the month and are \$9.5 million short of estimate for the year. Liquor tax collections just beat the estimate at \$323,478 over for January. Table games tax revenue was \$684,034 above estimate for the month.

Non-tax revenue collections totaled \$101.4 million, which was \$83.4 million above estimate. The bulk of the overage is attributable to the aforementioned \$80 million Liquor Store Profit transfer.

Motor License Fund collections

were \$7.9 million above estimate for the month of January. The Motor License Fund is \$9.3 million, or 0.7%, above estimate for the year.

On January 28, 2015, the Independent Fiscal Office (IFO) released a revised revenue estimate for FY 2014-15. The revised estimate calls for FY 2014-15 General Fund revenue of \$30.207 billion, which is \$250 million higher than the estimate published by the IFO at the beginning of the fiscal year and \$26 million higher than the Official Revenue Estimate recertified by Governor Corbett in September. The IFO's revised estimate accounts for (i.e. removes) the casino license revenue and non-impact drilling revenue that was originally expected to be received in June 2015. According to IFO Director Matthew Knittel, lower gasoline prices drive some of the projected revenue increase. He anticipates that Pennsylvania households will save between \$3.0 billion and \$3.5 billion on gasoline purchases this fiscal year. These savings are expected to translate into higher consumer spending on goods and services, which would net an additional \$60 million in sales tax collections. The improved revenue outlook for FY 2014-15 also includes a large (approximately \$100 million) one-time inheritance tax payment and strong corporate net income tax payments during the first half of the fiscal year.

Despite these improvements, the IFO cautioned that there are reductions in the revised estimate for other revenue sources, which will offset some of the gains. In addition to the loss of casino license and drilling revenue, the IFO expects to see some reduction in personal income tax collections resulting from sluggish wage growth and potential weakness in bank shares tax collections as changes made to this tax in Act 52 of 2013 continue to get sorted out. Another potential risk to the revenue forecast is the effect very low inflation can have on tax revenues. While consumers typically welcome lower prices, higher prices may actually benefit the General Fund in the short-term because sales tax collections are directly related to the price of taxable goods and services, and increased personal income tax collections rely heavily on higher wages (i.e. wage inflation).

The IFO projects that certain non-tax revenues assumed in the Official Revenue Estimate will not materialize in the second-half of the fiscal year, reducing the current \$360.4 million revenue surplus to just \$26 million by June 30, 2015. The all-important tax collection months of March and April are quickly approaching, and the IFO will release an updated revenue forecast soon thereafter on or about May 1st.

Lottery Fund Update

Last month, we reported that Lottery collections through December 2014 were approximately \$79 million below collections for the same period in the prior year.

Lottery collections improved in January and at month's end, the year-to-year collections differential was reduced to about \$60 million. Preliminary indications are that this improvement is due to increased sales resulting from significant jackpots in the Mega Millions and other on-line games.

Please see Lottery chart on page 6.



Department of Corrections Populations & Costs

The 2012 Justice Reinvestment Initiative (JRI) has reduced the inmate population, however, costs associated with staffing and operating costs for the Commonwealth's correctional institutions, the boot camp and community correction centers have increased significantly over the past several years.

The FY 2014-15 General Fund budget for the Department of Corrections is currently \$2.06

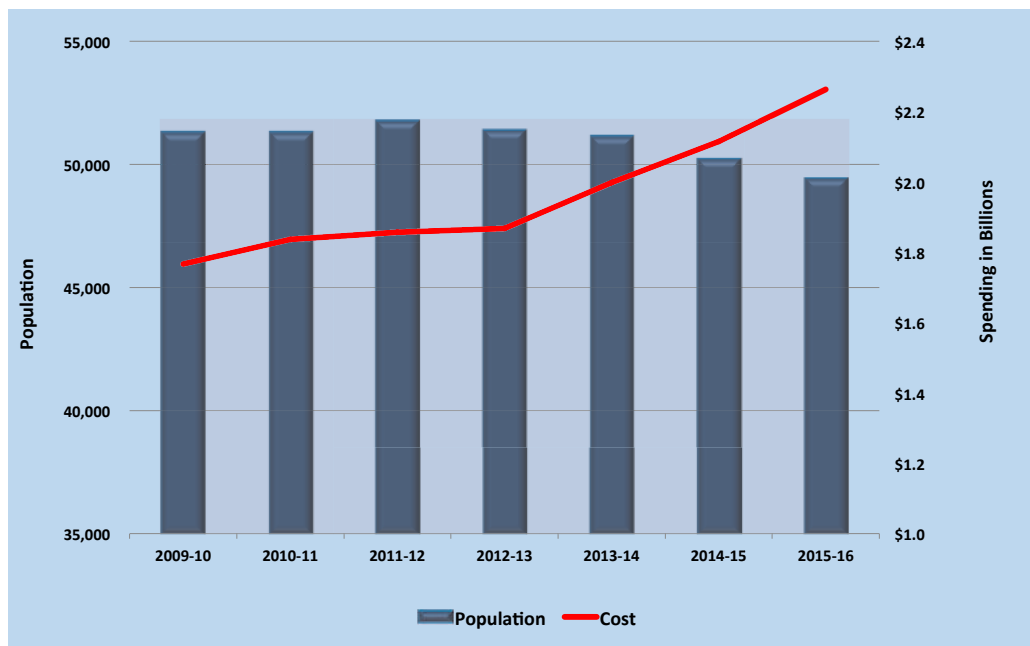
billion. This amount, however, does not include funding for the Pennsylvania State Correction Officer Association arbitration award because the arbitration award occurred after the beginning of the fiscal year. The award will result in increased costs of about \$30 million in the current fiscal year. In addition, the department's operating budget is likely to exceed its authorized spending level by about \$25 million due to an inmate

population that is falling less than projections.

As a result, the Department of Corrections will require supplemental appropriations of \$55 million for FY 2014-15.

The preliminary FY 2015-16 cost-to-carry for the Department of Corrections is estimated to be \$2.26 billion, an increase of approximately \$200 million over the current year's appropriated amount.

Corrections Population and Costs

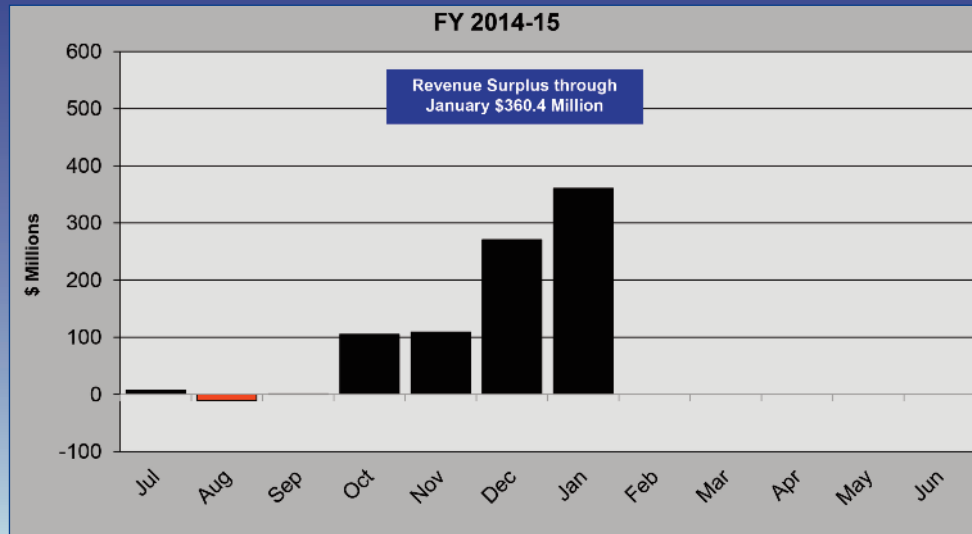


Source: Governor's Budget Office

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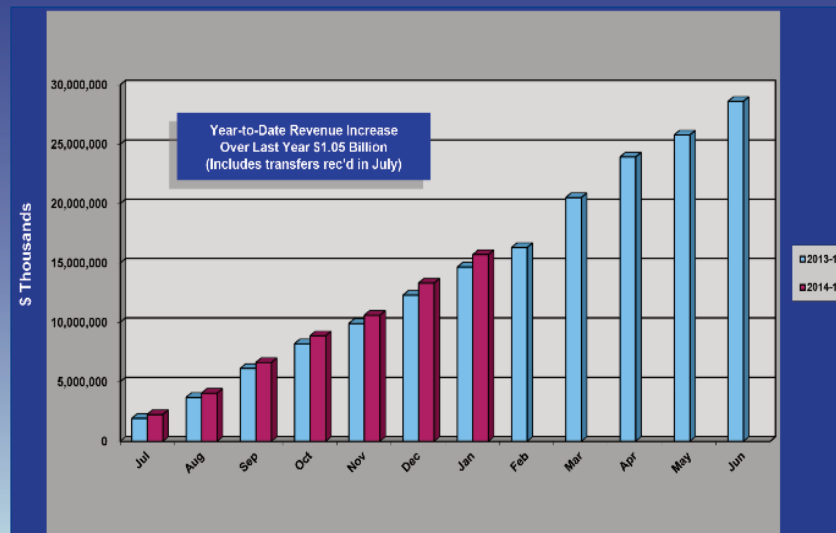


General Fund Tax Collections Year-to-Date Revenue Comparison with Official Estimate



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General Fund Revenue Collections Fiscal Year 2014-2015 Revenue Comparison with Last Year



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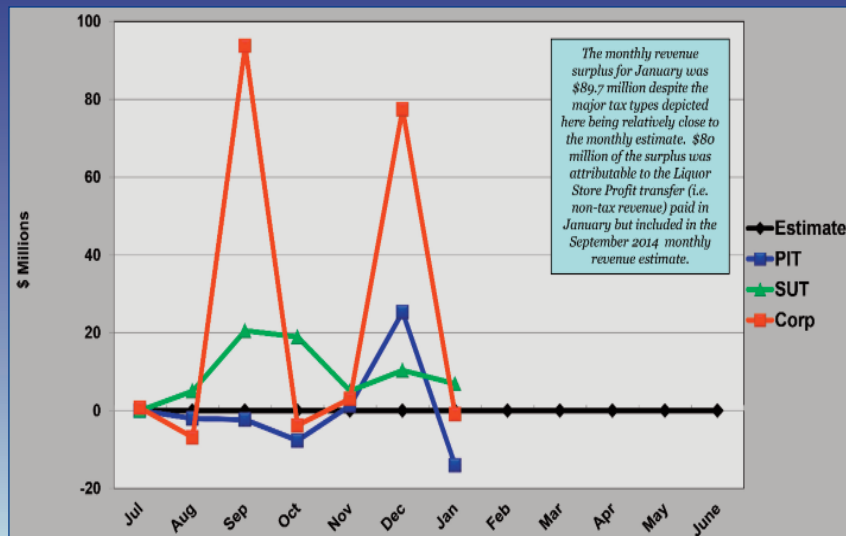


General Fund Year-to-Date Revenue Compared with Prior Year



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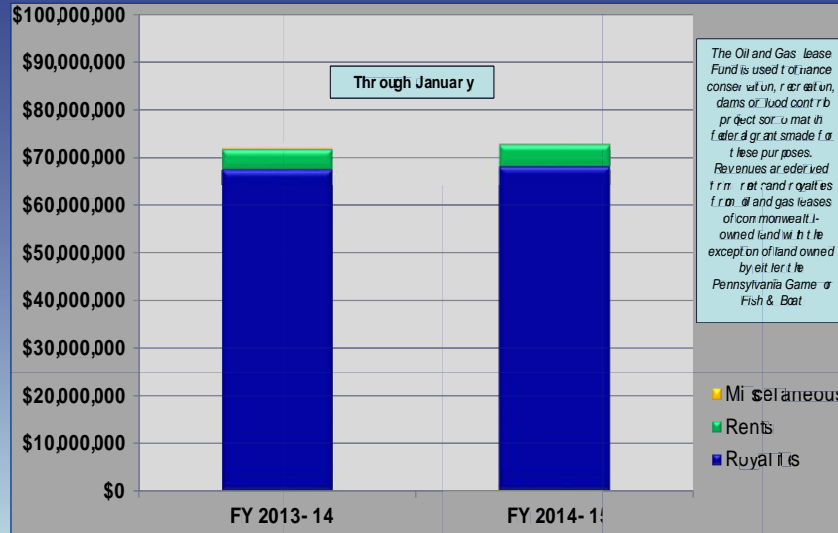
Fiscal Year 2014-2015 Performance of Major Tax Types Above/Below the Monthly Estimate



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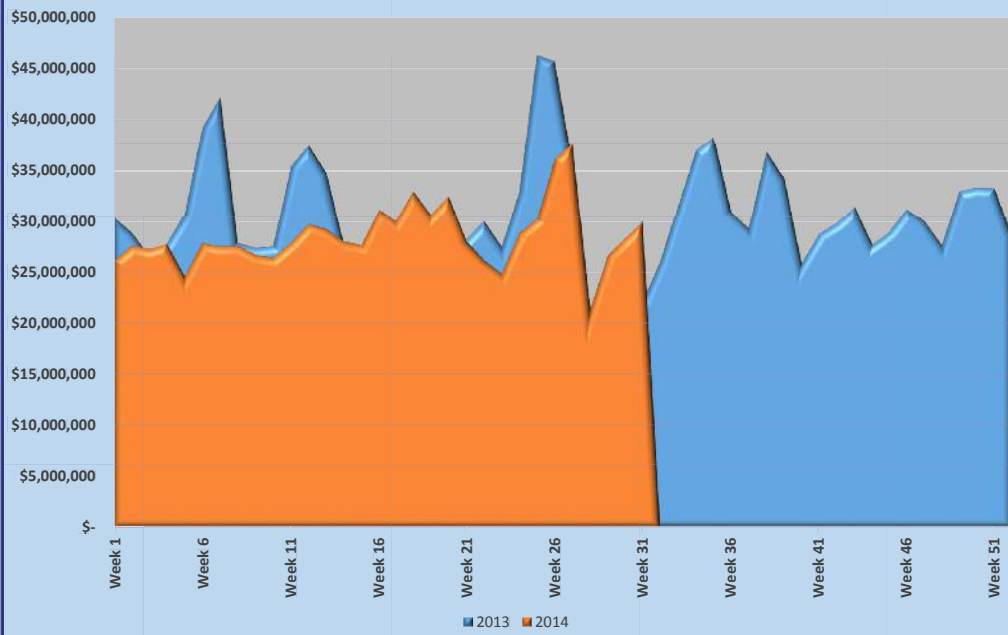


Oil and Gas Lease Fund Year-to-Date Revenue Compared with Prior Year



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Lottery Collections - 2013-14 v. 2014-15 Net Ticket Collections Compared to the same time period last year, this year's Lottery net revenue collections lag by \$60 million





Appropriations Committee Monthly Revenue Report

REVENUE SOURCES	YTD FY 2013-14	January 2015 Actual	January 2015 Estimated	Surplus/ (Deficit)	YTD Actual	YTD Estimated	Surplus/ (Deficit)
TOTAL - GENERAL FUND	14,646,417	2,398,278	2,308,600	89,678	15,697,839	15,337,455	360,384
TOTAL - NON-TAX REVENUE	134,109	101,432	18,000	83,432	478,246	433,155	45,091
TOTAL - TAX REVENUE	14,512,308	2,296,846	2,290,600	6,246	15,219,593	14,904,300	315,293
TOTAL - Corporation Taxes	1,440,902	127,159	128,100	(941)	1,554,402	1,391,800	162,602
Accelerated Deposits	3,153	(26,862)	0	(26,862)	4,194	0	4,194
Corp. Net Income	1,194,622	121,575	90,600	30,975	1,348,466	1,178,500	169,966
Cap. Stock & Franchise	174,010	13,689	11,700	1,989	111,883	142,300	(30,417)
Gross Receipts	35,529	3,650	6,800	(3,150)	40,045	39,500	545
PURTA	2,285	6	0	6	2,061	2,300	(239)
Insurance Premiums	20,488	14,750	18,500	(3,750)	18,256	20,400	(2,144)
Financial Institutions	8,290	110	400	(290)	27,621	7,800	19,821
Other Selective Bus. Taxes	2,524	242	100	142	1,876	1,000	876
TOTAL - Consumption Taxes	6,169,609	919,587	917,300	2,287	6,401,189	6,345,700	55,489
Sales and Use	5,391,433	844,469	837,600	6,869	5,646,663	5,580,100	66,563
General (net of transfers)	4,688,238	749,307	745,800	3,507	4,874,262	4,836,200	38,062
Motor Vehicle Sales	703,194	95,161	91,800	3,361	772,401	743,900	28,501
Cigarette Tax	570,203	49,725	54,500	(4,775)	538,746	548,200	(9,454)
Malt Beverage	14,863	1,669	1,800	(131)	14,125	15,100	(975)
Liquor	193,109	23,723	23,400	323	201,655	202,300	(645)
TOTAL - Other Taxes	6,901,798	1,250,100	1,245,200	4,900	7,264,002	7,166,800	97,202
Personal Income	6,130,155	1,108,448	1,122,500	(14,052)	6,322,242	6,321,800	442
Withholding	5,082,150	727,353	737,900	(10,547)	5,229,403	5,244,600	(15,197)
Non-Withholding	1,048,005	381,095	384,600	(3,505)	1,092,839	1,077,200	15,639
Realty Transfer	232,746	31,119	38,400	(7,281)	247,113	275,500	(28,387)
Inheritance & Estate	481,884	72,921	74,300	(1,379)	594,608	513,100	81,508
Minor & Repealed	4,161	28,028	1,000	27,028	44,068	1,400	42,668
Tavern Games	0	0	100	(100)	110	500	(390)
Table Games	52,853	9,584	8,900	684	55,862	54,500	1,362
TOTAL - MOTOR LICENSE FUND	1,352,697	196,053	188,200	7,853	1,362,394	1,353,100	9,294
TOTAL - Liquid Fuels Taxes	707,439	122,673	110,600	12,073	866,739	839,300	27,439
Liquid Fuels	318,326	3,382	0	3,382	4,077	0	4,077
Fuels	94,931	0	0	0	3	0	3
Motor Carriers/IFTA	20,988	1,386	2,600	(1,214)	40,939	29,700	11,239
Alternative Fuels	914	291	200	91	1,647	1,400	247
Oil Company Franchise	272,279	117,614	107,800	9,814	820,073	808,200	11,873
TOTAL - Licenses, Fees & Other	645,258	73,380	77,600	(4,220)	495,655	513,800	(18,145)
Licenses and Fees	475,466	64,718	71,500	(6,782)	474,358	469,900	4,458
Other Motor Receipts	169,792	8,662	6,100	2,562	21,297	43,900	(22,603)
Other Motor Receipts	115,605	6,350	10,250	(3,900)	14,678	25,920	(11,242)