



## Senate Appropriations Committee

# The Monthly Report

April 2015

Pat Browne, Chairman



## General Fund Collections 0.2% Below Estimate for March

**G**eneral Fund revenue collections for the month ended March 2015 totaled \$4.27 billion, which was \$9.5 million, or 0.2% below the monthly estimate. Fiscal year-to-date collections total \$21.7 billion, which is \$368.1 million, or 1.7% above estimate for the year. Fiscal year-to-date General Fund revenue collections are \$1.2 billion, or 5.9%, ahead of last year at this time. March is typically the largest revenue collection month of the year.

Corporate net income (CNI) tax collections were \$114.2 million, or 28.5%, above estimate for the month. Regular (i.e. annual) CNI tax payments were over estimate by \$138 million. However, quarterly estimated payments due in March were \$23.8 million below estimate. March is the first quarterly installment month for calendar year tax filers. Other quarterly payments will be due in June, September and December. The weakness in March quarterly payments could translate into weak quarterly payments in June, when the second quarterly installment for 2015 is due.

Gross receipts tax (GRT) revenues were below estimate by \$54.6 million, or 4.4%, for the month, and GRT revenues are \$55.7 million short of estimate for the year. The adjustments to the Official Revenue Estimate contained in the Governor's FY 2015-16 Executive Budget anticipated that GRT revenues would be short by \$22.9 million for the 2014-15 fiscal year. Because most GRT is collected in March, it appears that the \$22.9 million downward adjustment shown in the Budget will not be low enough unless some unexpected changes occur in GRT revenues between now and the end of June.

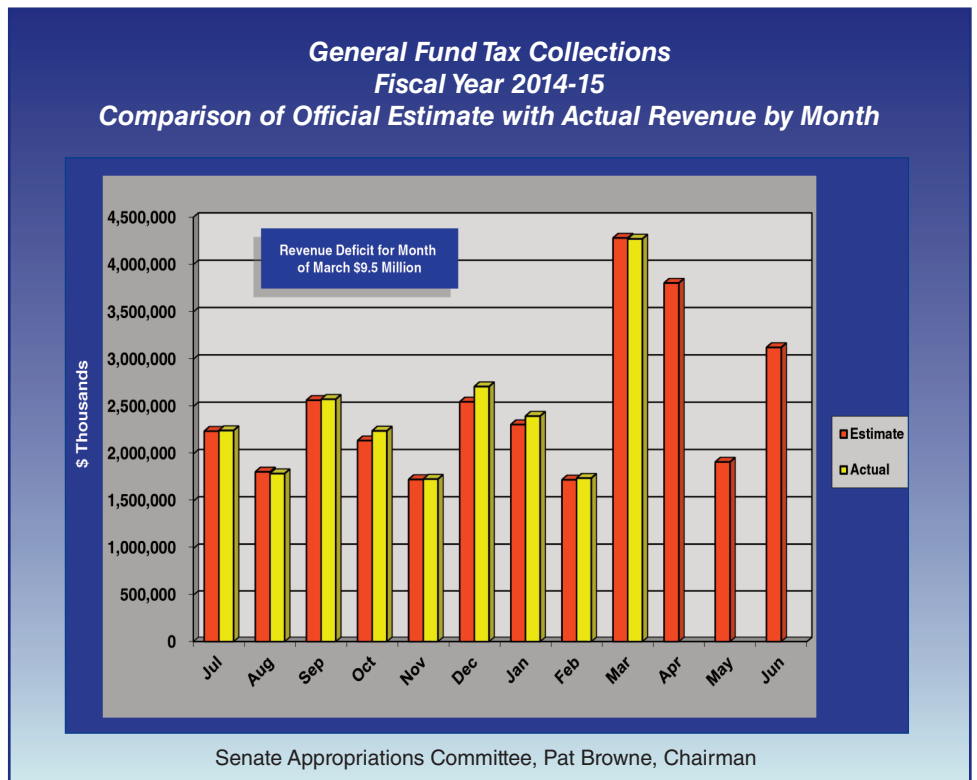
Financial institutions taxes (i.e. bank shares tax) was below the monthly estimate by \$58.9 million for March. The bank shares tax provisions of the tax code were amended substantially for taxable years beginning in 2014. It appears that the shortfall is once again related to the tax changes made in Act 52 of 2013. Although the tax payments are due in March 2015, most financial institutions receive a tax filing extension, and so the tax returns will not be received until September 2015. Following the changes made in Act 52 of 2013, banks accumulated an unusually large amount of credits (i.e. overpayments) available from prior years. The overwhelming majority of the tax is due in March, and so such a shortfall will not

be repeated in the remaining months of the fiscal year.

Sales and use tax (SUT) collections were below estimate by \$19.1 million for the month. General sales and use tax was \$11.8 million, or 2.0% below estimate, while sales tax on motor vehicles missed the estimate by \$7.3 million, or 6.2%. Total sales and use tax collections for FY 2014-15 are \$42.6 million, or 0.6%, above estimate so far this year. SUT collections are 4.5% ahead of last year, while the Official Estimate predicted 3.81% annual growth.

Personal income tax (PIT) collections were above estimate by \$18.9 million, or 2.0%, for the month.

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March 2015 employers' withholding collections totaled \$825.4 million, which was \$769,696, or 0.1%, above estimate. Individual estimated PIT collections were above estimate by \$8.8 million, and PIT payments on annual tax returns were \$9.3 million higher than expected. The bulk of PIT annual payments will be due by April 15. Hopefully, the performance in March annual PIT collections will continue through the important month of April.

Realty transfer tax (RTT) collections missed the estimate by \$2.7 million, or 8.1%, for the month. RTT is now \$26.2 million, or 8.0%, below estimate for the year. Inheritance tax collections were short of the estimate by \$17.5 million for the month, or 18.2%, and they are now \$62.2 million, or 9.2%, above estimate for the year. Were it not for a large one-time estimated inheritance tax payment of \$100 million, inheritance tax collections would be in a negative position relative to the estimate. Cigarette tax revenue missed the estimate by \$3.1 million for the month, and liquor tax collections were \$368,519 short of estimate. Table games tax revenue exceeded the monthly estimate by \$952,669, or 13.4%.

General Fund non-tax revenue collections missed the estimate by \$14.2

million, or 19.2%, which was mostly attributable to a shortfall in unclaimed property revenue. The large majority of revenue from unclaimed property is received in April.

April marks the beginning of the final quarter of the fiscal year, and this is where the revenue estimate makes it or breaks it. The March collections missed the mark by \$9.5 million, or 0.2%. As a result, the General Fund year-to-date revenue surplus is reduced to \$368.1 million. A 0.2% difference between the estimate and actual collections may seem insignificant, but an examination of the detail produces some concerns and some positives.

First, the bank shares tax underperformed the estimate by \$58.9 million or nearly 19%. The shortfall is directly related to the 2013 bank shares tax amendments which have proven not to be revenue neutral as intended. It is my intent to return the bank shares tax to a revenue neutral position as part of the FY 2015-16 budget. The Governor proposes to achieve revenue neutrality by restoring the tax rate to the pre-Act 52 level of 1.25%.

Secondly, gross receipts tax collections were under estimate by \$54.6 million, or 4.4%. The Department of Revenue has indicated that a significant portion of the shortfall may be at-

tributable to changes in the telephone industry; however, this is the third consecutive year where GRT collections failed to meet the Governor's estimate. Collections were short by \$47.1 million in 2014 and \$82.9 million in 2013. This implies that there may be issues with the methodology and/or the models associated with the GRT estimate which must be examined going forward.

Finally, during the recently completed budget hearings, the Appropriations Committee heard testimony that the Administration anticipates that revenue collections during the final quarter of the fiscal year will lag the official estimate in an amount that will completely negate the current revenue surplus. This testimony was consistent with the financial statement found on page C1-5 of the Governor's Executive Budget.

On the positive side, the shortfalls in bank shares and GRT will not recur and will have little impact on collections in the final quarter because the bulk of collections in both tax types is due largely in March. In addition, the revenue deficit for March was less than anticipated and may indicate that collections during the fourth quarter may outperform the assumptions in the Governor's budget.

## Motor License Fund Monthly Performance March 2015

Collections	Estimate	\$ Difference	% Difference
232,281,325	255,220,000	(22,938,675)	-9.0%
YTD Collections	YTD Estimate	\$ Difference	% Difference
1,900,978,565	1,802,440,000	98,538,565	5.5%
YTD Collections	Prior Year	Inc./Dec.	% Inc./Dec.
1,900,978,565	1,769,903,084	131,075,481	7.4%

Motor License Fund collections for March were \$22.9 million or 9.0% below estimate for the month. The Fund is \$98.5 million or 5.5% above estimate for the year.



## Budget Hearings Reveal Concern with Rising Pension and Benefits Costs

A consistent theme at nearly every agency budget hearing for 2015 was the fact that pension and health benefits costs are consuming an ever-increasing percentage of personnel costs. Just four or five years ago, it was common for the employee benefits package to total about 30% of salary. Today the median benefit factor is 74.2% of salary with some agencies approaching 100%. In the very near future, the Commonwealth will expend one dollar for benefits costs for every dollar paid in salary.

Contributing to this meteoric increase, are continued increases in the employer contribution rate for Commonwealth employees' pensions and health care inflation. The employer contribution for most State Employee Retirement System (SERS) employees increases by 4.5%

to 25% of salary for FY 2015-16. The increase in the employer rate results in General Fund costs of \$639.2 million for FY 2015-16 which is an increase of \$130.5 million over the current fiscal year. The employer rate will increase to 29.5% of salary for FY 2016-17 and will increase General Fund costs by approximately \$138 million in FY 2016-17.

Employee health benefits costs continue to increase significantly. For FY 2015-16, the Governor's Budget assumes a cost of \$12,707 annually for active employees and \$10,166 for annuitants. State police annual health benefit costs are significantly higher than those of other executive branch employees, at \$18,209 for active troopers and \$24,392 for annuitants. Health benefits costs for most Commonwealth employees are subject to collective

bargaining. In recent years, Commonwealth employees have seen their contribution increase in an effort to control costs.

Increasing pension and health care benefit obligations combine with other cost-to-carry and mandated costs to crowd out the ability to invest budgetary dollars in new initiatives or programs with demonstrable positive results and outcomes. They also contribute to the structural deficit.

The 2015 Senate budget hearings clearly identified a need for pension reforms and the need for restraint by labor and management in the upcoming contract negotiations between the Commonwealth and its labor organizations.

The following chart illustrates increases in agency benefit factors and health care benefit costs.

Benefit Rates

Executive Branch Employees	Biweekly Cost	Annual Cost
Health Care for Current Employees:	\$ 485.00	\$ 12,707
Health Care for Retired Employees:	\$ 388.00	\$ 10,166
Retirement Rate - 24.91%		

State Police Troopers	Biweekly Cost	Annual Cost
Health Care for Current Employees:	\$ 695.00	\$ 18,209
Health Care for Retired Employees:	\$ 931.00	\$ 24,392
Retirement Rate - 37.21%		

Overall Benefit Rates	2014-15	2015-16
Governor's Office	59.7%	60.9%
Lieutenant Governor's Office	50.4%	54.8%
Board of Pardons	74.9%	83.1%
Office of Administration	57.9%	72.3%
Commonwealth Technology Services	55.0%	64.2%
Office of Inspector General	60.5%	65.7%
Office of the Budget	66.3%	76.3%
Office of General Counsel	55.0%	58.9%
Human Relations Commission	63.1%	74.7%
Council on the Arts	57.1%	68.2%
Juvenile Court Judges Commission	61.4%	69.4%
Commission on Crime and Delinquency	64.4%	71.9%
Aging - General Government Operations	59.3%	67.6%
Agriculture - General Government Operations	64.7%	76.8%
Banking and Securities - GGO	64.4%	71.9%
Community and Economic Development - GGO	59.9%	68.9%
Conservation and Natural Resources - GGO	65.8%	72.4%
Corrections		
General Government Operations	65.5%	73.5%
Inmate Medical Care	67.4%	76.7%
Inmate Education and Training	70.2%	78.5%
State Correctional Institutions	70.4%	79.3%
Probation and Parole		
General Government Operations	68.6%	76.9%
Sexual Offenders Assessment Board	66.6%	76.7%
Drug and Alcohol Programs - GGO	52.7%	56.9%
Environmental Protection		
General Government Operations	61.4%	69.9%
Environmental Program Management	63.6%	72.4%
Environmental Protection Operations	62.4%	70.7%
General Services		
General Government Operations	73.1%	81.5%
Capitol Police	69.5%	76.3%

Overall Benefit Rates	2014-15	2015-16
Health - GGO	59.9%	66.2%
Historical and Museum	69.9%	78.1%
Human Services		
General Government Operations	67.5%	76.0%
County Assistance Offices	79.4%	88.8%
Mental Health Services	70.0%	79.9%
State Centers - ID	80.6%	89.4%
Insurance	60.0%	68.4%
Liquor Control Board	76.1%	82.5%
Military and Veterans Affairs		
General Government Operations	76.2%	90.4%
Veterans Homes	83.1%	88.6%
PSERS	65.2%	72.4%
Public Utility Commission	60.1%	67.9%
Revenue - General Government Operations	68.5%	74.2%
State - General Government Operations	65.7%	73.4%
SERS - Administration	65.9%	74.7%
State Police		
General Government Operations	78.4%	91.8%
Statewide Public Safety Radio System	63.4%	71.4%
Transportation		
General Government Operations	66.2%	74.2%
Driver and Vehicle Services	79.0%	89.5%
Highway and Safety Improvements	67.7%	75.6%
Highway Maintenance	72.6%	84.2%
Courts		
Supreme Court Justices	58.7%	67.5%
Supreme Court Staff	62.2%	72.8%
Commonwealth Court Judges	51.5%	60.6%
Commonwealth Court Staff	68.3%	77.9%
Courts of Common Pleas	51.7%	61.0%
Magisterial District Judges	80.1%	93.1%
Judicial Center Operations	79.8%	90.4%

High (Courts/Magisterial District Judges)	93.1%
Low (Lieutenant Governor's Office)	54.8%
Median (Revenue - GGO)	74.2%



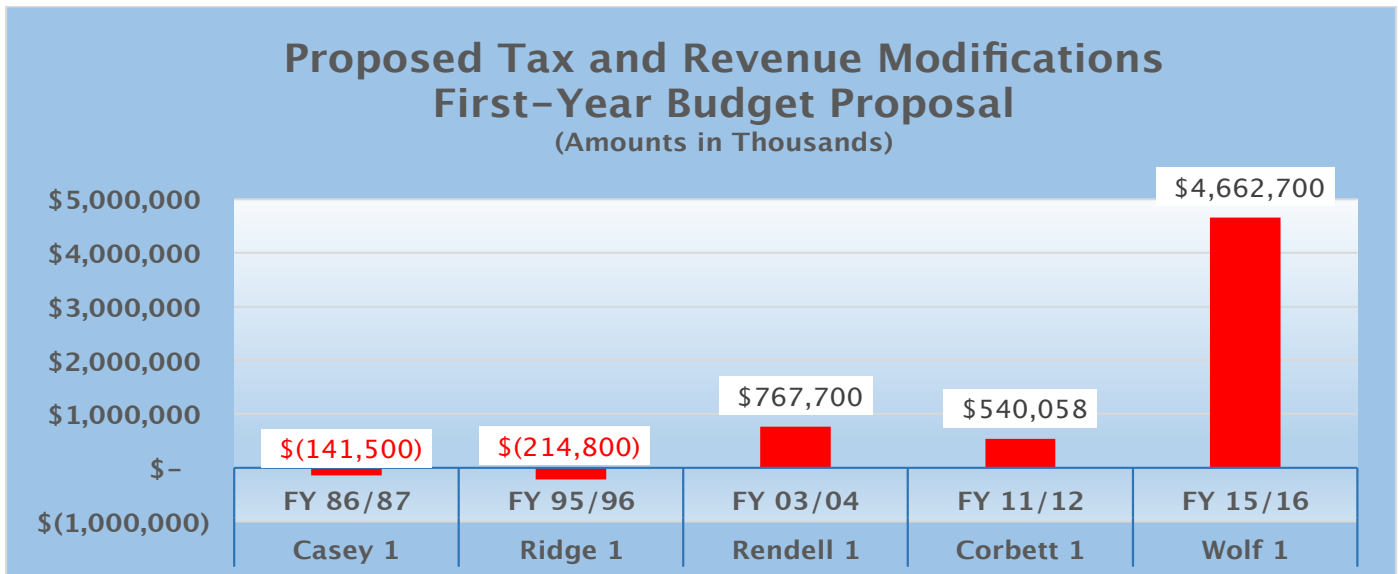
## Unprecedented Revenue and Spending Package from Governor Wolf

**G**overnor Wolf has proposed an unprecedented revenue and spending package for FY 2015-16. The revenue package represents the largest tax increase in Pennsylvania history-at \$4.67

billion, an amount that eclipses the 1991 Casey tax increases by 50%. When fully annualized in FY 2016-17, the Wolf tax increases are estimated to yield nearly \$8 billion. The two-year impact is estimated

to exceed \$12 billion.

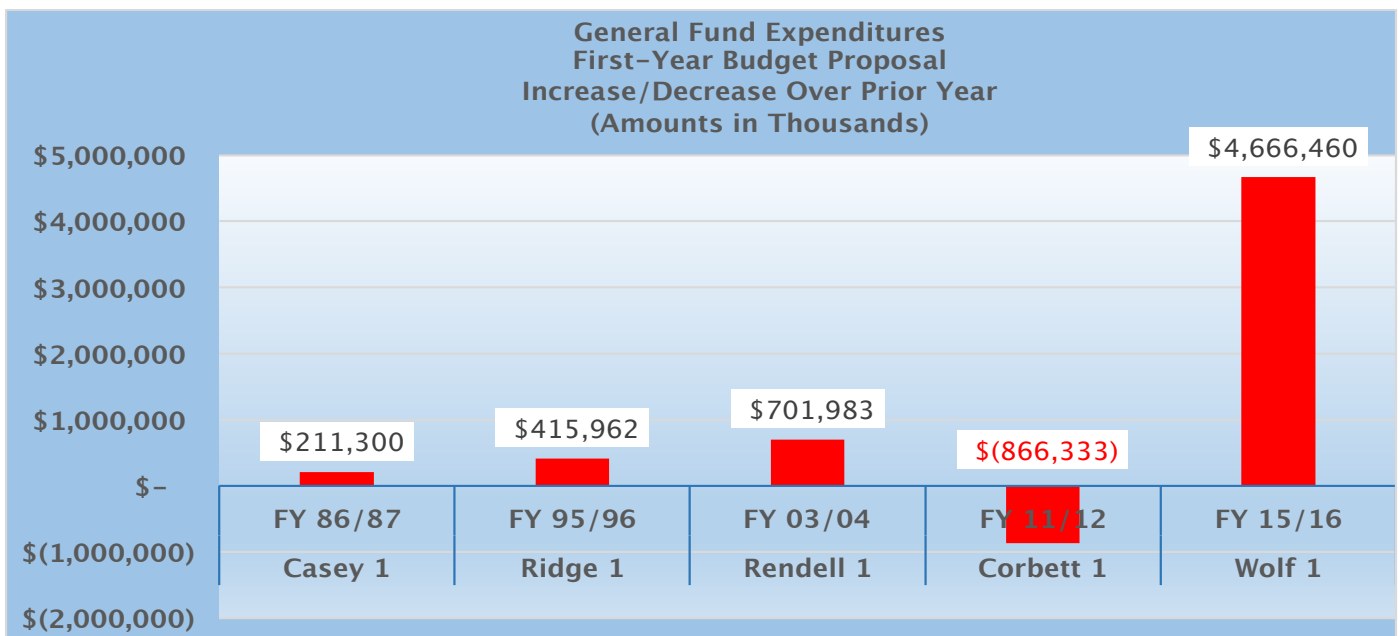
The following chart compares the Wolf tax and revenue proposal to the proposals contained in the first budgets of previous Governors.



The Governor's budget proposes expenditures of \$33.8 billion-an increase of \$4.7 billion, or 16.1%, over the current year. The

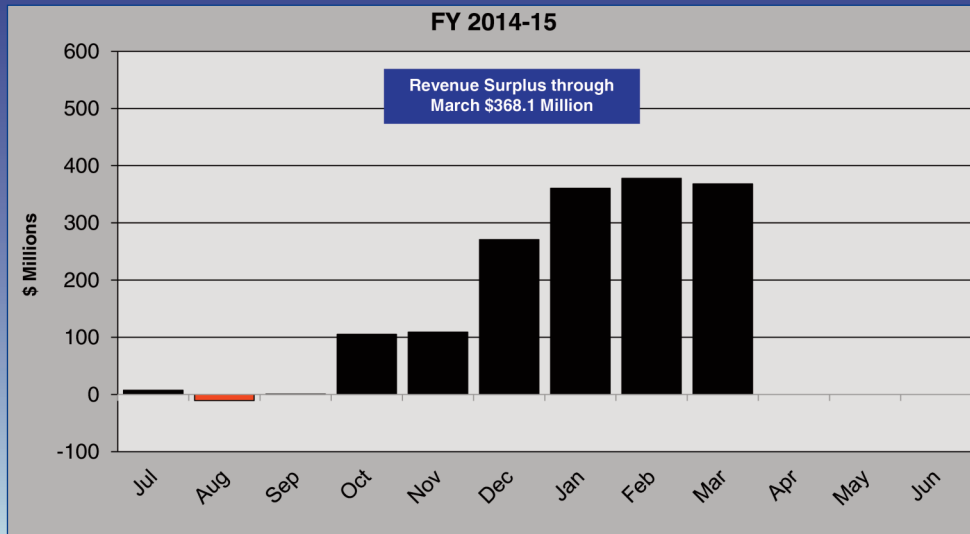
following chart compares Governor Wolf's expenditure proposal to those of previous Governors in their first budget.

Similar to the revenue chart above, the comparison illustrates the extraordinary nature of the expenditure proposal.



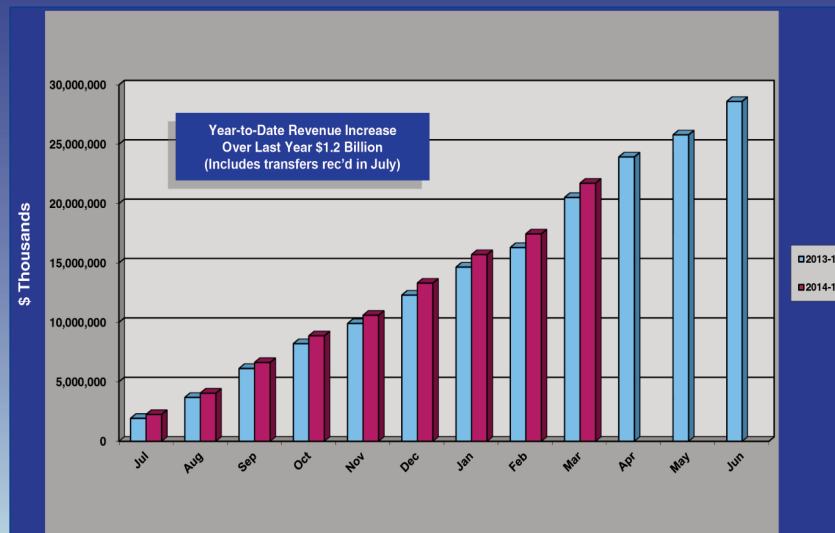


## General Fund Tax Collections Year-to-Date Revenue Comparison with Official Estimate



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

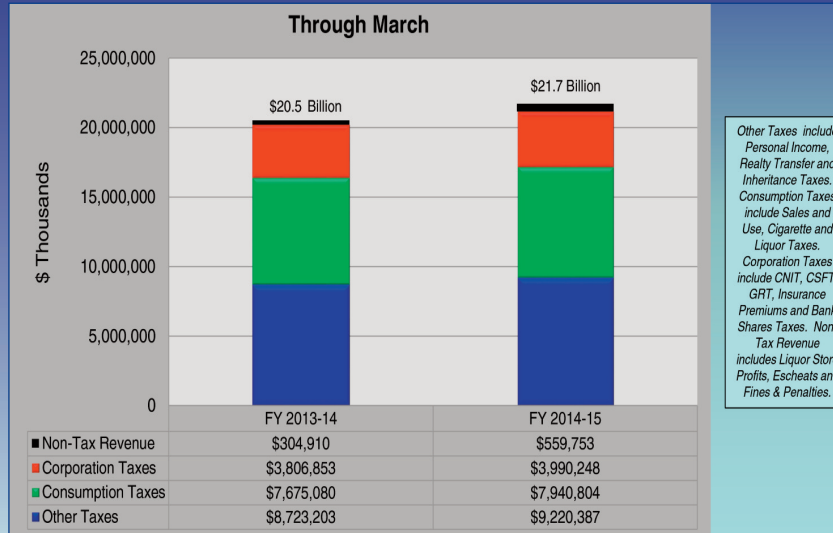


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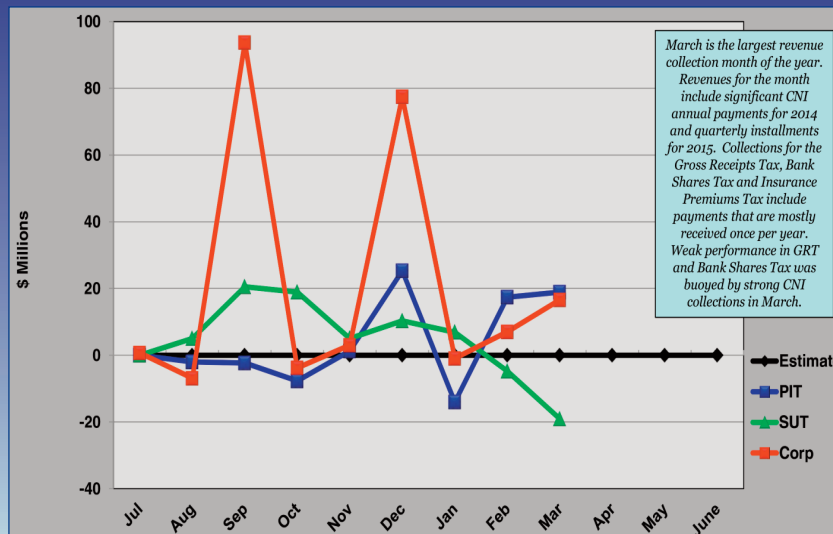


## General Fund Year-to-Date Revenue Compared with Prior Year



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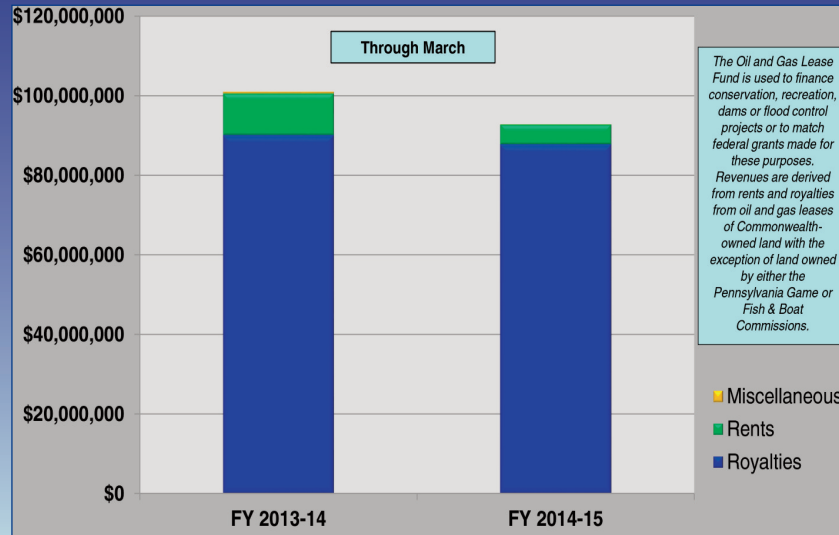
## Fiscal Year 2014-2015 Performance of Major Tax Types Above/Below the Monthly Estimate



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



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## Appropriations Committee Monthly Revenue Report

REVENUE SOURCES	YTD FY 2013-14	March 2015 Actual	March 2015 Estimated	Surplus/ (Deficit)	YTD Actual	YTD Estimated	Surplus/ (Deficit)
<b>TOTAL - GENERAL FUND</b>	<b>20,510,046</b>	<b>4,270,889</b>	<b>4,280,400</b>	<b>(9,511)</b>	<b>21,711,193</b>	<b>21,343,055</b>	<b>368,138</b>
<b>TOTAL - NON-TAX REVENUE</b>	<b>304,910</b>	<b>59,610</b>	<b>73,800</b>	<b>(14,190)</b>	<b>559,753</b>	<b>525,455</b>	<b>34,298</b>
<b>TOTAL - TAX REVENUE</b>	<b>20,205,136</b>	<b>4,211,279</b>	<b>4,206,600</b>	<b>4,679</b>	<b>21,151,439</b>	<b>20,817,600</b>	<b>333,839</b>
<b>TOTAL - Corporation Taxes</b>	<b>3,806,853</b>	<b>2,369,733</b>	<b>2,353,100</b>	<b>16,633</b>	<b>3,990,248</b>	<b>3,804,000</b>	<b>186,248</b>
Accelerated Deposits	6,768	19,256	0	19,256	23,725	0	23,725
Corp. Net Income	1,646,139	515,549	401,300	114,249	1,898,164	1,612,700	285,464
Cap. Stock & Franchise	228,100	32,798	35,700	(2,902)	149,667	184,000	(34,333)
Gross Receipts	1,251,557	1,195,488	1,250,100	(54,612)	1,237,992	1,293,700	(55,708)
PURTA	2,319	6	0	6	2,072	2,300	(228)
Insurance Premiums	397,045	352,989	353,800	(811)	394,563	389,400	5,163
Financial Institutions	270,422	252,787	311,700	(58,913)	280,893	320,300	(39,407)
Other Selective Bus. Taxes	4,503	860	500	360	314	1,600	1,573
<b>TOTAL - Consumption Taxes</b>	<b>7,675,080</b>	<b>793,211</b>	<b>815,900</b>	<b>(22,689)</b>	<b>7,940,804</b>	<b>7,913,100</b>	<b>27,704</b>
Sales and Use	6,688,978	692,901	712,000	(19,099)	6,990,920	6,948,300	42,620
General (net of transfers)	5,805,442	583,566	595,400	(11,834)	6,025,917	6,009,900	16,017
Motor Vehicle Sales	883,537	109,335	116,600	(7,265)	965,003	938,400	26,603
Cigarette Tax	724,940	71,465	74,600	(3,135)	678,907	691,200	(12,293)
Malt Beverage	18,610	1,714	1,800	(86)	17,733	18,800	(1,067)
Liquor	242,552	27,131	27,500	(369)	253,244	254,800	(1,556)
<b>TOTAL - Other Taxes</b>	<b>8,723,203</b>	<b>1,048,335</b>	<b>1,037,600</b>	<b>10,735</b>	<b>9,220,387</b>	<b>9,100,500</b>	<b>119,887</b>
Personal Income	7,789,919	972,811	953,900	18,911	8,114,514	8,077,800	36,714
Withholding	6,583,953	825,370	824,600	770	6,832,102	6,832,600	(498)
Non-Withholding	1,205,966	147,441	129,300	18,141	1,282,412	1,245,200	37,212
Realty Transfer	276,263	30,499	33,200	(2,701)	302,365	328,600	(26,235)
Inheritance & Estate	633,293	78,738	96,200	(17,462)	739,449	677,200	62,249
Minor & Repealed	(43,608)	(41,766)	(52,900)	11,134	(7,809)	(52,500)	44,691
Tavern Games	0	0	100	(100)	303	700	(397)
Table Games	67,335	8,053	7,100	953	71,565	68,700	2,865
<b>TOTAL - MOTOR LICENSE FUND</b>	<b>1,769,908</b>	<b>232,281</b>	<b>255,220</b>	<b>(22,939)</b>	<b>1,900,979</b>	<b>1,802,440</b>	<b>98,539</b>
<b>TOTAL - Liquid Fuels Taxes</b>	<b>942,412</b>	<b>144,656</b>	<b>126,200</b>	<b>18,456</b>	<b>1,170,936</b>	<b>1,092,700</b>	<b>78,236</b>
Liquid Fuels	318,574	275	0	275	4,500	0	4,500
Fuels	95,001	0	0	0	3	0	3
Motor Carriers/IFTA	27,496	5,130	6,600	(1,470)	55,354	40,000	15,354
Alternative Fuels	1,243	347	200	147	2,356	1,800	556
Oil Company Franchise	500,099	138,904	119,400	19,504	1,108,723	1,050,900	57,823
<b>TOTAL - Licenses, Fees &amp; Other</b>	<b>827,496</b>	<b>87,625</b>	<b>129,020</b>	<b>(41,395)</b>	<b>730,042</b>	<b>709,740</b>	<b>20,302</b>
Licenses and Fees	629,291	84,121	100,900	(16,779)	645,548	633,300	12,248
Other Motor Receipts	198,205	3,504	28,120	(24,616)	84,494	76,440	8,054