



Senate Appropriations Committee

The Monthly Report

March 2015

Pat Browne, Chairman



General Fund Collections 1.0% Above Estimate for February

General Fund revenue collections for the month ended February 2015 totaled \$1.74 billion, which was \$17.3 million, or 1.0%, above estimate for the month. Fiscal year-to-date collections total \$17.4 billion, which is \$377.6 million, or 2.2%, above estimate for the year. General Fund revenue collections through February 2015 are \$1.15 billion, or 7.0%, more than last year at this time. February is typically the smallest revenue collection month of the fiscal year. It is important to keep in mind that the year-to-date revenue surplus will be reduced significantly in June because of \$125 million in gaming licenses and \$95 million in oil and gas drilling leases that will not materialize.

Corporation tax collections were over estimate by \$7.0 million, or 11.9%, for the month. Corporation taxes are \$169.6 million, or 11.7%, ahead of estimate for the year.

Sales and use tax (SUT) collections were short of estimate by \$4.8 million, or 0.7%, for the month. General (i.e. non-motor vehicle) SUT was \$10.2 million below estimate. Sales and use tax on motor vehicles was \$5.4 million, or, 6.9%, over estimate for the month. Overall, sales and use tax revenues are \$61.7 million, or 1.0%, ahead of estimate for the year, and they are 4.7% ahead of last year at this time.

Personal income tax (PIT) collections beat the estimate by \$17.4 million, or 2.2%, for the month. PIT from employers' withholding was ahead of estimate by \$13.9 million for the month. Quarterly estimated PIT was above estimate

by \$4.1 million for February, and PIT payments on annual tax returns were just short of estimate by \$643,982 for the month. Overall, PIT revenues are \$17.8 million, or 0.2%, above estimate for the year and 3.9% ahead of last year at this time.

Realty transfer tax (RTT) collections were over estimate by \$4.9 million, or 24.4%, for the month. However, RTT is \$23.5 million, or 8.0%, below estimate thus far this fiscal year. Inheritance tax collections were \$1.8 million below estimate for the month, but they are \$79.7 million, or 13.7%, above estimate for the year.

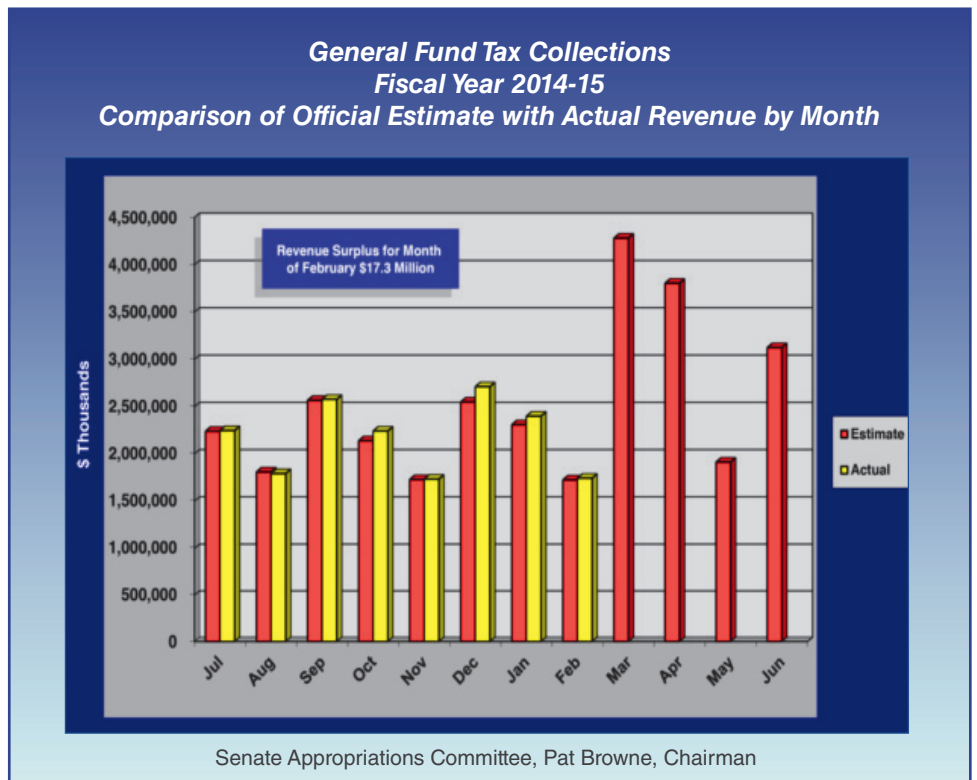
Liquor tax collections of \$24.5 million were \$542,415 below estimate for February.

Cigarette tax collections were above estimate by \$296,632 for the month, but they are \$9.2 million below estimate for the year. Table games tax revenue beat the estimate by \$549,910 and is now \$1.9 million, or 3.1%, above estimate for the fiscal year.

Non-tax revenue collections exceeded the monthly estimate by \$3.4 million, which brings non-tax revenues to \$48.5 million, or 10.7%, above estimate for the year as of the end of February.

Motor License Fund (MLF) collections were \$112.3 million, or 57.8% above estimate for the month of February. Liquid fuels taxes

Continued...



were above estimate by \$32.3 million, or 25.4%, and licenses and fees were above estimate by \$24.6 million, or 39.4%. In addition, Motor License Fund revenues were bolstered by an unanticipated \$61 million gain on the sale of MLF investments by the Treasury Department. The Motor License Fund is \$121.5 million, or 7.9%, above estimate for the year.

For the past several issues of this publication, we have been projecting that the increasing year-to-date revenue surplus will be significantly reduced by the end of the fiscal year. The Governor’s Executive Budget for FY 2015-16 shows that Appropriations Committee projections were indeed correct. The financial statement found on page C1-5 of the Governor’s Budget indi-

cates \$30.177 billion in total General Fund revenue collections for the current fiscal year. Given the revenue surplus as of February 28, 2015 (\$377.6 million), this means that collections will fall off by approximately \$380 million by June 30, 2015.

Unified Program Area Budget – Health Care Update

Commonwealth government invests in multiple areas and functions across an array of departments, boards and commissions. In an effort to analyze our collective efforts in promoting positive public benefits, the Senate Appropriations Committee will begin to evaluate programs by creating an enhanced linkage between program goals, spending and outcomes. This will be accomplished through the formation of specialized subcommittees and Unified Program Area Budget Statements. The data from these statements will also be useful in identifying future policy is-

ssues and potential solutions to the issues facing Pennsylvania.

Appropriations Committee staff have begun analyzing statewide spending in this manner for one of the Commonwealth’s largest expenditure items – health care. Last year, across the General Fund, Federal Funds and other major special funds, the Commonwealth spent more than \$25 billion in health care. In total, the Commonwealth provides health care coverage for more than 3 million individuals – a quarter of the state’s population.

This analysis focused on commonwealth costs to provide:

- ♦ health care for individuals in need, commonwealth employees and inmates in the state’s prison system;
- ♦ long-term care for medical assistance eligibles in a variety of settings;
- ♦ other health care-related services, such as drug and alcohol treatment and programs for the intellectually disabled; and
- ♦ health research and outreach activities.

Key findings for the two largest categories of the Commonwealth’s health care costs are noted in the following tables.

Cost of Providing Health Care Coverage to Individuals			
	Total Cost (in billions)	Individuals Covered	Annual Cost per Individual
Populations in Need			
Medical Assistance	\$12.8	2,240,971	\$5,700
PACE	\$0.175	279,530	\$625
CHIP	\$0.413	166,863	\$2,500
Commonwealth Employees (and family members)	\$1.7	317,409	\$5,300
Inmate Medical Care	\$0.235	48,881	\$4,800
Total	\$15.323	3,053,654	



Cost of Providing Long-Term Care Services				
		Total Cost (in billions)	Individuals Covered	Annual Cost per Individual
Department of Human Services				
	Long-Term Care	\$3.275	55,665	\$58,800
	Long-Term Care Managed Care	\$0.186	4,329	\$43,000
	Home and Community-Based Services	\$0.613	23,599	\$26,000
	Other Human Service Waivers	\$0.759	23,594	\$32,150
	Aging Waiver Program	\$0.063	7,931	\$8,000
	State Veterans Homes	\$0.099	1,375	\$77,257
	Total	\$4.995	116,493	

The findings on long-term care services illustrate that providing services to individuals in their homes can be a much more cost effective option for the Commonwealth. Moreover, they prefer to receive care in their homes. Find-

ing the most preferential and cost effective option for individuals needing assistance as they age is critically important given Pennsylvania's demographics. Pennsylvania has the fourth largest population of seniors in the nation,

behind Florida, West Virginia and Maine. In 2010, nearly one in six, or 2 million, Pennsylvania residents was 65 or older. In the next five years, that number is expected to increase to 2.5 million, or nearly one in five residents.



These demographics have significant implications for the Commonwealth's budget. As individuals age and spend down their personal assets, many seniors

transition to the Medical Assistance program to pay for their long-term care services. According to a report prepared by the Kaiser Commission on Medicaid and the

Uninsured as documented by the Pennsylvania Health Care Alliance, 19% of nursing home residents were eligible for Medical Assistance benefits before entering a



nursing home. Another 19% exhaust their personal assets and become eligible for Medical Assistance during their first year in the nursing home. An additional 4% become eligible after their first year.

Long-term care services are considerably more costly than

routine health care costs in the Medical Assistance program. While the elderly make up less than 20% of the number enrolled in the Medical Assistance program, they account for one-third of its cost. Controlling cost growth in this rising population will be critical to limiting the rate of

growth in the Commonwealth's health care costs. One way to accomplish this is to serve more individuals in home and community-based settings, where the cost of serving individuals is less than half the cost of nursing home care.

Medical Assistance Populations

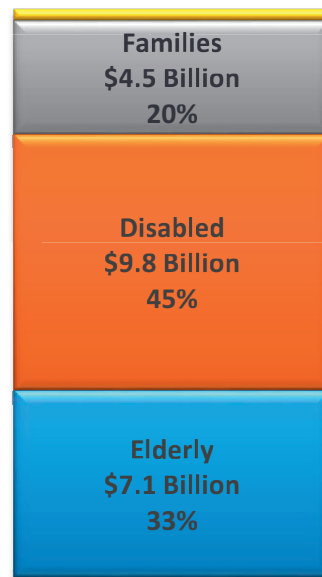
Number of Eligible People

Adults without Children
75,429
3%



Cost

Adults without Children
\$0.5 Billion
2%



Other states have been successful in accomplishing a shift toward care that is provided in home and community-based settings. According to a recent analysis of 2012 data by the Pew Charitable Trusts, Pennsylvania is below the

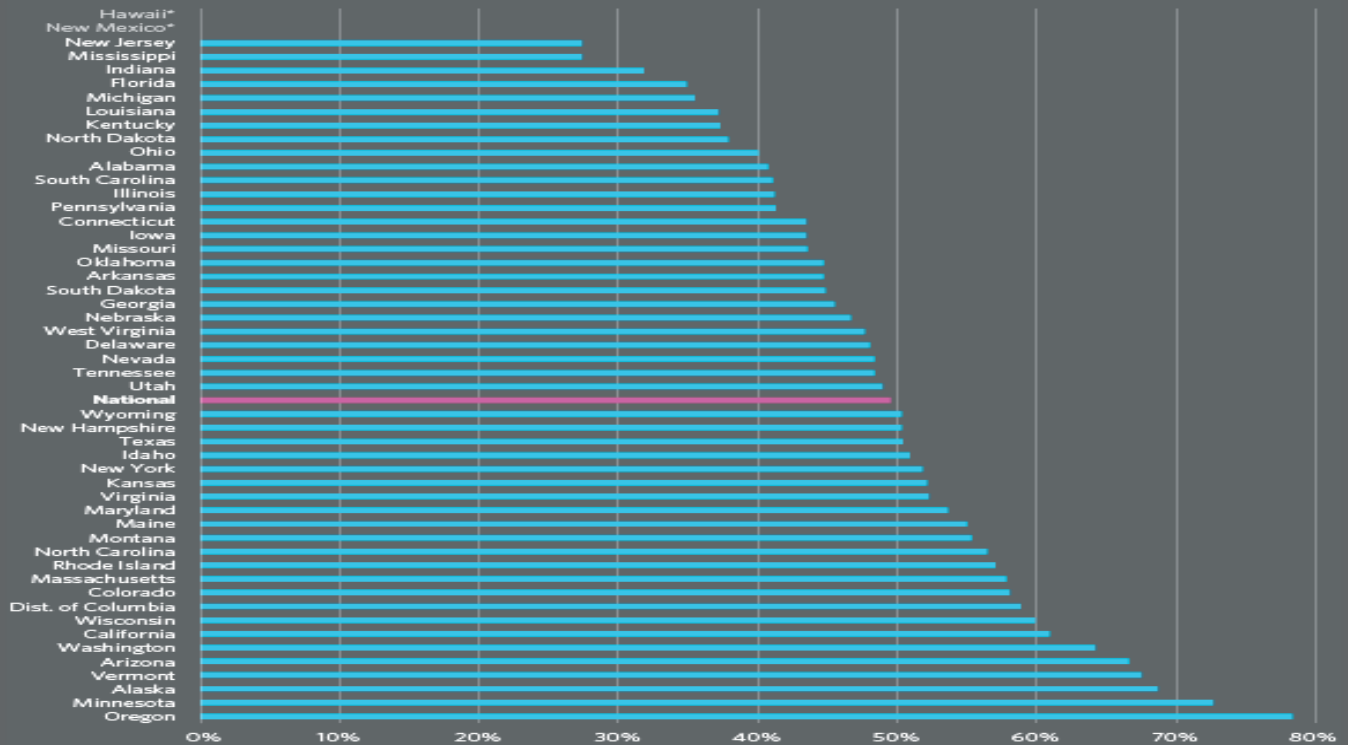
national average in spending on home and community-based services with only 40% of its long-term care being provided in these settings. Other states, such as Wisconsin, Washington, Vermont, and Arizona, spend about 60% of their

long-term care funding on home and community-based services. Oregon, at nearly 80%, leads the nation.



At Home or in a Nursing Home?

States vary widely in the percentage of Medicaid long-term care dollars they spend on home and community-based services. Nationwide, the number of options has increased dramatically over the last decade.



*Hawaii and New Mexico were excluded from this analysis because detailed information was not available for 2012.

Source: Centers for Medicare and Medicaid Services (2012 data), compiled by Truven Health Analytics.
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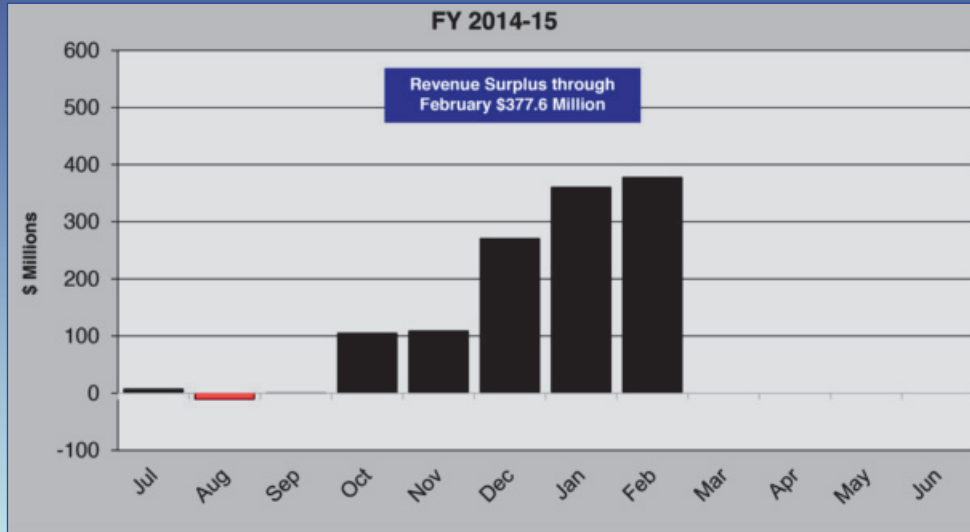
Because of the significant cost differential between the type of care, the projected increase in Pennsylvania's senior population

and the Commonwealth's fiscal constraints, emphasis should be placed on reducing reliance on expensive nursing home care with

more cost-effective (and consumer-preferred) choices, such as care that is provided in home and community-based settings.

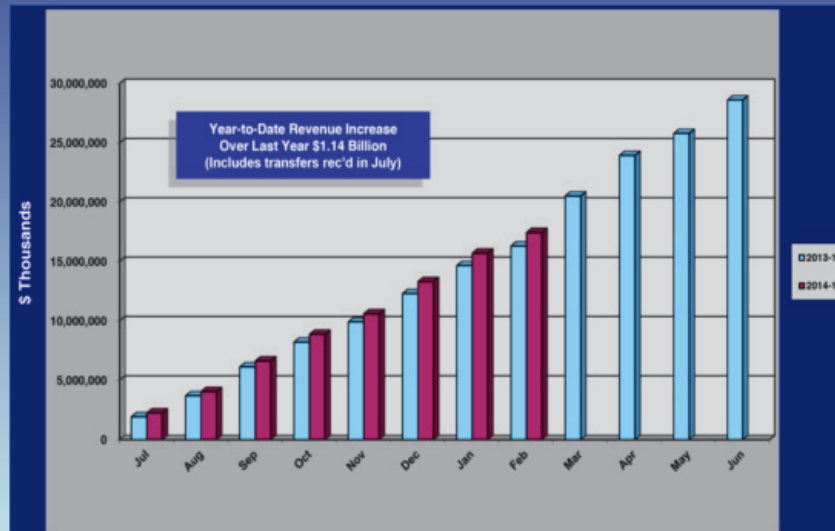


General Fund Tax Collections Year-to-Date Revenue Comparison with Official Estimate



Senate Appropriations Committee, Pat Browne, Chairman

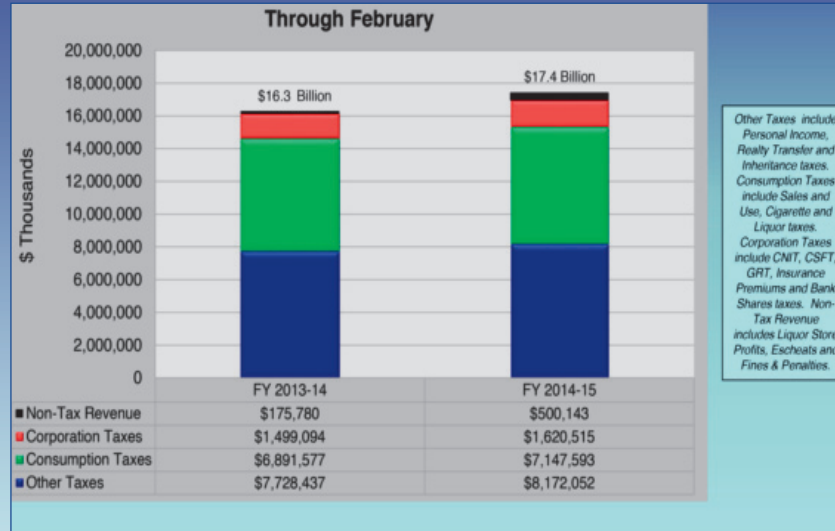
General Fund Revenue Collections Fiscal Year 2014-2015 Revenue Comparison with Last Year



Senate Appropriations Committee, Pat Browne, Chairman

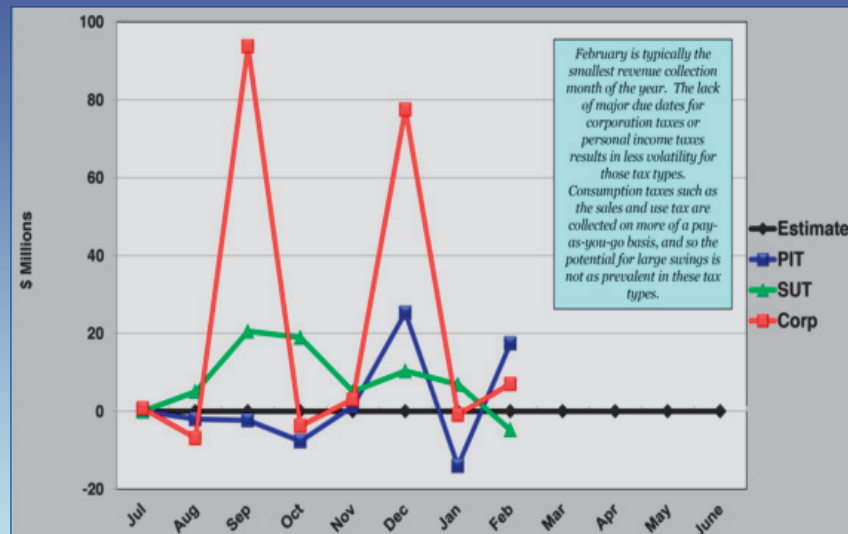


General Fund Year-to-Date Revenue Compared with Prior Year



Senate Appropriations Committee, Pat Browne, Chairman

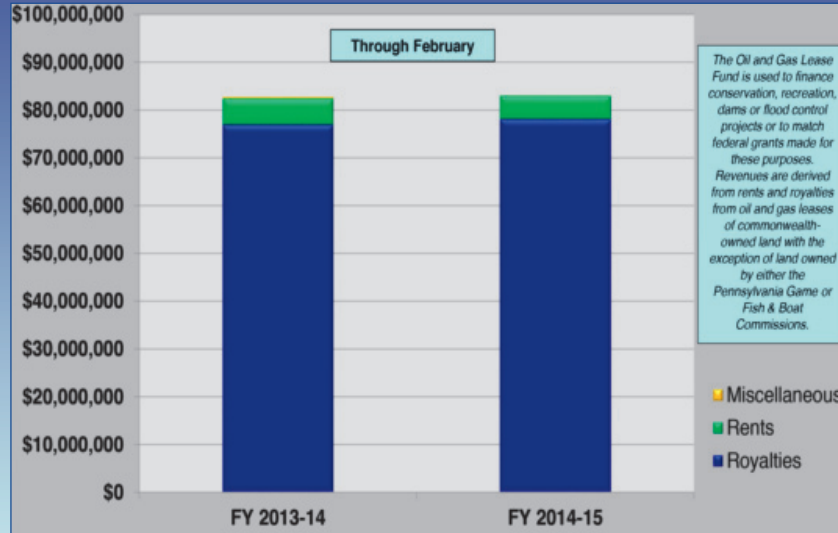
Fiscal Year 2014-2015 Performance of Major Tax Types Above/Below the Monthly Estimate



Senate Appropriations Committee, Pat Browne, Chairman

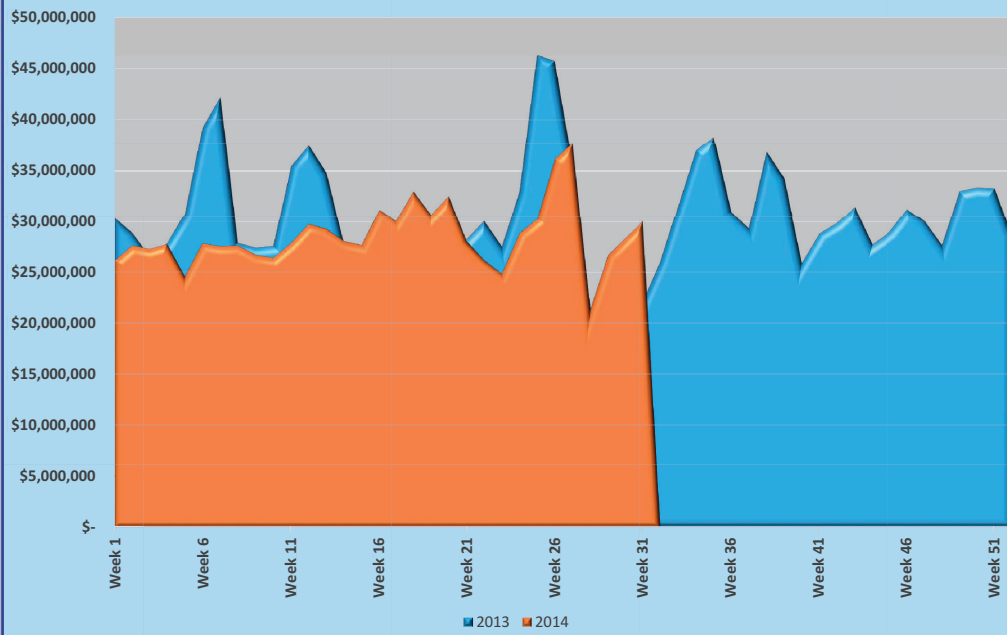


Oil and Gas Lease Fund Year-to-Date Revenue Compared with Prior Year



Senate Appropriations Committee, Pat Browne, Chairman

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	February 2015 Actual	February 2015 Estimated	Surplus/ (Deficit)	YTD Actual	YTD Estimated	Surplus/ (Deficit)
TOTAL - GENERAL FUND	16,294,888	1,742,482	1,725,200	17,282	17,440,304	17,062,655	377,649
TOTAL - NON-TAX REVENUE	175,780	21,915	18,500	3,415	500,143	451,655	48,488
TOTAL - TAX REVENUE	16,119,108	1,720,567	1,706,700	13,867	16,940,161	16,611,000	329,161
TOTAL - Corporation Taxes	1,499,094	66,113	59,100	7,013	1,620,515	1,450,900	169,615
Accelerated Deposits	1,204	275	0	275	4,470	0	4,470
Corp. Net Income	1,226,261	34,148	32,900	1,248	1,382,614	1,211,400	171,214
Cap. Stock & Franchise	180,062	4,986	6,000	(1,014)	116,869	148,300	(31,431)
Gross Receipts	40,068	2,459	4,100	(1,641)	42,503	43,600	(1,097)
PURTA	2,311	6	0	6	2,067	2,300	(233)
Insurance Premiums	37,866	23,317	15,200	8,117	41,573	35,600	5,973
Financial Institutions	8,346	485	800	(315)	28,106	8,600	19,506
Other Selective Bus. Taxes	2,975	437	100	337	229	1,100	1,213
TOTAL - Consumption Taxes	6,891,577	746,404	751,500	(5,096)	7,147,593	7,097,200	50,393
Sales and Use	6,013,008	651,357	656,200	(4,843)	6,298,019	6,236,300	61,719
General (net of transfers)	5,236,141	568,090	578,300	(10,210)	5,442,352	5,414,500	27,852
Motor Vehicle Sales	776,866	83,267	77,900	5,367	855,668	821,800	33,868
Cigarette Tax	644,738	68,697	68,400	297	607,443	616,600	(9,157)
Malt Beverage	16,760	1,893	1,900	(7)	16,018	17,000	(982)
Liquor	217,070	24,458	25,000	(542)	226,112	227,300	(1,188)
TOTAL - Other Taxes	7,728,437	908,050	896,100	11,950	8,172,052	8,062,900	109,152
Personal Income	6,875,455	819,462	802,100	17,362	7,141,703	7,123,900	17,803
Withholding	5,791,577	777,329	763,400	13,929	6,006,732	6,008,000	(1,268)
Non-Withholding	1,083,879	42,132	38,700	3,432	1,134,971	1,115,900	19,071
Realty Transfer	248,399	24,754	19,900	4,854	271,866	295,400	(23,534)
Inheritance & Estate	542,345	66,103	67,900	(1,797)	660,711	581,000	79,711
Minor & Repealed	2,505	(10,110)	(1,000)	(9,110)	33,957	400	33,557
Tavern Games	0	193	100	93	303	600	(297)
Table Games	59,733	7,650	7,100	550	63,512	61,600	1,912
TOTAL - MOTOR LICENSE FUND	1,561,184	306,378	194,120	112,258	1,668,697	1,547,220	121,477
TOTAL - Liquid Fuels Taxes	849,961	159,541	127,200	32,341	1,026,280	966,500	59,780
Liquid Fuels	318,709	149	0	149	4,226	0	4,226
Fuels	94,931	0	0	0	3	0	3
Motor Carriers/IFTA	24,517	9,285	3,700	5,585	50,224	33,400	16,824
Alternative Fuels	1,022	362	200	162	2,009	1,600	409
Oil Company Franchise	309,061	149,745	123,300	26,445	969,818	931,500	38,318
TOTAL - Licenses, Fees & Other	711,224	146,837	66,920	79,917	642,417	580,720	61,697
Licenses and Fees	539,934	87,144	62,500	24,644	561,427	532,400	29,027
Other Motor Receipts	171,290	59,693	4,420	55,273	80,990	48,320	32,670



Quick Reference for the FY 2015-16 Wolf Budget

REVENUES

\$4.7 Billion Tax Increase in FY 2015-16; \$12 Billion Tax Increase Over 2 Years
\$1,000 from each man, woman and child in Pennsylvania

Personal Income Tax – a portion dedicated to Property Tax

- 20.5% increase in the Personal Income Tax (effective July 1, 2015) – \$2.4 billion
- Rate: 3.07% to 3.7%
- Affects nearly 1 million small businesses
- Expands Tax Forgiveness to \$36,400 for a family of four – \$90.2 million revenue loss
- Makes Lottery winnings taxable – \$15.7 million

4-Person Family Impact

Making \$55,000 – \$346
Making \$100,000 – \$630

Sales and Use Tax – a portion dedicated to PSERS' Costs

- 10% increase in the Sales and Use Tax and base broadening to all items except food, clothing, prescription drugs and business-to-business transactions (effective January 1, 2016) – \$1.6 billion
- Rate: 6% to 6.6%

Household Impact *

Approximately \$500 a year

* Projected on an annualized basis.

Cigarette Tax

- \$1.00 per pack increase (effective October 1, 2015) – \$358.4 million
- Rate: \$1.60 per pack to \$2.60 per pack

Typical Smoker Impact

\$281 additional tax per year

Other Tobacco Products Tax

- New tax of 40% applied to the wholesale price (effective October 1, 2015) – \$84.1 million
- Chewing tobacco, cigars, loose tobacco and e-cigarettes

Typical User Impact

Approximately \$200 a year

* Projected on an annualized basis.

Corporate Net Income Tax

- Mandatory, unitary combined reporting, along with scheduled rate reductions (effective January 1, 2016) – \$249.3 million overall business tax cut (actual impact will vary by business depending on its filing status)
- Net Operating Loss reduction to \$3 million or 12.5%
- Rate: to 5.99% beginning January 1, 2016 to 5.49% beginning January 1, 2017 to 4.99% beginning January 1, 2018

Severance Tax

- New tax of 5% of gross value of natural gas + \$0.047 per thousand cubic feet of gas severed (effective January 1, 2016) – \$165.7 million
- Impact fee distribution maintained at \$225 million

Bank Shares Tax

- Retroactive rate increase [to TY 2013] to achieve originally expected revenue neutrality – \$339.2 million
- Rate: 0.89% to 1.25%

NEW DEBT

\$3 billion pension bond
(Increased LCB Profits pay debt service)

\$675 million Economic Growth Fund
(Severance Tax pays debt service)

SPENDING - \$33.8 Billion

\$ 4.7 Billion, or 16.1%, Increase

- Proposes to offline \$1.75 billion of PSERS contributions.
- Generates \$2.1 billion for property tax relief that will begin in FY 2016-17.
- Generally removes funding for legislative priorities but more than doubles economic development programs under the Governor's control.
- Increases funding for Basic Education programs by \$1.3 billion, or 12.1%.
- Provides a \$400 million increase for Basic Education Funding.
- Increases funds available for Special Education by \$100 million.
- \$100 million increase for Pre-K Counts.
- Provides a \$160 million increase for higher education.
- Increases PA First to \$45 million.
- Expands Keystone Communities to \$21 million.
- Expands Human Service spending by nearly \$700 million.
- Reduces reliance on the Oil and Gas Lease fund in DCNR.
- Proposes to merge Probation and Parole with Corrections.
- Increases Corrections spending by \$150 million.
- Funds 4 State Police cadet classes with 350 cadets.
- Assumes an increase in liquor profits in future years from modernization efforts.
- Contains more than \$80 million of supplemental spending for the current fiscal year.