



Pennsylvania Senate Appropriations Committee

Senator Pat Browne
Chairman



December 2017

Monthly Report

Change Coming Soon for Online Retailers

With the holiday shopping season in full swing, now is a good time to highlight a change included in Act 43 of 2017 that will help level the playing field for Pennsylvania’s brick-and-mortar retailers. For decades, Federal Commerce Clause court decisions generally have prohibited states from requiring sellers to collect and remit their sales tax unless the seller has a bright line nexus, or connection, with a state. The requisite connection establishing nexus is often in the form of a brick-and-mortar physical presence. In the age of Internet shopping, many states, including Pennsylvania, are looking for ways to collect sales and use tax due on these purchases while not running afoul of the Federal prohibitions.

For transactions occurring on or after April 1, 2018, online marketplace facilitators, sellers and referrers having aggregate sales into Pennsylvania of at least \$10,000 in the previous calendar year must elect to either collect and remit sales tax or comply with notice and reporting requirements. Notice and reporting requirements include the following:

- Posting notice on its platform informing purchasers having a delivery location in PA that sales tax may be due on the purchase and that PA requires the purchaser to file a use tax return.
- Providing a written notice to each purchaser at the time of sale stating that sales tax is not being collected and the purchaser may be required to remit use tax to PA.
- Providing instructions for obtaining information from the Department of Revenue on how to remit use tax.
- Prominently displaying this information on each invoice, order form, sales receipt or similar document.

~ Continues on Page 3 ~

****Earlier this week, the Fitch rating agency affirmed the Commonwealth's debt rating at AA- but assigned a Negative Outlook due to the use of non-recurring budget balancing items in recent years, a lack of reserves, continued cost pressures and modest revenue growth.**

Inside This Issue

Economic Indicators.....	2
Official Revenue Estimates	3
General Fund Revenue Summary.....	4
General Fund Revenue Detail.....	5

ECONOMIC & BUDGET OUTLOOK

FISCAL YEARS 2017-18 TO 2022-23



INDEPENDENT FISCAL OFFICE



The Independent Fiscal Office (IFO) recently released its annual Five Year Economic and Budget Outlook. The report, along with the IFO’s slide show presentation, can be viewed at <http://www.ifo.state.pa.us/releases.cfm?type=6>. In addition, a guest presentation by the Pew Charitable Trusts regarding state tax incentives is available as well.

Senate Appropriations Committee

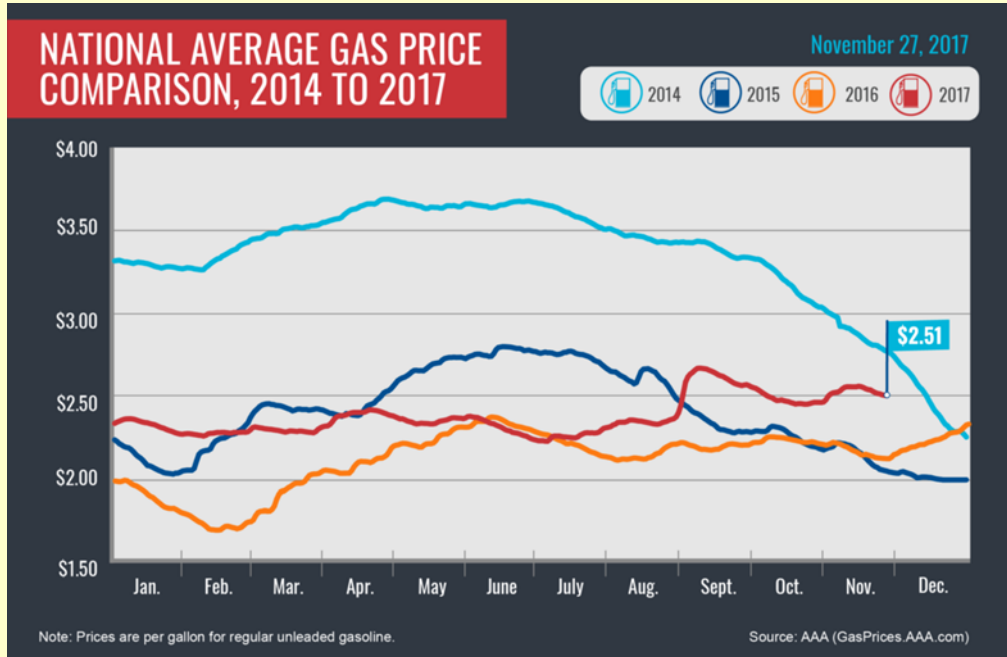
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Economic Indicators: December 2017

With Thanksgiving behind us and Christmas just weeks away, many of us do plenty of traveling to visit family, friends and loved ones. AAA estimated that Thanksgiving 2017 would be the most heavily trafficked holiday since 2005, estimating that nearly 46 million Americans would be traveling more than 50 miles from their home via car. This increase in travel coupled with strong fall consumer demand, and a market that continues to recover after a hurricane season that hit our Nation's refining industry hard, has caused gasoline prices to be the most expensive since 2014. The good news is prices are expected to decline through the month of December and into early 2018.



With the holiday season, so too comes the colder weather. The U.S. Energy Information Administration is forecasting an increase in expenditures for home heating this winter compared to last. Mild winter weather over the past two years has resulted in a reduction of consumption across all heating utilities. A forecast for a return to average winter weather, causing an increase in consumption, is the driving factor in the expenditure increase over last year. Both electric and natural gas are expected to experience modest price increases. An increase in the price of crude could cause residential customers to see an increase of \$0.25 - \$0.30 per gallon compared to last year. The chart below shows the reduced consumption of heating alternatives over the past two winters due to more mild weather.

Average Consumer Prices and Expenditures for Heating Fuels During the Winter									
U.S. Energy Information Administration		Short-Term Energy Outlook - November 2017							
Region / Fuel	Winter of							Forecast	
	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	% Change
U.S. Average									
Heating Oil									
Consumption (gallons)	580.8	471.2	545.6	607.3	608.1	481.7	517.9	538.1	3.9
Price (\$/gallon)	3.38	3.73	3.87	3.88	3.04	2.06	2.41	2.71	12.4
Expenditures (\$)	1,966	1,757	2,114	2,353	1,849	993	1,248	1,457	16.8
Northeast									
Natural Gas									
Consumption (Mcf**)	80.7	66.5	76.1	84.1	84.7	67.8	72.6	74.9	3.1
Price (\$/mcf)	12.66	12.21	11.71	11.53	10.82	10.19	10.74	11.13	3.7
Expenditures (\$)	1,022	812	891	969	916	691	780	833	6.9
Electricity									
Consumption (kWh***)	7,076	6,437	6,863	7,223	7,253	6,497	6,714	6,811	1.4
Price (\$/kwh)	0.154	0.154	0.152	0.163	0.168	0.164	0.165	0.168	1.9
Expenditures (\$)	1,091	993	1,046	1,177	1,219	1,069	1,108	1,145	3.4

Change Coming Soon for Online Retailers Continued.....

- Filling a report with the department no later than February 28 of each year providing the names of purchasers including mailing address, address to which the product was delivered, aggregate dollar amount of purchases, name and address of the remote seller, marketplace facilitator or market place seller.

Act 43 also includes substantial fines and penalties for failure to comply with the notice and reporting requirements. These changes are expected to generate increased sales and use tax revenues of \$8.2 million in fiscal year 2017-18 and \$50.5 million in fiscal year 2018-19, when the provisions are effective for a full year.

Commonwealth Financing Authority Approves \$1.5 Billion Securitization

On November 14, the Commonwealth Financing Authority unanimously approved a resolution to securitize \$1.5 billion of tobacco settlement fund revenues. Included as part of the FY 2017-18 budget, this revenue will be used to offset last year's deficit, which was approximately the same amount. The Commonwealth should receive the revenue in 60 to 90 days.



Official Revenue Estimate Certified in November

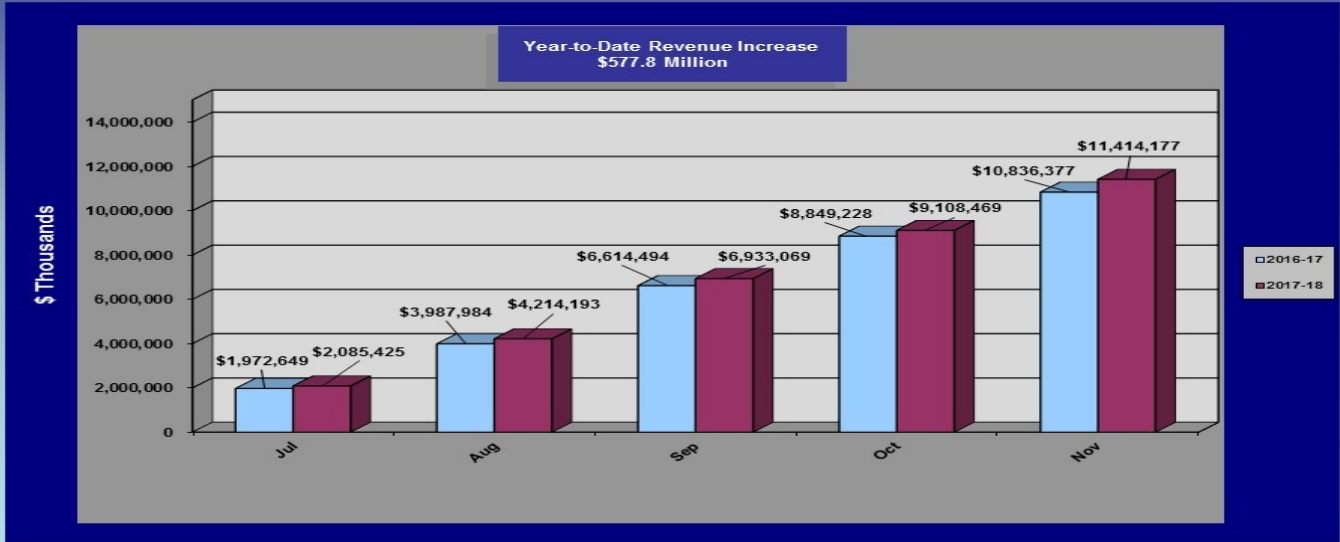
General Fund revenue collections for the month ended November 2017 totaled \$2.3 billion, which was \$26.7 million, or 1.2%, above estimate. Fiscal year-to-date collections total \$11.4 billion, which is \$26.1 million, or 0.2%, above estimate. The 2017-18 Official General Fund Revenue Estimate was certified in November at \$34.7 billion. The monthly distribution of the Official Estimate is now available. Prior to November, revenue collections were being compared against the Independent Fiscal Office's revenue estimate, which was prepared in June.

Total General Fund revenue for November 2017 was \$318.6 million, or 16%, more than General Fund revenue collected in November 2016. However, November 2016 revenues did not include a \$100 million transfer of Liquor Store Profits, which did occur this November. Also, last year's statutory change made to corporate net income tax (CNI) filing dates took effect this year and resulted in approximately \$60 million of additional CNI tax collections this November compared to last. Last year, these collections were due in the month of October. After adjusting for these differences, November 2017 revenues are still approximately \$159 million, or 8%, more than November 2016.

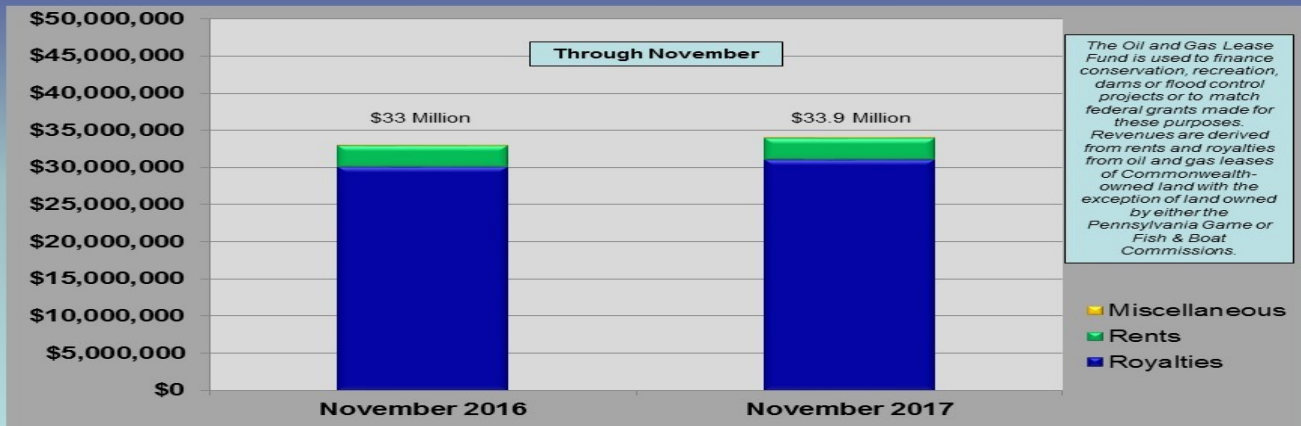
For the fiscal year-to-date, total General Fund revenue is \$577.8 million, or 5.3%, higher than FY 2016-17. Total tax revenue growth for FY 2017-18 is 4.3% higher than it was through November of FY 2016-17. The lower tax revenue growth of 4.3% as compared to total growth of 5.3% is mostly a result of the mismatched timing of the \$100 million Liquor Store Profit transfer.

Motor License Fund collections were \$24.3 million, or 10.2%, above estimate for the month of November. The Motor License Fund is \$24 million, or 1.9%, above estimate for the year. Motor License Fund revenues are 15.4% more than last year through November.

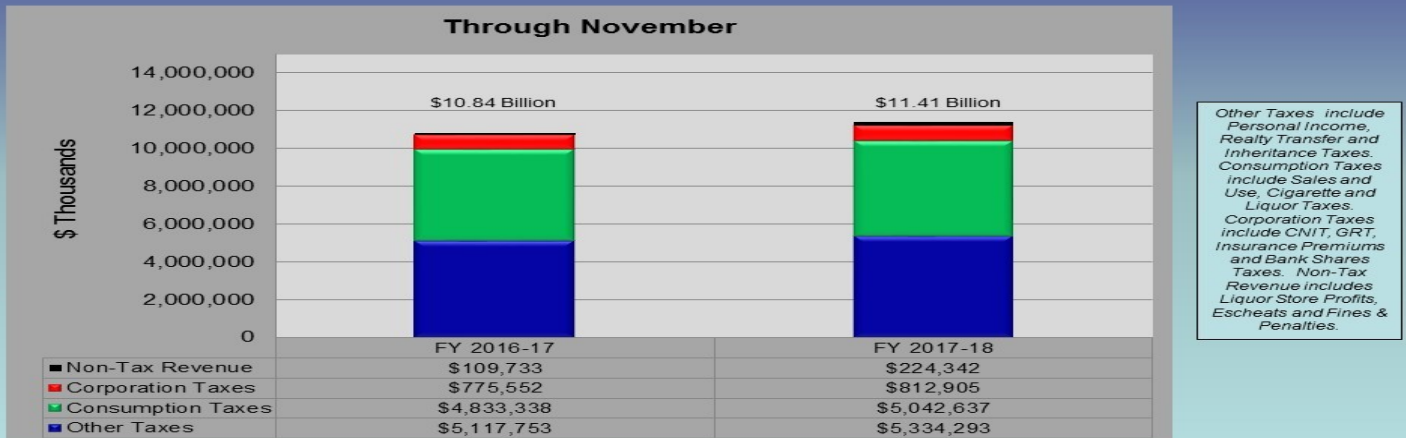
*General Fund Revenue Collections
Fiscal Year 2017-18
Revenue Comparison with Last Year*



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



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



Fiscal Year 2017-18

Senate Appropriations Committee

Monthly Revenue Report

(\$ thousands)

REVENUE SOURCES	YTD FY 2016-17	November 2017 Actual	November 2017 Estimated	Surplus/ (Deficit)	YTD Actual	YTD Estimated	Surplus/ (Deficit)
TOTAL - GENERAL FUND	10,836,377	2,305,709	2,279,000	26,709	11,414,177	11,388,100	26,077
TOTAL - NON-TAX REVENUE	109,733	146,870	168,100	(21,230)	224,342	245,500	(21,158)
TOTAL - TAX REVENUE	10,726,643	2,158,839	2,110,900	47,939	11,189,835	11,142,600	47,235
TOTAL - Corporation Taxes	807,177	103,333	94,300	9,033	812,905	804,100	8,805
Accelerated Deposits	595	218	0	218	179	0	179
Corp. Net Income	731,282	96,019	87,000	9,019	769,105	760,100	9,005
Cap. Stock & Franchise	31,625	0	0	0	0	0	0
Gross Receipts	24,824	2,963	5,700	(2,737)	11,899	14,700	(2,801)
PURTA	2,301	176	0	176	1,323	1,200	123
Insurance Premiums	2,978	612	700	(88)	10,898	11,000	(102)
Financial Institutions	13,573	3,345	900	2,445	19,501	17,100	2,401
TOTAL - Consumption Taxes	4,833,338	\$991,935	\$976,200	\$15,735	\$5,042,637	\$5,027,300	\$15,337
Sales and Use	4,139,930	837,433	813,800	23,633	4,310,107	4,286,500	23,607
General (net of transfers)	3,562,358	726,763	703,000	23,763	3,724,726	3,701,000	23,726
Motor Vehicle Sales	577,572	110,670	110,800	(130)	585,380	585,500	(120)
Cigarette Tax	534,906	109,128	113,400	(4,272)	521,934	526,300	(4,366)
Other Tobacco Products	856	10,120	10,100	20	49,595	49,700	(105)
Malt Beverage	11,014	2,006	2,000	6	10,804	10,900	(96)
Liquor	146,631	33,248	36,900	(3,652)	150,198	153,900	(3,702)
TOTAL - Other Taxes	5,086,129	1,063,571	1,040,400	23,171	5,334,293	5,311,200	23,093
Personal Income	4,471,551	918,230	907,700	10,530	4,661,452	4,651,100	10,352
Withholding	3,862,165	878,133	867,100	11,033	4,030,623	4,019,700	10,923
Non-Withholding	609,386	40,096	40,600	(504)	630,828	631,400	(572)
Realty Transfer	199,321	44,470	41,900	2,570	220,808	218,200	2,608
Inheritance & Estate	368,408	87,825	81,300	6,525	404,461	397,900	6,561
Minor & Repealed	(849)	3,606	300	3,306	(1,839)	(5,200)	3,361
Table Games (Gaming)	47,697	9,440	9,200	240	49,412	49,200	212
TOTAL - MOTOR LICENSE FUND	1,092,139	262,525	238,230	24,295	1,259,844	1,235,860	23,984
TOTAL - Liquid Fuels Taxes	723,838	193,405	180,200	13,205	821,553	808,300	13,253
Liquid Fuels	45	1	0	1	3	0	3
Fuels	0	0	0	0	0	0	0
Motor Carriers/IFTA	44,520	29,247	23,600	5,647	61,689	56,000	5,689
Alternative Fuels	4,214	1,172	1,000	172	5,853	5,600	253
Oil Company Franchise	675,058	162,985	155,600	7,385	754,008	746,700	7,308
TOTAL - Licenses, Fees & Oth- er	368,301	69,121	58,030	11,091	438,291	427,560	10,731
Licenses and Fees	360,763	72,733	59,100	13,633	397,583	384,200	13,383
Other Motor Receipts	7,538	(3,612)	(1,070)	(2,542)	40,708	43,360	(2,652)