



Pennsylvania Senate  
**Appropriations  
Committee**

**Senator Pat Browne**  
Chairman



September 2016

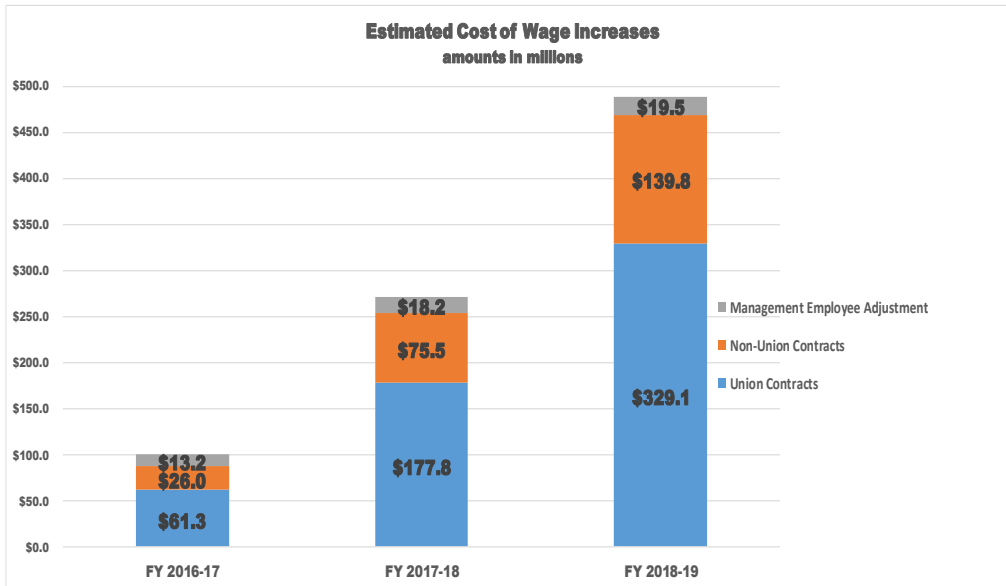
# Monthly Report

## Administration Reaches Contract Deal with Largest Unions

The Administration announced it has reached an agreement with the Commonwealth's largest unions for a three-year contract. The agreement with the American Federation of State, County, and Municipal Employees (AFSCME) and Service Employees International Union (SEIU) will provide total wage increases of 11.75% from October 2016 through January 2019.

In the past, the three-year agreement with the state's largest unions has typically become the wage pattern for most other unions operating in state government, with the exception of public safety unions. AFSCME and SEIU together represent about 41,000 of the state's workforce. About 6,000 other union employees are expected to fall under the agreement. Historically, the AFSCME agreement has been applied to the Commonwealth's 13,000 management employees as well, which the Administration indicates will occur.

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### Where We Are In the Annual Budget Process

In mid-August, the Administration released its budget guidance and technical budget instructions to agencies for the fiscal year that begins July 1, 2017. Agencies are developing their budget requests currently and will submit them to the Governor's Budget Office by October 7<sup>th</sup>.

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**Contract Deal with Unions continued**

The Administration projects the deal will increase costs for union employees by \$428.2 million over the next three fiscal years. However, Senate Appropriations estimates the agreement will increase union-employee costs by \$568.2 million plus an additional \$241.3 million for management and other non-represented employees. The Administration applied a factor to account for employee turnover, which reduced its cost estimates for the deal. The use of this factor

*“Senate Appropriations estimates the agreement will increase union-employee costs by \$568.2 million plus an additional \$241.3 million for management and other non-represented employees.”*

is the major difference between our cost estimates; however, Senate Appropriations believes a static analysis is more representative at illustrating the magnitude of the deal. The Independent Fiscal Office will provide its estimates of the cost of the agreement this week.

State Police Troopers and Correctional Officers contracts are separate from the AFSCME agreement and do not expire until June 2017.

The Administration is also making changes to employee medical coverage. Employee premiums will rise from 2% to 2.5% of pay over the life of the contract, medical copayments will increase and the Commonwealth will institute a deductible for non-HMO medical plans. These changes will be applied to all current employees and retirees and are expected to reduce the growth in Commonwealth costs by \$214.2 million over the next three years.

In addition to increases provided under the union agreement, the Administration will eliminate the separate management pay scale and move management employees to the Commonwealth’s regular pay scale. Because the Commonwealth’s regular pay scale is higher than the management pay scale, management employees will receive an additional increase of approximately 1.4% effective October 1, 2016, when the shift is completed. This change will increase the Commonwealth’s costs by an additional \$50.9 million over three fiscal years.

<b>Announced Wage Increases</b>	
October 1, 2016:	2.75%
July 1, 2017:	2.00%
January 1, 2018:	2.25%
July 1, 2018:	2.50%
January 1, 2019:	2.25%

**Independent Fiscal Office Releases Quarterly Revenue Distributions**

The Independent Fiscal Office (IFO) released its quarterly estimates for Fiscal Year 2016-17 revenues; for the full fiscal year, the IFO projection is \$266 million lower than the Governor’s estimate. There are three primary differences: the IFO does not include \$100 million from the expansion of gaming; the IFO does not include \$74.8 million of gaming license revenue; and the IFO’s revenue gain from Liquor Store Profits is \$74.6 million lower than our estimate. The remaining difference is only \$16.6 million and can easily be explained by differences in methodologies and assumptions.

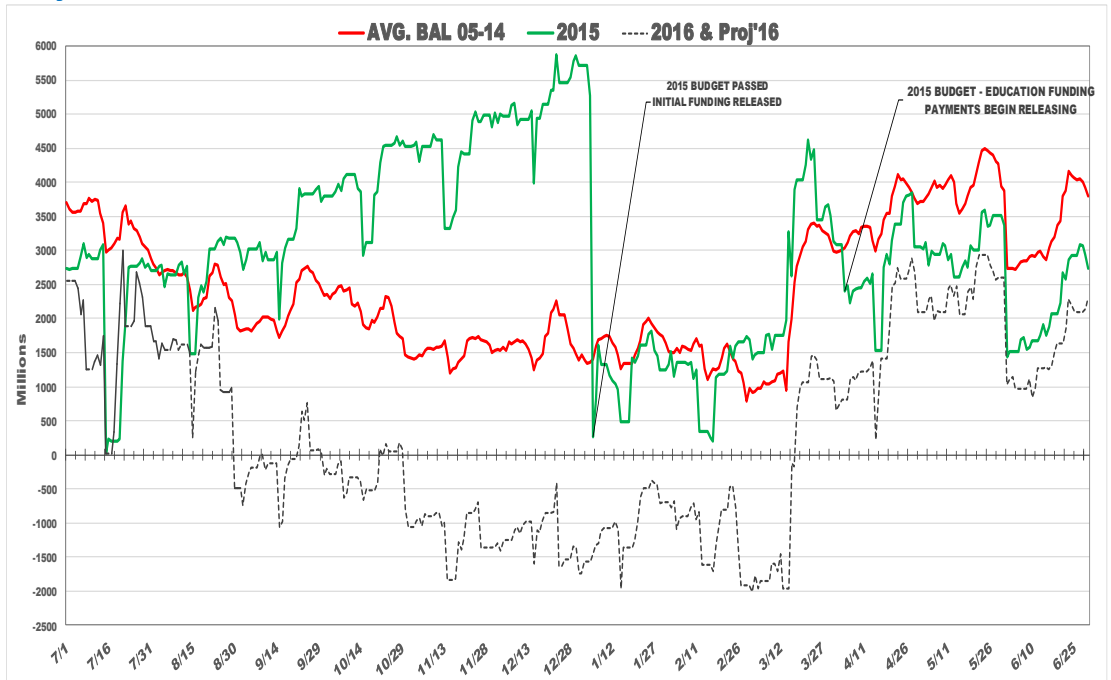
**IFO Quarterly General Fund Revenue Distribution**  
*(amounts in millions)*

	July – September	October – December	January – March	April – June	2016-17 Projection
Tax Revenue	\$6,751.1	\$6,917.8	\$8,749.7	\$9,256.3	<b>\$31,674.9</b>
Non-Tax Revenue	70.1	48.3	179.4	537.7	<b>835.5</b>
<b>General Fund Total</b>	<b>\$6,821.2</b>	<b>\$6,966.1</b>	<b>\$8,929.1</b>	<b>\$9,794.0</b>	<b>\$32,510.4</b>

## State Treasury Provides \$2.5 Billion Line of Credit to Commonwealth

The Wolf Administration announced that the Treasury will provide the Commonwealth's General Fund up to a \$2.5 Billion line of credit to ensure sufficient cash is available to meet its obligations. The Short-Term Investment Pool, or STIP, loan as it is more commonly referred to, essentially operates as a line of credit for the Commonwealth's General Fund.

At \$31.5 Billion, the General Fund is the Commonwealth's largest operating fund. However, all of that \$31.5 Billion is not in the State Treasury on July 1 when the state's fiscal year begins. The Commonwealth receives revenue near-



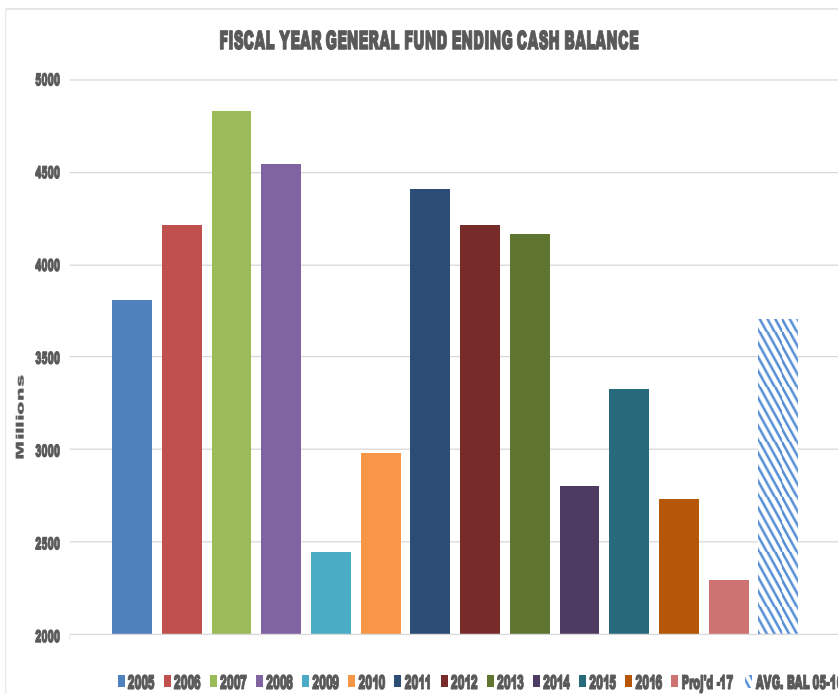
Source: PA Treasury Department

ly every day of the fiscal year, with peak cash balances being reached in April or May, more than three-quarters of the way through the fiscal year. Like other governments and businesses, the Commonwealth periodically faces cash flow shortages throughout its fiscal year. Not to be confused with a deficit, cash flow shortages are merely the result of a difference between when the Commonwealth pays its bills and when revenues are deposited.

The chart **above** displays the average General Fund cash balance from 2005 through 2014, last fiscal year and this fiscal year before the STIP.

While the Commonwealth's General Fund might be short on cash at various times throughout the year, other Commonwealth funds have revenue which is not needed until later in the year. When this occurs, the State Treasurer's Office issues a STIP loan to the General Fund, with a promise of repayment after General Fund balances peak. This approach is a win-win situation for the Commonwealth: the loaning fund earns more interest than it would otherwise while the General Fund pays less interest than if a bank had loaned the money.

While the STIP agreement provides for up to \$2.5 Billion to be loaned to the General Fund, Administration and Treasury officials will only draw revenue on an as-needed basis. To date, the following draws have occurred: August 15 – \$400 Million and September 13—\$1.2 Billion. Last year, the Administration and Treasury agreed to a \$2 Billion STIP, but only \$1 Billion was needed, most likely due to the historic



Source: PA Treasury Department

budget impasse which delayed payments to school districts, counties and vendors.

While the STIP agreement is economical for the Commonwealth and does not necessarily signal a weakened financial position, the Commonwealth's General Fund will need to be monitored closely as the June 30 General Fund cash balance has trended downward over the last five fiscal years, as illustrated in the chart **above**.

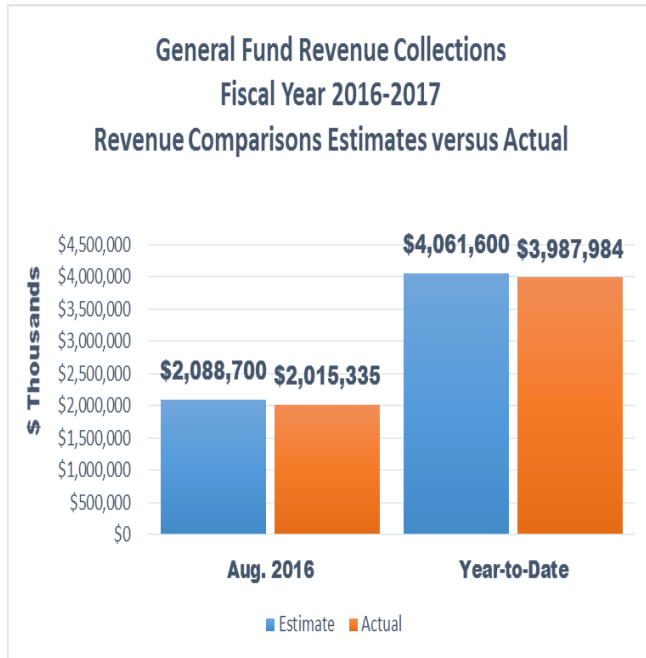
## August 2016 Revenue Update

### Revenue Estimates versus Actual Revenues

Total General Fund revenue collections for August 2016 was \$2.02 billion, \$73.4 million, or 3.5%, below estimate. Fiscal year-to-date collections total \$3.99 billion, which is \$73.6 million, or 1.8%, below estimate for the year.

Corporation tax collections were below estimate for the month by \$11.9 million, or 20.9%; however, August is not a particularly important or large month for corporation tax revenues. Corporation tax collections were below year-to-date estimate by \$12 million, or 9.7%.

Sales and use tax (SUT) collections were \$51.9 million, or 6.2%, below estimate for the month and were \$51.9 million, or 3.0%, below estimate for year-to-date. General (i.e. non-motor) SUT lagged behind esti-



**Total General Fund revenue collections for August 2016 were, \$73.4 million, or 3.5%, below estimate and brings fiscal year-to-date shortfall to \$73.6 million, or 1.8%, below estimate for the year.**

### Official Revenue Estimates

- The FY 2016-17 Official Revenue Estimate calls for overall PIT growth of nearly 4.4% from FY 2015-16; however, a significant portion of the growth is expected to occur in April 2017 when calendar year 2016 tax returns and payments are due.
- The FY 2016-17 Official Revenue Estimate calls for overall SUT growth of 4.2% from FY 2015-16.

million, or 23.5%), respectively, above estimate for the year-to-date.

Cigarette tax collections were ahead of estimate by \$1.6 million, or 1.6%, for August and \$1.6 million, or 1%, ahead of estimate for the year-to-date.

PIT collections were below estimate by \$18.2 million, or 2.0%, for the month and \$18.3 million, or 1.1%, below estimate for the year-to-date.

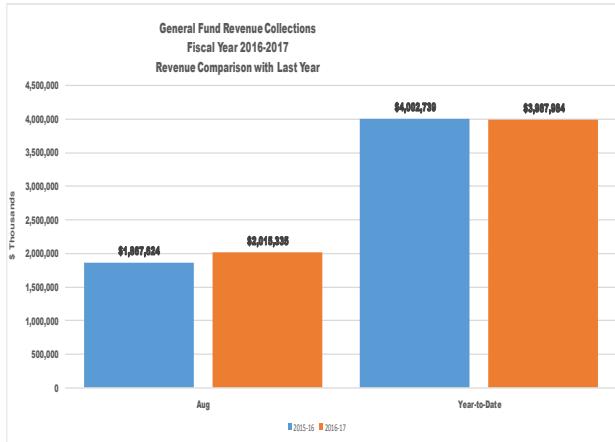
Realty transfer tax (RTT) collections for August 2016 were below estimate by \$8.9 million, or 16.5%, and \$9 million, or 10.4%, below estimate for the year-to-date, while Liquor tax collections were short of estimate by \$1.7 million, or 6%, and \$1.7 million, or 2.9%, for the year-to-date.

But, inheritance tax collections were \$5.9 million, or 7.7%, above estimate for August and \$5.8 million, or 3.8%, above estimate for the year-to-date, while table games (\$261,000, or 3.1%) and non-tax revenue collections (\$11 million, or 127.5%) both exceeded estimate for August and were (\$251,000, or 1.4%) and (\$11

“Moody’s Investors Service has revised the Commonwealth of Pennsylvania outlook to stable from negative. We have also affirmed the commonwealth’s Aa3 general obligation rating, and the A1 and A2 ratings on various lease financings and appropriation bonds.”

– Moody’s Investors Service,  
August 5, 2016

## August 2016 Revenue Collections versus August 2015



Total General Fund revenue collections for August 2016 were \$147.7 million, or 7.9%, above revenue collections in August 2015. Year-to-date collections for 2016 are \$14.8 million, or 0.4%, less than year-to-date collections at this point in 2015.

However, August 2016 included five primary personal income tax withholding days, while August 2015 included only four such days. Because each large withholding day (i.e. Wednesdays) brings in personal income tax (PIT) revenues of approximately \$110 million to \$115 million, August 2016 revenue collections would have been roughly \$35 million ahead of August 2015 revenues once factoring out the extra withholding day.

Corporation tax collections in August 2016 were \$12.6 million, or 21.9%, less than August 2015 and \$20.2 million, or 15.3%, year-to-date in 2016 versus year-to-date

**General Fund revenues collected in August 2016 were \$147.7 million, or 7.9%, above revenue collections last August; however, that was largely due to an extra primary personal income tax withholding day this year, instead of four last August.**

collections in 2015, while sales and use tax (SUT) collections were \$14 million, or 1.7%, less than last August and for fiscal year-to-date, SUT collections have shrunk by \$23.6 million, or 1.4%, over FY 2015-16.

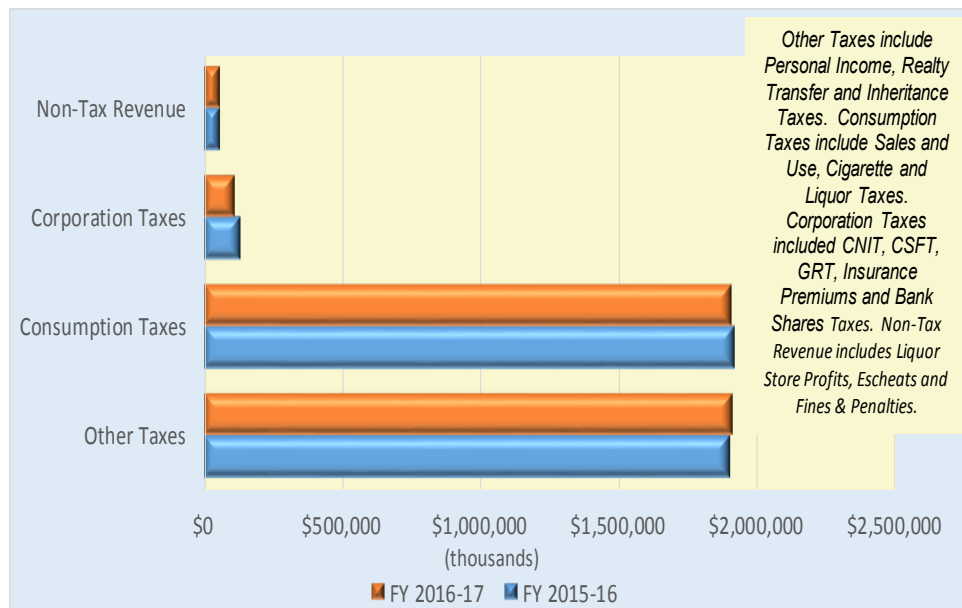
Personal income tax (PIT) collections for August 2016 were \$151.1 million, or 20.3%, more than August 2015 and fiscal year-to-date PIT collections were \$34.6 million, or 2.1%, over FY 2015-16 collections, while realty transfer tax (RTT) collections for August 2016 were \$2.4 million, or 4.9%, less than August 2015 collections and \$22.7 million, or 22.6%, less in FY 2016-17 collections than FY 2015-16.

Inheritance tax collections for August 2016 were \$9.8 million, or 13.7%, over August 2015 and FY 2016-17 collections were \$2.3 million higher than FY 2015-16. Liquor tax collections for August 2016 were \$752,000, or 2.8%, more than 2015 and \$1.4 million, or 2.5%, more collected in FY 2016-17 than in FY 2015-16.

Table games collections for August 2016 were \$552,000, or 6.9%, higher than August 2015 and \$716,000, or 4%, in FY 2016-17 more than FY 2015-16, while non-tax revenue collections for August 2016 were \$46,000, or 0.2%, above August 2015 and \$632,000, or 1.1%, more in FY 2016-17 collections than in FY 2015-16.

Cigarette tax collections were \$99.9 million, or 14.7%, higher than August 2015 and \$14.1 million, or 9.4%, higher in FY 2016-17 over FY 2015-16. However, these increases were greatly achieved with the \$1.00 per pack tax increase which took effect August 1, 2016.

### General Fund Revenue Summary August 2016 vs. August 2015

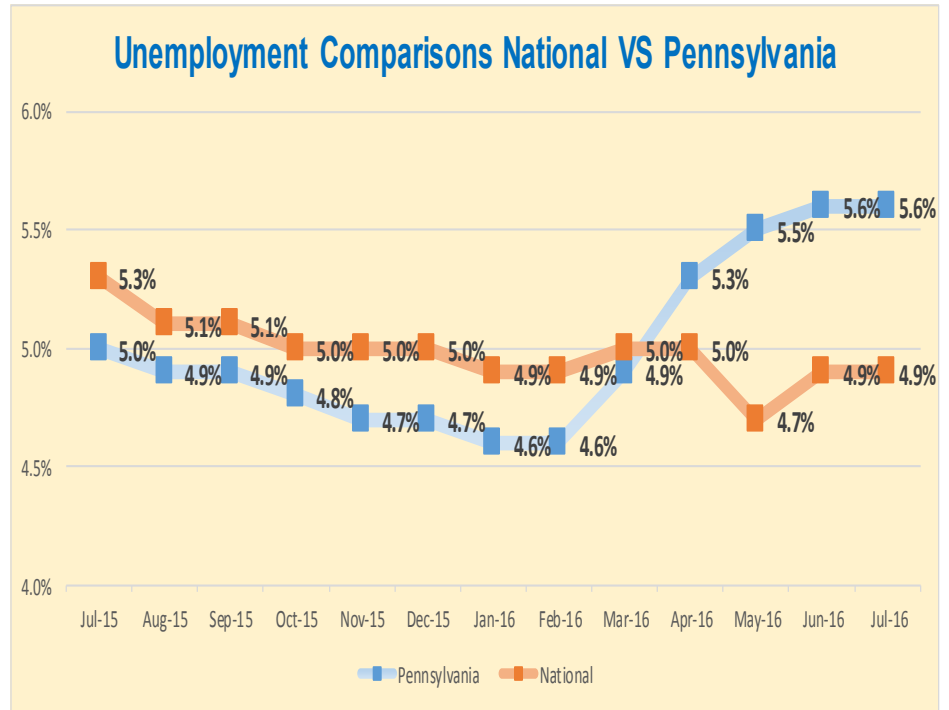


## Labor & Unemployment Statistics

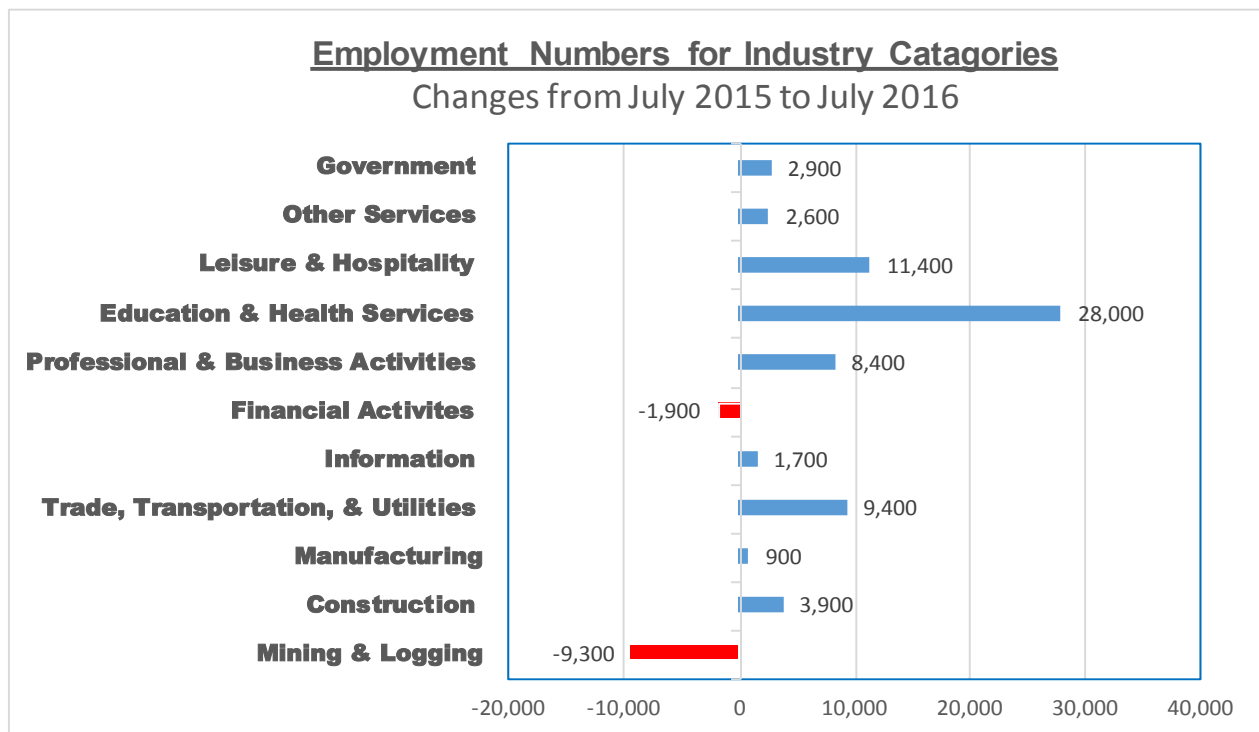
While the number of Pennsylvanians employed has increased by about 18,000 from June 2016 to July 2016 with its current workforce totaling 6,154,000, Pennsylvania's unemployment rate has basically remained the same at 5.6%.

The National unemployment rate from June 2016 to July 2016 also stayed the same, but is considerably lower than Pennsylvania's at 4.9%.

Over the past 12 months (July 2015 to July 2016), Pennsylvania has seen its unemployment rate increase from 5% to 5.6%, while the National unemployment rate decreased from 5.3% to 4.9%.



The North American Industry Classification System (NAICS) provides a categorization process for industry employment information. Pennsylvania classifies industry statistics into the following 11 NAICS supersectors:



## Oil and Gas Lease Fund Revenue Update

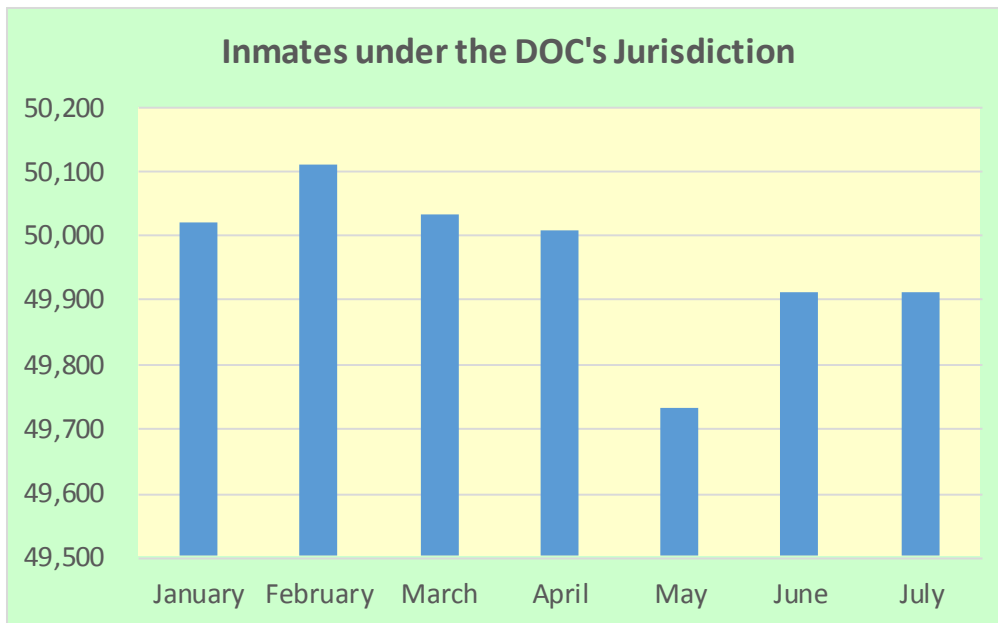
August 2014 vs. August 2015 vs. August 2016

As Oil and Gas Lease Fund revenues have declined in concert with the sharp drop in the price of natural gas, the General Fund has been forced to make up the difference.

Since FY 2014-15, the Department of Conservation and Natural Resource's operating appropriations have increased from \$9.1 million to \$100.9 million in FY 2016-17, an eleven-fold increase.



The Oil and Gas Lease Fund is used to finance conservation, recreation, dams or flood control projects or to match federal grants made for these purposes. Revenues are derived from rents and royalties from oil and gas leases of Commonwealth-owned land with the exception of land owned by either the Pennsylvania Game or Fish & Boat Commissions.



There was not much change from June 2016 to July 2016 in the inmate population under the Department of Corrections; however, there has been a modest decline in inmate population compared with the beginning of 2016. Inmate population has been reduced by nearly 200 individuals since February of this year.

## General Fund Revenue Detail

REVENUE SOURCES	YTD FY 2015-16	August 2016 Actual	August 2016 Estimated	Surplus/ (Deficit)	YTD Actual	YTD Estimated	Surplus/ (Deficit)
<b>TOTAL - GENERAL FUND</b>	<b>4,002,739</b>	<b>2,015,335</b>	<b>2,088,700</b>	<b>(73,365)</b>	<b>3,987,984</b>	<b>4,061,600</b>	<b>(73,616)</b>
<b>TOTAL - NON-TAX REVENUE</b>	<b>57,394</b>	<b>19,564</b>	<b>8,600</b>	<b>10,964</b>	<b>58,026</b>	<b>47,000</b>	<b>11,026</b>
<b>TOTAL - TAX REVENUE</b>	<b>3,945,346</b>	<b>1,995,772</b>	<b>2,080,100</b>	<b>(84,328)</b>	<b>3,929,958</b>	<b>4,014,600</b>	<b>(84,642)</b>
<b>TOTAL - Corporation Taxes</b>	<b>132,141</b>	<b>44,829</b>	<b>56,700</b>	<b>(11,871)</b>	<b>111,236</b>	<b>123,200</b>	<b>(11,964)</b>
Accelerated Deposits	(52)	415	0	415	326	0	326
Corp. Net Income	107,005	26,870	47,000	(20,130)	81,333	101,400	(20,067)
Cap. Stock & Franchise	10,237	9,249	2,000	7,249	14,428	7,200	7,228
Gross Receipts	12,124	5,056	5,800	(744)	7,812	8,500	(688)
PURTA	98	901	100	801	907	100	807
Insurance Premiums	1,385	1,593	1,000	593	2,208	1,700	508
Financial Institutions	595	745	800	(55)	4,222	4,300	(78)
Other Selective Bus. Taxes	748	0	0	0	0	0	0
<b>TOTAL - Consumption Taxes</b>	<b>1,916,048</b>	<b>920,385</b>	<b>972,600</b>	<b>(52,215)</b>	<b>1,907,577</b>	<b>1,959,800</b>	<b>(52,223)</b>
Sales and Use	1,706,700	790,818	842,700	(51,882)	1,683,105	1,735,000	(51,895)
General (net of transfers)	1,463,293	664,093	709,800	(45,707)	1,448,054	1,493,800	(45,746)
Motor Vehicle Sales	243,407	126,725	132,900	(6,175)	235,052	241,200	(6,148)
Cigarette Tax	149,717	99,919	98,300	1,619	163,837	162,200	1,637
Malt Beverage	4,832	2,187	2,400	(213)	4,441	4,700	(259)
Liquor	54,800	27,461	29,200	(1,739)	56,194	57,900	(1,706)
<b>TOTAL - Other Taxes</b>	<b>1,897,156</b>	<b>1,030,558</b>	<b>1,050,800</b>	<b>(20,242)</b>	<b>1,911,145</b>	<b>1,931,600</b>	<b>(20,455)</b>
Personal Income	1,619,518	893,728	911,900	(18,172)	1,654,140	1,672,400	(18,260)
Withholding	1,520,594	849,143	867,200	(18,057)	1,566,793	1,584,900	(18,107)
Non-Withholding	98,925	44,585	44,700	(115)	87,347	87,500	(153)
Realty Transfer	100,542	45,252	54,200	(8,948)	77,803	86,800	(8,997)
Inheritance & Estate	156,499	81,756	75,900	5,856	158,816	153,000	5,816
Minor & Repealed	2,762	1,261	500	761	1,835	1,100	735
Table Games	17,835	8,561	8,300	261	18,551	18,300	251
<b>TOTAL - MOTOR LICENSE FUND</b>	<b>453,108</b>	<b>236,064</b>	<b>237,890</b>	<b>(1,826)</b>	<b>447,442</b>	<b>449,300</b>	<b>(1,858)</b>
<b>TOTAL - Liquid Fuels Taxes</b>	<b>295,953</b>	<b>152,578</b>	<b>147,700</b>	<b>4,878</b>	<b>298,145</b>	<b>293,300</b>	<b>4,845</b>
Liquid Fuels	32	35	0	35	43	0	43
Fuels	0	0	0	0	0	0	0
Motor Carriers/IFTA	15,424	14,623	8,100	6,523	18,986	12,500	6,486
Alternative Fuels	855	750	900	(150)	1,664	1,800	(136)
Oil Company Franchise	279,640	137,171	138,700	(1,529)	277,451	279,000	(1,549)
<b>TOTAL - Licenses, Fees &amp; Other</b>	<b>157,155</b>	<b>83,485</b>	<b>90,190</b>	<b>(6,705)</b>	<b>149,297</b>	<b>156,000</b>	<b>(6,703)</b>
Licenses and Fees	152,095	83,198	88,600	(5,402)	149,224	154,600	(5,376)
Other Motor Receipts	5,060	288	1,590	(1,302)	73	1,400	(1,327)