



*Pennsylvania Senate*  
**Appropriations  
 Committee**

**Senator Pat Browne**  
 Chairman

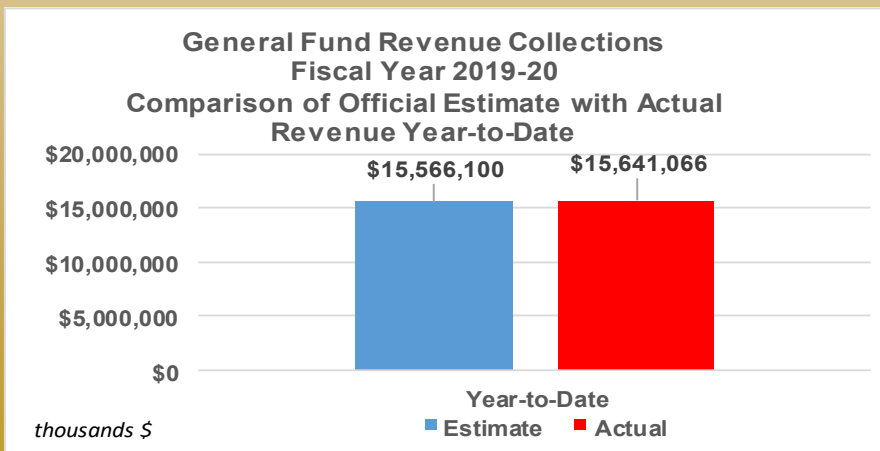


**Monthly Report** January 2020

**December General Fund Revenue Collections Shave Surplus**

General Fund revenue collections for the month of December were below the estimate by \$91.5 million, making a considerable dent in the year-to-date General Fund surplus, which now stands at \$75 million. General Fund tax revenues were \$84.2 million lower than the monthly estimate, and non-tax revenue was \$7.3 million below the estimate. Corporate net income tax (CNIT) primarily accounted for the monthly revenue shortfall coming in at \$79.2 million below estimate for the month. Final CNIT quarterly estimated payments for the 2019 tax year were due in December, and those payments were \$26.1 million short of the estimate. Regular annual CNIT collections missed the monthly estimate by \$53.1 million.

As the Independent Fiscal Office noted in its Economic and Budget Outlook report from November 2019, corporations generally responded to the enactment of the federal Tax Cuts and Jobs Act in late December 2017 by shifting income forward to take advantage of the lower federal tax rates beginning in 2018. This income shifting provided an artificial boost to FY 2018-19 CNIT revenues, making it more difficult to forecast current fiscal year CNIT revenues, which required determining how much revenue growth was due to the economy versus past one-time income shifting.



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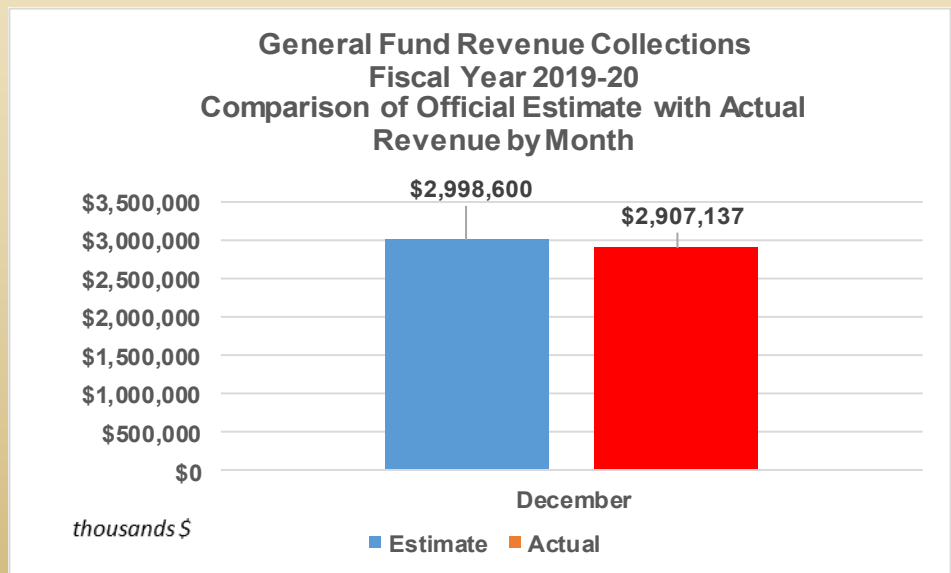
## December General Fund Revenue Collections Shave Surplus Continued.....

### December 2019 General Fund Revenue vs. Monthly Estimate:

- General Fund revenue collections of \$2.91 billion were below the monthly estimate by \$91.5 million, or 3.1%.
- General Fund tax revenues were below the estimate by \$84.2 million, or 2.8%.
- Corporation taxes were \$80.7 million, or 13%, below the estimate.
- Sales and use tax (SUT) collections missed the estimate by \$6.7 million, or 0.7%, for the month.
- Personal income tax (PIT) collections were above the estimate by \$18.9 million, or 1.9%.
- Non-tax revenues fell short of the estimate by \$7.3 million, or 23.1%, largely resulting from an unanticipated partial refund of a Category 4 casino license fee.

### Fiscal Year 2019-20 vs. the Official Revenue Estimate To-Date:

- Total General Fund revenues are \$75 million, or 0.5%, higher than the Official Revenue Estimate through the month of December.
- General Fund tax revenue is \$17.2 million, or 0.1%, above estimate.
- Corporation taxes are \$126.7 million, or 7.1%, below the estimate.
- Sales and use taxes are \$42.7 million, or 0.7%, above the estimate.
  - General SUT collections are \$20.5 million, or 0.4%, above the estimate.
  - SUT collections on motor vehicle sales are \$22.2 million, or 2.9%, higher than the estimate.
- Personal income tax collections are ahead of the estimate by \$93 million, or 1.5%.
  - Withheld PIT is \$13.6 million, or 0.3%, below the estimate.
  - Non-withheld PIT (annual & estimated payments) is \$106.6 million, or 12.3%, above the estimate.
- Non-tax revenues are \$57.8 million, or 28.4%, higher than the estimate.



### Fiscal Year 2019-20 vs. Fiscal Year 2018-19:

- Total General Fund revenues through December are \$371 million, or 2.4%, higher than last year at this time.
- General Fund tax revenue is \$465 million, or 3.1%, higher than last year.
- Corporation taxes are \$6.2 million, or 0.4%, lower than last year.
- Sales and use tax collections are \$149.7 million, or 2.7%, higher than last year through December.
- Personal income tax collections exceed last year's collections by \$299.3 million, or 5.1%.
- Non-tax revenues are \$94 million, or 26.4%, lower than last fiscal year through December, resulting from far less gaming license fee revenue in the current fiscal year.

### Motor License Fund:

- Motor License Fund revenues are below the estimate by \$5.8 million, or 0.4%, through December.
- Motor License Fund revenues are \$4.9 million, or 0.4%, less than last fiscal year at this time.

## Administration Backs Away from Its Proposed Environmental Funds Transfers

In his FY 2019-20 budget proposal, Governor Wolf proposed to transfer \$79 million from several environmental funds to cover administrative costs at the departments of Environmental Protection (DEP) and Conservation and Natural Resources (DCNR). Specifically, the Governor proposed to draw \$30 million from the Keystone Fund, nearly \$21 million from the Oil and Gas Lease Fund, approximately \$18 million from the Environmental Stewardship Fund and \$10 million from the Recycling Fund.

During the budget enactment process, we were able to restore \$30 million to DCNR's budget to eliminate the need for administrative transfers from the Keystone Fund. Additionally, language was included in the Fiscal Code to give the Administration the opportunity to develop a new plan that would further mitigate the Governor's proposed cuts to environmental programs. This language gave the Administration authority to redirect up to \$45 million from other special funds instead of pulling money away from important environmental programs.

Transfers from Special Funds	
Banking Fund	\$21 million
Machinery and Equipment Loan Fund	\$10 million
Insurance Regulation and Oversight Fund	\$7.1 million
Volunteer Company Loan Fund	\$5 million
Persian Gulf Veterans Compensation Bond Fund	\$1.9
<b>Total</b>	<b>\$45 million</b>

In late November, the Administration shared its proposed alternative plan with us. That plan is in the box above.

**The Performance-Based Budget Board is set to reconvene January 22, 2020, to consider year two of agency budgets and tax credit reviews in accordance with the following schedule prepared by the Independent Fiscal Office:**

### Performance-Based Budgeting and Tax Credit Review Schedule

Year	Performance-Based Budgets					
1	Corrections	Board of Probation and Parole	PA Commission on Crime & Delinquency	Juvenile Court Judges' Commission	Banking and Securities	General Services
2	Community & Economic Development	Human Services - Part 1	Health	Environmental Protection	PA Emergency Management Agency	State
3	PennDOT	Human Services - Part 2	State Police	Military & Veterans Affairs		
4	Education	Human Services - Part 3	Aging	PA Historical & Museum Commission	Agriculture	Labor and Industry
5	Drug and Alcohol Programs	Insurance	Revenue	Executive Offices	Environmental Hearing Board	Conservation and Natural Resources
Year	Tax Credits					
1	Film Production	New Jobs	Historic Preservation Incentive			
2	Research and Development	Keystone Innovation Zones	Mobile Telecom and Broadband	Organ and Bone Marrow		
3	Neighborhood Assistance	Resource Enhancement and Protection (REAP)	Entertainment & Economic Enhancement	Video Game Production	Keystone Special Development Zones	
4	Educational Tax Credits	Coal Refuse and Reclamation	Mixed Use	Community-Based Services		
5	Resource Manufacturing	Brewers'	Computer Data Center	Manufacturing and Investment	Waterfront Development	Rural Jobs and Investment

## Commonwealth Acts to Shore up the Pennsylvania Lottery

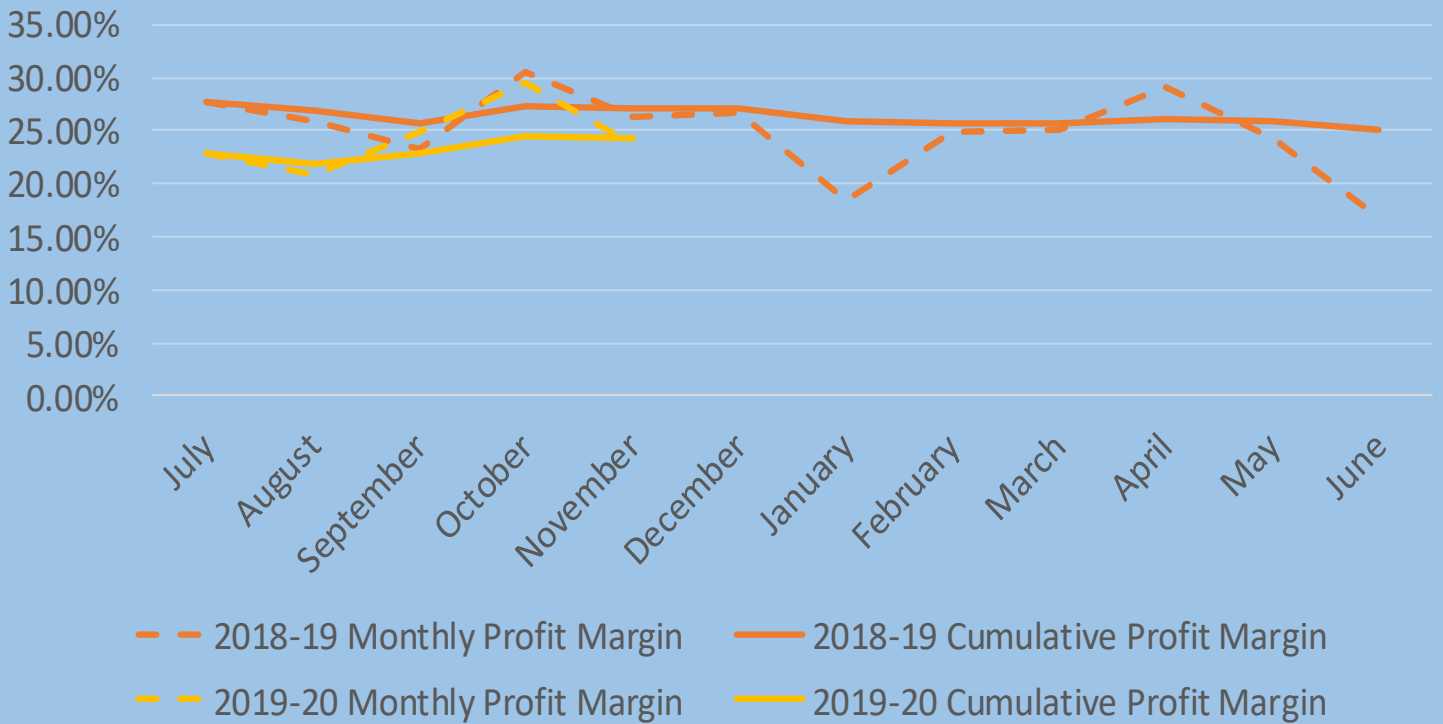
Act 97 of 2019, which was enacted in late November, amended the State Lottery Law to provide for a temporary reduction of the mandated margin rate of return (i.e. profit margin) from 25% to 20%. The Lottery rate of return has been reduced in the past, most recently by Act 201 of 2014, which lowered the rate of return from 27% to 25%.

The Pennsylvania Department of Revenue and the Pennsylvania Lottery support Act 97, as their analysis shows that a lower Lottery profit margin provides more profit dollars to fund important senior programs. With a 20% rate, the Lottery has the flexibility to provide the best product mix to maximize profit dollars, especially at a time when games such as Powerball and Mega Millions are slumping due to a dearth of large jackpots that drive sales.

Act 97 contains a five-year sunset provision that accommodates the Lottery’s sixteen-month product design timeline for scratch-off tickets, which account for nearly 70% of Lottery sales. The Pennsylvania Lottery estimates that the margin relief coupled with a sunset provision will grow Lottery profits by an additional \$487 million over the five-year period. The following table provided by the Department of Revenue illustrates the projected fiscal impact of Act 97. Furthermore, the accompanying chart shows that the pre-Act 97 statutorily required profit margin of 25% became difficult to maintain as Lottery consumers trend more toward instant game purchases at the same time large jackpot games have sagged.

Estimated Gains from 20% Margin Rate of Return		
Fiscal Year	Lottery Profits	Lottery Sales
2019-20	\$0	\$0
2020-21	\$5,887,075	\$265,013,345
2021-22	\$59,717,974	\$566,941,600
2022-23	\$93,407,870	\$910,355,280
2023-24	\$149,680,811	\$1,300,378,188
2024-25	\$178,574,818	\$1,742,754,001
<b>TOTAL</b>	<b>\$487,268,548</b>	<b>\$4,785,442,414</b>

### Lottery Profit Margin



**Fiscal Year 2019-20**  
**Senate Appropriations Committee**  
**Monthly Revenue Report**  
(\$ thousands)

REVENUE SOURCES	YTD FY 2018-19	December 2019 Actual	December 2019 Estimated	Surplus/ (Deficit)	YTD Actual	YTD Estimated	Surplus/ (Deficit)
<b>TOTAL - GENERAL FUND</b>	<b>15,270,081</b>	<b>2,907,137</b>	<b>2,998,600</b>	<b>(91,463)</b>	<b>15,641,066</b>	<b>15,566,100</b>	<b>74,966</b>
<b>TOTAL - NON-TAX REVENUE</b>	<b>355,518</b>	<b>24,230</b>	<b>31,500</b>	<b>(7,270)</b>	<b>261,504</b>	<b>203,700</b>	<b>57,804</b>
<b>TOTAL - TAX REVENUE</b>	<b>14,914,563</b>	<b>2,882,905</b>	<b>2,967,100</b>	<b>(84,195)</b>	<b>15,379,560</b>	<b>15,362,400</b>	<b>17,160</b>
<b>TOTAL - Corporation Taxes</b>	<b>1,657,370</b>	<b>542,172</b>	<b>622,900</b>	<b>(80,728)</b>	<b>1,651,210</b>	<b>1,777,900</b>	<b>(126,690)</b>
Accelerated Deposits	386	3,359	0	3,359	4,116	0	4,116
Corp. Net Income	1,554,962	526,453	605,700	(79,247)	1,572,251	1,694,600	(122,349)
Gross Receipts	55,239	5,565	6,800	(1,235)	33,690	28,400	5,290
PURTA	1,417	27	200	(173)	1,922	2,900	(978)
Insurance Premiums	23,492	974	2,600	(1,626)	19,787	22,800	(3,013)
Financial Institutions	21,872	5,793	7,600	(1,807)	19,445	29,200	(9,755)
<b>TOTAL - Consumption Taxes</b>	<b>6,507,304</b>	<b>1,148,656</b>	<b>1,161,300</b>	<b>(12,644)</b>	<b>6,619,663</b>	<b>6,588,400</b>	<b>31,263</b>
Sales and Use	5,627,706	981,388	988,100	(6,712)	5,777,435	5,734,700	42,735
General (net of transfers)	4,871,657	845,942	864,800	(18,858)	4,983,619	4,963,100	20,519
Motor Vehicle Sales	756,050	135,446	123,300	12,146	793,816	771,600	22,216
Cigarette Tax	598,808	106,454	109,100	(2,646)	554,125	561,700	(7,575)
Other Tobacco Products	65,662	10,053	11,800	(1,747)	66,289	67,900	(1,611)
Malt Beverage	12,188	1,865	1,700	165	11,891	11,800	91
Liquor	202,941	48,896	50,600	(1,704)	209,922	212,300	(2,378)
<b>TOTAL - Other Taxes</b>	<b>6,749,889</b>	<b>1,192,076</b>	<b>1,182,900</b>	<b>9,176</b>	<b>7,108,687</b>	<b>6,996,100</b>	<b>112,587</b>
Personal Income	5,884,306	1,027,981	1,009,100	18,881	6,183,636	6,090,600	93,036
Withholding	5,046,987	913,111	911,600	1,511	5,212,303	5,225,900	(13,597)
Non-Withholding	837,319	114,870	97,500	17,370	971,333	864,700	106,633
Realty Transfer	276,865	53,430	59,500	(6,070)	280,964	283,800	(2,836)
Inheritance & Estate	517,762	94,731	102,400	(7,669)	555,696	541,400	14,296
Minor & Repealed	10,918	(1,113)	(2,700)	1,587	3,155	(1,100)	4,255
Gaming	60,038	17,047	14,600	2,447	85,237	81,400	3,837
<b>TOTAL - MOTOR LICENSE FUND</b>	<b>1,369,444</b>	<b>206,346</b>	<b>197,930</b>	<b>8,416</b>	<b>1,364,540</b>	<b>1,370,370</b>	<b>(5,830)</b>
<b>TOTAL - Liquid Fuels Taxes</b>	<b>930,436</b>	<b>130,026</b>	<b>129,500</b>	<b>526</b>	<b>912,482</b>	<b>928,300</b>	<b>(15,818)</b>
Motor Carriers/IFTA	66,651	7,091	5,700	1,391	66,899	67,900	(1,001)
Alternative Fuels	7,164	833	1,300	(467)	6,324	7,700	(1,376)
Oil Company Franchise	856,616	122,102	122,500	(398)	839,254	852,700	(13,446)
Minor & Repealed	5	1	0	1	4	0	4
<b>TOTAL - Licenses, Fees &amp; Other</b>	<b>439,008</b>	<b>76,320</b>	<b>68,430</b>	<b>7,890</b>	<b>452,058</b>	<b>442,070</b>	<b>9,988</b>
Licenses and Fees	434,572	75,140	67,100	8,040	445,535	434,400	11,135
Other Motor Receipts	4,436	1,180	1,330	(150)	6,524	7,670	(1,146)