Senate Appropriations Committee

The Monthly Report

Senator Scott Martin, Chairman

January 2023

December General Fund Revenue Collections Benefit from November's Delay

General Fund revenue collections for the month of December were above estimate by $319.9 million, $200.6 million of which is attributable to deposits delayed from November because of the implementation of the Pennsylvania Tax Hub (PATH) software transition for business taxes. This timing shift is mostly reconciled, meaning there is minimal impact on overall General Fund collections through December. General Fund revenue collections are $503.1 million above estimate through the first half of the fiscal year.

General Fund tax revenues were $296.7 million higher than the monthly estimate, and non-tax revenue was $23.2 million above estimate. Corporate net income tax (CNIT) accounted for $114.1 million of the monthly surplus. Final CNIT quarterly estimated payments for the 2022 tax year were due in December, and those payments were $98.1 million ahead of estimate. Regular annual CNIT collections exceeded the monthly estimate by $16 million.

December 2022 General Fund Revenue vs. Monthly Estimate:

- General Fund revenue collections of $4.04 billion were above the monthly estimate by $319.9 million, or 8.6%. $200.6 million of the overage is attributable to November collections accounted for in December because of a software transition.
- General Fund tax revenues were above estimate by $296.7 million, or 8%.
- Corporation taxes were $116.3 million, or 13%, higher than the estimate.
- Sales and use tax (SUT) collections missed the estimate by $2.3 million, or 0.2%, for the month.
- Cigarette and other tobacco products taxes were a combined $13.3 million below estimate.
- Personal income tax (PIT) collections were above the estimate by $204.9 million, or 16.7%. Approximately $185 million is attributable to November collections deposited in December.

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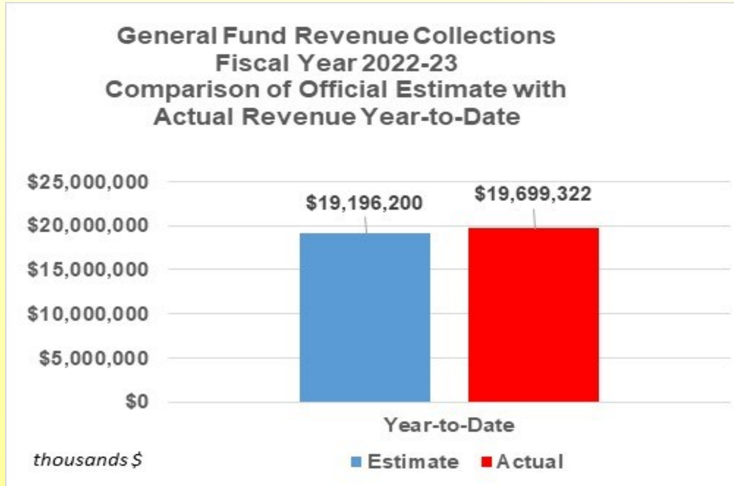
December General Fund Revenue Collections Benefit from November's Delay Continued.....

- Realty transfer tax collections missed the estimate by $23.3 million, or 29.5%.
- Inheritance tax collections were $6.1 million, or 4.6%, above estimate.
- Non-tax revenues exceeded estimate by $23.3 million, or 72.2%, largely resulting from Treasury investment income outperforming estimates due to larger fund balances and higher interest rates.

Fiscal Year 2022-23 vs. the Official Revenue Estimate To-Date:

- Total General Fund revenues are $503.1 million, or 2.6%, higher than the Official Revenue Estimate through the month of December.
- General Fund tax revenue is $415.1 million, or 2.2%, above estimate.
- Corporation taxes are $328.7 million, or 13.6%, higher than the estimate.
- Sales and use taxes are $134.8 million, or 1.9%, above estimate.
    - General SUT collections exceed estimate by $111 million, or 1.8%.
    - SUT collections on motor vehicle sales are $23.8 million, or 3.6%, higher than the estimate.
- Personal income tax collections are ahead of estimate by $27.1 million, or 0.4%.
    - Withheld PIT is $1.2 million below estimate through December.
    - Non-withheld PIT (annual & estimated payments) is $28.3 million, or 2.1%, above estimate.
- Non-tax revenues are $88 million, or 34%, higher than the estimate.

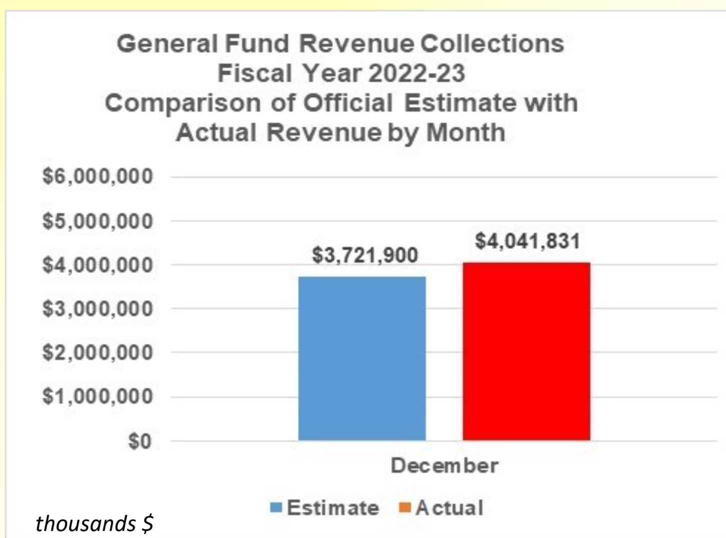


Fiscal Year 2022-23 vs. Fiscal Year 2021-22:

- Total General Fund revenues through December 2022 are $2.86 billion, or 12.7%, lower than last year at this time because of a one-time transfer from the federal Coronavirus State Fiscal Recovery Fund in the amount of $3.84 billion that occurred in November 2021.
- General Fund tax revenue is $907.5 million, or 4.9%, higher than last year.
- Corporation taxes are $278.6 million, or 11.3%, higher.
- Sales and use tax collections are $171.5 million, or 2.5%, higher than last year through December. $258.3 million from sales tax on motor vehicle sales has been transferred to the Public Transportation Trust Fund through the first six months of the fiscal year.
- Personal income tax collections exceed last year's collections by $600.4 million, or 8.7%. $45 million was transferred from PIT in July 2022 to the Election Integrity Restricted Account.
- Non-tax revenues are $3.77 billion less than last fiscal year through December because of last year's $3.84 billion transfer from the federal Coronavirus State Fiscal Recovery Fund to the General Fund for revenue replacement in accordance with federal law.

Motor License Fund:

- Motor License Fund revenues are above estimate by $25 million, or 1.8%, through December.
- Motor License Fund revenues are $10.8 million, or 0.8%, less than last fiscal year at this time.



State and Federal Tax Credits Boost Affordable Housing in PA

In November 2022, awards totaling more than $44.2 million in Low Income Housing Tax Credits, more than $9 million in PennHOMES funding and more than $20 million in National Housing Trust Funds were awarded for the construction of 1,459 affordable multifamily rental units in Pennsylvania.

Additionally, this is the first year the Pennsylvania Housing Finance Agency (PHFA) is announcing awards for the new Pennsylvania Housing Tax Credit totaling more than $19.3 million in state credits. The federal and state tax credits are administered by PHFA and were approved by its board. The Pennsylvania Housing Tax Credit was created by Act 107 of 2020 (SB 30 - Killion) to strengthen the federal program, and the tax credit was funded through Act 25 of 2021 at $10 million per fiscal year, beginning in FY 2021-22.

The federal low-income housing tax credit (LIHTC) program is the federal government's primary policy tool for encouraging the development and rehabilitation of affordable rental housing. The program awards developers federal tax credits to offset construction costs in exchange for agreeing to reserve a certain fraction of units that are rent-restricted for lower-income households. The credits are claimed over a 10-year period.[1]

The process of allocating, awarding and then claiming the LIHTC begins at the federal level with each state receiving an annual LIHTC allocation in accordance with federal law. The administration of the tax credit program is typically carried out by each state's housing finance agency (HFA). State HFAs allocate credits to developers of rental housing according to federally required, but state-created, allocation plans. The process typically ends with developers selling awarded credits to outside investors in exchange for equity.

LIHTCs are first allocated to each state according to its population. In 2023, states have LIHTC allocation authority equal to $2.75 per person, with a minimum small population state allocation of $3,185,000. The state allocation limits do not apply to the 4% credits that are automatically packaged with tax-exempt bond financed projects.

State HFAs such as PHFA allocate credits to developers of eligible rental housing according to federally required, but state-created, qualified allocation plans (QAPs). Federal law requires that a QAP give priority to projects that serve the lowest-income households and that remain affordable for the longest period of time. States have flexibility in developing their QAPs to set their own allocation priorities (e.g., assisting certain subpopulations or geographic areas) and to place additional requirements on awardees (e.g., longer affordability periods, deeper income targeting). QAPs are developed and revised via a public process, allowing for input from the general public and local communities, as well as LIHTC stakeholders. Many states have two allocation periods per year. Developers apply for the credits by submitting an application to state agencies. Once a developer receives an allocation it generally has two years to complete its project.

Credits may not be claimed until a property is placed in service. Tax credits that are not allocated by states after two years are added to a national pool and then redistributed to states that apply for the excess credits. To be eligible for an excess credit allocation, a state must have allocated its entire previous allotment of tax credits. This use-or-lose feature gives states an incentive to allocate all of their tax credits to developers.

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State and Federal Tax Credits Boost Affordable Housing in PA Continued….

To be eligible for an LIHTC allocation, properties are required to meet certain tests that restrict both the amount of rent that may be charged and the income of eligible tenants. Historically, the "income test" for a qualified low-income housing project has required project owners to irrevocably elect one of two income-level tests, either a 20-50 test or a 40-60 test. To satisfy the first test, at least 20% of the units must be occupied by individuals with income of 50% or less of the area's median gross income (AMI), adjusted for family size. To satisfy the second test, at least 40% of the units must be occupied by individuals with income of 60% or less of AMI, adjusted for family size.

The 2018 Consolidated Appropriations Act (P.L. 115-141) added a third income test option that allows owners to average the income of tenants. Specifically, under the income averaging option, the income test is satisfied if at least 40% of the units are occupied by tenants with an average income of no greater than 60% of AMI, and no individual tenant has an income exceeding 80% of AMI. Thus, for example, renting to someone with an income equal to 80% of AMI would also require renting to someone with an income no greater than 40% of AMI, so the tenants would have an average income equal to 60% of AMI.

In addition to the income test, a qualified low-income housing project must also meet the "gross rents test" by ensuring rents (adjusted for bedroom size) do not exceed 30% of the 50% or 60% of AMI, depending on which income test option the project elected. The types of projects eligible for the LIHTC include rental housing located in multifamily buildings, single-family dwellings, duplexes and townhouses. Projects may include more than one building. Tax credit project types also vary by the type of tenants served; for example, LIHTC properties may be designated as housing persons who are elderly or have disabilities.

Properties located in difficult development areas (DDAs), or qualified census tracts (QCTs) are eligible to receive a "basis boost" as an incentive for developers to invest in more distressed areas. In these areas, the LIHTC can be claimed for 130% (instead of the normal 100%) of the project's eligible basis. This also means that available credits can be increased by up to 30%. The federal Housing and Economic Recovery Act of 2008 (P.L. 110-289) enacted changes that allow an HFA to classify any LIHTC project that is not financed with tax-exempt bonds as difficult to develop, and hence, eligible for a basis boost.

[1] *Information other than the Pennsylvania-specific dollar amounts is taken from the Congressional Research Service's January 6, 2023 LIHTC report.*

Fiscal Year 2022-23
Senate Appropriations Committee
Monthly Revenue Report
($ thousands)

REVENUE SOURCES	YTD FY 2021-22	December 2022 Actual	December 2022 Estimated	Surplus/ (Deficit)	YTD Actual	YTD Estimated	Surplus/ (Deficit)
TOTAL - GENERAL FUND	**22,559,156**	**4,041,831**	**3,721,900**	**319,931**	**19,699,322**	**19,196,200**	**503,122**
TOTAL - NON-TAX REVENUE	**4,114,029**	**55,457**	**32,200**	**23,257**	**346,692**	**258,700**	**87,992**
TOTAL - TAX REVENUE	**18,445,126**	**3,986,374**	**3,689,700**	**296,674**	**19,352,630**	**18,937,500**	**415,130**
TOTAL - Corporation Taxes	**2,460,305**	**1,008,716**	**892,400**	**116,316**	**2,738,869**	**2,410,200**	**328,669**
Accelerated Deposits	7,843	(1)	0	(1)	(3,442)	0	(3,442)
Corp. Net Income	2,368,534	994,604	880,500	114,104	2,660,697	2,333,400	327,297
Gross Receipts	32,949	5,407	4,300	1,107	29,966	24,700	5,266
PURTA	1,933	13	100	(87)	3,283	1,200	2,083
Insurance Premiums	20,611	657	200	457	26,537	27,400	(863)
Financial Institutions	28,436	8,037	7,300	737	21,828	23,500	(1,672)
TOTAL - Consumption Taxes	**7,791,948**	**1,326,636**	**1,342,300**	**(15,664)**	**7,903,836**	**7,818,600**	**85,236**
Sales and Use	6,954,789	1,176,450	1,178,700	(2,250)	7,126,303	6,991,500	134,803
General (net of transfers)	6,030,685	1,074,628	1,084,600	(9,972)	6,437,817	6,326,800	111,017
Motor Vehicle Sales	924,104	101,822	94,100	7,722	688,486	664,700	23,786
Cigarette Tax	519,148	81,345	93,500	(12,155)	452,282	499,800	(47,518)
Other Tobacco Products	75,520	12,943	14,100	(1,157)	76,813	81,800	(4,987)
Malt Beverage	11,479	1,740	1,700	40	11,730	11,100	630
Liquor	231,011	54,158	54,300	(142)	236,709	234,400	2,309
TOTAL - Other Taxes	**8,192,873**	**1,651,021**	**1,455,000**	**196,021**	**8,709,925**	**8,708,700**	**1,225**
Personal Income	6,869,840	1,433,232	1,228,300	204,932	7,470,244	7,443,100	27,144
Withholding	5,753,200	1,240,408	1,047,900	192,508	6,068,073	6,069,300	(1,227)
Non-Withholding	1,116,640	192,824	180,400	12,424	1,402,172	1,373,800	28,372
Realty Transfer	403,066	55,787	79,100	(23,313)	351,897	378,600	(26,703)
Inheritance & Estate	755,123	138,004	131,900	6,104	725,706	742,000	(16,294)
Minor & Repealed	10,662	(8,998)	(17,000)	8,002	(16,304)	(15,400)	(904)
Gaming	154,183	32,997	32,700	297	178,381	160,400	17,981
TOTAL - MOTOR LICENSE FUND	**1,422,177**	**203,043**	**194,840**	**8,203**	**1,411,332**	**1,386,340**	**24,992**
TOTAL - Liquid Fuels Taxes	**902,790**	**128,965**	**126,000**	**2,965**	**884,061**	**894,700**	**(10,639)**
Motor Carriers/IFTA	65,585	11,945	6,600	5,345	82,372	72,300	10,072
Alternative Fuels	7,763	1,453	1,300	153	8,524	7,900	624
Oil Company Franchise	829,440	115,537	118,100	(2,563)	793,133	814,500	(21,367)
Minor & Repealed	3	30	0	30	32	0	32
TOTAL - Licenses, Fees & Other	**519,386**	**74,079**	**68,840**	**5,239**	**527,271**	**491,640**	**35,631**
Licenses and Fees	518,484	67,686	68,400	(714)	505,984	487,200	18,784
Other Motor Receipts	902	6,393	440	5,953	21,287	4,440	16,847