



Pennsylvania Senate Appropriations Committee

Senator Pat Browne
Chairman



October 2016

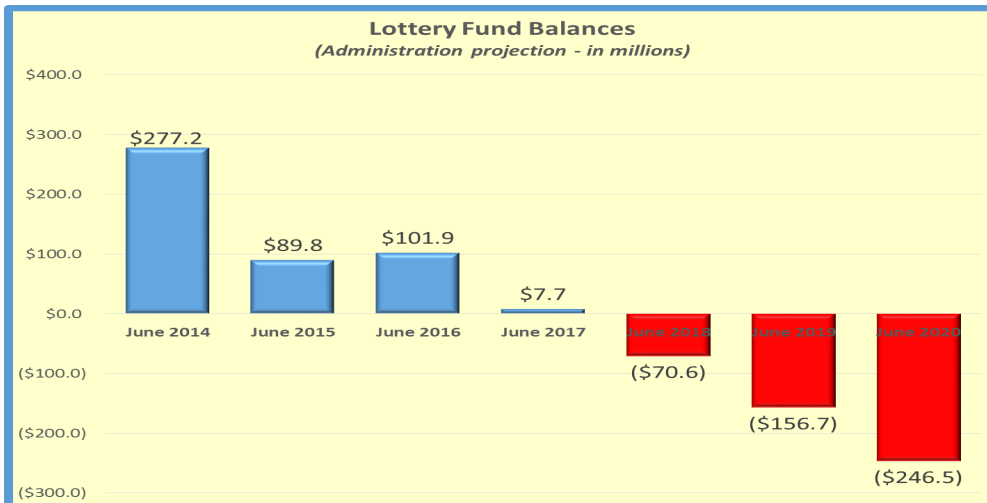
Monthly Report

Administration Predicts Lottery Fund Shortfall

The Administration recently released a concerning financial projection for the state's Lottery Fund – a \$70 million deficit for next fiscal year. The Pennsylvania Lottery supports programs like pharmaceutical coverage, property tax / rent rebate, senior centers, and long-term care services that benefit Older Pennsylvanians.

As recently as fiscal year 2013-14, the Lottery Fund had a year-end balance in excess of \$275 million. A deficit of the magnitude the Administration is predicting equates to approximately four percent of ticket revenues for the entire fiscal year. Despite the movement of \$125 million of long-term care service spending to the General Fund last year, the Lottery Fund continues to struggle financially due to flat revenues over the last few years.

Senate appropriations staff believe the Administration's revenue estimates could be optimistic, which means the Administration could be under-stating the potential Lottery Fund deficit next year, and there is a possibility the fund could run out of money this year. Appropriations staff will continue to monitor the health of the Lottery Fund to determine what actions are necessary to ensure the fund's solvency.



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Where We Are In the Annual Budget Process

On October 7th, state agencies submitted their budget requests for the fiscal year that begins July 1, 2017. The Governor's Budget Office will spend the next six weeks reviewing agency requests and beginning to prepare the Executive Budget that will be presented in February.

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LEGISLATIVE UPDATE: Performance-Based Budgeting Advances in the Senate

On September 20, the Senate Appropriations and Policy Committees held a joint hearing to learn from national, state and local budgeting experts about how performance-based budgeting can improve transparency and decision making in the Commonwealth's budget process. The hearing also discussed Senate Bill 1341 (Senator Mensch), which would expand the Commonwealth's use of performance-based budgeting.

The Commonwealth's current approach to budgeting was last modified in 1978 and focuses on analyzing programs through a series of reviews and measures of program performance, which are typically counts of inputs or outputs, such as the number of individuals served by a particular program. This program budget model has led to what many view as an incremental approach to budgeting in which the previous year's budget becomes the base for next year's budget with increases added on top. While the Commonwealth has developed nearly 700 measures for its programs, those measures rarely focus on the outcomes of programs and are not used to determine budget allocations.

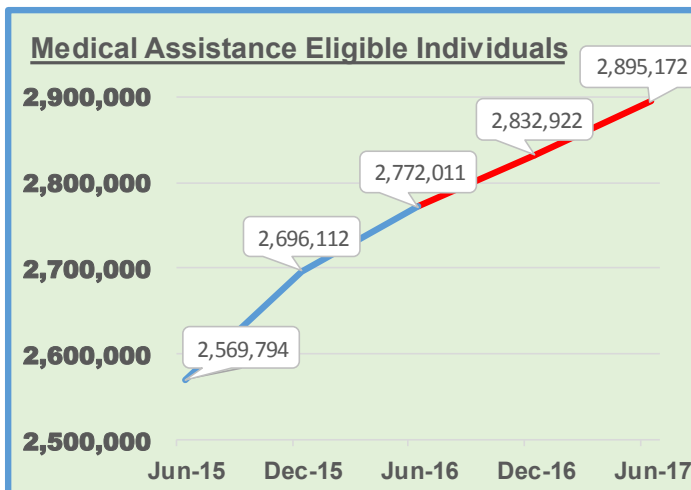
Performance-based budgeting focuses on linking spending with the activities that are purchased or performed, thereby providing greater visibility into the services governments provide. Government agencies can also benchmark, or compare, their performance measures against those in other jurisdictions to see how effective and efficient their programs are relative to others. And by reviewing academic research into what programs work, performance-based budgeting gives decision makers the ability to determine if the programs they fund actually work.

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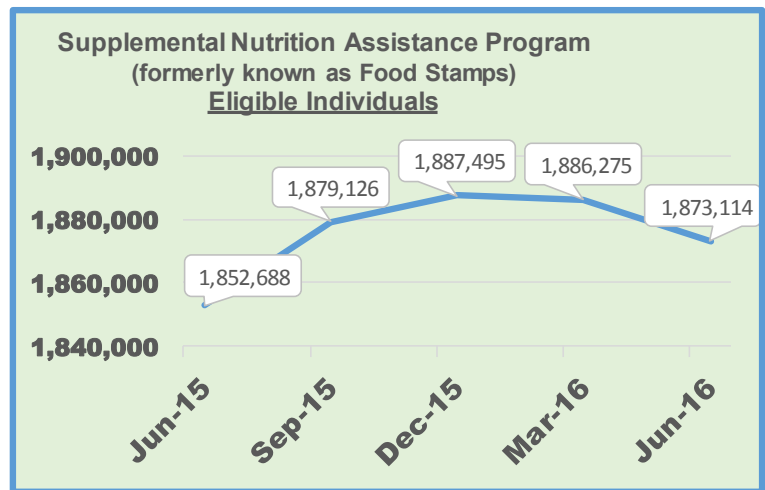
Senate Bill 1341 requires performance-based budget reviews as part of the Commonwealth's annual budget process beginning in Fiscal Year 2018-19. The Independent Fiscal Office will conduct the performance-based reviews and develop performance measures and a performance-based budget plan in conjunction with state agencies and the Governor's Budget Office. The bill also establishes a performance review board and requires each agency to undergo a performance review at least once every five years.

On September 28, the full Senate passed Senate Bill 1341 by a margin of 33-17. The proposal now awaits action in the House of Representatives.

Human Service Trend Lines



From June 2015 to June 2016, there was an increase of 202,217 individuals (7.9 % increase) which is primarily attributed to Commonwealth's decision to fully expand Medicaid starting April 2015. Enrollment is projected to increase by an additional 4% this fiscal year.



From June 2015 to March 2016, there was an increase of 33,587 individuals (2 % increase). Beginning March 2016, the Commonwealth implemented work requirements for able-bodied adults without dependents to continue to receive SNAP benefits. Since the implementation of this work requirement, there has been a decline in SNAP participation.

Unclaimed Property – United States Savings Bonds

The U.S. Treasury Department has been selling United States savings bonds since 1935. It is currently estimated that the U.S. Treasury is holding about \$17 billion in matured U.S. savings bonds. Out of the billions of unclaimed U.S. savings bonds currently being held by the U.S. Treasury, approximately \$650 million is attributable to citizens of the Commonwealth of Pennsylvania. Due to long maturity periods, U.S. savings bonds continuously remain unclaimed because their owners are unaware of their status as bond owners. Moreover, some owners cannot successfully fulfill U.S. Treasury's procedures for redeeming matured savings bonds because the bonds have been lost, stolen, or destroyed. In addition, the United States Treasury Department currently lacks a meaningful apparatus through which the owners of these matured bonds can receive the proceeds of their investments.

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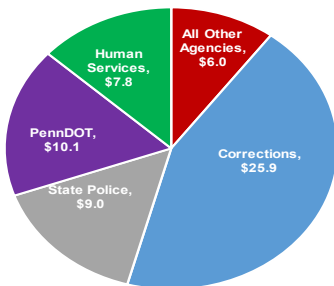
Act of 85 of 2016 allows the Commonwealth of Pennsylvania to escheat title to unclaimed bonds belonging to citizens of Pennsylvania so that they may be incorporated into the Commonwealth's Bureau of Unclaimed Property, which can ultimately utilize its resources to reunite lost, abandoned, or forgotten bonds with their rightful owners.

The law of escheat authorizes states to obtain title through an established state judicial process to matured but unredeemed bonds purchased by state residents, redeem those bonds, and then leverage the state's unclaimed property process to locate the original bondholder and return those funds to the bondholder. Act 85 of 2016 allows the Pennsylvania Treasurer to claim U.S. savings bonds after they have reached maturity and a three-year dormancy period has lapsed. In addition, the act provides that an individual making a claim for a bond that escheated to the state pursuant to this law may file a claim, and the Pennsylvania State Treasurer will pay the claim upon receiving sufficient proof of the claimant's entitlement to the bond.

Act 85 of 2016 utilizes Pennsylvania's Bureau of Unclaimed Property to the benefit of the citizens of Pennsylvania by providing them with a better opportunity to receive the proceeds of these bonds. Moreover, the act provides notice and due process to all affected Pennsylvania bond holders that their unclaimed U.S. savings bonds have escheated to the state in order to provide them with an opportunity to claim what is theirs before the Commonwealth can take title to the bonds.

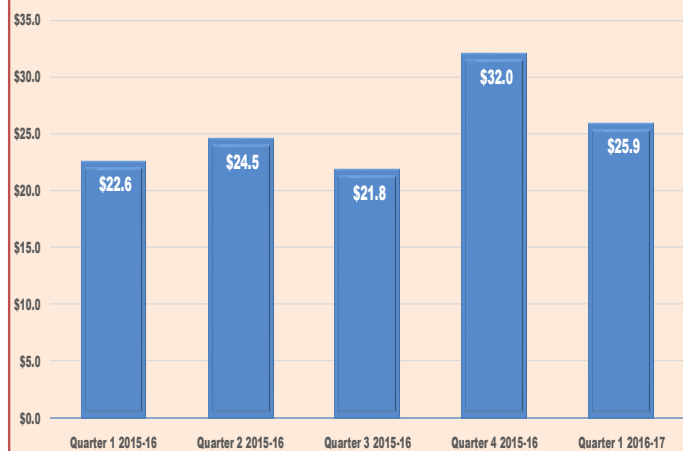
Overtime Numbers Update

July 2016 - September 2016
Overtime Spending by Commonwealth Agency
(\$ in Millions)



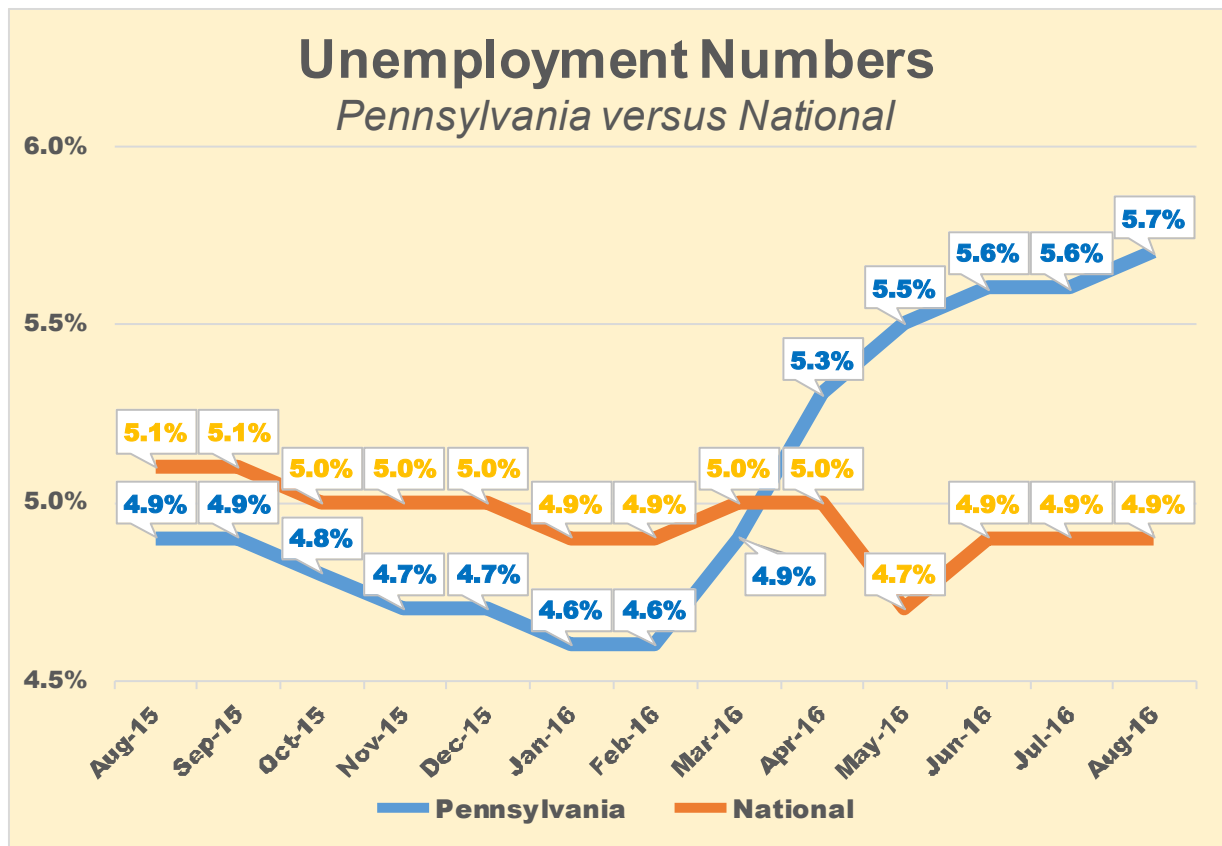
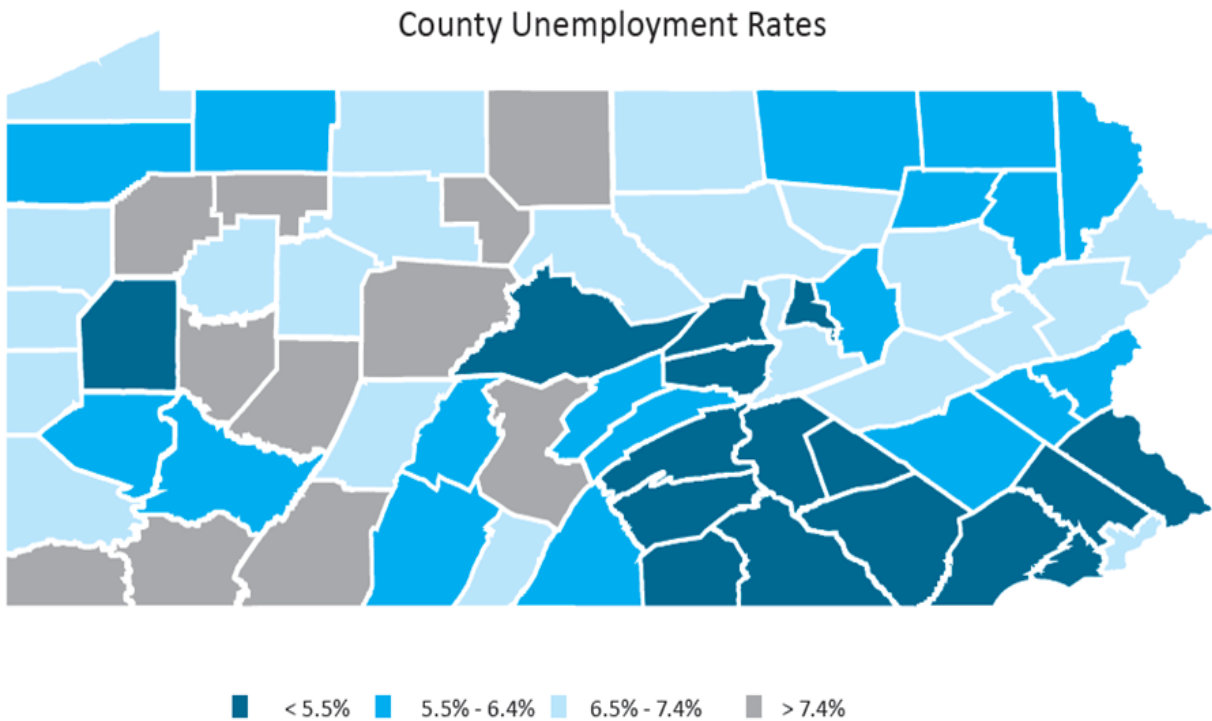
During the first quarter of the fiscal year, Commonwealth agencies spent \$58.8 million on overtime. Department of Corrections overtime spending represented 44 percent of all overtime, followed by PennDOT, State Police and the Department of Human Services.

Department of Corrections Overtime Spending by Quarter
(\$ in millions)



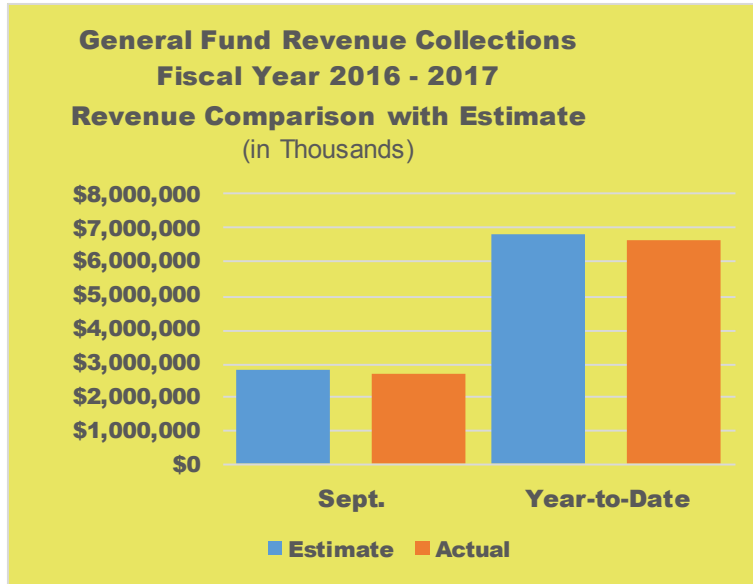
The chart (above) presents Department of Corrections overtime spending over the last five quarters. In the most recent quarter, Corrections' staff worked approximately 650,000 hours of overtime. Overtime spending in the first quarter of the fiscal year increased by 15 percent compared to the first quarter of last year.

Unemployment Rates Across Pennsylvania



September 2016 Revenue Update

Revenue Estimates versus Actual Revenues



General Fund revenue collections for the month ended September 2016 totaled **\$2.63 billion**, which was **\$144.9 million, or 5.2%, below estimate for the month**. Fiscal year-to-date collections total **\$6.6 billion**, which is **\$218.5 million, or 3.2%, below estimate for the year**.

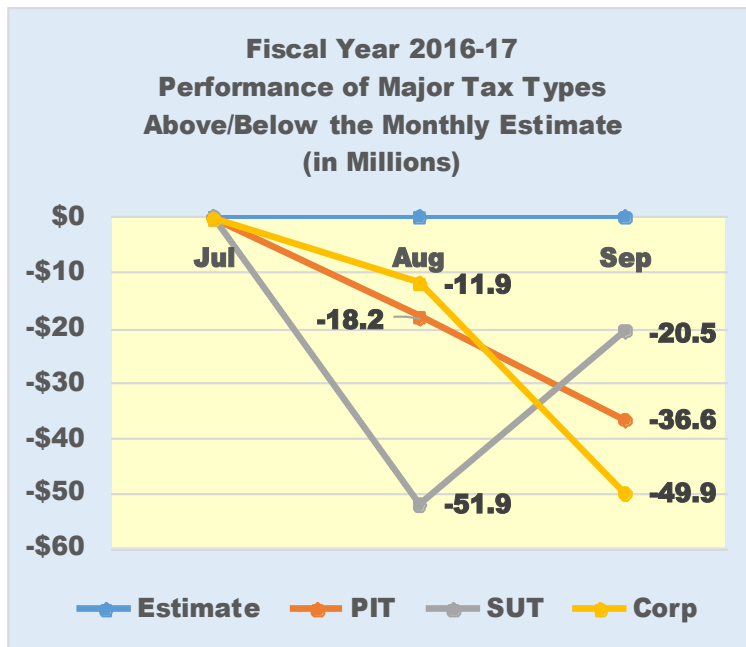
September's overall corporation tax collections were below estimate by \$49.9 million, or 9.5%, for the month. Quarterly estimated corporate net income (CNI) tax payments were \$24.3 million, or 6.2%, below estimate for the month.

Annual corporate net income tax payments were \$23.4 million, or 22.2%, short of estimate for the month. December is the final quarterly estimated tax payment month for 2016 CNI tax payments, and so the weakness evident in September could be repeated in a few months when quarterly estimated payments are due once again.

Sales and use tax (SUT) collections were under estimate for the month by \$20.5 million, or 2.5%. Non-motor SUT was below estimate by \$14.6 million, or 2.1%, for the month, and SUT on motor vehicles missed the estimate by \$5.9 million, or 4.6%.

Total General Fund revenue collections for September 2016 were, \$144.9 million, or 5.2%, below estimate for the month and the fiscal year-to-date shortfall increased to \$218.5 million, or 3.2%, below estimate for the year.

Personal income tax (PIT) collections were below estimate by \$36.6 million, or 3.3%, for the month. Employers' withholding was \$11.8 million, or 1.6%, below estimate for the month, and non-withholding payments were under estimate by \$24.8 million, or 6.3%.



Realty transfer tax (RTT) was below estimate by \$8.3 million, or 16.6%, for the month. Inheritance tax collections were \$15.3 million, or 19.1%, short of estimate for the month. Table games tax collections exceeded the monthly estimate by \$138,229. Liquor tax collections were \$1.3 million, or 5.0%, above estimate for the month.

Cigarette tax collections missed the estimate by \$11.3 million, or 8.9%, for the month. Cigarette taxes were increased by \$1.00 per pack beginning August 1, and so cigarette tax collections will include substantial new revenues for the remainder of the fiscal year.

Non-tax revenue collections missed the estimate by \$3.7 million for the month.

Motor License Fund collections were \$1.9 million above estimate for the month of September.

General Fund Revenue Detail

REVENUE SOURCES	YTD FY 2015-16	September 2016 Actual	September 2016 Estimated	Surplus/ (Deficit)	YTD Actual	YTD Estimated	Surplus/ (Deficit)
TOTAL - GENERAL FUND	6,735,737	2,626,510	2,771,400	(144,890)	6,614,494	6,833,000	(218,506)
TOTAL - NON-TAX REVENUE	80,442	1,011	4,700	(3,689)	59,037	51,700	7,337
TOTAL - TAX REVENUE	6,655,295	2,625,499	2,766,700	(141,201)	6,555,458	6,781,300	(225,842)
TOTAL - Corporation Taxes	650,022	472,704	522,600	(49,896)	583,940	645,800	(61,860)
Accelerated Deposits	930	837	0	837	1,163	0	1,163
Corp. Net Income	572,564	447,836	495,500	(47,664)	529,169	596,900	(67,731)
Cap. Stock & Franchise	38,825	3,653	9,700	(6,047)	18,081	16,900	1,181
Gross Receipts	17,154	9,855	4,700	5,155	17,666	13,200	4,466
PURTA	2,653	1,287	2,600	(1,313)	2,194	2,700	(506)
Insurance Premiums	1,962	1,083	500	583	3,291	2,200	1,091
Financial Institutions	14,245	8,154	9,600	(1,446)	12,376	13,900	(1,524)
Other Selective Bus. Taxes	1,690	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL - Consumption Taxes	2,814,053	958,180	988,300	(30,120)	2,865,758	2,948,100	(82,342)
Sales and Use	2,489,745	811,451	832,000	(20,549)	2,494,556	2,567,000	(72,444)
General (net of transfers)	2,121,426	688,523	703,100	(14,577)	2,136,577	2,196,900	(60,323)
Motor Vehicle Sales	368,319	122,928	128,900	(5,972)	357,979	370,100	(12,121)
Cigarette Tax	236,450	115,914	127,200	(11,286)	279,751	289,400	(9,649)
Other Tobacco Products	N/A	23	0	23	23	0	23
Malt Beverage	7,113	2,546	2,200	346	6,986	6,900	86
Liquor	80,745	28,247	26,900	1,347	84,441	84,800	(359)
TOTAL - Other Taxes	3,191,220	1,194,614	1,255,800	(61,186)	3,105,760	3,187,400	(81,640)
Personal Income	2,799,233	1,077,430	1,114,000	(36,570)	2,731,570	2,786,400	(54,830)
Withholding	2,310,787	711,442	723,200	(11,758)	2,278,235	2,308,100	(29,865)
Non-Withholding	488,446	365,988	390,800	(24,812)	453,334	478,300	(24,966)
Realty Transfer	136,789	41,884	50,200	(8,316)	119,688	137,000	(17,312)
Inheritance & Estate	228,034	64,741	80,000	(15,259)	223,556	233,000	(9,444)
Minor & Repealed	2,342	(478)	700	(1,178)	1,357	1,800	(443)
Table Games	24,822	11,038	10,900	138	29,589	29,200	389
TOTAL - MOTOR LICENSE FUND	676,745	216,119	214,200	1,919	663,561	663,500	61
TOTAL - Liquid Fuels Taxes	440,537	142,851	136,700	6,151	440,996	430,000	10,996
Liquid Fuels	33	1	0	1	43	0	43
Fuels	0	0	0	0	0	0	0
Motor Carriers/IFTA	19,992	4,565	5,100	(535)	23,551	17,600	5,951
Alternative Fuels	1,295	796	900	(104)	2,460	2,700	(240)
Oil Company Franchise	419,218	137,490	130,700	6,790	414,941	409,700	5,241
TOTAL - Licenses, Fees & Other	236,208	73,268	77,500	(4,232)	222,565	233,500	(10,935)
Licenses and Fees	230,936	71,549	75,800	(4,251)	220,773	230,400	(9,627)
Other Motor Receipts	5,272	1,719	1,700	19	1,792	3,100	(1,308)