



Pennsylvania Senate Appropriations Committee

Senator Pat Browne
Chairman



December 2016

Monthly Report

Independent Fiscal Office Releases Its 5-Year Outlook

The Independent Fiscal Office (IFO) released its latest five-year projection for the Commonwealth's budget and projected the structural imbalance will persist through Fiscal Year 2021-22 without corrective action. While the IFO report illustrated a \$1.7 billion deficit for next fiscal year that will continue to grow through FY 2021-22, its projection does not represent next year's real budgetary deficit due to likely supplemental appropriation needs and the impact of ending the current fiscal year with a deficit. After accounting for those adjustments and using the IFO's assumptions, the Senate Appropriations Committee finds that next year's deficit is more likely to be in excess of \$3 billion.

The IFO's analysis cited the following reasons for the Commonwealth's continued structural imbalance:

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IFO Financial Statement* (in millions)

	2015-16	2016-17	2017-18
Beginning Balances	\$ 257	\$ 2	\$ ----
Current Year Revenues	30,902	32,311	32,971
Less: Tax Refund Reserve	-1,250	-1,375	-1,375
Net Revenue	29,652	30,936	31,596
State Expenditures	-30,127	-31,535	-33,443
Current Year Balance	-476	-599	-1,846
Adjustment for Lapses	221	75	100
Preliminary Ending Balance	\$ 2	\$ -524	\$ -1,746
* Note, totals might not add due to rounding.			
Senate Estimate with Supplemental Appropriations and Balances Carried Forward		\$ -910	\$ -3,062

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Where We Are In The Annual Budget Process

The Governor's Budget Office is now working with the Governor's Office to make final budget decisions for the FY 2017-18 budget and will soon begin production of the Governor's Executive Budget document.

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IFO Report continued:

- A potential \$500 million revenue shortfall this year;
- Supplemental appropriations of nearly \$400 million this year;
- A reduction in the impact of new revenue from this year's budget as one-time revenue sources end and loan repayments kick in;
- Continued, but more modest pension growth; and
- An aging population that will demand greater levels of service in the coming years.

The IFO provided historical data on changes in the age make-up of Pennsylvania's population and a projection for the next decade. While Pennsylvania's overall population increased 0.3% a year from 2005 through 2015, the population below age 60 shrank, and the population above age 60 increased by 22%. The IFO predicts this trend will continue, with the population above age 60 projected to increase an additional 24% over the next decade.

Age Group	Annual Change 2005 – 2015	Annual Change 2015 - 2025
0 – 19	-0.6%	-0.1%
20 – 39	0.4%	0.5%
40 – 59	-0.4%	-1.2%
60 – 79	2.4%	2.3%
80+	0.6%	1.5%
Total	0.3%	0.4%

Pennsylvania's aging population has a profound impact on the Commonwealth's budget. As our population ages, the number of individuals needing assistance from Commonwealth programs also increases. Moreover, the programs they need access to, such as long-term living programs that provide care to individuals as they age, are quite costly. Since 2011, the number of individuals in state-supported, long-term living programs increased from 78,500 to 82,500, an increase of 5%. Over the same period of time, costs to provide those services have also increased. As noted in the table below, annual costs per person range from approximately \$30,000 for home and community-based care to more than \$136,000 for care in the Commonwealth's veterans homes, both of which are significant increases from 2011.

While the Commonwealth is now providing increased services in home and community-based settings, which are preferred by those receiving care and are a more cost effective option, it is also pursuing ways to reduce the cost of nursing home care through the Community Health Choices initiative. Because the number of seniors needing services will continue to increase, the Community Health Choices initiative is only likely to slow spending growth rather than lower program costs.

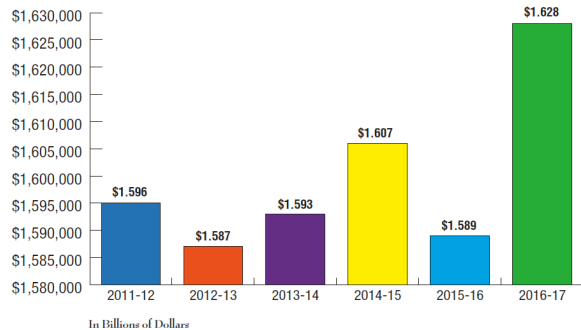
	2011		2016	
	Annual Cost to Serve One Individual	Number of Individuals Served	Annual Cost to Serve One Individual	Number of Individuals Served
Nursing Home Care	\$69,000	51,000	\$76,000	50,000
Home and Community-Based Care	\$20,000	26,000	\$30,000	31,000
Veterans Home Care	\$117,000	1,500	\$136,000	1,500

Overview of Higher Education Spending

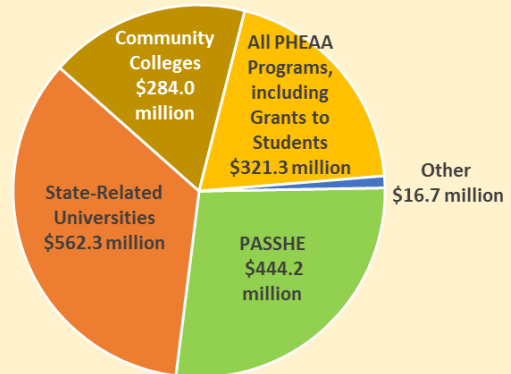
The Commonwealth's FY 2016-2017 General Fund Budget includes \$1.628 billion for spending on higher education, an increase of \$39.3 million, or 2.5%, over the FY 2015-2016 budget.

State appropriations for higher education funding primarily support the Commonwealth's community colleges, the Pennsylvania State System of Higher Education (PASSHE) and the State-Related Universities and provide grants and aid to students through the Pennsylvania Higher Education Assistance Agency (PHEAA).

General Fund Appropriations for Higher Education



FY 2016-2017 Higher Education Funding \$1.628 Billion



Specifically, the FY 2016-2017 budget includes:

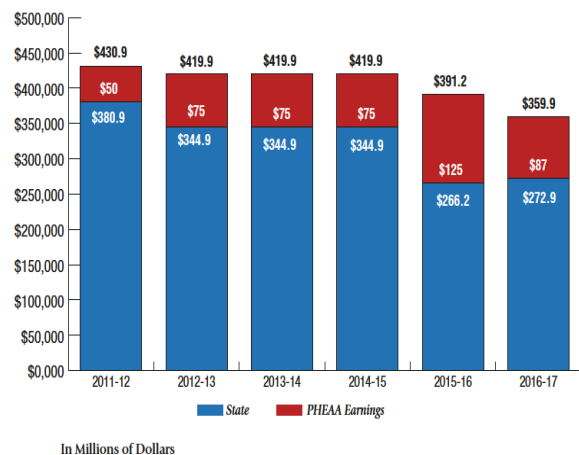
- \$321.3 million, for PHEAA, a \$7.7 million, or 2.5%, increase.
- \$444.2 million, for PASHEE, a \$10.8 million, or 2.5%, increase.
- \$284 million for community colleges, a \$5.7 million, or 2%, increase.
- \$562.3 million, for the State-Related Universities, a \$13.7 million, or 2.5%, increase.

Between FY 2011-2012 and FY 2016-2017 state appropriations for higher education grew by just \$32.9 million (2.1%) from \$1.596 billion to \$1.628 billion. However, the overall funding level is deceptive because appropriations for the public colleges and universities grew over the same period while General Funding for PHEAA's Grants to Students program declined by \$108 million, or 28%. Appropriations for community colleges grew by \$24.7 million (9.5%), for PASSHE by \$31.5 million (7.6%) and for the State-Related Universities by \$73.2 million (15%).

The low growth rate in the overall funding level for higher education can be partially attributed to a decreasing reliance on General Fund revenue for the PHEAA grant program. Additional PHEAA earnings from servicing student loans have been used to a greater extent to offset General Fund appropriations for the PHEAA grant program.

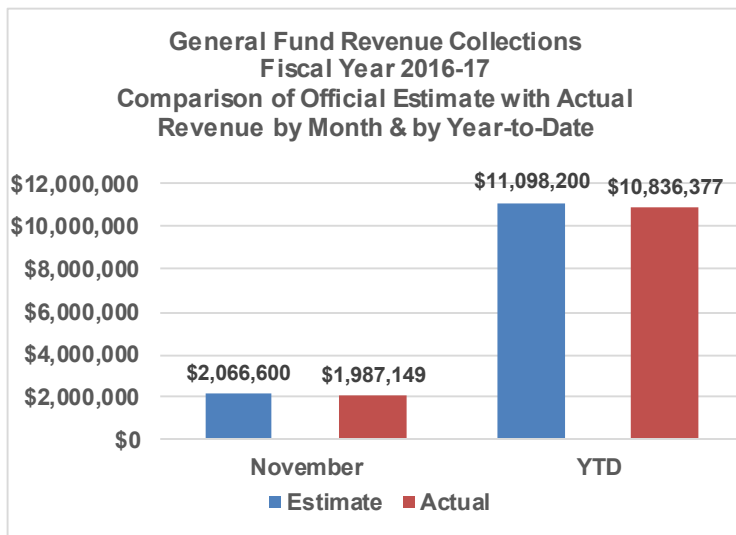
Between FY 2011-2012 and FY 2016-2017, PHEAA earnings dedicated for the grant program increased from \$50 million to \$87 million. Also, a significant reduction in the number of students seeking PHEAA grants awards has allowed the average academic year PHEAA grant award (\$3,270) to be maintained while spending less on the grant program. Between the 2011-2012 and 2016-2017 academic years, the number of PHEAA grant awards dropped by 56,278 (30%) from 188,829 to 133,551.

PHEAA Grants to Students



While state funding for PHEAA has decreased the past few years, the average per-student award has stayed the same.

Revenues Come Up Short of Projections for Month of November



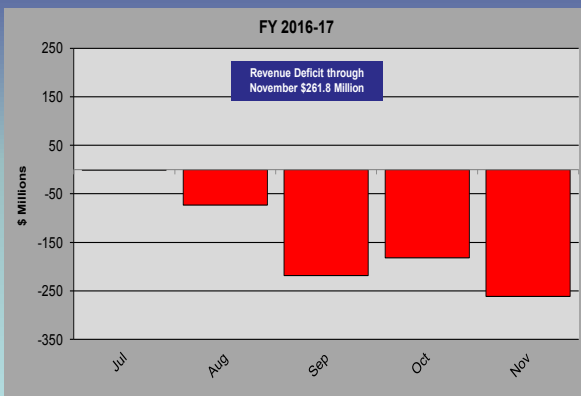
General Fund revenue collections for the month ended November 2016 totaled \$1.99 billion, which was \$79.5 million, or 3.8%, below estimate for the month. Fiscal year-to-date collections total \$10.8 billion, which is \$261.8 million, or 2.4%, below estimate for the year.

Estimated Personal Income Tax (PIT) payments, Liquor tax collections and Non-tax revenue were the only state revenue collections to exceed estimates for the month of November. Estimated PIT payments were \$426,317 over estimate for the month, while liquor tax collections and non-tax revenue beat estimates by \$1.4 million and \$49.5 million, respectively.

All other state revenue collections failed to meet or exceed monthly and year-to-date estimates.

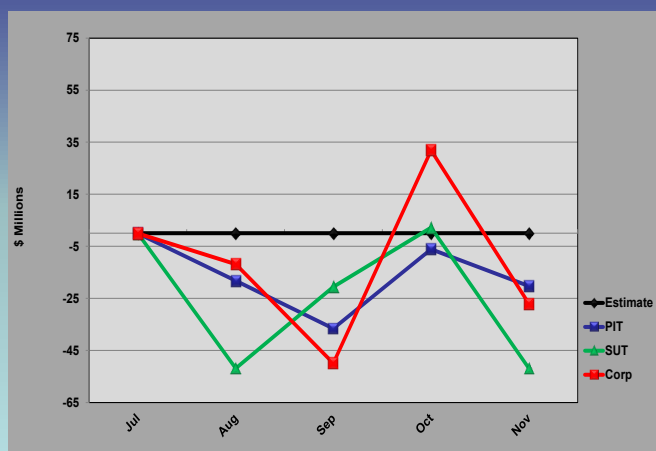
	November 2016 Estimate	November 2016 Actual	Over/Under Estimate	Fiscal Year-to-Date Estimate	Fiscal Year-to-Date Actual	Over/Under Estimate
Sales & Use Tax (SUT)	\$1,001,900	\$931,448	\$51.9 million or 6.3%	\$4,975,600	\$4,833,338	\$122.2 million or 2.9%
Non-Motor SUT	\$716,300	\$665,068	\$51.2 million or 7.2%	\$3,664,500	\$3,562,358	\$102.1 million or 3.4%
Motor Vehicles SUT	\$109,100	\$108,451	\$649,434 or 0.6%	\$597,600	\$577,572	\$18.2 million or 3.4%
Personal Income Tax (PIT)	\$886,100	\$865,865	\$20.2 million or 2.3%	\$4,552,700	\$4,471,551	\$81.1 million or 1.8%
Corporation Tax	\$58,900	\$31,903	\$27 million or 45.8%	\$4,975,600	\$4,833,338	\$57 million or 6.6%
Cigarette Tax	\$140,700	\$120,188	\$20.5 million or 14.6%	\$553,100	\$534,906	\$18.2 million or 3.3%
Realty Transfer Tax (RTT)	\$39,600	\$37,775	\$1.8 million or 4.6%	\$227,300	\$199,321	\$28 million or 12.3%
Inheritance Tax	\$73,500	\$68,533	\$5 million or 6.8%	\$382,900	\$368,408	\$14.5 million or 3.8%

General Fund Collections
Year-to-Date Revenue Comparison with Official Estimate

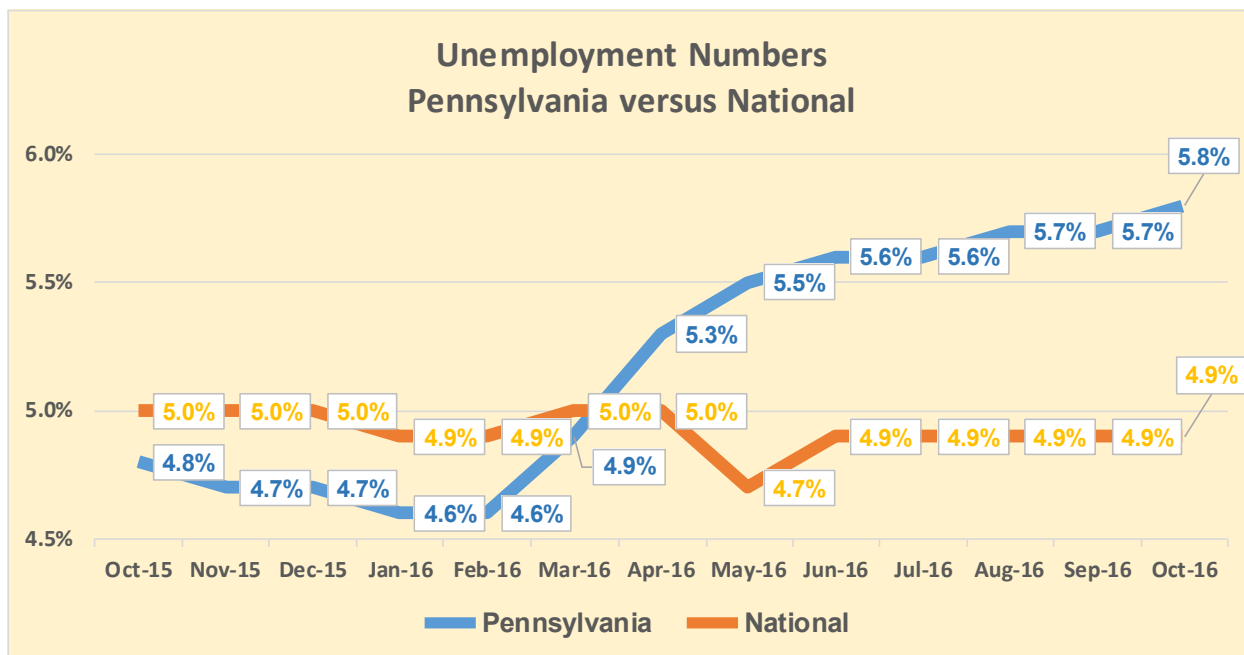


Senate Appropriations Committee, Patrick M. Browne, Chairman

Fiscal Year 2016-17
Performance of Major Tax Types
Above/Below the Monthly Estimate



Senate Appropriations Committee, Patrick M. Browne, Chairman



Current Unemployment Population Data

	Total	Gender		Age				Education				People with Disabilities	Veterans
		Female	Male	16-19	20-24	25-54	55+	Less than High School	High School Diploma	A.D./ Some College	B.D. or Higher		
Oct. 2016	5.4	5.2	5.6	16.7	8.2	4.7	4.0	8.0	5.7	4.8	2.8	10.4	4.3
Sept. 2016	5.3	5.1	5.5	16.4	8.3	4.6	3.8	7.7	5.5	4.7	2.7	9.9	3.9
Oct. 2015	5.3	5.0	5.7	10.3	10.4	4.8	3.8	8.7	5.6	5.5	2.4	10.3	5.0

Oil Company Franchise Tax Rate to Increase January 1

The final phase-out of the cap under Act 89 and imposition of a new floor price for the Oil Company Franchise Tax will go into effect on January 1, 2017. The Oil Company Franchise Tax (OCFT) is a tax on gasoline and diesel at the wholesale level or “at the rack.” Under the pre-Act 89 formula used to calculate the tax, an artificial cap of \$1.25 was applied in 1983, effectively suppressing revenues and the ability for the current wholesale price to be used when calculating tax rates. In 2013, the wholesale price of gasoline was approximately \$3.11.

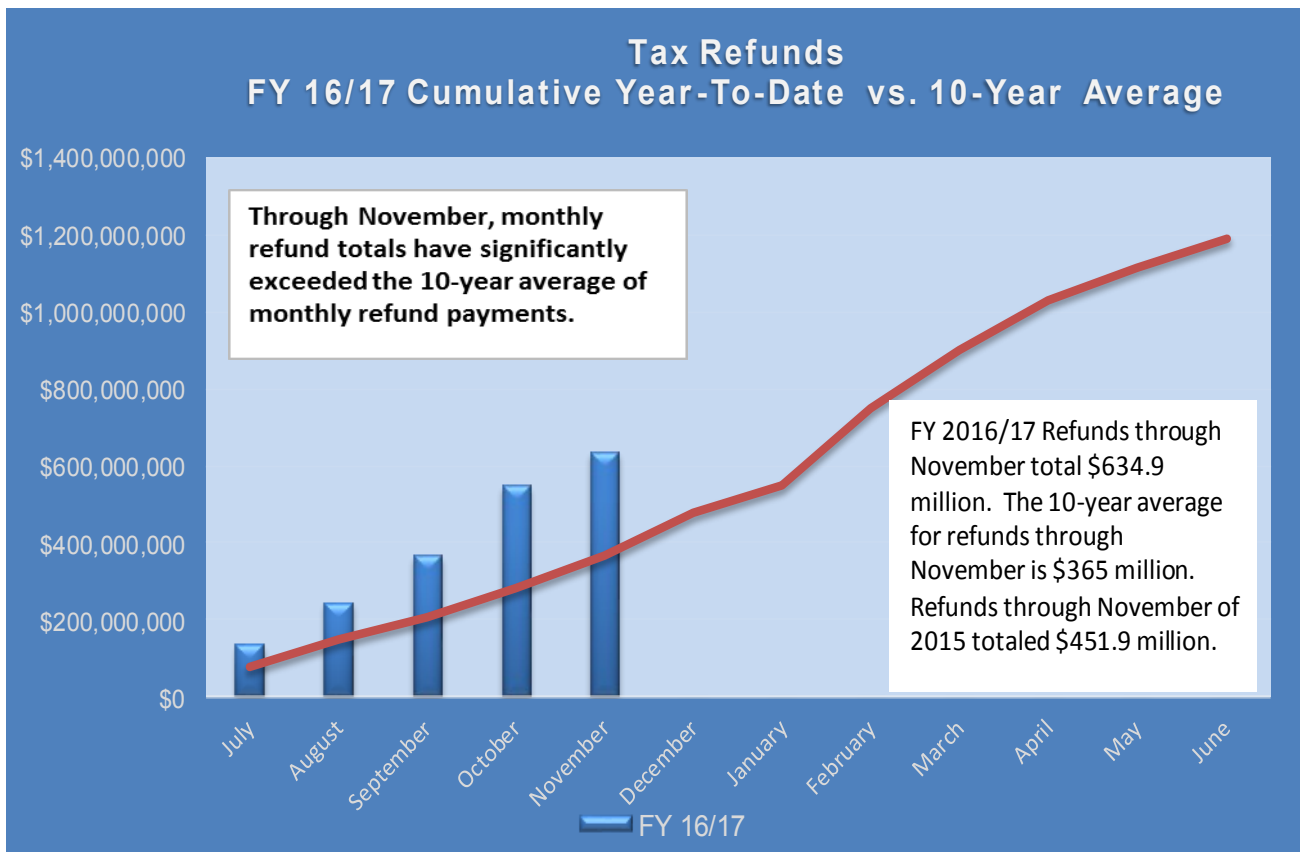
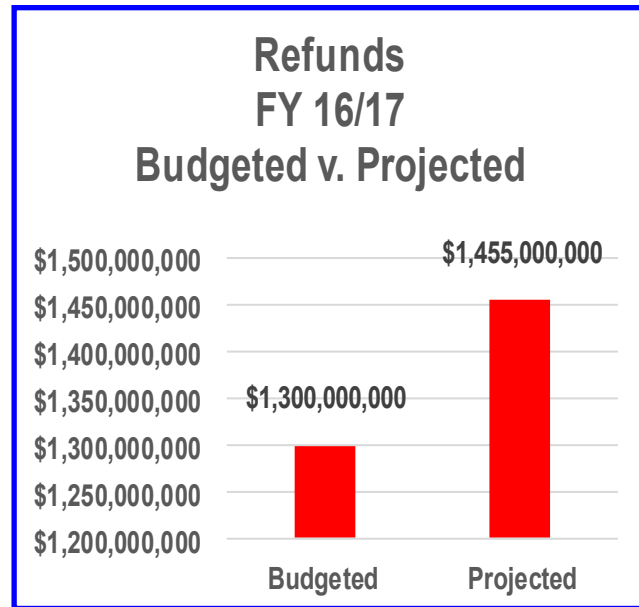
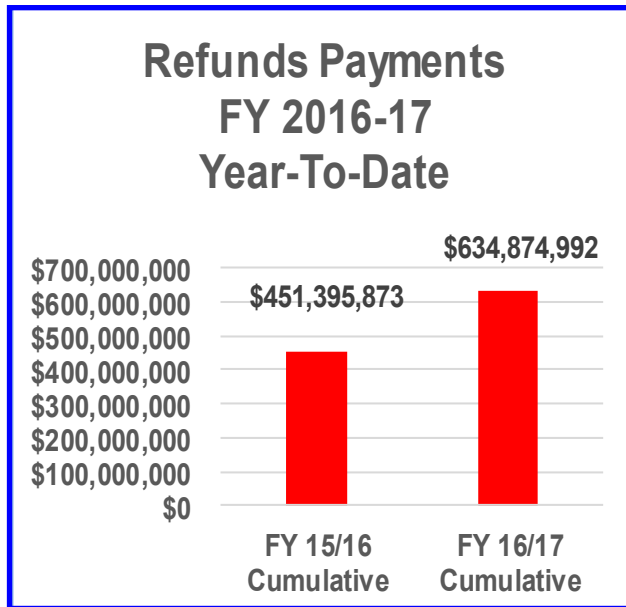
Act 89 uncapped the OCFT over a five-year period. The OCFT adjustments defined in Act 89 are as follows:

- Cap increased to \$1.87 on January 1, 2014;
- Cap increased to \$2.49 on January 1, 2015; and
- Cap eliminated and a new “floor price” established at \$2.99 on January 1, 2017.

Act 89 revenue estimates showed that the five-year phase-out of the OCFT would generate an additional \$1.85 billion annually to be used to improve Pennsylvania’s highways and bridges. The latest change to the OCFT will increase the tax on gasoline by about eight cents per gallon. However, the price consumers will ultimately pay will also be influenced by commodity prices for oil and the proportion of any tax increase absorbed by business owners.

Tax Refund Projection

Tax refunds for the first five months of the fiscal year are nearly \$200 million higher than last year. Assuming a straight line projection with last year, tax refunds could remain over estimate through the end of the fiscal year.



General and Motor License Fund Revenue Detail

Fiscal Year 2016-17
Senate Appropriations Committee Monthly Revenue Report
(\$ thousands)

REVENUE SOURCES	YTD FY 2015-16	November 2016 Actual	November 2016 Estimated	Surplus/ (Deficit)	YTD Actual	YTD Estimated	Surplus/ (Deficit)
TOTAL - GENERAL FUND	10,675,524	1,987,149	2,066,600	(79,451)	10,836,377	11,098,200	(261,823)
TOTAL - NON-TAX REVENUE	114,847	46,525	(3,000)	49,525	109,733	60,600	49,133
TOTAL - TAX REVENUE	10,560,677	1,940,624	2,069,600	(128,976)	10,726,643	11,037,600	(310,957)
TOTAL - Corporation Taxes	873,173	31,903	58,900	(26,997)	807,177	864,200	(57,023)
Accelerated Deposits	1,713	(234)	0	(234)	595	0	595
Corp. Net Income	757,800	36,082	50,400	(14,318)	731,282	795,100	(63,818)
Cap. Stock & Franchise	62,973	4,569	2,200	2,369	31,625	24,000	7,625
Gross Receipts	27,025	(9,701)	4,800	(14,501)	24,824	23,600	1,224
PURTA	2,685	12	0	12	2,301	2,700	(399)
Insurance Premiums	3,959	129	600	(471)	2,978	3,000	(22)
Financial Institutions	15,267	1,046	900	146	13,573	15,800	(2,227)
Other Selective Bus. Taxes	1,750	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL - Consumption Taxes	4,662,361	931,448	1,001,900	(70,452)	4,833,338	4,975,600	(142,262)
Sales and Use	4,115,335	773,519	825,400	(51,881)	4,139,930	4,262,100	(122,170)
General (net of transfers)	3,536,881	665,068	716,300	(51,232)	3,562,358	3,664,500	(102,142)
Motor Vehicle Sales	578,453	108,451	109,100	(649)	577,572	597,600	(20,028)
Cigarette Tax	395,026	120,188	140,700	(20,512)	534,906	553,100	(18,194)
Other Tobacco Products	N/A	519	0	519	856	0	856
Malt Beverage	11,354	1,937	1,900	37	11,014	10,900	114
Liquor	140,646	35,284	33,900	1,384	146,631	149,500	(2,869)
TOTAL - Other Taxes	5,025,144	977,273	1,008,800	(31,527)	5,086,129	5,197,800	(111,671)
Personal Income	4,397,985	865,865	886,100	(20,235)	4,471,551	4,552,700	(81,149)
Withholding	3,745,195	833,271	853,400	(20,129)	3,862,165	3,914,700	(52,535)
Non-Withholding	652,790	32,594	32,700	(106)	609,386	638,000	(28,614)
Realty Transfer	215,270	37,775	39,600	(1,825)	199,321	227,300	(27,979)
Inheritance & Estate	366,187	68,533	73,500	(4,967)	368,408	382,900	(14,492)
Minor & Repealed	4,255	(4,176)	300	(4,476)	(849)	(12,900)	12,051
Table Games	41,447	9,276	9,300	(24)	47,697	47,800	(103)
TOTAL - MOTOR LICENSE FUND	1,096,050	222,566	225,640	(3,074)	1,092,139	1,100,010	(7,871)
TOTAL - Liquid Fuels Taxes	726,349	155,640	158,700	(3,060)	723,838	722,500	1,338
Liquid Fuels	(952)	1	0	1	45	0	45
Fuels	38	0	0	0	0	0	0
Motor Carriers/IFTA	42,952	17,584	20,900	(3,316)	44,520	41,800	2,720
Alternative Fuels	2,268	873	900	(27)	4,214	4,500	(286)
Oil Company Franchise	682,043	137,182	136,900	282	675,058	676,200	(1,142)
TOTAL - Licenses, Fees & Other	369,701	66,927	66,940	(13)	368,301	377,510	(9,209)
Licenses and Fees	361,293	62,581	65,500	(2,919)	360,763	369,400	(8,637)
Other Motor Receipts	8,408	4,345	1,440	2,905	7,538	8,110	(572)