



Pennsylvania Senate Appropriations Committee

Senator Pat Browne
Chairman



Monthly Report December 2018

IFO Releases its Five-Year Economic & Budget Outlook

The Independent Fiscal Office (IFO) released its annual, five-year *Economic & Budget Outlook* for fiscal years 2018-19 to 2023-24 on November 15, 2018.

For the current 2018-19 fiscal year, the IFO projects that a modest revenue surplus of approximately \$224 million above the Official Estimate will be offset by the need for supplemental appropriations and other adjustments, which will result in a preliminary ending balance of zero (i.e. neither a budget surplus nor deficit).

For the coming 2019-20 budget year, the IFO projects General Fund revenue growth at a reasonable rate in line with historical norms of 3%. However, the IFO projects that FY 2019-20 expenditures will increase by more than 8%. The mismatch between 3% forecasted revenue growth and a projected 8% growth in expenditures results in an anticipated structural deficit of \$1.7 billion for the 2019-20 budget year.

The significant fiscal year 2019-20 expenditure growth is due to the non-recurrence of one-time savings measures used to support Department of Human Services (DHS) programs in fiscal year 2018-19, a projected expansion of DHS programs in the coming budget year, and reduced support from non-General Fund revenue sources such as the Tobacco Settlement Fund and Motor License Fund.

The IFO's expenditure growth projection for the coming budget year assumes a cost-to-carry budget under current law, but it also assumes substantial costs for items such as a Workers' Compensation loan repayment, a restart of the General Assistance Cash Grants program, a regional expansion of the Community HealthChoices program, and a lower federal share of Medicaid payments. The following tables lay out the factors that are driving the IFO's projected fiscal year 2019-20 structural deficit:

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IFO Releases its Five-Year Economic & Budget Outlook Continued..

Millions \$

Estimated FY 2018-19 Net Revenues	Projected FY 2019-20 Net Revenues	Growth
\$32,808	\$33,782	3%

Millions \$

Estimated FY 2018-19 State Expenditures	Projected FY 2019-20 State Expenditures	Growth
\$32,918	\$35,616	8.2%

The IFO's latest report shows that the projected structural deficit will range from \$1.7 billion in fiscal year 2019-20 to \$1.6 billion in fiscal year 2023-24. What is important to note is that these projected structural deficits have been steadily shrinking in recent years because of positive steps taken by the General Assembly. To illustrate, the IFO's projected five-year structural deficits ranged from \$1 billion to \$2.2 billion in its corresponding November 2017 report. The IFO's November 2016 report had five-year projected structural deficits ranging from \$1.7 billion to \$3 billion. Since the 2016 report was published, the projected structural deficit for fiscal year 2021-22 has been reduced from \$3 billion to \$1.4 billion. Such marked improvement is directly related to the advancement of budgets that have focused on living within the Commonwealth's means.

As the IFO points out in the Demographic Outlook section of its report, fiscal policymakers will be faced with significant challenges resulting from Pennsylvania's population distribution characteristics. There will be fewer working age residents to support the financial needs of disproportionately expanding retiree and elderly populations, so the burden of public support will fall on a smaller group of taxpayers.

The General Assembly will have the ability to shape the fiscal year 2019-20 budget in order to mitigate projected expenditure growth in a way that the IFO is not able to do in its recent report. Consequently, the projected structural deficit shown in the report does not reflect the actions that will undoubtedly be considered as the Senate Republican Caucus once again leads the way in crafting a responsible budget that allows the Commonwealth to live within its means while making investments in key areas that continue to be important to our success. While challenges remain, the Commonwealth has the opportunity to continue improving its budget outlook such that solving the structural deficit issue can be achieved in the not-so-distant future.

The full report is available on the IFO's website at the following URL: <http://www.ifo.state.pa.us/releases.cfm?id=234>

November Adds to Surplus

General Fund revenue collections for the month of November exceeded the estimate by \$95.1 million, or 4.3%. General Fund tax revenues were \$46.8 million, or 2.2% higher than the monthly estimate, and non-tax revenue exceeded the estimate by \$48.7 million, or 44.7%. General Fund revenue collections for the first five months of the fiscal year are \$333.6 million, or 2.8%, ahead of estimate.

The FY 2018-19 revenue estimate includes \$125 million related to gaming license fees. These license fees for activities such as iGaming and sports wagering are payable depending upon when individual operators apply for and are granted licenses by the Pennsylvania Gaming Control Board. Through November, the revenue estimate assumed that \$36.3 million would be collected for licenses and fees; however, the General Fund has received \$122.6 million, or \$86.3 million more than anticipated. It is important to note that this overage is largely a timing difference between when gaming license revenue was estimated to be received and when it actually was received, which likely will reverse itself in the remaining months of the fiscal year.

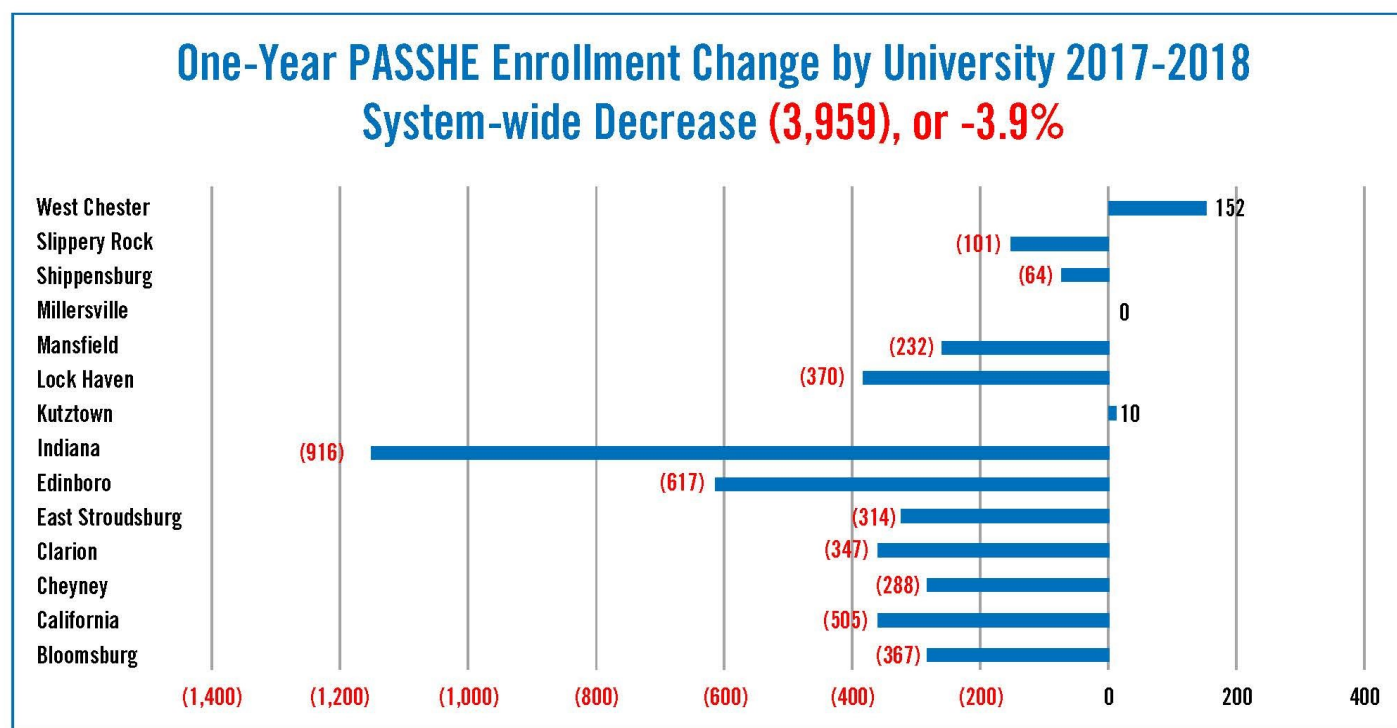
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PASSHE Enrollment Continues to Decline

The Pennsylvania State System of Higher Education (PASSHE) reported in October that its 2018 fall undergraduate enrollment among the 14 member universities totaled 98,342 students, a decline of 3,959 students, or 3.9% from the previous year.

The 14 PASSHE member universities include Bloomsburg University, California University, Cheyney University, Clarion University, East Stroudsburg University, Edinboro University, Indiana University, Kutztown University, Lock Haven University, Mansfield University, Millersville University, Shippensburg University, Slippery Rock University and West Chester University.

Based on the current enrollments, all PASSHE member universities except Kutztown University, Millersville University and West Chester University saw enrollment declines. The most notable declines in enrollment occurred at Indiana University, which lost 916 students, or 7.4% of its enrollment, Edinboro University, which lost 617 students, or 11.1% of its enrollment and California University, which lost 505 students, or 6.5% of its enrollment.



This year's decline in PASSHE's fall enrollment represents the eighth consecutive year in which PASSHE's enrollment has dropped. From 2010 to present, PASSHE enrollment has declined from 119,513 students to 98,342 students, which amounts to a reduction of 21,171, or 17.7%

Over the last eight years, only West Chester University's enrollment increased from 14,490 to 17,488 (20.7%), while the other universities saw significant enrollment reductions. For example, Cheyney University's enrollment declined from 1,586 students to 476 students (70.6%) and Mansfield University's enrollment dropped from 3,411 students to 1,665 students (51.2%). In addition, Indiana University's enrollment declined by 3,726 students (24.6%) and Edinboro University's enrollment dropped by 3,684 students (42.6%).

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November Adds to Surplus Continued...

November 2018 General Fund Revenue vs. Monthly Estimate:

- Corporation taxes were \$27.3 million, or 24.7%, above the estimate.
- Sales and use tax collections beat the estimate by \$45.4 million, or 5.3%, for the month.
- Personal income tax collections were below estimate by \$30.2 million, or 3.5%.

Fiscal Year 2018-19 vs. the Official Revenue Estimate To-Date:

- General Fund tax revenue is \$264.9 million, or 2.2%, above estimate.
- Corporation taxes are \$207.1 million, or 23.7%, above the estimate.
- Sales and use taxes are \$140 million, or 3.1%, above the estimate.
- Personal income tax collections are below estimate by \$71 million, or 1.4%.
- Non-tax revenues are \$68.7 million, or 35.6%, above estimate.

Fiscal Year 2018-19 vs. Fiscal Year 2017-18:

- Total General Fund revenues through November are \$950.8 million, or 8.3%, higher than last year.
- General Fund tax revenue is \$913.3 million, or 8.2%, higher than last year.
- Non-tax revenues are \$37.6 million, or 16.7%, higher than last fiscal year through November.

Motor License Fund:

- Motor License Fund revenues are \$21.4 million, or 1.8%, below estimate through November.
- Motor License Fund revenues are \$83.2 million, or 6.6%, less than last year at this time.

PASSHE Enrollment Continues to Decline Continued..

Based on projections made by the National Center for Education Statistics through 2026-2027, the number of public high school graduates in Pennsylvania is estimated to decline. Given this information, it is unlikely that PASSHE enrollments will rebound to previous levels in the near future.

PASSHE Enrollment Change 2010-2018 System-wide Decrease (21,171), or -17.7%



Fiscal Year 2018-19

Senate Appropriations Committee

Monthly Revenue Report

(\$ thousands)

REVENUE SOURCES	YTD FY 2017-18	November 2018 Actual	November 2018 Estim- ed	Surplus/ (Deficit)	YTD Actual	YTD Estimated	Surplus/ (Deficit)
TOTAL - GENERAL FUND	11,414,177	2,336,319	2,241,200	95,119	12,364,982	12,031,400	333,582
TOTAL - NON-TAX REVENUE	224,342	157,418	109,100	48,318	261,895	193,200	68,695
TOTAL - TAX REVENUE	11,189,835	2,178,901	2,132,100	46,801	12,103,087	11,838,200	264,887
TOTAL - Corporation Taxes	812,905	138,005	110,700	27,305	1,079,460	872,400	207,060
Accelerated Deposits	179	417	0	417	258	0	258
Corp. Net Income	769,105	125,917	104,800	21,117	997,051	807,800	189,251
Gross Receipts	11,899	9,765	2,800	6,965	42,953	21,300	21,653
PURTA	1,323	5	200	(195)	1,247	1,300	(53)
Insurance Premiums	10,898	391	700	(309)	22,375	23,500	(1,125)
Financial Institutions	19,501	1,510	2,200	(690)	15,576	18,500	(2,924)
TOTAL - Consumption Taxes	5,042,637	1,064,364	1,017,000	47,364	5,396,590	5,265,900	130,690
Sales and Use	4,310,107	910,244	864,800	45,444	4,692,462	4,552,500	139,962
General (net of transfers)	3,724,726	795,470	754,200	41,270	4,052,845	3,950,800	102,045
Motor Vehicle Sales	585,380	114,774	110,600	4,174	639,617	601,700	37,917
Cigarette Tax	521,934	103,877	104,400	(523)	484,237	496,800	(12,563)
Other Tobacco Products	49,595	12,543	10,300	2,243	54,141	50,500	3,641
Malt Beverage	10,804	1,906	2,000	(94)	10,471	11,000	(529)
Liquor	150,198	35,794	35,500	294	155,279	155,100	179
TOTAL - Other Taxes	5,334,293	976,532	1,004,400	(27,868)	5,627,037	5,699,900	(72,863)
Personal Income	4,661,452	834,790	865,000	(30,210)	4,911,938	4,982,900	(70,962)
Withholding	4,030,623	793,587	820,400	(26,813)	4,170,048	4,221,400	(51,352)
Non-Withholding	630,828	41,204	44,600	(3,396)	741,890	761,500	(19,610)
Realty Transfer	220,808	46,364	47,100	(736)	228,769	233,500	(4,731)
Inheritance & Estate	404,461	81,847	86,900	(5,053)	430,748	426,700	4,048
Minor & Repealed	(1,839)	1,721	(7,600)	9,321	4,649	(900)	5,549
Gaming	49,412	11,809	13,000	(1,191)	50,933	57,700	(6,767)
TOTAL - MOTOR LICENSE FUND	1,259,844	260,820	246,380	14,440	1,176,609	1,198,030	(21,421)
TOTAL - Liquid Fuels Taxes	821,553	194,401	178,500	15,901	801,892	797,900	3,992
Liquid Fuels	3	1	0	1	3	0	3
Fuels	0	0	0	0	0	0	0
Motor Carriers/IFTA	61,689	27,725	27,000	725	60,883	60,100	783
Alternative Fuels	5,853	1,091	1,200	(109)	5,901	6,100	(199)
Oil Company Franchise	754,008	165,585	150,300	15,285	735,106	731,700	3,406
TOTAL - Licenses, Fees & Other	438,291	66,419	67,880	(1,461)	374,717	400,130	(25,413)
Licenses and Fees	397,583	66,074	67,700	(1,626)	369,522	395,100	(25,578)
Other Motor Receipts	40,708	345	180	165	5,194	5,030	164
Other Motor Receipts	7,538	(3,612)	(1,070)	(2,542)	40,708	43,360	(2,652)