



Pennsylvania Senate Appropriations Committee

Senator Pat Browne
Chairman

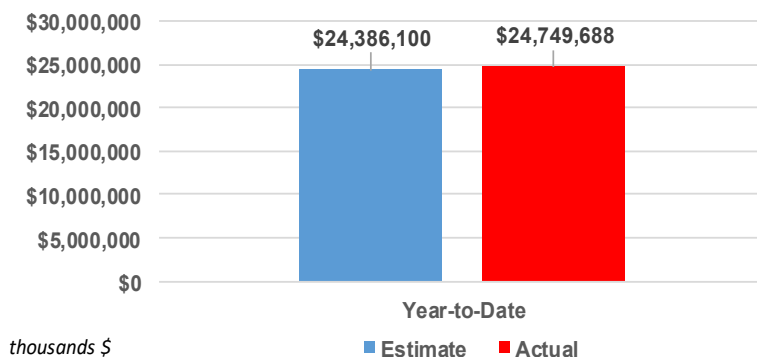


Monthly Report April 2019

March Revenues Outperform Estimate

General Fund revenue collections for the month of March outperformed expectations by \$76.1 million, largely as the result of strong corporation tax collections, including from corporate net income tax, gross receipts tax, insurance premiums tax and financial institutions tax. Collectively, corporation taxes exceeded the monthly estimate by \$113.7 million. Non-tax revenues were below estimate by \$42.4 million, much of which was attributable to gaming license fee revenue included in the March estimate that was received earlier in the fiscal year. General Fund revenues are now \$363.6 million above the estimate, and the Governor's budget calls for a revenue surplus of \$424.9 million by fiscal year's end in June.

**General Fund Revenue Collections
Fiscal Year 2018-19
Comparison of Official Estimate with Actual Revenue
Year-to-Date**



Payments received from annual personal income tax (PIT) returns were above the monthly estimate by \$5.5 million, or 4.5%. Because final 2018 estimated PIT payments received in December and January were well below estimate, there has been concern that annual payments for the 2018 tax year received in March and April of 2019 would be weak as well. Therefore, it is a welcome sign to see that PIT annual payments are holding up going into the important month of April.

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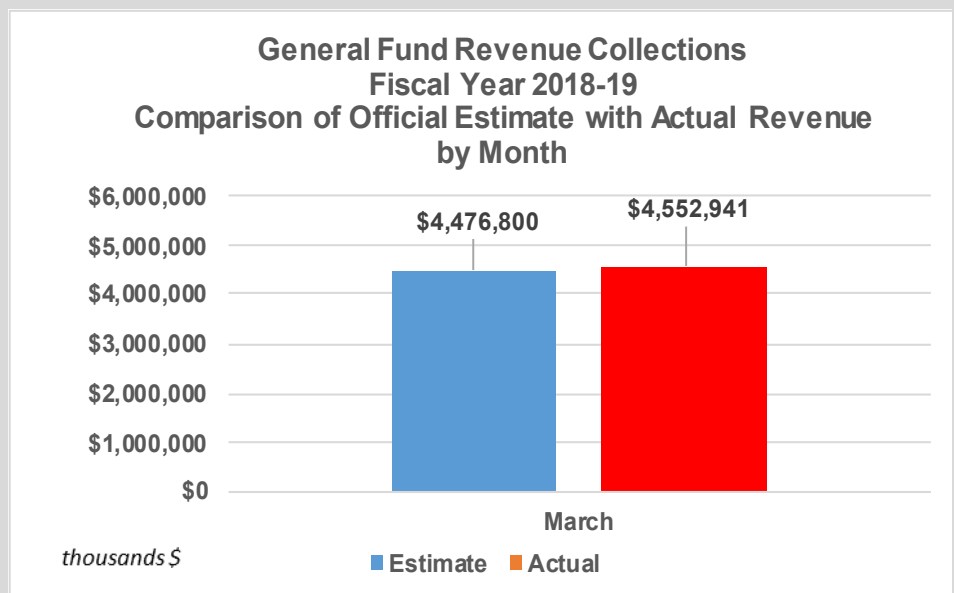
March Revenues Outperform Estimate Continued...

March General Fund Revenue:

- General Fund revenue collections of \$4.55 billion were above the monthly estimate by \$76.1 million, or 1.7%.
- General Fund tax revenues were ahead of estimate by \$118.5 million, or 2.7%.
- Corporation taxes were \$113.7 million, or 5.3%, above the estimate.
- Sales and use tax (SIT) collections beat the estimate by \$19.1 million, or 2.4%, for the month.
- Personal income tax collections were below the estimate by \$3.1 million, or 0.3%.
- Non-tax revenues missed the estimate by \$42.4 million, or 25.6%.

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

- Total General Fund revenues are \$363.6 million, or 1.5%, higher than the Official Revenue Estimate through the month of March.
- General Fund tax revenue is \$269.2 million, or 1.1%, higher than estimated.
- Corporation taxes are \$453.6 million, or 12.1%, above the estimate.
- Sales and use taxes are \$230.7 million, or 2.9%, above the estimate.
 - General SUT collections are \$160.2 million, or 2.3%, above estimate.
 - SUT collections on motor vehicle sales are \$70.5 million, or 7%, over estimate.
- Personal income tax collections are below the estimate by \$371.1 million, or 3.8%.
 - Withheld PIT is \$91.3 million, or 1.1%, below the estimate.
 - Non-withheld PIT (annual & estimated payments) is \$279.8 million, or 15.3%, short of estimate.
- Non-tax revenues are \$94.4 million, or 21.7%, over estimate.



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

- Total General Fund revenues through March are \$523.6 million lower than last year at this time.
- Last year's revenues included \$1.5 billion of proceeds from the securitization of tobacco settlement payments, which has the effect of skewing a true year-over-year comparison of General Fund revenues.
- General Fund tax revenue is \$1.2 billion, or 5.2%, higher than last year.
- Corporation taxes are \$459.8 million, or 12.3%, higher.
- Sales and use tax collections are \$564.3 million, or 7.4%, higher than last year through March.
- Personal income tax collections exceed last year's collections by \$155.3 million, or 1.7%.
- Non-tax revenues are \$1.7 billion, or 76.6%, less than last fiscal year through March. This large decrease results from tobacco securitization and gaming expansion that occurred last year.

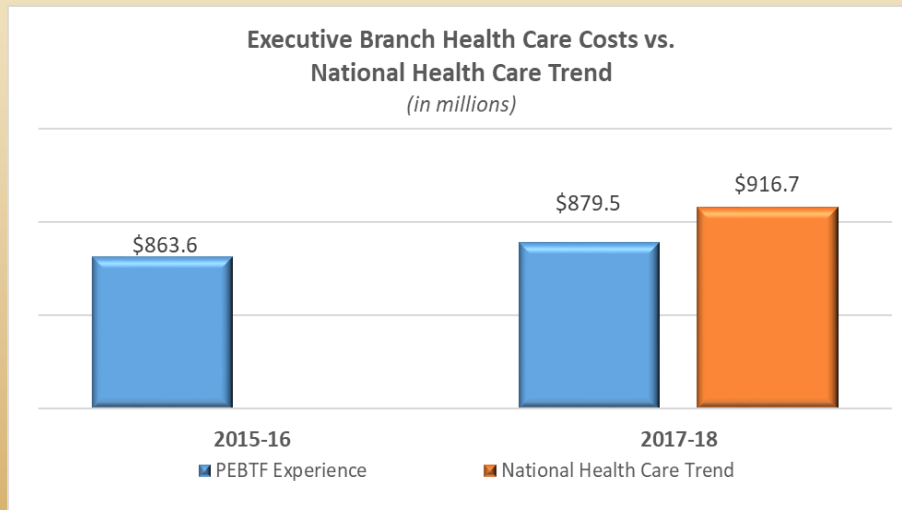
Motor License Fund:

- Motor License Fund revenues are below the estimate by \$119.4 million, or 5.7%, through March.
- Motor License Fund revenues are \$153.8 million, or 7.2%, less than last fiscal year at this time.

Executive Branch Health Care Costs

In July 2016, the Commonwealth and the majority of unions reached agreement on three-year contracts. Those new contracts provided for salary increases and higher employee contributions for health care: from 2.0% to 2.25% of salary (July 2017) and from 2.25% to 2.5% of salary (July 2018). At the time, the Office of Administration estimated the savings from the contractual health care changes to be \$13.6 million. As part of its statutory review of all contracts, the Independent Fiscal Office determined this savings estimate was reasonable.

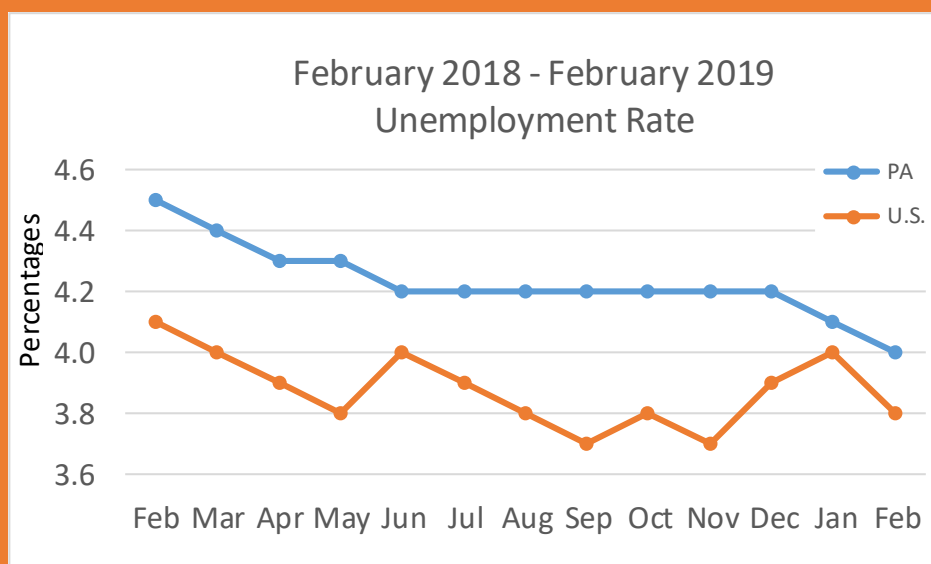
As noted in the chart below, since June 30, 2016, Commonwealth employer contributions increased 1.8%, or an average of 0.9% per year. National trends for health care cost increases during the same time period were in the 6-7% range. The chart also displays what health care costs would have been if they had increased at national trend rates.

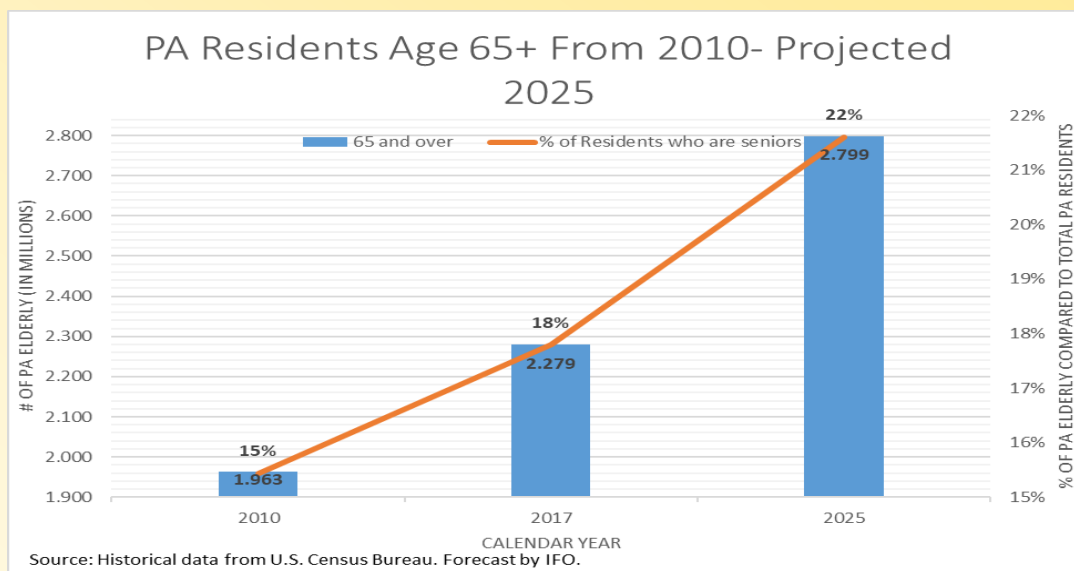


Effective January 1, 2017, the Pennsylvania Employees Benefit Trust Fund, the labor/management organization that administers health care benefits to eligible Commonwealth of Pennsylvania employees, retirees and their dependents, also implemented three new health care plans:

- Basic PPO – Introduced deductible which is \$1,500 for single and \$3,000 for family coverage;
- Choice PPO – Introduced deductible which is \$400 for single and \$800 for family coverage; and
- PEBTF Custom HMO – Introduced a custom, narrow network that focuses on quality providers with no deductible.

Currently, 75% of employees are enrolled in a PPO, compared to only 58% in 2016. Although the HMO does provide lower out-of-pocket expenses for employees, it appears Executive Branch employees are willing to pay more (either through deductibles or copayments) for the ability to select from a larger provider network.



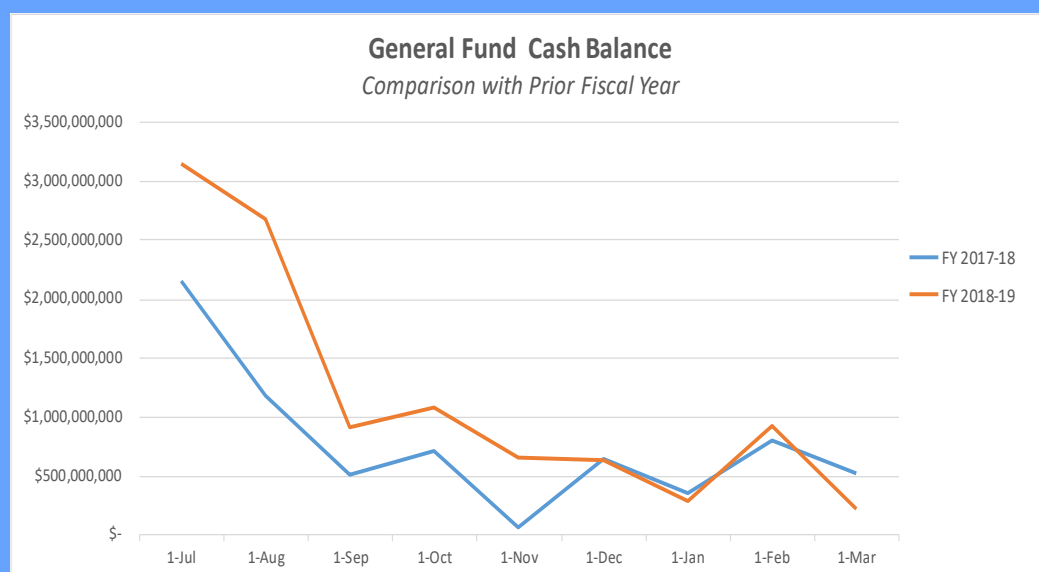


PA's Aging Population

Pennsylvania is ranked the 6th highest state in aging population percentage, and that percentage is projected to increase. In 2010, the percentage of residents 65 and older was 15%; in 2015, that percentage was 18%; and in 2025, the percentage is projected to be 22%. With statistics showing that 1 in 3 people turning 65 will require nursing home care at some point during his or her life and that Medicaid covers 6 in 10 nursing home residents, it is easy to conclude that this will be a significant cost driver in the Commonwealth's future budgets.

One method the Commonwealth is utilizing to not only reduce the state's cost for Medicaid seniors, but also to encourage them to remain in their homes, is implementing Community HealthChoices (CHC) statewide by January 1, 2020. CHC is Pennsylvania's mandatory managed care program that will include physical health benefits and long-term services and supports (LTSS) for dually eligible (eligible for Medicare and Medicaid) individuals and individuals with physical disabilities. The goals for CHC are serving more people in communities, giving them the opportunity to work, spend more time with their families and experience an overall better quality of life.

The General Fund began fiscal year 2017-18 with a balance of \$2.3 billion and required cash flow assistance in the form of a Short Term Investment Pool (STIP) line of credit by Mid-August of 2017 in order to meet its cash flow needs. The General Fund cash balance at the beginning of the current fiscal year in July 2018 improved to \$3.1 billion, and cash flow assistance in the form of a short-term loan from the Motor License Fund was not necessary until January



2019, followed up with STIP lines of credit in January and March, all of which have since been repaid. Such short-term cash flow needs occurring more than midway through the fiscal year are normal to ensure adequate liquidity in the General Fund and are related to typical revenue collection patterns whereby large tax collections are received in the spring of the year.

Senate Appropriations Committee

Monthly Revenue Report

(\$ thousands)

REVENUE SOURCES	YTD FY 2017-18	March 2019 Actual	March 2019 Estimated	Surplus/ (Deficit)	YTD Actual	YTD Estimated	Surplus/ (Deficit)
TOTAL - GENERAL FUND	25,273,250	4,552,941	4,476,800	76,141	24,749,688	24,386,100	363,588
TOTAL - NON-TAX REVENUE	2,256,041	123,399	165,800	(42,401)	528,363	434,000	94,363
TOTAL - TAX REVENUE	23,017,209	4,429,542	4,311,000	118,542	24,221,325	23,952,100	269,225
TOTAL - Corporation Taxes	3,730,240	2,273,061	2,159,400	113,661	4,189,995	3,736,400	453,595
Accelerated Deposits	3,159	(8,648)	0	(8,648)	1,818	0	1,818
Corp. Net Income	1,809,536	452,987	423,800	29,187	2,192,628	1,862,000	330,628
Gross Receipts	1,136,572	1,132,665	1,104,300	28,365	1,195,175	1,136,600	58,575
PURTA	1,504	25	0	25	1,460	1,400	60
Insurance Premiums	425,029	362,059	314,300	47,759	427,170	387,700	39,470
Financial Institutions	354,440	333,973	317,000	16,973	371,745	348,700	23,045
TOTAL - Consumption Taxes	8,919,675	939,790	937,000	2,790	9,437,209	9,219,600	217,609
Sales and Use	7,646,632	820,831	801,700	19,131	8,210,915	7,980,200	230,715
General (net of transfers)	6,641,124	701,797	692,100	9,697	7,128,243	6,968,000	160,243
Motor Vehicle Sales	1,005,508	119,034	109,600	9,434	1,082,672	1,012,200	70,472
Cigarette Tax	886,188	76,738	91,000	(14,262)	824,346	839,600	(15,254)
Other Tobacco Products	87,558	9,559	9,200	359	96,016	88,900	7,116
Malt Beverage	18,051	1,613	1,800	(187)	17,308	18,000	(692)
Liquor	281,245	31,050	33,300	(2,250)	288,624	292,900	(4,276)
TOTAL - Other Taxes	10,367,294	1,216,692	1,214,600	2,092	10,594,122	10,996,100	(401,978)
Personal Income	9,250,601	1,149,494	1,152,600	(3,106)	9,405,895	9,777,000	(371,105)
Withholding	7,575,307	965,811	970,800	(4,989)	7,856,067	7,947,400	(91,333)
Non-Withholding	1,675,294	183,683	181,800	1,883	1,549,828	1,829,600	(279,772)
Realty Transfer	374,775	39,664	41,300	(1,636)	383,549	410,800	(27,251)
Inheritance & Estate	718,744	85,052	89,900	(4,848)	762,088	780,000	(17,912)
Minor & Repealed	(68,744)	(70,577)	(85,200)	14,623	(53,965)	(82,700)	28,735
Gaming	91,917	13,059	16,000	(2,941)	96,555	111,000	(14,445)
TOTAL - MOTOR LICENSE FUND	2,139,394	196,226	237,370	(41,144)	1,985,614	2,105,040	(119,426)
TOTAL - Liquid Fuels Taxes	1,373,347	113,486	122,300	(8,814)	1,335,024	1,369,300	(34,276)
Motor Carriers/IFTA	101,658	88	4,100	(4,012)	92,553	99,100	(6,547)
Alternative Fuels	10,630	616	1,200	(584)	10,889	11,000	(111)
Oil Company Franchise	1,261,052	112,692	117,000	(4,308)	1,231,167	1,259,200	(28,033)
Minor and Repealed	6	90	0	90	415	0	415
TOTAL - Licenses, Fees & Other	766,047	82,740	115,070	(32,330)	650,590	735,740	(85,150)
Licenses and Fees	716,764	78,052	111,100	(33,048)	637,687	722,200	(84,513)
Other Motor Receipts	49,283	4,688	3,970	718	12,904	13,540	(636)