



Pennsylvania Senate Appropriations Committee

Senator Pat Browne
Chairman



Monthly Report May 2020

Tax Filing Deadline Delays and Stay-at-Home Orders Impact Revenues

General Fund revenue collections for April were substantially below the monthly estimate by \$2.16 billion. General Fund revenues are now \$2.2 billion below the annual estimate with two months remaining in the fiscal year. Annual and estimated personal income tax (PIT) payments that are typically due April 15 accounted for \$1.4 billion of the monthly shortfall. Act 10 of 2020 extended the tax filing deadline for annual and estimated PIT payments to July 15, 2020, and the bulk of these payments eventually will be received early in the next fiscal year.

On April 8th, the Independent Fiscal Office (IFO) released a special report regarding the projected revenue impact of COVID-19 on the Commonwealth's General Fund. Under what appears to be the more likely of two scenarios presented in the report, the IFO projects that for FY 2019-20 and FY 2020-21 combined, General Fund revenues decline by \$3.9 billion over the two years. Because of huge revenue shifts from one fiscal year to another due to tax filing extensions, viewing the impact over the two combined years presents a clearer picture as opposed to looking at each fiscal year individually. The IFO will release an updated revenue projection for both fiscal years at the end of May.

Corporation taxes were \$149.5 million under estimate for the month, but, like the PIT, most of this deficit likely is due to tax filing delays. Pennsylvania's Tax Reform Code directly links the corporate net income tax (CNIT) filing deadline to federal law, and the due date for CNIT returns has been extended to August 15.

In addition to the monthly shortfall related to tax filing extensions, other General Fund revenue categories were down substantially, and these shortages mainly result from the economic shutdown and will not be directly recouped next fiscal year. Sales and use tax (SUT) collections were \$361 million below estimate for the month of April; PIT withheld from paychecks was \$104.5 million below estimate; realty transfer tax collections missed the estimate by \$23 million because real estate sales were mostly put on hold; liquor tax revenue was \$18.6 million short of estimate because Wine and Spirits stores were shuttered; and gaming taxes were \$12.6 million below estimate because casinos were closed.

Non-tax revenue was \$22 million under estimate, with unclaimed property (escheats) collections missing the mark by \$32.7 million. The Treasury Department extended the filing deadline for escheated property remittances from April 15 to June 15, so much of this revenue should be made up before the end of the current fiscal year.

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**EVERY DAY
MAY NOT BE
GOOD...
— BUT —
THERE IS
SOMETHING
GOOD IN
EVERY DAY.**

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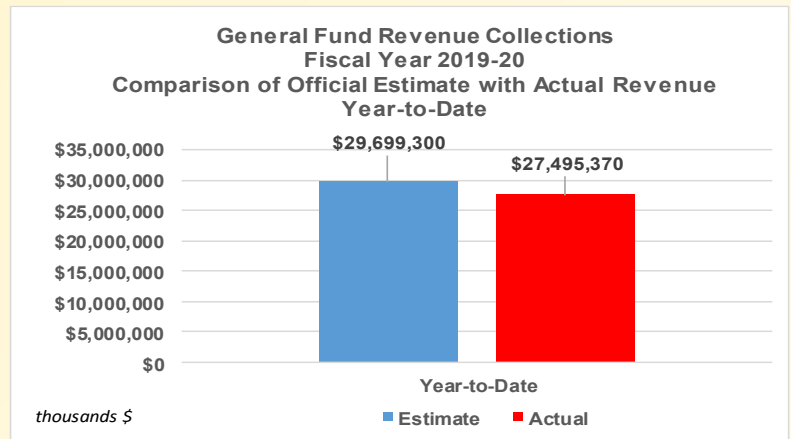
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Tax Filing Deadline Delays and Stay-at-Home Orders Impact Revenues Continued....

April General Fund Revenue:

- General Fund revenue collections of \$2.18 billion were below the monthly estimate by \$2.16 billion, or 49.7%.
- General Fund tax revenues were under estimate by \$2.14 billion, or 51.6%.
- Corporation taxes were \$149.5 million, or 45.9%, short of estimate.
- Sales and use tax collections missed the estimate by \$361.4 million, or 36.2%, for the month.
- Personal income tax collections were below the estimate by \$1.5 billion, or 57.8%.
 - Withheld PIT was \$104.5 million, or 10.3%, below estimate.
 - Non-withheld PIT (annual & estimated payments) was \$1.4 billion, or 87.4%, short of estimate.
- Non-tax revenues missed the estimate by \$22 million, or 11.1%.

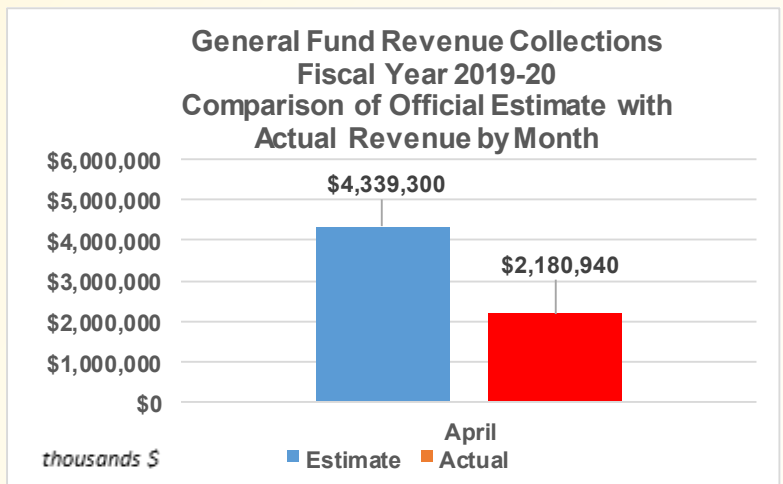


Fiscal Year 2019-20 vs. the Official Revenue Estimate To-Date:

- Total General Fund revenues are \$2.2 billion, or 7.4%, lower than the Official Revenue Estimate through the month of April.
- General Fund tax revenue is \$2.25 billion, or 7.7%, lower than estimated.
- Corporation taxes are \$396.3 million, or 8.4%, below estimate.
- Sales and use taxes are \$293.2 million, or 3.1%, below estimate.
 - General SUT collections are \$195 million, or 2.4%, under estimate.
 - SUT collections on motor vehicle sales are \$98.2 million, or 7.8%, below estimate.
- Personal income tax collections are below estimate by \$1.5 billion, or 12.4%.
 - Withheld PIT is \$151.8 million, or 1.7%, below estimate.
 - Non-withheld PIT (annual & estimated payments) is \$1.4 billion, or 43%, short of estimate.
- Non-tax revenues are \$42.6 million, or 8%, over estimate.

Fiscal Year 2019-20 vs. FY 2018-19:

- Total General Fund revenues through April are \$1.7 billion, or 5.7%, lower than last year at this time.
- General Fund tax revenue is \$1.5 billion, or 5.2%, lower than last year.
- Corporation taxes are \$281.4 million, or 6.1%, lower.
- Sales and use tax collections are \$41.3 million, or 0.4%, lower than last year through April.
- Personal income tax collections trail last year's collections by \$1.1 billion, or 8.8%.
- Non-tax revenues are \$191.2 million, or 24.9%, less than last fiscal year through April. This large decrease results from one-time expanded gaming license fee revenues that were received last year.



Motor License Fund:

- Motor License Fund revenues were below the monthly estimate by \$99.6 million, or 36.5%, for April.
- Motor License Fund revenues are below the annual estimate by \$120.9 million, or 5.2%, through April.
- Motor License Fund revenues are \$112.4 million, or 4.9%, less than last fiscal year at this time.

Federal CARES Act

K-12 and Higher Education Aid to States



The Coronavirus Aid, Relief and Economic Security (CARES) Act, enacted by the federal government in late March, appropriated \$2.2 trillion in emergency aid to respond to the COVID-19 pandemic. A critical component of the aid package is \$30.75 billion to establish an Education Stabilization Fund (fund) for states, local school districts, and institutions of higher education to provide support for costs related to coronavirus.

Current estimates indicate Pennsylvania is expected to receive just over \$1.1 billion in aid from the fund. These monies will be channeled through three major funding streams: a Governor's Emergency Education Relief Fund; an Elementary and Secondary School Emergency Relief Fund; and a Higher Education Emergency Relief Fund. In addition, and critically important for those on the receiving end, these are one-time dollars that will not become a part of the state's, local education agencies', or higher education institutions' recurring funding base and can only go for a clearly defined set of uses laid out under the law. The key provisions of these three relief funds are as follows:

Governor's Emergency Education Relief Fund

Pennsylvania is expected to receive \$104,743,000 for emergency support grants to local education agencies and institutions of higher education most significantly impacted by coronavirus. These funds can be used to support the ability of these entities to continue to provide educational services to their students and to support ongoing functionality of the entities themselves. Funds can also be used to support education-related entities deemed by the Governor to be essential for carrying out emergency educational services to students, including child care and early childhood education, social and emotional support, and the protection of education-related jobs.

Elementary and Secondary School Emergency Relief Fund

Pennsylvania is slated to receive \$523,807,000 in K-12 relief funds according to the latest estimates. The law requires that 90 percent of these dollars be distributed to local education agencies based on current federal Title I allocations. The law also sets out a specific list of coronavirus response activities for which the funds can be used to maintain the operation of and continuity of services, including:

- Planning for and coordinating during long-term school closures;
- Purchasing educational technology (including hardware, software, and connectivity) for students to aid continuing classroom instruction, including low-income students and students with disabilities, which may include assistive technology or adaptive equipment;
- Training and professional development for staff of the local educational agency on sanitation and minimizing the spread of infectious diseases;
- Buying supplies to sanitize and clean the facilities; and
- Planning and implementing activities for summer learning and supplemental after school programs, including classroom instruction online learning during the summer months.

Higher Education Emergency Relief Fund

The latest estimates indicate Pennsylvania is to receive \$483,678,000 in emergency relief. Under the CARES Act, funds may be used to defray expenses for institutions, such as lost revenue and technology costs associated with a transition to distance education. The law requires that 50 percent of the funds be used to provide emergency financial aid grants to students for expenses such as food, housing, course materials, technology, health care, and child care. For any local educational agency, state institution of higher education, or other entity that receives funds under the Education Stabilization Fund, the law requires that, to the greatest extent practicable, the entity continues to pay its employees and contractors during the period of any disruptions or closures related to coronavirus.

Maintenance of Effort

In order to receive funding from the Education Stabilization Fund, the state must provide assurances that it will maintain support for K-12 education and state funding to higher education institutions, including state need-based financial aid, at least at the levels provided in the last three fiscal years.

Pennsylvania Workforce among Hardest Hit of All States

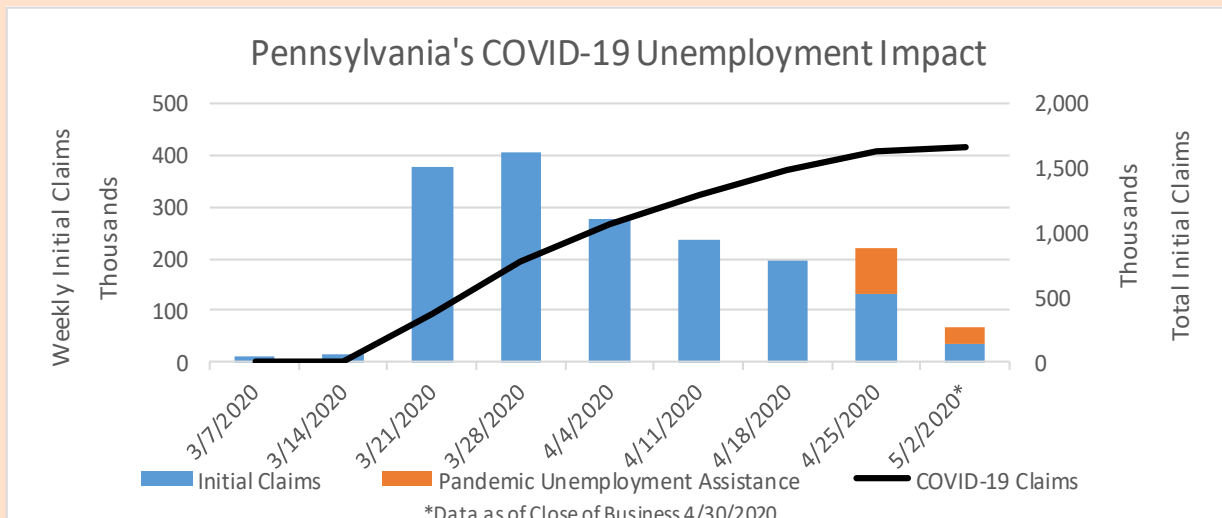
The coronavirus pandemic has led to a sharp increase in Pennsylvania's Unemployment Compensation (UC) claims. The Governor's stay-at-home order to stem the spread of the virus has frozen the Commonwealth's economy. At the beginning of March, Pennsylvania had seen its labor force and total employment grow to its largest totals ever. Fast forward to May 1st, and the Pennsylvania Department of Labor and Industry is reporting nearly 1.7 million new unemployment claims filed since March 14th. An additional 128,000 claims have been filed by those not traditionally covered by unemployment insurance through Pennsylvania's Pandemic Unemployment Assistance (PUA) program. PUA provides benefits to individuals who have traditionally been ineligible for unemployment benefits (e.g. self-employed workers, independent contractors, gig workers). Funding for the PUA program is made available by the federal government through the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The combination of traditional UC claims and PUA claims increases the number of claims filed to almost 1.8 million since March 14th.



State	Initial Claims Since March 14	% of Workforce
California	3,675,346	18.8%
Pennsylvania*	1,661,000	25.4%
New York	1,609,842	16.9%
Florida	1,592,236	15.2%
Texas	1,555,995	11.0%
Georgia	1,367,494	26.5%
Michigan	1,261,121	25.5%
Ohio	1,056,695	18.1%
New Jersey	889,480	19.5%
Washington	857,697	21.6%
Illinois	818,917	12.8%
North Carolina	747,303	14.6%
Massachusetts	725,018	18.9%
Kentucky	590,829	28.4%
Indiana	569,847	16.1%
*Dept. of Labor and Industry provided data		

The table to the left shows that Pennsylvania is not alone when it comes to the consequences that stay-at-home orders have had on states' economies. California was the first state to issue such orders and has seen the greatest number of job losses at over 3.6 million as a result. The impact on Pennsylvania has left us with the second most initial claims over the same time period and 6th in the nation as a percentage of workforce. Twelve states now have 20% or more of their entire labor force having applied for Unemployment Compensation benefits, and these figures represent only those new claims for Unemployment Compensation and do not take into consideration those self-employed, independent contractors or gig workers who are not eligible and are only beginning to apply for PUA benefits through the CARES Act.

As the following chart below illustrates, policy makers are hopeful that the initial surge from the shutdown orders is subsiding, and the unemployment curve is flattening. As the Commonwealth begins reopening its economy, the number of workers reentering the labor force should rebound, and those collecting UC benefits will begin to decline.



Fiscal Year 2019-20
Senate Appropriations Committee
Monthly Revenue Report
(\$ thousands)

REVENUE SOURCES	YTD FY 2018-19	April 2020 Actual	April 2020 Estimated	Surplus/ (Deficit)	YTD Actual	YTD Estimated	Surplus/ (Deficit)
TOTAL - GENERAL FUND	29,163,042	2,180,940	4,339,300	(2,158,360)	27,495,370	29,699,300	(2,203,930)
TOTAL - NON-TAX REVENUE	768,748	175,903	197,900	(21,997)	577,560	535,000	42,560
TOTAL - TAX REVENUE	28,394,294	2,005,037	4,141,400	(2,136,363)	26,917,810	29,164,300	(2,246,490)
TOTAL - Corporation Taxes	4,575,983	176,324	325,800	(149,476)	4,294,624	4,690,900	(396,276)
Accelerated Deposits	3,223	(2,544)	0	(2,544)	3,546	0	3,546
Corp. Net Income	2,513,141	135,963	276,200	(140,237)	2,318,757	2,664,100	(345,343)
Gross Receipts	1,208,538	1,051	3,000	(1,949)	1,104,560	1,217,900	(113,340)
PURTA	17,636	6,916	17,600	(10,684)	9,384	20,500	(11,116)
Insurance Premiums	458,122	28,362	25,300	3,062	470,832	423,600	47,232
Financial Institutions	375,323	6,576	3,700	2,876	387,545	364,800	22,745
TOTAL - Consumption Taxes	10,548,408	646,146	1,012,600	(366,454)	10,328,776	10,649,100	(320,324)
Sales and Use	9,185,800	636,717	998,100	(361,383)	9,144,501	9,437,700	(293,199)
General (net of transfers)	7,957,061	621,127	856,400	(235,273)	7,988,196	8,183,200	(195,004)
Motor Vehicle Sales	1,228,739	15,590	141,700	(126,110)	1,156,306	1,254,500	(98,194)
Cigarette Tax	918,765	(15,543)	(29,100)	13,557	747,323	749,800	(2,477)
Other Tobacco Products	106,488	10,510	11,200	(690)	106,773	110,500	(3,727)
Malt Beverage	19,206	2,449	1,800	649	18,863	18,700	163
Liquor	318,150	12,013	30,600	(18,587)	311,316	332,400	(21,084)
TOTAL - Other Taxes	13,269,902	1,182,567	2,803,000	(1,620,433)	12,294,410	13,824,300	(1,529,890)
Personal Income	11,926,039	1,111,447	2,634,600	(1,523,153)	10,871,409	12,409,500	(1,538,091)
Withholding	8,707,255	906,463	1,011,000	(104,537)	9,034,216	9,186,000	(151,784)
Non-Withholding	3,218,784	204,984	1,623,600	(1,418,616)	1,837,193	3,223,500	(1,386,307)
Realty Transfer	433,406	26,589	49,600	(23,011)	431,683	445,100	(13,417)
Inheritance & Estate	855,341	65,351	101,500	(36,149)	932,794	903,100	29,694
Minor & Repealed	(53,497)	(23,502)	2,000	(25,502)	(75,708)	(78,700)	2,992
Gaming	108,613	2,682	15,300	(12,618)	134,232	145,300	(11,068)
TOTAL - MOTOR LICENSE FUND	2,308,061	173,095	272,670	(99,575)	2,195,690	2,316,540	(120,850)
TOTAL - Liquid Fuels Taxes	1,497,261	126,725	157,200	(30,475)	1,444,072	1,501,300	(57,228)
Motor Carriers/IFTA	92,650	9,753	2,300	7,453	100,735	102,700	(1,965)
Alternative Fuels	13,108	1,072	1,300	(228)	11,629	12,900	(1,271)
Oil Company Franchise	1,391,020	115,906	153,600	(37,694)	1,331,718	1,385,700	(53,982)
Minor & Repealed	482	(7)	0	(7)	(9)	0	(9)
TOTAL - Licenses, Fees & Other	810,799	46,370	115,470	(69,100)	751,618	815,240	(63,622)
Licenses and Fees	791,828	64,973	113,600	(48,627)	748,191	799,700	(51,509)
Other Motor Receipts	18,971	(18,603)	1,870	(20,473)	3,427	15,540	(12,113)