



Pennsylvania Senate Appropriations Committee

Senator Pat Browne
Chairman



Monthly Report June 2020

Revenue Collections Suffering from COVID-19 Pandemic

General Fund revenue collections for May were below the monthly estimate by \$439.7 million. As bad as it was, it was an improvement over April's \$2.16 billion monthly deficit, mainly because April is a much more significant revenue collection month, and important April payments were extended. General Fund revenues are now \$2.6 billion below the annual estimate with one month remaining in the fiscal year. The Independent Fiscal Office (IFO) released its initial revenue estimate for FY 2020-21, and its analysis for FY 2019-20 concluded that approximately \$2.1 billion of the current fiscal years' revenue shortfall by the end of June will result from COVID-19-related extended payment deadlines and should be recouped in FY 2020-21. Any shortfall over the \$2.1 billion will have resulted from damage done to the Commonwealth's economy by the virus.

Corporation taxes were \$164.7 million under estimate for the month and are \$560.9 million below estimate for the fiscal year. The tax filing deadline for tax year 2019 final corporate net income tax (CNIT) payments has been extended to August 14, 2020, and the IFO estimates that the filing extension will shift approximately \$470 million of CNIT payments from FY 2019-20 into FY 2020-21.

Not all of the monthly shortfall is attributable to filing extensions, as evidenced by declining sales and use tax collections and other remittances that were due on a monthly or weekly basis. Sales and use tax (SUT) collections were \$282.8 million below estimate for the month of May; PIT withheld from paychecks was \$86.5 million below estimate; realty transfer tax collections missed the estimate by \$18.2 million; liquor tax revenue was \$8.3 million short of estimate; and gaming taxes were \$13.4 million below estimate as casinos remain closed.

Total personal income tax (PIT) collections were above the monthly estimate by \$44.8 million. Despite poor collections from PIT withheld from paychecks, quarterly and annual PIT payments exceeded the monthly estimate by a combined \$131.3 million. The relatively strong performance of non-withheld PIT collections resulted from the Department of Revenue beginning to work through tax return and payment backlogs that grew in March and April while department employees were unable to process returns.

~Continued On Page 2~

Inside This Issue

Revenue Collections Suffering from COVID-19 Pandemic.....	1 & 2
Disparate Revenue Projections Highlight Need for Fiscal Caution.....	3
Unemployment and COVID-19 Charts.....	4
General Fund Revenue Detail.....	5



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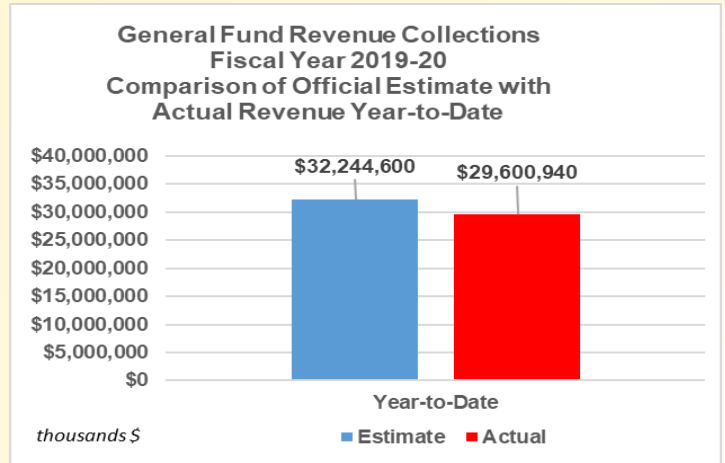
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Revenue Collections Suffering from COVID-19 Pandemic Continued.....

Non-tax revenue was \$27.2 million above estimate, with unclaimed property (escheats) collections beating the estimate by \$16.8 million. The Treasury Department extended the filing deadline for escheated property remittances from April 15 to June 15, so much of this escheats revenue was likely recouped from April's deficit.

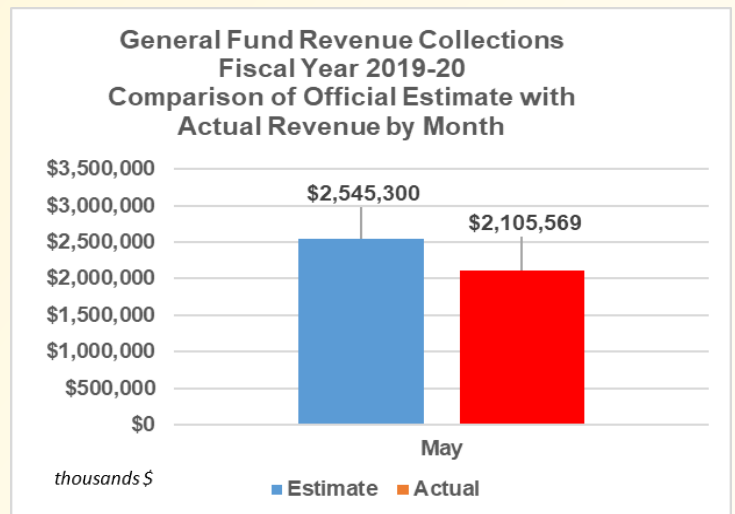
May General Fund Revenue:

- General Fund revenue collections of \$2.11 billion were below the monthly estimate by \$439.7 million, or 17.3%.
- General Fund tax revenues were under estimate by \$466.9 million, or 18.5%.
- Corporation taxes were \$164.7 million, or 53.1%, short of estimate.
- Sales and use tax collections missed the estimate by \$282.9 million, or 28.8%, for the month.
 - General SUT collections were \$206.5 million, or 24.2%, under estimate.
 - SUT collections on motor vehicle sales were \$76.4 million, or 60.1%, below estimate.
- Personal income tax collections were above estimate by \$44.8 million, or 5%.
 - Withheld PIT was \$86.5 million, or 10.3%, below estimate.
 - Annual PIT payments were \$114.4 million, or 274.5%, above estimate.
 - Quarterly estimated payments were \$16.8 million, or 76.8%, higher than estimated.
- Non-tax revenues were \$27.2 million, or 110.1%, above estimate.



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

- Total General Fund revenues are \$2.64 billion, or 8.2%, lower than the Official Revenue Estimate through the month of May.
- General Fund tax revenue is \$2.7 billion, or 8.6%, lower than estimated.
- Corporation taxes are \$560.9 million, or 11.2%, below estimate.
- Sales and use taxes are \$576.1 million, or 5.5%, below estimate.
 - General SUT collections are \$401.5 million, or 4.4%, under estimate.
 - SUT collections on motor vehicle sales are \$174.6 million, or 12.6%, below estimate.
- Personal income tax collections are below estimate by \$1.49 billion, or 11.2%.
 - Withheld PIT is \$238.3 million, or 2.4%, below estimate.
 - Non-withheld PIT (annual & estimated payments) is \$1.26 billion, or 38.2%, short of estimate.
- Non-tax revenues are \$69.8 million, or 12.5%, over estimate.



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

- Total General Fund revenues through May are \$2.18 billion, or 6.9%, lower than last year at this time.
- General Fund tax revenue is \$2 billion, or 6.5%, lower than last year.
- Corporation taxes are \$480.4 million, or 9.8%, lower.
- Sales and use tax collections are \$287 million, or 2.8%, lower than last year through May.
- Personal income tax collections trail last year's collections by \$1.07 billion, or 8.3%.
- Non-tax revenues are \$173.2 million, or 21.6%, less than last fiscal year through May. 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 \$59.4 million, or 21.2%, for May.
- Motor License Fund revenues are below the annual estimate by \$180.3 million, or 6.9%, through May.
- Motor License Fund revenues are \$187.7 million, or 7.2%, less than last fiscal year at this time.

Disparate Revenue Projections Highlight Need for Fiscal Caution

On May 29, 2020, the Secretary of the Budget and the Secretary of Revenue certified that unrestricted state revenue to be received and deposited in the General Fund of the State Treasury during the fiscal year beginning July 1, 2020 is estimated to be \$34.63 billion. The base General Fund revenue estimate as originally proposed in Governor Wolf's February Budget was \$37.06 billion for FY 2020-21, after adjusting to remove revenue changes and modifications proposed at the time. Therefore, in four months' time, the Administration's projected revenues for the coming fiscal year decreased by more than \$2.4 billion.

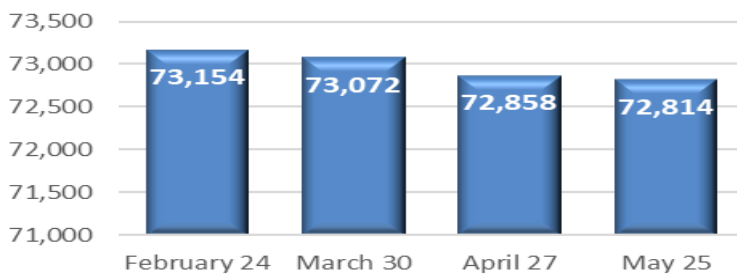
It comes as no surprise that the COVID-19 pandemic and the effect it is having on Pennsylvania's economy would have a significant negative impact on tax collections. Even with substantial tax payments shifted from FY 2019-20 to FY 2020-21, the Administration is still projecting General Fund revenues to be off by over \$2.4 billion since its February estimate. What is somewhat unexpected, though, is how much the Administration's projections differ from the General Fund revenue estimates released by the Independent Fiscal Office (IFO) on May 26,

2020. The IFO's initial General Fund revenue estimate for fiscal year 2020-21 is \$36.1 billion. The difference between the Administration's and IFO's revenue estimate is \$1.4 billion. Uncertainty of this magnitude between two state agencies with proficiency in accurately predicting revenues of the Commonwealth does not call into question the expertise of either agency but rather highlights the degree to which revenue projections have such a low probability of being accurate under these unprecedented conditions.

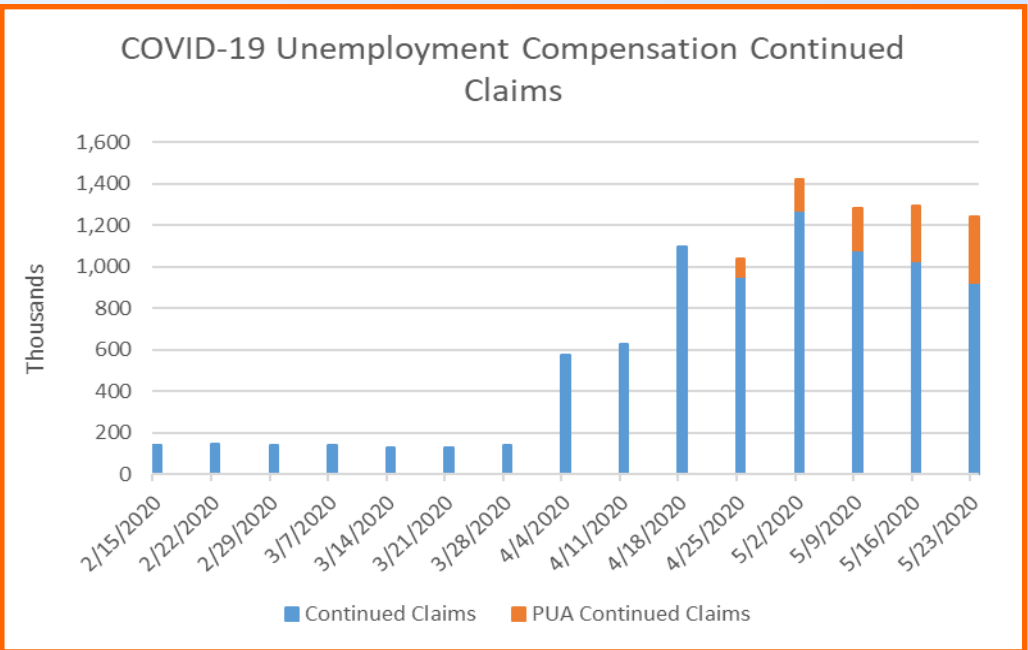
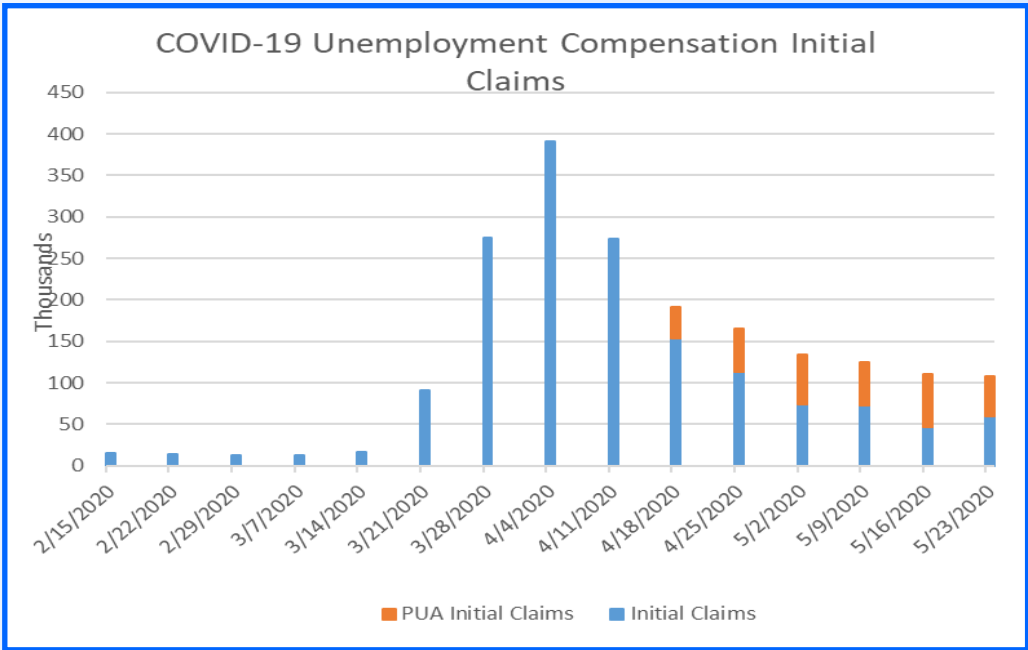
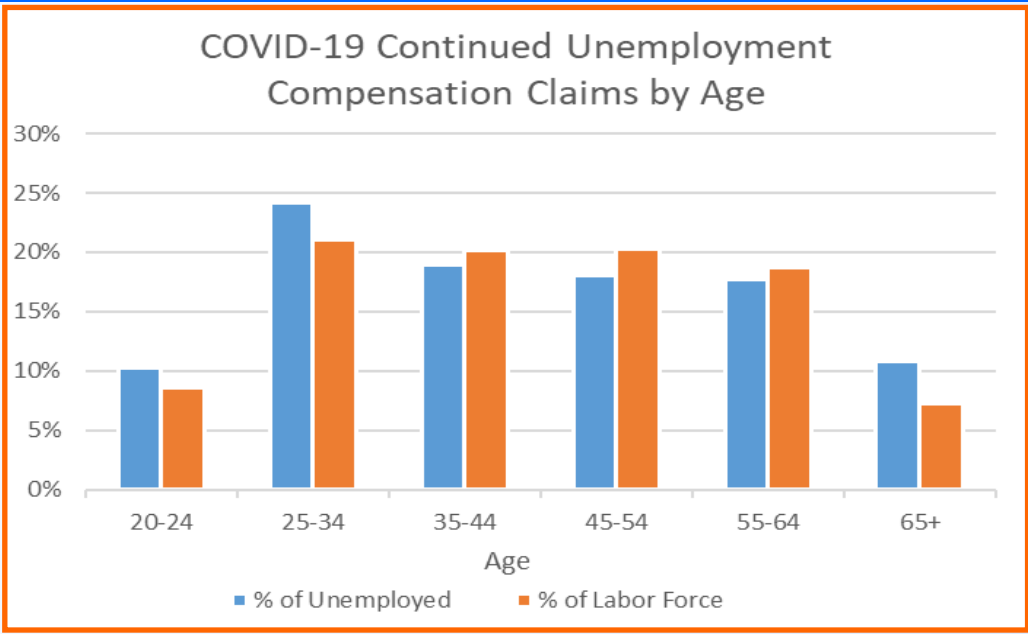
The uncertainty that accompanies a nearly \$1.4 billion discrepancy in the Commonwealth's General Fund revenue projections makes it very difficult to craft a twelve-month spending plan with any confidence that available revenues will match necessary expenditures. Knowing this, the General Assembly wisely decided to pass a five-month budget to move the Commonwealth forward until the end of November when the pandemic's effects and potential economic recovery should be clearer. Additionally, the federal government is considering another round of COVID-19-related relief that could include fiscal relief to state and local governments which would allow them to use new federal funds to make up for lost tax revenue resulting from the devastating effect the virus has had on the economy. Any forthcoming federal fiscal relief could greatly impact the Commonwealth's FY 2020-21 budget, and such federal action, if it materializes, would provide more fiscal certainty to be incorporated into a responsible full-year budget.



Filled Staffing Levels Under the Governor's Jurisdiction



Filled staffing levels continue to drop as a result of a hiring freeze Governor Wolf put in place at the end of March when Commonwealth revenues began to decline following the COVID-19 outbreak.



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

REVENUE SOURCES	YTD FY 2018-19	May 2020 Actual	May 2020 Estimated	Surplus/ (Deficit)	YTD Actual	YTD Estimated	Surplus/ (Deficit)
TOTAL - GENERAL FUND	31,779,300	2,105,569	2,545,300	(439,731)	29,600,940	32,244,600	(2,643,660)
TOTAL - NON-TAX REVENUE	802,605	51,895	24,700	27,195	629,455	559,700	69,755
TOTAL - TAX REVENUE	30,976,696	2,053,674	2,520,600	(466,926)	28,971,485	31,684,900	(2,713,415)
TOTAL - Corporation Taxes	4,920,680	145,638	310,300	(164,662)	4,440,262	5,001,200	(560,938)
Accelerated Deposits	2,233	(489)	0	(489)	3,057	0	3,057
Corp. Net Income	2,825,470	118,864	285,400	(166,536)	2,437,621	2,949,500	(511,879)
Gross Receipts	1,221,271	(2,977)	5,700	(8,677)	1,101,582	1,223,600	(122,018)
PURTA	36,140	28,431	16,000	12,431	37,815	36,500	1,315
Insurance Premiums	459,629	1,107	2,600	(1,493)	471,939	426,200	45,739
Financial Institutions	375,937	703	600	103	388,248	365,400	22,848
TOTAL - Consumption Taxes	11,635,483	822,370	1,121,900	(299,530)	11,151,146	11,771,000	(619,854)
Sales and Use	10,130,617	699,128	982,000	(282,872)	9,843,629	10,419,700	(576,071)
General (net of transfers)	8,768,624	648,510	855,000	(206,490)	8,636,706	9,038,200	(401,494)
Motor Vehicle Sales	1,361,993	50,617	127,000	(76,383)	1,206,923	1,381,500	(174,577)
Cigarette Tax	1,014,558	85,874	92,700	(6,826)	833,196	842,500	(9,304)
Other Tobacco Products	117,834	9,891	11,600	(1,709)	116,664	122,100	(5,436)
Malt Beverage	21,240	2,109	1,900	209	20,972	20,600	372
Liquor	351,234	25,369	33,700	(8,331)	336,685	366,100	(29,415)
TOTAL - Other Taxes	14,420,532	1,085,666	1,088,400	(2,734)	13,380,076	14,912,700	(1,532,624)
Personal Income	12,892,033	947,163	902,400	44,763	11,818,572	13,311,900	(1,493,328)
Withholding	9,638,157	752,294	838,800	(86,506)	9,786,510	10,024,800	(238,290)
Non-Withholding	3,253,876	194,870	63,600	131,270	2,032,062	3,287,100	(1,255,038)
Realty Transfer	480,265	32,975	51,100	(18,125)	464,658	496,200	(31,542)
Inheritance & Estate	957,208	69,147	95,100	(25,953)	1,001,941	998,200	3,741
Minor & Repealed	(31,537)	32,336	22,400	9,936	(43,372)	(56,300)	12,928
Gaming	122,563	4,044	17,400	(13,356)	138,276	162,700	(24,424)
TOTAL - MOTOR LICENSE FUND	2,604,356	220,933	280,350	(59,417)	2,416,623	2,596,890	(180,267)
TOTAL - Liquid Fuels Taxes	1,686,609	135,326	164,500	(29,174)	1,579,399	1,665,800	(86,401)
Motor Carriers/IFTA	127,256	211	27,000	(26,789)	100,946	129,700	(28,754)
Alternative Fuels	13,808	672	1,300	(628)	12,300	14,200	(1,900)
Oil Company Franchise	1,544,594	134,451	136,200	(1,749)	1,466,169	1,521,900	(55,731)
Minor & Repealed	951	(7)	0	(7)	(17)	0	(17)
TOTAL - Licenses, Fees & Other	917,747	46,370	115,470	(69,100)	751,618	815,240	(63,622)
Licenses and Fees	899,560	92,757	114,600	(21,843)	840,948	914,300	(73,352)
Other Motor Receipts	18,187	(7,150)	1,250	(8,400)	(3,723)	16,790	(20,513)