Pennsylvania Senate
Appropriations Committee
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Monthly Report August 2021

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Senate Republicans Lead Strong Fiscal Management Through the Pandemic

Now that hopefully we are emerging from the toughest days of the worst health crisis of our lifetime, it is important to reflect on the strong and proactive fiscal management led by the Senate Republican caucus that helped to guide us through that period of tremendous uncertainty and crisis. These unprecedented times required our team to formulate and advance 5 separate packages of appropriations bills during a period of 13 months which effectively addressed our recurring obligations and programmatic needs, structured federal stimulus distributions to leverage our local infrastructure to meet community need and chart a responsible future fiscal path.

Conservative budget principles advanced by the Senate Republican caucus have helped to stabilize Pennsylvania's economy during the pandemic while also preparing for the time when federal stimulus funding will no longer be available. Based on the latest financial projections available, the Commonwealth will be able to maintain its financial footing through the first year of the next gubernatorial administration provided policy makers follow the same principles that have carried us through the pandemic to this point: restrained spending growth, prioritization of remaining federal stimulus funding for the General Fund budget, and prudent use of the Commonwealth's Rainy Day Fund.

It is truly remarkable that the Commonwealth is in the financial position it currently is given what the state has faced in the past 16 months. The Senate Appropriations Committee in March 2020 had just finished three weeks of budget hearings for the 2020-21 fiscal year, questioning Administration officials about Governor Wolf's latest budget proposal, including a proposal to implement mandatory combined reporting for the Corporate Net Income Tax and to increase the state's minimum wage to $15 an hour. At the same time, the COVID-19 virus that had been spreading throughout China, Europe and many parts of the world reached the United States and Pennsylvania, resulting in a shutdown of non-life-sustaining businesses on March 19 by the governor.

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Senate Republicans Lead Strong Fiscal Management Through the Pandemic Continued….

Within a matter of weeks, the focus of the state's fiscal management shifted from preparing the Commonwealth's annual budget to managing an economic crisis not seen since the Great Depression. As businesses closed and more people became unemployed, Commonwealth revenues quickly dropped. Pennsylvania's unemployment rate jumped from 5.8% to 16.1% in just one month (March to April of 2020). General Fund revenues missed estimate by $250 million in March and $2.2 billion in April, driven by $1.4 billion of Personal Income Tax payments that were delayed because of the pandemic.

Act 1: 2020-2021 Budget Part 1: A Measured Interim Response to Unprecedented Fiscal Uncertainty

Continuing shortfalls of Commonwealth revenues, coupled with business shutdowns, led to great concern and uncertainty about what laid ahead for the coming fiscal year. With questions looming about how to complete a budget during a period of extreme economic uncertainty, Senate Republicans offered a plan for a unique five-month interim budget. The concept was to develop an interim budget that would provide for immediate relief for impacted individuals and industries, ensure continued support for vital state programs and hopefully allow time for revenues to stabilize to the point where a budget could be crafted with a high degree of probability that the planned revenues would be received.

As evidence of the difficulty in estimating revenues during the initial months of the pandemic, within four months' time, the Administration's projected revenues for FY 2020-21 decreased by more than $2.4 billion. What was somewhat unexpected, though, was how much the Administration's projections differed from the revenue estimates released by the Independent Fiscal Office (IFO). The difference between the Administration's and IFO's revenue estimate at the time was $1.4 billion. Uncertainty of this magnitude between two state agencies with proficiency in accurately predicting previous revenues of the Commonwealth highlighted the degree to which revenue projections had such a low probability of being accurate under the unprecedented conditions.

In May 2020, the Commonwealth enacted a five-month budget of $26 billion that did not increase any taxes. Most appropriations were funded through November with a few critical programs funded for the full fiscal year: debt service payments, school district funding and funding for higher education institutions. The full year of funding for these programs was a necessary component of the Senate Republican plan because it provided certainty the Commonwealth would make good on its required debt service payments as well as continue its support of early, K-12 and higher education.

Act 2: Partnering with Washington to meet CARES Act Goals

In March 2020, Washington advanced the largest non-recurring spending package in US history. At over $2 trillion, the so called "CARES" Act offered a comprehensive response to the pandemic with the goal of stimulating the US economy, stabilizing the labor market and providing support for life sustaining systems and families.

The CARES Act also included a significant appropriation directly to state and municipal governments in order to target unique challenges at the local level. Corresponding to the five-month budget package, in May 2020, Senate Republicans formulated and advanced a $2.6 billion package from the state's $4.9 billion share of CARES Act funds focused specifically on individuals and industries most impacted by the pandemic. Those industries included long-term living and intellectual disability providers, child care services, the dairy industry and small businesses across the state. Federal stimulus grants also provided much-needed support for other programs such as early education programs, the State System of Higher Education, the Pennsylvania Higher Education Assistance Agency (PHEAA), school safety programs, food security programs, domestic violence, legal aid programs and fire and emergency medical services.

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Senate Republicans Lead Strong Fiscal Management Through the Pandemic Continued….

Act 3: Effective Fiscal Planning and Prudent Investment Highlights Responsible Final 2020-2021 Budget

Despite great pressure to spend Pennsylvania's entire CARES Act allocation in May, Senate Republicans withstood the pressure for additional spending and preserved $1.3 billion of CARES Act funding for future needs and, again, give time so that the effects of the pandemic could be more fully analyzed.

The prudent action taken by Republicans to preserve CARES Act funding rather than spend it on new government programs paid off in September of 2020. The federal government provided additional guidance permitting states to use their CARES Act allocations to support salaries of certain public health and safety positions. Because of that change, Pennsylvania was able to use the $1.3 billion for select public health and safety employee costs, reducing the need for General Fund dollars while allowing the pandemic to ease and revenues to begin to recover.

The merits of the Senate Republican approach of a two-part budget became fully realized in November with the completion of a $36.5 billion final budget for FY 2020-21 including that $1.3 billion of CARES Act funding for public health and safety positions. In addition, the passage of time provided important clarity that the federal government would provide a full year of enhanced support for the medical assistance program, with additional federal support totaling $2.1 billion. The final enacted budget was developed based on conservatively estimated revenues, yet it provided sufficient funding for the Commonwealth to meet the remaining seven months of obligations for the fiscal year.

The governor's order to close non-life-sustaining businesses in March 2020 also extended to the Commonwealth's casinos, so the source of funds used to provide statewide property tax relief had withered. Senate Republicans spearheaded a measure to ensure that homeowners would not have their property taxes increased and that school district budgets would remain whole. In November 2020, $200 million from Personal Income Tax collections was used to honor Pennsylvania's commitment to millions of homeowners and all school districts at a time when financial certainty was needed most.

Act 4: Federal and State Actions Combine to Target Crucial Needs and Challenges

As the pandemic continued into the early winter, the federal government continued to provide additional rounds of stimulus funding to help those most in need. In December 2020, the federal government provided additional stimulus funding through the Consolidated Appropriations Act of 2021, including funding for an Emergency Rental Assistance Program and additional education funding. Senate Republicans moved quickly in January to craft a series of new programs to implement the federal funding and also created a new $145 million Hospitality Industry Recovery Program to help the state's ailing hospitality industry. The new program was funded by a loan from the Workers' Compensation Security Program with a promise to repay that loan as soon as the state received additional flexible federal funding (the repayment was included in the FY 2021-22 budget). Education program funding was focused on segments of our learning compendium which did not receive separate allocations through the federal stimulus program. This legislation quickly passed both houses of the General Assembly unanimously and was signed into law by the governor on February 5, 2021.

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Senate Republicans Lead Strong Fiscal Management Through the Pandemic Continued….

Act 5: 2021-2022 Budget Sets Records in Key Investments while Charting Responsible Future Course

As winter turned into spring, businesses re-opened and individuals began to receive vaccinations, enabling a resumption of economic activity in the state. With the renewed economic activity, Commonwealth revenues began to surpass estimates by significant margins: $594 million in February, $378 million in March, $28 million in April and $1.6 billion in May (impacted by an extension of the Personal Income Tax filing deadline by one month). The Commonwealth's over-performance of revenues, coupled with another round of federal stimulus relief (the American Rescue Plan Act) that resulted in $7.3 billion for Pennsylvania to use to balance its budget through December 2024, set the stage for a smoother budget enactment for the 2021-22 fiscal year than anyone would have predicted early in the pandemic.

As negotiations on the FY 2021-22 budget cycle began, Senate Republicans again advanced a conservative budget proposal, much like had been done in the prior budget. Key components of the plan included no new taxes, directing 100% of the Commonwealth's ending balance to the Rainy Day Fund, limiting spending growth and prioritizing the use of the federal stimulus funding to support General Fund revenues, which, though improving significantly from initial projections, were still impacted by the pandemic.

Even though conservative budgeting and limited spending had guided us through the first year of the pandemic, there were still calls to spend the entire $7.3 billion of federal stimulus funding to create massive new recurring obligations and to increase state spending on existing programs by large margins as part of the FY 2021-22 budget.

Reflecting on our experiences during and after the Great Recession, it was imperative to preserve available resources so as not to place Pennsylvania's financial security in jeopardy when federal support ends. We experienced significant challenges necessitating painful and impactful decisions when the American Recovery and Reinvestment Act ended in 2011, with revenue not recovering for five years and deficits recurring for nearly a decade.

In addition, Senate Republicans faced significant pressure to agree to a two-year budget, which would have resulted in turning over control of spending to Governor Wolf for his remaining two years in office.

Recognizing that the impacts of the pandemic on state finances require us to focus several years ahead, Senate Republicans resisted pressure for the creation of many new programs and a two-year budget, ultimately prevailing on both points. In addition, Senate Republicans were successful in negotiating another key part of their budget strategy to direct 100% of the ending balance to the Rainy Day. The transfer of the entire ending balance of $2.6 billion marked the single largest transfer to the Rainy Day Fund in the state's history and brought the balance to nearly $2.9 billion (7% of annual spending and enough to carry Commonwealth operations for 25 days).

No new taxes are included in this year's budget, and spending in FY 2021-22 increases by only 2.5% from last year's budget when supplemental spending and federal stimulus spending is included. The FY 2021-22 budget is supported by more than $3.8 billion of revenue from the American Rescue Plan Act and is projected to have an ending balance of more than $2.7 billion. It also sets aside $2.6 billion of American Rescue Plan Act dollars to assist with balancing the FY 2022-23 budget as mandated costs are expected to continue to outpace revenues. Senate Republicans also prudently provided for the repayment of a nearly two decades old loan to the Underground Storage Tank Indemnification Fund as well as the $145 million loan that was used to seed the Hospitality Industry Recovery Program.

Nevertheless, this responsible budget does provide essential funding for many important state programs and services. It includes record investments in education at all levels and increases in long-term care for our older population and citizens with disabilities.

Moving forward, as we chart a course for the recovery period following the pandemic, it is important that we use those same fiscal management principles that guided the Commonwealth through the pandemic.

July Revenue Collections Are Better Than They Appear

General Fund revenue for July 2021 totaled $2.7 billion. July 2021 General Fund revenue collections were $1.4 billion less than collections in July 2020; however, last year's collections included nearly $1.62 billion of tax revenue that was delayed and shifted from FY 2019-20 into FY 2020-21 because of tax filing extensions enacted in response to the pandemic. After adjusting for last year's shifting of tax payments, July 2021 General Fund revenues were $216.2 million, or 8.6%, higher than July 2020.

Neither the Department of Revenue nor the Independent Fiscal Office has released its monthly revenue projections. As a result, July's revenue collections cannot be compared against a monthly estimate in order to gauge performance. Both agencies are expected to release their monthly revenue projections in August.

Fiscal Year 2021-22 vs. Fiscal Year 2020-21:

- Total General Fund revenues were $2.7 billion as compared to $4.1 billion in July 2020.
- General Fund tax collections were $2.67 billion as compared to $4.09 billion in July 2020.
- Corporation tax collections of $190.5 million were $50 million less than collections from July 2020. The Department of Revenue had estimated that July 2020 corporation tax revenues were bolstered by a $120 million shift, so July 2021 corporation tax revenues were approximately $70 million higher than last year's collections on an equivalent basis.
- Sales and use tax (SUT) collections of $1.24 billion were $18.5 million, or 1.5%, lower than July 2020. The Department of Revenue had estimated that July 2020 sales and use tax revenues were inflated by $190 million due to the expiration of a temporary suspension of non-motor sales and use tax prepayment requirements, so July 2021 sales and use tax collections were approximately $170 million higher than last year's collections on an equivalent basis.
- Personal income tax (PIT) collections were below last year's collections by $1.35 billion, which is attributable to tax filing extensions authorized in 2020 for annual and estimated tax payments as a result of the pandemic. Last year, certain PIT payments due in April, May and June of 2020 were extended into July, which caused July's PIT revenues to be much higher than normal. The Department of Revenue had estimated that July 2020 personal income tax revenues benefited from the effect of a $1.3 billion shift. In addition, July 2020 collections included one additional major PIT withholding tax payment due date as compared to July 2021, which is worth about $130 million. After accounting for last year's tax shift and additional payment due date, July 2021 personal income tax collections were approximately $83 million higher than last year's collections on an equivalent basis.
- Realty transfer tax (RTT) collections of $34.1 million were $16.2 million, or 90.3%, higher than last year. The effect of the pandemic in 2020 on counties that are responsible for remitting the RTT had a significant effect on the year-over-year growth.
- Inheritance tax collections of $117.3 million were just shy of last year's collections of $118.4 million by $1.1 million, or 1%.
- General Fund gaming tax collections rebounded to $26.6 million in July 2021 after raising only $12.6 million in July 2020, which is an increase of nearly 112%.
- Non-tax revenues of $28.4 million were $14.3 million, or 101%, higher than last year.

Motor License Fund:

- July 2021 Motor License Fund revenues of $234.4 million were $53 million, or 18.5%, below July 2020 collections.

Fiscal Year 2021-22
Senate Appropriations Committee
Monthly Revenue Report
($ thousands)

REVENUE SOURCES	July 2021 Actual	July 2020 Actual	Difference	% Change vs. Prior Year
TOTAL - GENERAL FUND	**2,700,218**	**4,103,954**	**(1,403,736)**	**-34.2%**
TOTAL - NON-TAX REVENUE	**28,405**	**14,142**	**14,263**	**100.9%**
TOTAL - TAX REVENUE	**2,671,813**	**4,089,812**	**(1,417,999)**	**-34.7%**
TOTAL - Corporation Taxes	**190,482**	**240,494**	**(50,011)**	**-20.8%**
Accelerated Deposits	(3,237)	1,305	(4,542)	-348.1%
Corp. Net Income	171,402	236,730	(65,328)	-27.6%
Gross Receipts	2,573	889	1,684	189.4%
PURTA	5	7	(2)	-26.4%
Insurance Premiums	19,101	221	18,880	8546.6%
Financial Institutions	639	1,342	(703)	-52.4%
TOTAL - Consumption Taxes	**1,331,433**	**1,375,294**	**(43,861)**	**-3.2%**
Sales and Use	1,237,269	1,255,720	(18,451)	-1.5%
General (net of transfers)	1,074,473	1,063,626	10,847	1.0%
Motor Vehicle Sales	162,796	192,094	(29,297)	-15.3%
Cigarette Tax	43,295	74,014	(30,719)	-41.5%
Other Tobacco Products	12,549	11,067	1,482	13.4%
Malt Beverage	2,128	2,041	87	4.2%
Liquor	36,191	32,452	3,740	11.5%
TOTAL - Other Taxes	**1,149,897**	**2,474,024**	**(1,324,127)**	**-53.5%**
Personal Income	959,145	2,312,467	(1,353,321)	-58.5%
Withholding	867,627	922,606	(54,979)	-6.0%
Non-Withholding	91,518	1,389,860	(1,298,342)	-93.4%
Realty Transfer	34,070	17,907	16,163	90.3%
Inheritance	117,255	118,385	(1,130)	-1.0%
Minor & Repealed	12,780	12,680	100	0.8%
Gaming	26,648	12,585	14,062	111.7%
TOTAL - MOTOR LICENSE FUND	**234,433**	**287,483**	**(53,049)**	**-18.5%**
TOTAL - Liquid Fuels Taxes	**147,506**	**168,673**	**(21,166)**	**-12.5%**
Motor Carriers/IFTA	1,985	2,872	(887)	-30.9%
Alternative Fuels	1,567	770	797	103.4%
Oil Company Franchise	143,954	165,038	(21,084)	-12.8%
Minor and Repealed	1	(7)	8	N/A
TOTAL - Licenses, Fees & Other	**86,927**	**118,810**	**(31,883)**	**-26.8%**
Licenses and Fees	83,573	110,695	(27,122)	-24.5%
Other Motor Receipts	3,354	8,115	(4,761)	-58.7%