

The Monthly Report

Senator Scott Martin, Chairman



Department of Revenue’s Software Transition Impacts November Revenue Reporting

The Department of Revenue has been working over the course of the last year to implement the final phase of its modernization effort, and on November 30th the Pennsylvania Tax Hub (PATH) made its cutover of business taxes to the new system. The cutover made an impact on revenue postings in the Commonwealth’s accounting system during the week of transition from 11/23 to 11/30. The normal daily revenue postings were held back and processed when PATH returned to operation on November 30th. A large amount of this held money, mostly personal income tax (PIT) withheld by employers, was deposited on December 1st instead of November 30th. As a result, the posting of General Fund revenue totaling \$200.6 million was delayed from November to December. The Motor License Fund realized a much smaller impact of approximately \$1.2 million.

General Fund revenue collections for the month of November were below estimate by \$201.9 million, or 6.8%. However, disregarding the software change to the Commonwealth’s accounting system, General Fund revenues would have been \$1.3 million below the monthly estimate. General Fund tax revenues were \$225.6 million, or 7.9%, lower than the monthly estimate, but non-tax revenue exceeded the estimate by \$23.7 million, or 21.1%. General Fund revenue collections for the first five months of the fiscal year are \$183.2 million, or 1.2%, ahead of estimate. However, absent November’s transition of business taxes to the PATH system, General Fund revenues would be approximately \$383.8 million above estimate thus far this fiscal year.

From July through October, General Fund revenues exceeded the monthly estimates by a combined \$385.1 million. A significant portion of the overage resulted from corporate net income tax (CNIT) and personal income tax payments having some connection to past economic performance. For example, PIT annual payments for the 2021 tax year paid with reports filed under extension in October 2022 and quarterly estimated CNIT payments received in September for the 2022 tax year exceeded the estimates by a substantial margin. It is difficult to know for sure after just one month, but November’s *de facto* monthly General Fund shortfall of \$1.3 million may indicate that the extraordinarily high revenue collections seen coming out of the pandemic are beginning to moderate and settle into more usual patterns.

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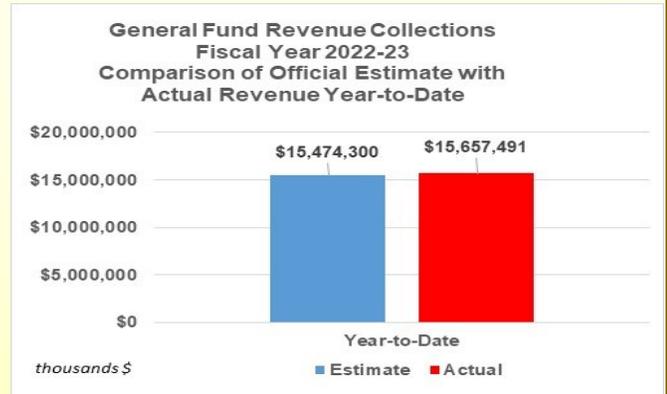
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Department of Revenue's Software Transition Impacts November Revenue Reporting

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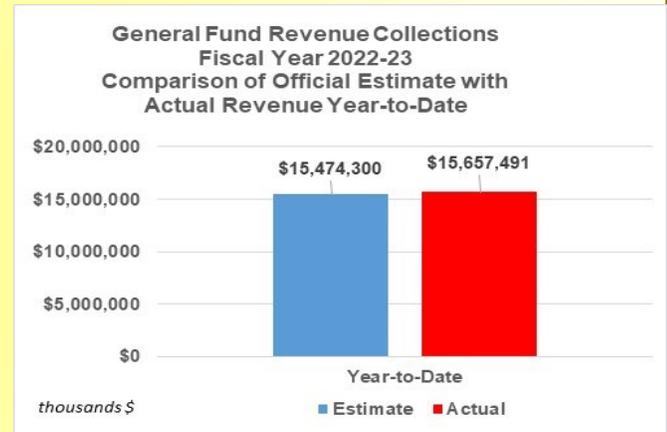
November 2022 General Fund Revenue vs. Monthly Estimate:

- Corporation taxes were \$2.3 million, or 1.2%, below estimate.
- Sales and use tax (SUT) collections were below estimate by \$222,000, which is essentially on estimate for the month. \$6.6 million of SUT was delayed as a result of the transition to PATH.
 - General SUT collections were \$20.3 million, or 2%, above estimate.
 - SUT collections on motor vehicle sales were \$20.5 million, or 16.7%, below estimate.
- Personal income tax (PIT) collections were below estimate by \$178.3 million, or 15.2%, which is largely the result of the transition to the PATH system.
- Realty transfer tax collections were \$15.7 million, or 25.4%, below estimate. Information from the Department of Revenue indicates that \$17.5 million of RTT was delayed by the cutover to PATH.
- Inheritance tax collections missed the monthly estimate by \$11.9 million, or 9.8%.
- Non-tax revenues exceeded the monthly estimate by \$23.7 million, or 21.1%. As in previous months, Treasury investment income continues to outperform estimates due to larger fund balances and higher interest rates being earned on those funds than anticipated.



Fiscal Year 2022-23 vs. the Official Revenue Estimate To-Date (Amounts Impacted by PATH Transition):

- Total General Fund revenue is \$183.2 million, or 1.2%, above estimate.
- General Fund tax revenue is \$118.5 million, or 0.8%, above estimate.
- Non-tax revenues are \$64.7 million, or 28.6%, above estimate.
- Corporation taxes are \$212.4 million, or 14%, higher than the estimate.
- Sales and use taxes are \$137.1 million, or 2.4%, above estimate.
 - General SUT is \$121 million, or 2.3%, ahead of estimate for the year-to-date.
 - SUT on motor vehicles is \$16.1 million, or 2.8%, ahead of the estimate thus far this year.
- Personal income tax collections are below estimate by \$177.8 million, or 2.9%.
 - PIT withholding is \$193.7 million, or 3.9%, less than the estimate. Employer withholding tax is most impacted by the transition to PATH to the tune of approximately \$184 million.
 - Non-withheld PIT (i.e., estimated and annual payments) is \$15.9 million, or 1.3%, above estimate.



Fiscal Year 2022-23 vs. Fiscal Year 2021-22:

- Total General Fund revenues through November 2022 are \$3.1 billion, or 16.3%, lower than last year at this time because of a one-time transfer from the federal Coronavirus State Fiscal Recovery Fund in the amount of \$3.84 billion that occurred in November 2021.
- General Fund tax revenue is \$728.1 million, or 5%, higher than last year.
- Corporation taxes are \$183.3 million, or 11.8%, higher.
- Sales and use tax collections are \$178.7 million, or 3.1%, higher than last year through November. So far this fiscal year, \$216.9 million from sales tax on motor vehicle sales has been transferred to the Public Transportation Trust Fund.
- Personal income tax collections exceed last year's collections by \$477.7 million, or 8.6%. However, Fiscal Year 2022-23 includes 22 large employer withholding dates (i.e., Wednesdays) through November whereas FY 2021-22 included only 21 such dates through November. Each large employer withholding date adds approximately \$160 million to PIT collections. \$45 million was transferred from PIT in July 2022 to the Election Integrity Restricted Account.
- Non-tax revenues are \$3.78 billion less than last fiscal year through November because of last year's \$3.84 billion transfer from the federal Coronavirus State Fiscal Recovery Fund to the General Fund for revenue replacement in accordance with federal law.

Motor License Fund:

- Motor License Fund revenues are above estimate by \$16.8 million, or 1.4%, through November.
- Motor License Fund revenues are \$5.4 million, or 0.4%, lower than last fiscal year at this time.

IFO Releases its Latest Five-Year Economic & Budget Outlook

The Independent Fiscal Office (IFO) released its annually mandated five-year *Pennsylvania Economic & Budget Outlook* for fiscal years 2022-23 to 2027-28 on November 15, 2022. The IFO prepares its analysis using a simulation model, and its model assumes no economic recession but also no growth for calendar year 2023.

For the 2022-23 fiscal year, the IFO projects current year General Fund revenues of \$43.69 billion, which is an increase of \$1.5 billion over the IFO's revenue estimate released in June 2022. The IFO's latest General Fund revenue estimate is \$106 million, or a mere 0.2%, above the Governor's Official General Fund Revenue Estimate for Fiscal Year 2022-23. For the upcoming 2023-24 budget year, the IFO projects General Fund revenue to increase by 2.7% to \$44.85 billion. After several years of unpredictable revenue swings during and after the pandemic, having the IFO's and Administration's revenue estimates become much more aligned, coupled with expected future revenue growth rates in the 2% to 3% range, indicates a pending return to historical norms.

The IFO projects that from FY 2022-23 to FY 2023-24, General Fund expenditures are expected to increase by \$2.46 billion (3.2%), and over half of this increase is attributable to non-personnel costs within the Department of Human Services (e.g., long-term living, Medical Assistance, intellectual disabilities). Over its five-year outlook, the IFO expects General Fund expenditures to increase by 5.7% in FY 2023-24; 3.7% in FY 2024-25; 3.9% in FY 2025-26; 2.8% in FY 2026-27; and 2.7% in FY 2027-28.

The IFO's latest report shows that the projected five-year General Fund Financial Statement will have a positive ending balance of \$6.68 billion in FY 2022-23, and this balance is sufficient to offset projected budget deficits through FY 2025-26. The existing Budget Stabilization Reserve Fund (i.e., Rainy Day Fund) balance of nearly \$5 billion is excluded from the IFO's financial statement. The following table is presented on page 41 of the IFO's report:

Table 6.1
General Fund Financial Statement

Fiscal Year	21-22	22-23	23-24	24-25	25-26	26-27	27-28
Beginning Balance ¹	\$4	\$5,537	--	--	--	--	--
Current Year Revenues	48,134	43,686	\$44,850	\$45,804	\$46,921	\$48,339	\$49,606
Less Refund Reserve	<u>-1,420</u>	<u>-1,220</u>	<u>-1,300</u>	<u>-1,325</u>	<u>-1,350</u>	<u>-1,375</u>	<u>-1,400</u>
Net Revenue	46,714	42,466	43,550	44,479	45,571	46,964	48,206
State Expenditures ²	-39,351	-42,766	-45,222	-46,910	-48,725	-50,099	-51,467
Current Year Balance	7,367	-300	-1,672	-2,431	-3,155	-3,135	-3,261
Reduced Spending ³	0	1,302	0	0	0	0	0
Adjustment for Lapses ⁴	-1,830	140	140	140	140	140	140
Preliminary Ending Balance	5,537	6,680	-1,532	-2,291	-3,015	-2,995	-3,121

Note: Millions of dollars. Excludes the Budget Stabilization Reserve Fund Balance of \$4.99 billion.

1 Beginning balance omitted for FY 23-24 and thereafter.

2 Based on appropriations. Includes current year lapses and approved supplemental appropriations.

3 Reflects the administration's recommended changes to enacted General Fund appropriations.

4 Prior year lapses and actual transfers to the Budget Stabilization Reserve Fund.

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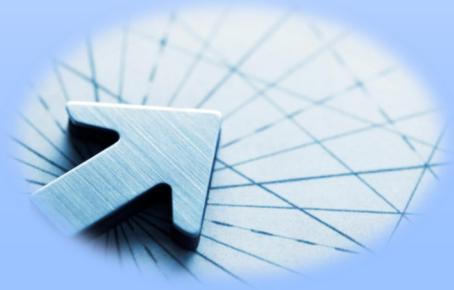
IFO Releases its Latest Five-Year Economic & Budget Outlook Continued.....

The *Pennsylvania Economic and Budget Outlook* report helps illustrate the difference between revenue surpluses and structural deficits. Despite ending the 2021-22 and 2022-23 fiscal years with sizable revenue surpluses, the IFO is still projecting a structural deficit between \$1.5 billion and \$3.1 billion per year over the next five years simply because state expenditures are projected to exceed available revenues.

As the IFO points out in its report, demographics are a critical factor that motivate long-term economic, revenue and expenditure trends. Pennsylvania's total population is projected to remain nearly flat through 2030, with a projected decline of 92,000 residents between 2020 and 2030. The school-age cohort is expected to contract by 254,000 students from 2020 to 2030, and the working-age cohort is projected to decline by 392,000 potential workers for the period from 2020 to 2030. On the other hand, the retiree cohort and elderly cohort are projected to expand by 369,000 and 184,000 residents, respectively, over the same time period. Over time, there will be fewer working-age residents to support the needs of rapidly expanding retiree and elderly populations.

The full report is available on the IFO's website at the following URL:

[IFO - Releases \(state.pa.us\)](https://www.ifo.state.pa.us/Releases)



Nationwide Data Demonstrate Impact of Inflation

Inflation remains one of the top concerns expressed by Pennsylvania consumers in numerous public opinion polls. According to the U.S. Bureau of Labor Statistics, the [Consumer Price Index](#) rose 7.7 percent from October 2021 to October 2022.

Persistently high rates of inflation have touched almost every aspect of consumer spending. A recent [consumer survey](#) found that 61 percent of holiday shoppers will change their spending plans this year due to inflation. The [American Farm Bureau Federation](#) estimated the price of Thanksgiving dinner increased by 20 percent over last year.

Updated inflation numbers are expected later in December.



Fiscal Year 2022-23
Senate Appropriations Committee
Monthly Revenue Report
(\$ thousands)

REVENUE SOURCES	YTD FY 2021-22	November 2022 Actual	November 2022 Estimated	Surplus/ (Deficit)	YTD Actual	YTD Estimated	Surplus/ (Deficit)
TOTAL - GENERAL FUND	18,713,180	2,753,520	2,955,400	(201,880)	15,657,491	15,474,300	183,191
TOTAL - NON-TAX REVENUE	4,074,988	136,022	112,300	23,722	291,235	226,500	64,735
TOTAL - TAX REVENUE	14,638,192	2,617,498	2,843,100	(225,602)	15,366,256	15,247,800	118,456
TOTAL - Corporation Taxes	1,546,892	181,017	183,300	(2,283)	1,730,153	1,517,800	212,353
Accelerated Deposits	(3,043)	(288)	0	(288)	(3,441)	0	(3,441)
Corp. Net Income	1,478,908	174,561	177,800	(3,239)	1,666,093	1,452,900	213,193
Gross Receipts	28,706	5,158	3,600	1,558	24,559	20,400	4,159
PURTA	1,930	15	0	15	3,270	1,100	2,170
Insurance Premiums	20,448	72	700	(628)	25,880	27,200	(1,320)
Financial Institutions	19,944	1,499	1,200	299	13,792	16,200	(2,408)
TOTAL - Consumption Taxes	6,454,942	1,255,669	1,267,100	(11,431)	6,577,200	6,476,300	100,900
Sales and Use	5,771,153	1,119,778	1,120,000	(222)	5,949,853	5,812,800	137,053
General (net of transfers)	4,985,732	1,017,123	996,800	20,323	5,363,188	5,242,200	120,988
Motor Vehicle Sales	785,421	102,656	123,200	(20,544)	586,664	570,600	16,064
Cigarette Tax	432,638	81,829	91,300	(9,471)	370,937	406,300	(35,363)
Other Tobacco Products	62,866	12,676	14,000	(1,324)	63,869	67,700	(3,831)
Malt Beverage	9,605	1,857	2,000	(143)	9,990	9,400	590
Liquor	178,680	39,529	39,800	(271)	182,551	180,100	2,451
TOTAL - Other Taxes	6,636,358	1,180,811	1,392,700	(211,889)	7,058,904	7,253,700	(194,796)
Personal Income	5,559,342	994,093	1,172,400	(178,307)	6,037,012	6,214,800	(177,788)
Withholding	4,587,908	930,669	1,104,000	(173,331)	4,827,665	5,021,400	(193,735)
Non-Withholding	971,433	63,423	68,400	(4,977)	1,209,348	1,193,400	15,948
Realty Transfer	311,453	46,122	61,800	(15,678)	296,111	299,500	(3,389)
Inheritance & Estate	611,931	109,284	121,200	(11,916)	587,702	610,100	(22,398)
Minor & Repealed	128,913	(3,689)	1,300	(4,989)	(7,306)	1,600	(8,906)
Gaming	24,718	35,002	36,000	(998)	145,384	127,700	17,684
TOTAL - MOTOR LICENSE FUND	1,213,726	257,236	249,380	7,856	1,208,289	1,191,500	16,789
TOTAL - Liquid Fuels Taxes	768,559	168,403	175,500	(7,097)	755,097	768,700	(13,603)
Motor Carriers/IFTA	57,312	28,475	24,400	4,075	70,427	65,700	4,727
Alternative Fuels	6,495	1,425	1,300	125	7,071	6,600	471
Oil Company Franchise	704,750	138,503	149,800	(11,297)	677,596	696,400	(18,804)
Minor & Repealed	3	1	0	1	3	0	3
TOTAL - Licenses, Fees & Other	445,167	88,833	73,880	14,953	453,192	422,800	30,392
Licenses and Fees	445,234	85,940	73,300	12,640	438,298	418,800	19,498
Other Motor Receipts	(67)	2,893	580	2,313	14,894	4,000	10,894