



FY2015-16 Budget Hearing Recap Monday, March 9, 2015

Independent Fiscal Office

Testifying: Matthew Knittel, Director

IFO stated that right now the structural deficit is projected to be approximately \$1.5 billion. As a comparison, Governor Wolf has been using an estimate of \$2.3 billion for the structural deficit

IFO preliminary estimate for next fiscal year is a General Fund revenue growth rate of 1.3 percent. By comparison, the Administration projects a growth rate of 1.5 percent prior to any revenue proposals. Three factors will restrain revenue growth next fiscal year:

- A \$380 million reduction in non-tax revenues due to one-time revenues received in the current fiscal year related to a change in escheats (\$150 million) and several transfers into the General Fund (\$227 million).
- The continued phase out of the capital stock and franchise tax (roughly -\$100 million).
- A reduction in inheritance tax collections due to the \$100 million windfall received in the current fiscal year.

For the mid-year revenue update released in January, the IFO increased its General Fund revenue estimate for FY 2014-15 by \$250 million, and the revised amount is now roughly equal to the official certification made last July. Several factors motivated the upward adjustment to revenues:

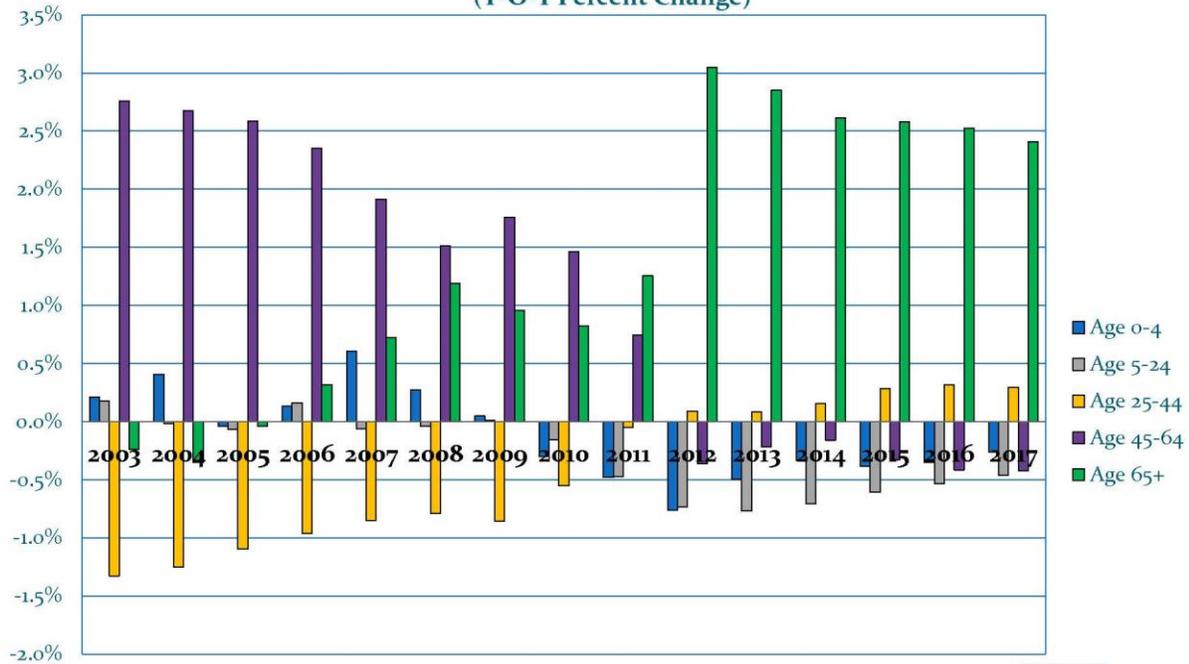
- An unexpected inheritance tax windfall of \$100 million.
- Very strong growth in corporate payments. Corporate net income tax revenues are up 12.8 percent through February. It is unclear what is driving this trend as the national data show that U.S. domestic profits of non-financial corporations increased by only 1.1 percent through the third quarter of 2014.
- Gains in sales and use taxes. Some of the gains are due to the unexpected drop in gasoline prices, which was not anticipated by economic forecasting firms.

For 2014, the Pennsylvania economy generated an average increase of 41,800 jobs, up from 16,600 in 2013. For 2015, the IFO projects employment growth of 48,700 jobs.

Total wages are also accelerating slightly. For 2014, total wages grew by 3.2 percent, compared to 1.9 percent in 2013. For 2015, the IFO projects wage growth of 3.6 percent.

Pennsylvania will continue to see some challenges with age demographics going forward.

PA Age Demographic Trends (Y-O-Y Percent Change)



Source: IHS Global Insights

House Republican Appropriations Committee
www.pabudget.com



The preliminary revenue estimate for the next fiscal year will be released on May 1st.

Department of Revenue

Testifying: Acting Secretary Eileen McNulty, Dan Hassell, Deputy Secretary for Tax Policy; Christin Heidingsfelder, Deputy Secretary for Administration and Drew Svitko, Acting Executive Director of the Pennsylvania Lottery

Gov. Wolf's budget proposes an increase of \$4.7 Billion in proposed revenue changes in FY 2015-16, a 16% increase, and \$8 Billion in FY 2016-17, a 26% increase. This means that over a two year period taxes will rise by \$12.7 billion.

NEW Natural Gas Severance Tax-5% tax @ the well head plus \$0.047per MCF

\$166 million revenue increase in FY 2015-16

- FY 2016-17 and thereafter \$225 million will be transferred to Unconventional Gas Well Fund (replaces Act 13 impact fee).
- Transfers \$10 million to Department of Environmental Protection (DEP) for enforcement support.
- Severance tax revenue will be used to secure \$675 million bond program beginning in 2016-17.

NEW Tobacco tax on smokeless tobacco, large cigars, loose tobacco, and e-cigarettes

\$84 million revenue increase in FY 2015-16

Increase the Cigarette Tax

\$358 million revenue increase in FY 2015-16

- Increase state excise tax by \$1.00, total state excise tax will be \$2.60

Increase the Bank Shares Tax (BST) from 0.89% to 1.25%

\$339 million revenue increase in FY 2015-2016

- Apportionment from receipts will be clarified

Increase Personal Income Tax (PIT)

\$2.41 billion revenue increase in FY 2015-2016

- increase rate from 3.07% to 3.70% effective July 1, 2015
- PA Lottery winnings will be subject to tax effective July 1, 2015
- Expanding Special Poverty (SP) income eligibility provisions (aka Tax Forgiveness)
- \$2.14 billion will be transferred to Property Tax Relief Fund to provide property tax/rent relief

Increase Sales and Use Tax (SUT)

\$1.55 billion revenue increase in FY 2015-2016

- Beginning in FY 2015-16 an amount certified annually by Budget Secretary will be transferred to pay state contributions to PSERS obligations. \$1.75 billion revenue transfer proposed in FY 2015-2016
- Increase rate from 6.0% to 6.6% effective January 1, 2016
- Broadens the sales tax base by eliminating 45 SUT exemptions
- Caps the SUT vendor discount to \$300 per year as follows:
 - Monthly filers- \$25
 - Quarterly filers- \$75
 - Semi-Annual Filers- \$150

Corporate Net Income Tax (CNIT) changes

\$249 million revenue reduction in FY 2015-16

- Implement Mandatory Combined Reporting
- Roll Back Net Operating Loss (NOL) Deduction to the greater of \$3 million or 12.5% taxable income (2007)
- Lower the CNIT rate
 - 9.99% to 5.99% Tax Year 2016
 - 5.99% to 5.49% Tax Year 2017
 - 5.49% to 4.99% Tax Year 2018 and thereafter

Continue phase-out of the Capital Stock and Foreign Franchise Tax (CSFT) Tax Year 2016.

The secretary commented that although the Lottery Fund is growing, expenditures that are funded by the Lottery are outpacing the growth of the Lottery. This will cause issues in the future if something is not done.

The Acting Secretary was questioned about what price model the administration is using for their severance tax revenue predictions. Members expressed concern that the administration is overestimating the price of natural gas coming out of Pennsylvania.

The Acting Secretary was questioned several times about what would be taxed under the new sales tax expansion. The Acting Secretary had trouble identifying specifically what new items would be taxed and what items would remain exempted from the sales tax.

Department of Aging

Testifying: Acting Secretary Teresa Osborne, Deputy Secretary David Gingrich, Director of the Bureau of PACE Tom Snedden

Pennsylvania is facing an increasingly graying population. Pennsylvania is the 4th oldest state in the nation.

The Department of Aging is funded primarily from the Lottery Fund .

The Governor is proposing an increase of \$17 million from the Lottery Fund which is a 3.5% increase from FY 2014-15.

The FY 2015-2016 budget proposal expands home- and community-based long term care programming by allowing more than 5,500 additional individuals to obtain care in their home.

DHS in partnership with PDA will pursue the implementation of managed long-term care through engaging stakeholders to ensure that the system is person-centered, breaks down barriers, and fills in the gaps that currently exist in the long-term care service and support systems.