

House Republican Appropriations Media Briefing

August 1, 2024

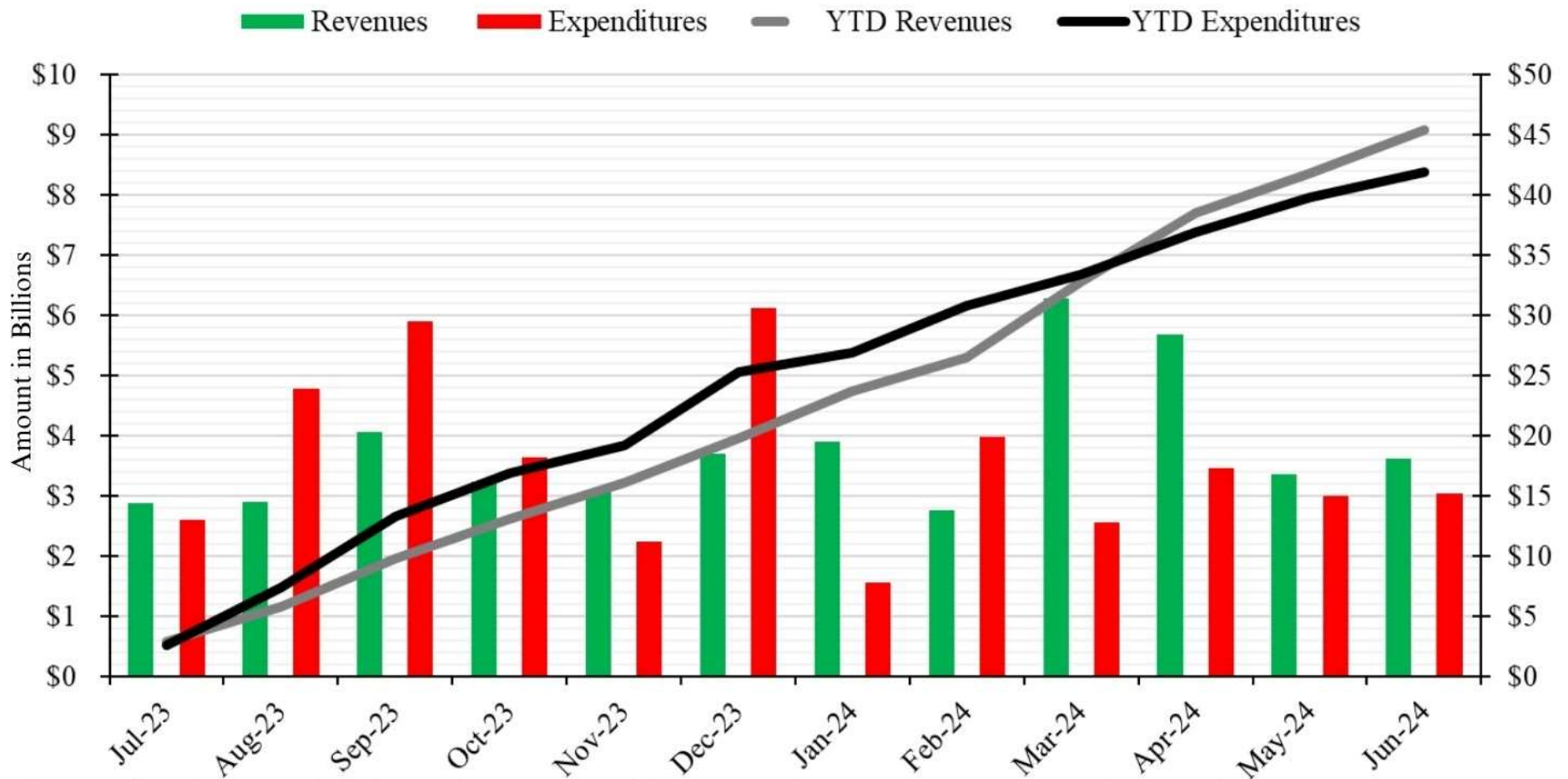
FY 2023-24 Wrap-Up

General Fund Budget Overview



2023-24 GENERAL FUND

Expenditures and Revenues



All Spending information from Commonwealth Accounting System, Status of Appropriations Report.

Fiscal Year 2023-24 General Fund Revenue Collections

Compared to Prior Year Collections

House Appropriations Committee (R)

Thousands of Dollars

Revenue Source	June 2023 Actual	June 2024 Actual	Month % Growth vs Prior Year	2022-23 Actual	2023-24 Actual	% Growth vs Prior Year
General Fund	\$3,686,113	\$3,632,680	(1.4%)	\$44,917,148	\$45,473,489	1.2%
Tax Revenue	\$3,614,028	\$3,557,499	(1.6%)	\$43,776,399	\$43,864,769	0.2%
Corporation Taxes	\$589,603	\$469,522	(20.4%)	\$8,254,012	\$8,032,086	(2.7%)
Accelerated Deposits	(\$2)	\$0	(100.0%)	(\$3,432)	\$0	(100.0%)
Corporate Net Income	\$1,017,642	\$917,300	(9.9%)	\$6,142,927	\$5,651,453	(8.0%)
Selective Business	(\$428,037)	(\$447,779)	4.6%	\$2,114,517	\$2,380,634	12.6%
Gross Receipts	\$3,530	\$4,100	16.1%	\$1,180,963	\$1,389,225	17.6%
Utility Property	\$427	\$2	(99.6%)	\$45,976	\$44,054	(4.2%)
Insurance Premiums	(\$438,497)	(\$462,629)	5.5%	\$521,761	\$546,774	4.8%
Financial Institutions	\$6,502	\$10,749	65.3%	\$365,817	\$400,581	9.5%
Bank Shares	\$2,296	\$6,872	199.3%	\$331,441	\$362,153	9.3%
Mutual Thrifts	\$4,206	\$3,877	(7.8%)	\$34,376	\$38,428	11.8%
Consumption Taxes	\$1,351,422	\$1,355,378	0.3%	\$15,423,032	\$15,540,485	0.8%
Sales and Use Tax	\$1,211,729	\$1,225,205	1.1%	\$14,024,416	\$14,255,907	1.7%
Non-Motor Vehicle	\$1,088,888	\$1,118,403	2.7%	\$12,640,443	\$12,917,359	2.2%
Motor Vehicle	\$122,841	\$106,802	(13.1%)	\$1,383,973	\$1,338,548	(3.3%)
Cigarette	\$85,485	\$78,980	(7.6%)	\$772,866	\$668,010	(13.6%)
Other Tobacco Products	\$13,350	\$12,820	(4.0%)	\$152,568	\$146,432	(4.0%)
Malt Beverage	\$2,304	\$1,980	(14.1%)	\$22,427	\$21,381	(4.7%)
Liquor	\$38,554	\$36,393	(5.6%)	\$450,755	\$448,755	(0.4%)
Other Taxes	\$1,673,004	\$1,732,599	3.6%	\$20,099,355	\$20,292,197	1.0%
Personal Income Tax	\$1,440,186	\$1,530,869	6.3%	\$17,628,105	\$17,856,822	1.3%
Withholding	\$984,202	\$1,013,870	3.0%	\$12,643,795	\$13,201,800	4.4%
Estimated	\$406,838	\$468,618	15.2%	\$2,690,845	\$2,508,476	(6.8%)
Annual	\$49,146	\$48,382	(1.6%)	\$2,293,466	\$2,146,545	(6.4%)
Realty Transfer	\$64,609	\$51,871	(19.7%)	\$643,835	\$530,750	(17.6%)
Inheritance	\$128,730	\$120,730	(6.2%)	\$1,524,380	\$1,635,952	7.3%
Gaming	\$28,494	\$18,490	(35.1%)	\$365,077	\$360,492	(1.3%)
Minor and Repealed	\$10,985	\$10,639	(3.1%)	(\$62,043)	(\$91,819)	48.0%
Non-Tax Revenue	\$72,085	\$75,181	4.3%	\$1,140,749	\$1,608,720	41.0%
Liquor Store Profits	\$0	\$0		\$185,100	\$185,100	0.0%
Licenses and Fees	\$6,442	\$7,452	15.7%	\$157,451	\$169,986	8.0%
Miscellaneous	\$64,615	\$66,380	2.7%	\$732,159	\$1,186,385	62.0%
Treasury	\$66,674	\$69,323	4.0%	\$451,876	\$778,961	72.4%
Escheats	(\$15,038)	(\$17,481)	16.2%	\$198,160	\$309,875	56.4%
Other Misc & Transfers	\$12,979	\$14,539	12.0%	\$82,123	\$97,548	18.8%
Fines, Penalties, Interest	\$1,028	\$1,349	31.2%	\$66,038	\$67,250	1.8%

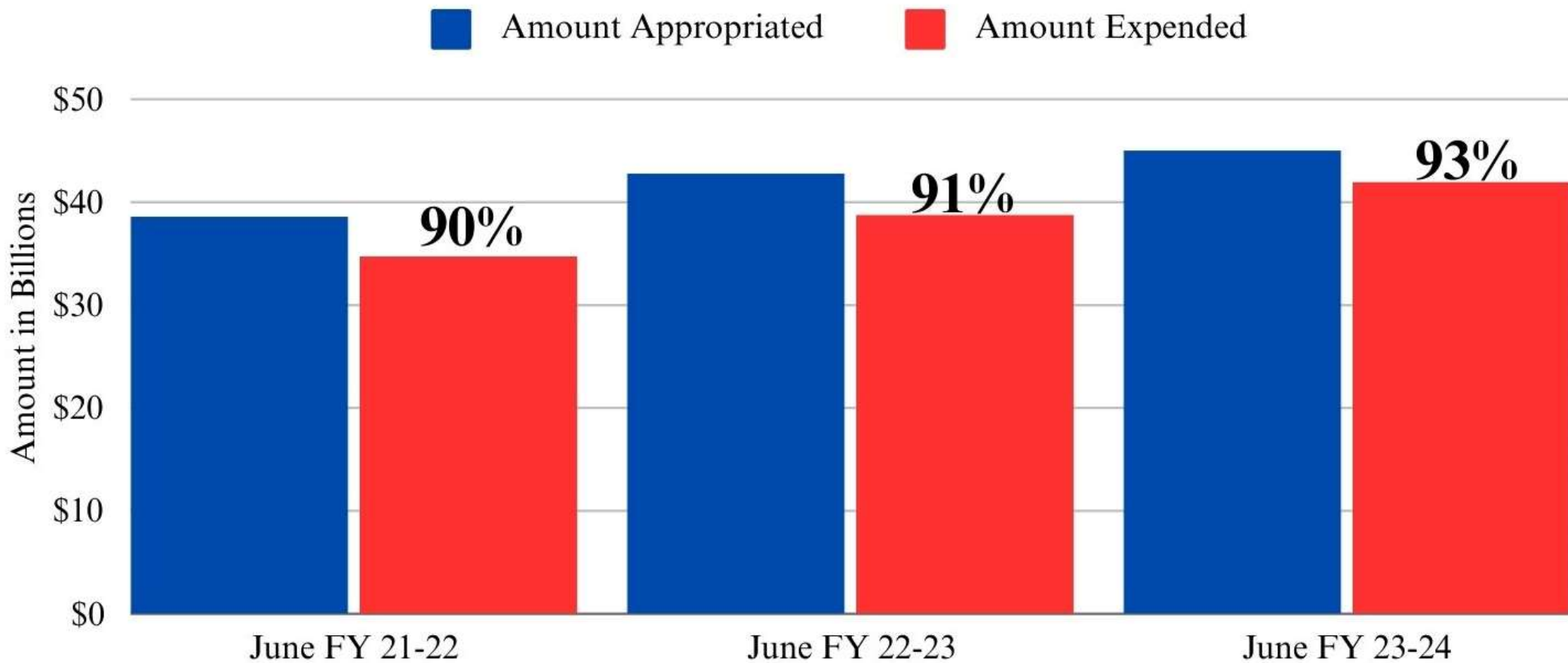
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Tax Growth & Tax Refund Growth

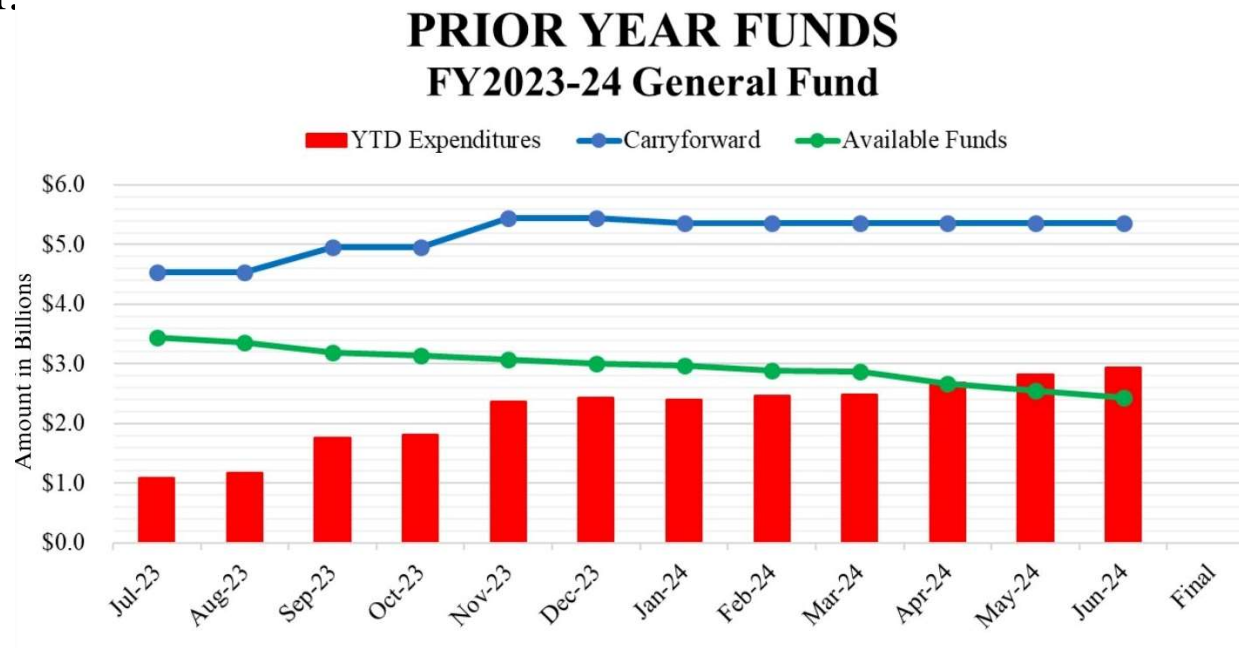
- **Tax Revenue** grew at only 0.2% when compared to the prior fiscal year.
 - One of the top areas of revenue growth was the Inheritance Tax.
- **Non-Tax Revenue** propped up the General Fund for Fiscal Year 23-24, but this is not sustainable moving forward.
 - Treasury Investments which grew 72% year-over-year are dependent upon surplus money to invest, which is rapidly evaporating.
- The FY 2023-24 **Tax Refund** reserve was initially set at \$1.495 billion, by the end of the fiscal year, this was increased to \$1.986 billion. As of June 30, 2024, \$1.879 billion was paid out.

Status of Appropriations



“Unspent Funds”

- Each fiscal year, the Commonwealth has unspent or “unencumbered” funds left available for agencies to spend – this money is NOT returned to the General Fund.
- FY 2024-25 uses a portion of leftover money for current year initiatives by the Governor.



FY 2024-25 Budget and Beyond

GENERAL FUND FINANCIAL STATEMENT

FY2024-25 Budget (Act 1A of 2024)

(amounts in thousands)

	2023-24 Available		2024-25 Budget		2025-26 Plan Yr 1		2026-27 Plan Yr 2		2027-28 Plan Yr 3		2028-29 Plan Yr 4	
1 BEGINNING BALANCE.....	\$8,084,871		\$6,632,089		\$3,251,263		\$0		\$0		\$0	
2 Adjustment to Beginning Balance.....	75,000		-		-		-		-		-	
3 Adjusted Beginning Balance.....	\$8,159,871		\$6,632,089		\$3,251,263		\$0		\$0		\$0	
4 REVENUES:												
5 Actual Revenues / Estimated Revenues.....	\$45,473,489	1.2%	\$46,302,300	1.8%	\$47,055,200	1.6%	\$48,353,800	2.8%	\$49,496,800	2.4%	\$50,826,400	2.7%
6 Revenue Modifications and Transfers:												
6.1 Act 55 (SB700 - EITC / OSTC Expansion).....			(\$75,000)		(\$75,000)		(\$75,000)		(\$75,000)		(\$75,000)	
6.2 Act 56 (SB654 - Omnibus Tax Reform Code).....			(\$139,900)		(\$235,300)		(\$352,900)		(\$438,100)		(\$549,800)	
7 Total Revenue Modifications and Transfers.....	\$0		(\$214,900)		(\$310,300)		(\$427,900)		(\$513,100)		(\$624,800)	
8 Subtotal Actual / Official Estimated Revenues.....	\$45,473,489		\$46,087,400	1.4%	\$46,744,900	1.4%	\$47,925,900	2.5%	\$48,983,700	2.2%	\$50,201,600	2.5%
9 Refund Reserve	(\$1,986,600)		(\$1,758,000)		(\$1,700,000)		(\$1,600,000)		(\$1,500,000)		(\$1,500,000)	
10 Total Revenue	\$43,486,889		\$44,329,400		\$45,044,900		\$46,325,900		\$47,483,700		\$48,701,600	
11 Prior-Year Lapses.....	\$587,026		\$250,000		\$250,000		\$250,000		\$250,000		\$250,000	
12 Total Funds Available	\$52,233,786	4.9%	\$51,211,489	-2.0%	\$48,546,163	-5.2%	\$46,575,900	-4.1%	\$47,733,700	2.5%	\$48,951,600	2.6%
13 EXPENDITURES:												
14 Total Appropriations.....	\$45,440,764	5.8%	\$47,598,974	4.7%	\$50,098,974	5.3%	\$52,768,974	5.3%	\$55,548,974	5.3%	\$58,488,974	5.3%
15 Less: Enhanced FMAP	(\$525,966)											
16 Total State Appropriations.....	\$44,914,798	10.1%	\$47,598,974	6.0%	\$50,098,974	5.3%	\$52,768,974	5.3%	\$55,548,974	5.3%	\$58,488,974	5.3%
17 Current Year Lapses.....	(\$50,000)											
18 Total Expenditures.....	\$44,864,798		\$47,598,974		\$50,098,974		\$52,768,974		\$55,548,974		\$58,488,974	
19 Preliminary Balance.....	\$7,368,988		\$3,612,515		(\$1,552,811)		(\$6,193,074)		(\$7,815,274)		(\$9,537,374)	
20 Less: Transfer to Budget Stabilization Reserve Fund.....	(\$736,899)		(\$361,252)		\$0		\$0		\$0		\$0	
21 ENDING BALANCE.....	\$6,632,089		\$3,251,263		(\$1,552,811)		(\$6,193,074)		(\$7,815,274)		(\$9,537,374)	

Unsustainable Spending

- The FY2024-25 General Fund budget spends a total of \$47.6 billion, which represents an increase in state appropriations by \$2.7 billion, or 6.0%, over the prior fiscal year.
- The Average Annual Growth Rate for General Fund spending from fiscal years 2018-19 to 2023-24 was 5.9%. The Average Annual Dollar Increase over that same time period was \$2.225 billion. (IFO 5-Year Economic and Budget Outlook, November 15, 2023)
- Since Governor Shapiro took office, total General Fund spending has increased \$4.64 billion, an average annual increase of 5.3%.

Budget Surplus Gone

- Governor Shapiro inherited a General Fund surplus of more than \$8.0 billion upon taking office.
- With the enactment of the 2024-25 budget, the remaining surplus is estimated to be a little more than \$3 billion come June 30, 2025.
- With very modest revenue growth projected into the future, historical spending levels are unsustainable.
- The IFO is projecting a General Fund deficit of almost \$5 billion for fiscal year 2025-26. With a little more than \$3 billion of the surplus remaining, balancing the fiscal year 2025-26 budget will completely deplete the estimated surplus and require the use of more than \$1.5 billion from the Rainy Day Fund. (IFO Research Brief, July 2024)

IFO: General Fund Surplus Likely Depleted Next Year

General Fund Financial Statement					
	Amount (\$ millions)			Growth Rate	
	23-24	24-25	25-26	24-25	25-26
Gross Revenues	\$45,473	\$45,767	\$46,411	0.6%	1.4%
Less: Refunds	<u>-1,987</u>	<u>-1,758</u>	<u>-1,700</u>		
Net Revenues	43,486	44,009	44,711	1.2%	1.6%
Expenditures	-44,965	-47,599	-49,493	5.9%	4.0%
Plus: Prior Year Lapses	<u>587</u>	<u>250</u>	<u>250</u>		
Current Year Balance	-892	-3,341	-4,532		
Year End Balance					
General Fund	6,632	2,962	-1,570		
Rainy Day Fund	6,987	7,526	7,752		
Notes: Revenues are IFO estimates adjusted for DOR estimates of newly-enacted tax legislation. FY 24-25 expenditures from General Fund Financial Statement. FY 25-26 expenditures use IFO growth rate from Nov. 2023 Five-Year Outlook report.					

“I don’t want to touch the Rainy Day Fund.”

-Matt Bradford at an NFIB roundtable on May 6, 2024

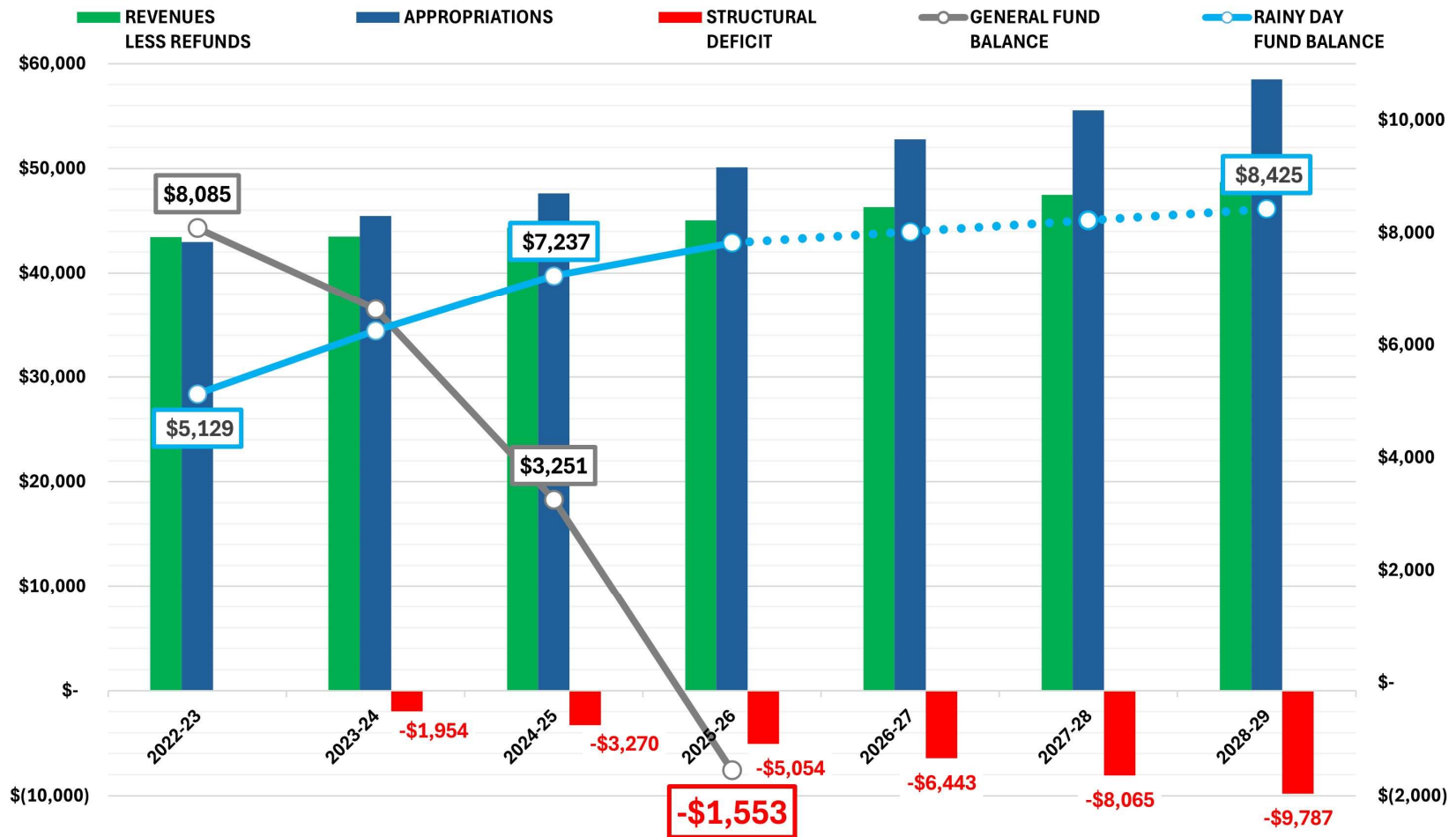
“I do not anticipate, nor will we be supporting a tax increase next year.”

-Jay Costa at Press
Club Luncheon
July 22, 2024



THE ELEPHANT IN THE ROOM: HOW TO CLOSE FUTURE STATE BUDGETS

Following Enactment of FY 2024-25 Budget
Amounts in Millions (\$)



Analysis assumes no withdrawals from the Rainy Day Fund and annual interest earnings of 2.5%

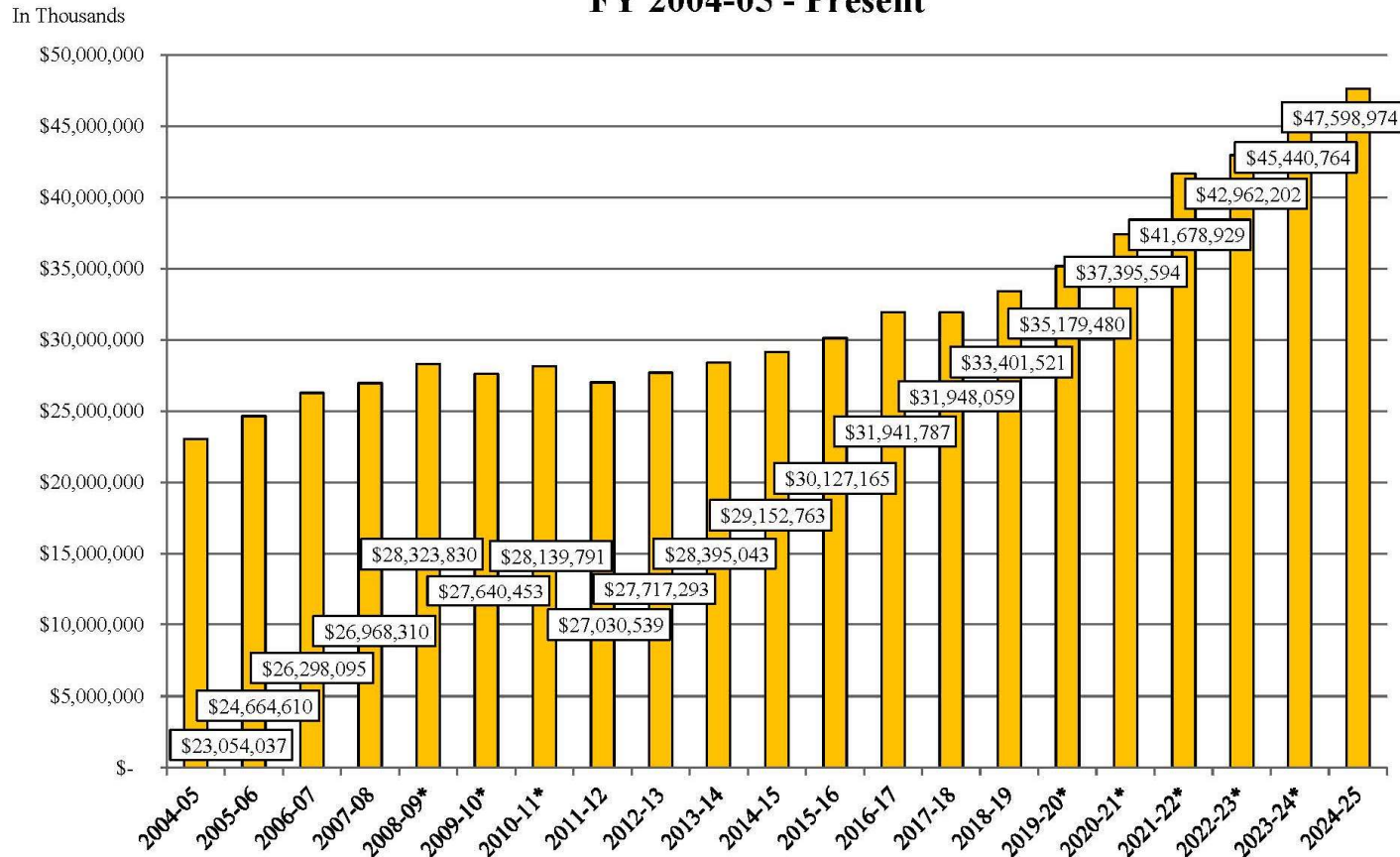
FY 2025-26 Funding Options

- Dip into the Rainy Day Fund (note Bradford opposition)
- Tax Increases
 - New taxes/Rate increases (note Jay Costa opposition)
 - Sin taxes – new/expand
- Spending Cuts
- Budget Gimmicks

Budget Context (General Fund Spending)

General Fund Spending

FY 2004-05 - Present

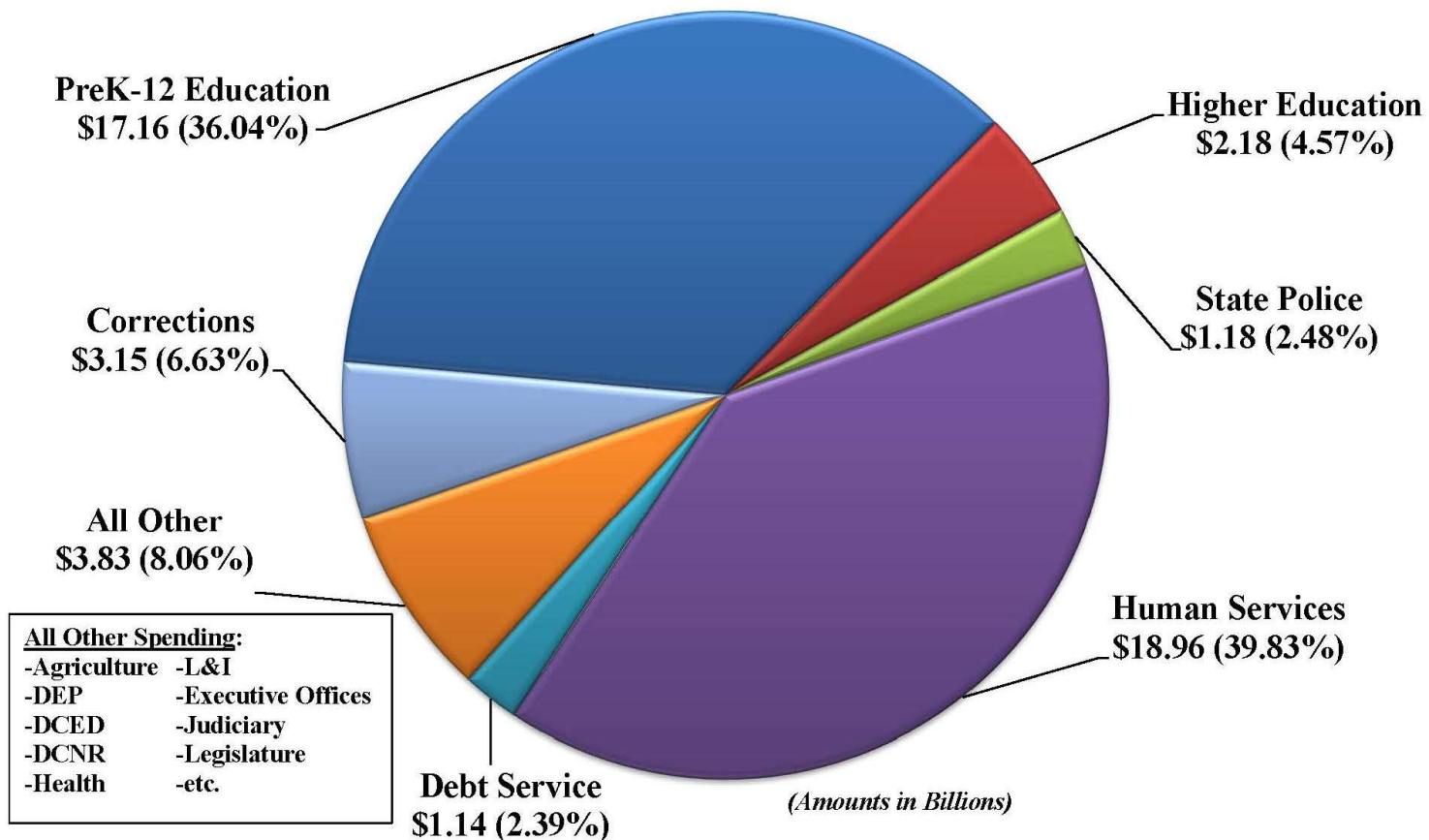


* Includes Federal Stimulus Funds

Source: House Republican Appropriations Committee - www.pabudget.com

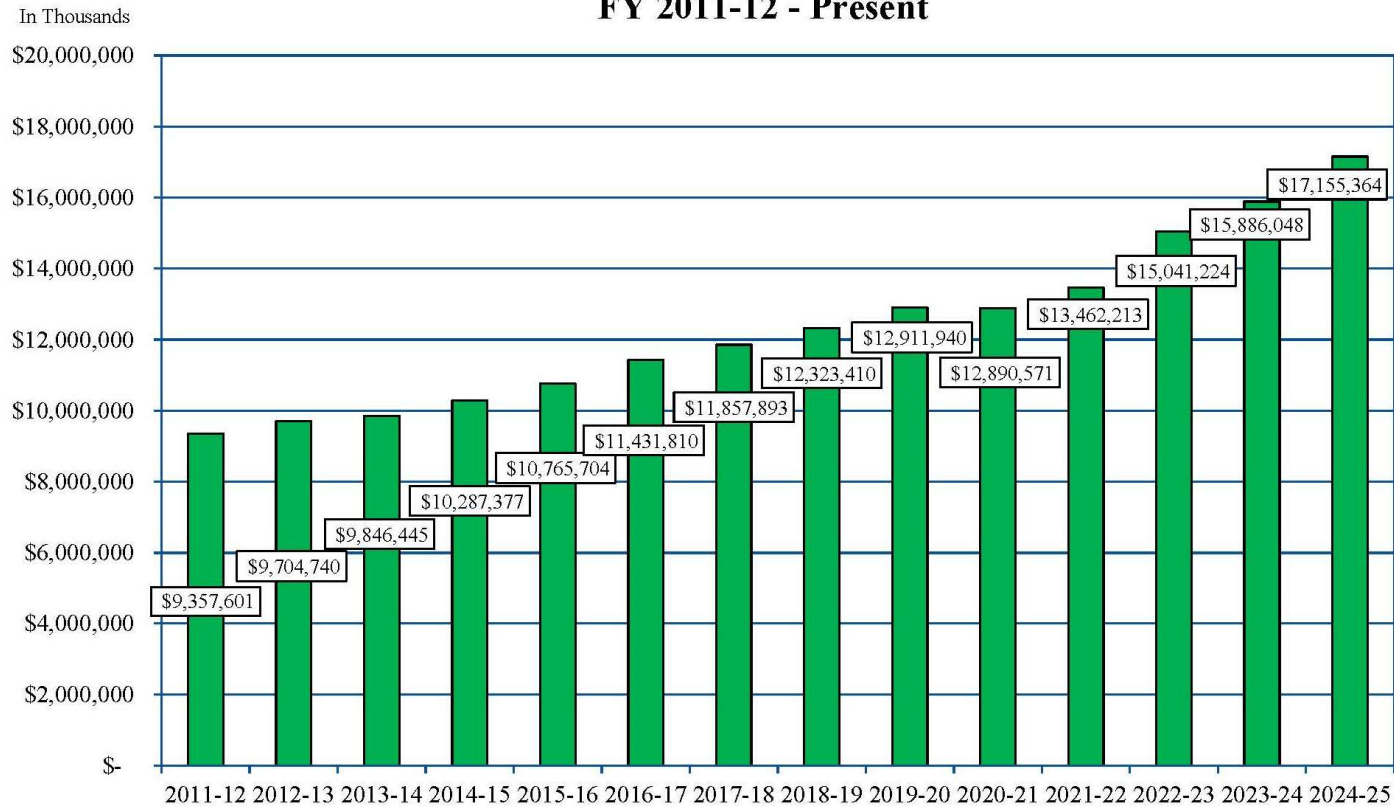
Budget Context (Cost Drivers)

FY 2024-25 Budget \$47.60 Billion



Budget Context (Education)

PreK-12 State Education Funding FY 2011-12 - Present



** Includes Federal Stimulus Funds*

Source: House Republican Appropriations Committee - www.pabudget.com - PA Department of Education

Budget Context (Education)

Statewide Average Cost to Educate a 2024 Graduate in PA

Year	Grade	Total Statewide Expenditures	Statewide Average Daily Membership	Statewide Average Expenditures Per ADM
2011-2012	K	\$24,761,443,033	1,734,916	\$14,272
2012-2013	1st	\$25,564,247,877	1,748,356	\$14,622
2013-2014	2nd	\$26,128,265,208	1,720,976	\$15,182
2014-2015	3rd	\$27,386,591,259	1,727,352	\$15,855
2015-2016	4th	\$28,308,905,232	1,723,516	\$16,425
2016-2017	5th	\$30,495,435,507	1,719,418	\$17,736
2017-2018	6th	\$30,211,199,140	1,718,308	\$17,582
2018-2019	7th	\$31,396,049,186	1,716,518	\$18,291
2019-2020	8th	\$32,778,123,328	1,717,327	\$19,087
2020-2021	9th	\$33,322,952,702	1,690,400	\$19,713
2021-2022	10th	\$35,052,742,099	1,682,764	\$20,830
2022-2023	11th	\$35,854,074,819	1,681,953	\$21,317
2023-2024*	12th	\$37,081,158,966	1,677,219	\$22,109

3.42% Annualized
expenditure change from
11-12 to 22-23.

-0.28% Annualized ADM
change from 11-12 to 22-23.

\$233,021 Average total cost
to educate a PA high school
senior graduating in 2024.

\$100 per day per child

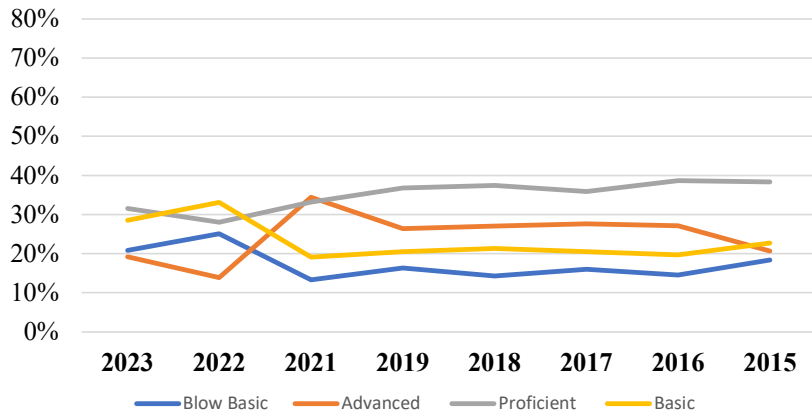
\$1,992 per day per
classroom of 20 kids.

\$358,493 per classroom per
year.

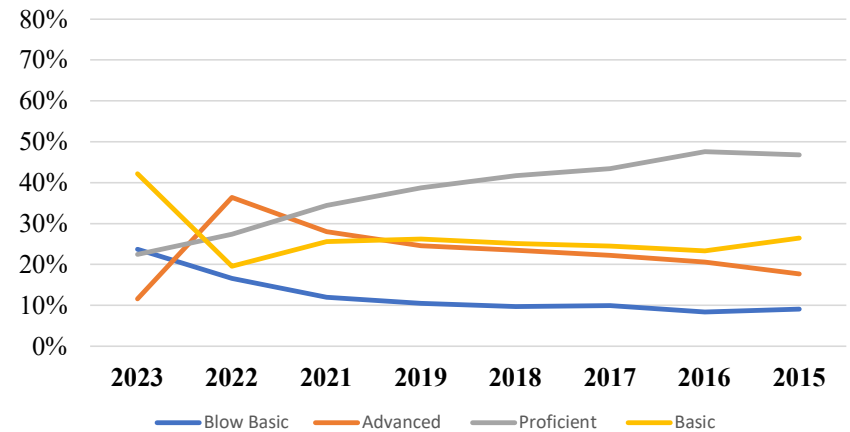
*Estimated based on prior 12 years of change.

Budget Context (Education)

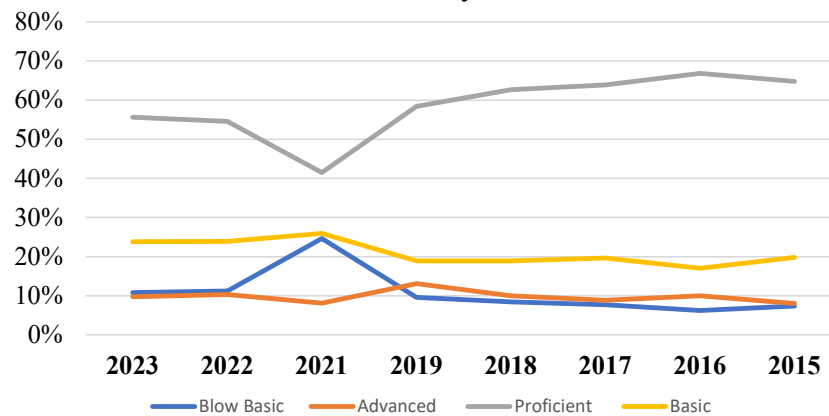
Statewide Biology Keystone Exam Results



Statewide Algebra I Keystone Exam Results



Statewide Literature Keystone Exam Results



Questions?