

Economic & Financial Brief



Message from Chairman Grove:

Revenues coming in above projections is positive for our budget, but the reality is this report shows some warning signs of an economic slowdown. The Sales and Use Tax did not meet March projections, and the Personal Income Tax showed signs of cooling. These taxes are the key economic indicators for the economic health of the Commonwealth. Another indicator is the Realty Transfer Tax, which showed a significant drop from this time last year, meaning the housing market is slowing down as well.

While these revenues are positive for the fiscal health of the Commonwealth, we must prepare for the less optimistic picture the economic indicators may be pointing to. Now is the time to save, not spend.

Budget Hearings Update

On March 20th, the House Appropriations Committee began the Budget Hearing process and have completed two weeks of hearings. Some of the highlights are below.

The process began with a daylong Department of Education (PDE) hearing, which revealed some glaring concerns on their spending proposals. Namely, PDE doesn't have a handle on the total need of the \$100 million School Environmental Repairs and Improvements line-item. We also learned even though the governor proposed to increase state-related universities line items by 7.1%, they wouldn't commit to a tuition freeze. The Pennsylvania State System of Higher Education, on the other hand, will freeze tuition with a 3.8% increase and \$112 million in direct-to-student funding. The governor proposed to increase their spending by only 2%.

The Department of Environmental Protection (DEP) has become a choke point for many projects for our constituents and commercial developers. Our caucus relentlessly advocated for permit reforms and demanded the new secretary give assurances that permits will be handled timely. Acting Secretary Negrin did agree that citizens want their permits and not just their money back for the agency's failure to do its job on a timely basis. We will be keeping close tabs and expect results. We also pushed back against the continuation of the Regional Greenhouse Gas Initiative (RGGI) in the strongest possible terms. The acting DEP secretary even alluded to the fact that RGGI will result in increased energy prices on consumers. It's bad policy for Pennsylvania.

Additionally, we heard from the Department of State. Both Republicans and Democrats have had concerns with the department in recent years, from elections to professional licenses. The acting secretary understands he won't receive a blank check for a continued lack of responsiveness on professional licenses, specifically the failures of the PALS system. Further, the Department has failed to implement the new SURE System and it is unknown whether it will be operational for the 2024 Presidential election cycle. He also shared that Act 88 of 2022, which banned "Zuckerbucks," enhanced election integrity in Pennsylvania.

You can watch the full hearings or read the Budget Hearing Wraps on our website at www.pabudget.com. The final week of Budget Hearings will resume on April 11th at 10:00 am with the Department of Human Services.

Fiscal Year 2022-23 General Fund Revenues

House Appropriations Committee (R)

Thousands of Dollars

Revenue Source	March 2023 Actual	March 2023 Estimate	Surplus / (Deficit)	2022-23 YTD Actual	2022-23 YTD Estimate	Surplus / (Deficit)	2022-23 % Growth vs. 2021-22
General Fund	\$6,190,314	\$5,690,900	\$499,414	\$32,283,135	\$31,134,400	\$1,148,735	(5.4%)
Tax Revenue	\$5,948,432	\$5,521,300	\$427,132	\$31,606,920	\$30,678,600	\$928,320	6.1%
Corporation Taxes	\$2,960,857	\$2,593,200	\$367,657	\$6,226,931	\$5,350,100	\$876,831	20.7%
Accelerated Deposits	\$5	\$0	\$5	(\$3,434)	\$0	(\$3,434)	170.7%
Corporate Net Income	\$791,902	\$583,600	\$208,302	\$3,826,890	\$3,156,500	\$670,390	17.8%
Selective Business	\$2,168,949	\$2,009,600	\$159,349	\$2,403,476	\$2,193,600	\$209,876	25.8%
Gross Receipts	\$1,098,761	\$964,300	\$134,461	\$1,176,751	\$1,014,800	\$161,951	15.5%
Utility Property	(\$0)	\$300	(\$300)	\$3,288	\$1,500	\$1,788	68.9%
Insurance Premiums	\$761,056	\$658,800	\$102,256	\$877,539	\$753,600	\$123,939	92.3%
Financial Institutions	\$309,132	\$386,200	(\$77,068)	\$345,898	\$423,700	(\$77,802)	(20.1%)
Bank Shares	\$304,889	\$381,400	(\$76,511)	\$326,633	\$403,300	(\$76,667)	(20.8%)
Mutual Thrifts	\$4,243	\$4,800	(\$557)	\$19,265	\$20,400	(\$1,135)	(7.8%)
Consumption Taxes	\$1,193,752	\$1,221,800	(\$28,048)	\$11,573,019	\$11,444,800	\$128,219	1.0%
Sales and Use Tax	\$1,072,028	\$1,097,000	(\$24,972)	\$10,460,838	\$10,276,300	\$184,538	1.7%
Non-Motor Vehicle	\$942,293	\$961,300	(\$19,007)	\$9,441,371	\$9,299,200	\$142,171	5.7%
Motor Vehicle	\$129,735	\$135,700	(\$5,965)	\$1,019,467	\$977,100	\$42,367	(24.4%)
Cigarette	\$71,511	\$75,000	(\$3,489)	\$643,647	\$699,400	(\$55,753)	(11.5%)
Other Tobacco Products	\$11,675	\$12,400	(\$725)	\$114,027	\$121,100	(\$7,073)	2.2%
Malt Beverage	\$1,703	\$1,500	\$203	\$16,437	\$15,800	\$637	0.3%
Liquor	\$36,835	\$35,900	\$935	\$338,070	\$332,200	\$5,870	3.9%
Other Taxes	\$1,793,823	\$1,706,300	\$87,523	\$13,806,970	\$13,883,700	(\$76,730)	4.8%
Personal Income Tax	\$1,629,210	\$1,578,200	\$51,010	\$11,993,448	\$12,077,800	(\$84,352)	6.8%
Withholding	\$1,350,484	\$1,327,100	\$23,384	\$9,514,280	\$9,491,900	\$22,380	5.3%
Estimated	\$100,420	\$110,800	(\$10,380)	\$1,799,496	\$2,075,000	(\$275,504)	10.0%
Annual	\$178,305	\$140,300	\$38,005	\$679,672	\$510,900	\$168,772	22.3%
Realty Transfer	\$50,516	\$61,800	(\$11,284)	\$486,995	\$560,600	(\$73,605)	(22.0%)
Inheritance	\$160,665	\$133,700	\$26,965	\$1,145,487	\$1,114,600	\$30,887	(1.6%)
Gaming	\$35,604	\$28,600	\$7,004	\$277,807	\$237,600	\$40,207	20.5%
Minor and Repealed	(\$82,171)	(\$96,000)	\$13,829	(\$96,766)	(\$106,900)	\$10,134	34.8%
Non-Tax Revenue	\$241,881	\$169,600	\$72,281	\$676,215	\$455,800	\$220,415	(84.4%)
Liquor Store Profits	\$85,100	\$85,100	\$0	\$185,100	\$185,100	\$0	0.0%
Licenses and Fees	\$53,975	\$39,100	\$14,875	\$140,344	\$122,400	\$17,944	(2.4%)
Miscellaneous	\$96,530	\$39,800	\$56,730	\$298,197	\$94,000	\$204,197	(92.5%)
Treasury	\$42,268	\$300	\$41,968	\$279,939	\$17,800	\$262,139	2787.5%
Escheats	\$53,696	\$38,100	\$15,596	(\$49,762)	\$21,800	(\$71,562)	(101.3%)
Other Misc & Transfers	\$566	\$1,400	(\$834)	\$68,020	\$54,400	\$13,620	(40.0%)
Fines, Penalties, Interest	\$6,276	\$5,600	\$676	\$52,574	\$54,300	(\$1,726)	(3.4%)

Revenues Explained

General Fund collections of \$6.19 billion in March were \$499.4 million above the official monthly estimate. **Year-to-Date** collections of \$32.28 billion are \$1.15 billion, or 3.7%, above the official estimate.

Governor Shapiro's proposed budget assumes revenue collections will exceed estimate by \$347.5 million on June 30, 2023.

March 2023 monthly collections:

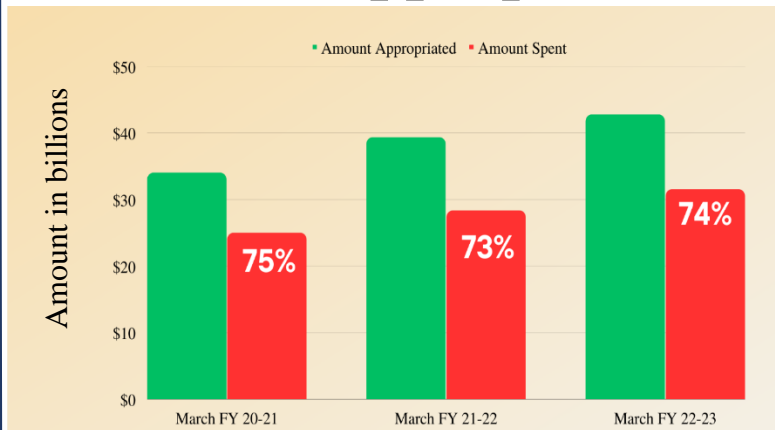
- **Total Tax Revenue** collections exceeded the monthly estimate by \$427.1 million, or 7.7%.
- **Corporate Net Income Tax** collections continue to be strong and exceeded the monthly estimate by \$208.3 million, or 35.7%.
- **Gross Receipts Tax and Insurance Premiums Tax**, which are both due in March, exceeded the monthly estimate by \$134.5 million and \$102.3 million, respectively. However, **Bank Shares Tax**, which is also due in March, fell below the monthly estimate by \$76.5 million, or 20.1%.
- **Sales and Use Tax (SUT) non-motor vehicle collections** (\$942.3 million) and **motor vehicle collections** (\$129.7 million) fell below the estimate for the month by \$19.0 million and \$6.0 million, respectively. Compared to March collections of the prior year, SUT non-motor vehicle collections grew only 0.1% while SUT motor vehicle collections fell 31.6%.
- **Personal Income Tax (PIT) withholding collections** of \$1.35 billion exceeded the estimate for the month by \$23.4 million. PIT annual payments for the month exceeded estimate by \$38.0 million; however, **PIT quarterly estimated payments** fell below the monthly estimate by \$10.4 million.
- **Non-Tax Revenue** collections were above estimate for the month by \$72.3 million, largely driven by higher than anticipated interest earnings which were \$42.0 million above estimate.

Fiscal Year-to-Date collections through the month of March 2023:

- **Total Tax Revenue** collections for the fiscal year through the month of March exceed the YTD estimate by \$928.3 million, or 3.0%. YTD Total Tax Revenue collections are above collections of the prior fiscal year by 6.1%
- YTD **Corporate Net Income Tax** collections of \$3.83 billion are \$670.4 million above estimate.
- **Sales and Use Tax non-motor vehicle collections** (\$9.44 billion) and **motor vehicle collections** (\$1.02 billion) exceed the fiscal year estimate by \$142.2 million and \$42.4 million, respectively.
- **Personal Income Tax (PIT) withholding collections** of \$9.51 billion exceed the estimate for the fiscal year by \$22.4 million. **PIT annual payments** exceed estimate by \$168.8 million; however, **PIT quarterly estimated payments** are below estimate by \$275.5 million.

March Revenue Collections			
Total General Fund		Personal Income Taxes	
Estimate: \$5.691 billion	Actual: \$6.190 billion ↑	Estimate: \$1.578 billion	Actual: \$1.629 billion ↑
Corporation Taxes		Sales Taxes	
Estimate: \$2.593 billion	Actual: \$2.961 billion ↑	Estimate: \$1.097 billion	Actual: \$1.072 billion ↓
Non-Tax Revenue		All Other Taxes:	
Estimate: \$170 million	Actual: \$242 million ↑	Estimate: \$253 million	Actual: \$286 million ↑

Status of Appropriations



PA Employment Statistics

	Feb. 2023	Change
Labor Force	6.5 (mil)	+0.01 (mil) ↑
Unemployment Rate	4.4%	-0.1% ↓
Total Nonfarm Jobs	6.1 (mil)	Even
12 MONTH CHANGE		
Total Nonfarm Jobs	+168,000	↑
Unemployment Rate	Even	
<i>Surrounding States Unemployment Rates:</i>		
DE: 4.6%	MD: 2.9%	NJ: 3.5%
NY: 4.2%	OH: 3.9%	WV: 3.7%

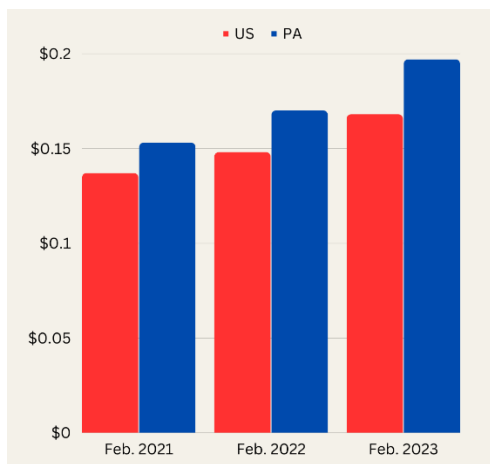
Status of Appropriations provided by Office of the Budget.
 Employment Statistics from the Bureau of Labor Statistics.
 Inflation information from Wall Street Journal.

Inflation Update

The inflation rate for February 2023 was 6%, representing a modest decline from 6.4% for January 2023. While encouraging, this is still a major concern as the Federal Reserve has set a benchmark goal of achieving a 2% inflation rate.

Energy Update

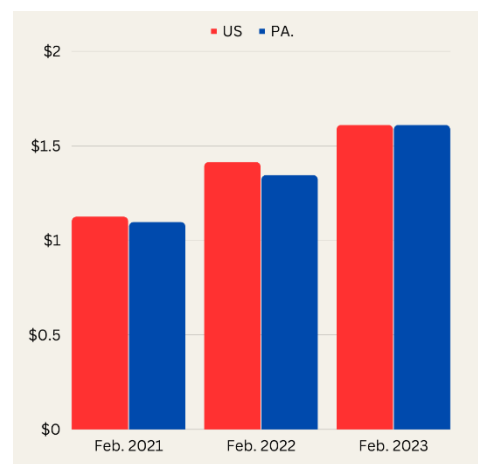
Electric Rates



Gas Prices

US: \$3.622/gallon
 PA: \$3.538/gallon

Natural Gas Rate



Electric rates continue to run higher than the national average, gasoline prices were almost 8.4 cents cheaper than the national average, and natural gas prices have leveled off to equal with the national price.

Information from the US Bureau of Labor Statistics – Philadelphia area