



February 2024 Financial Brief

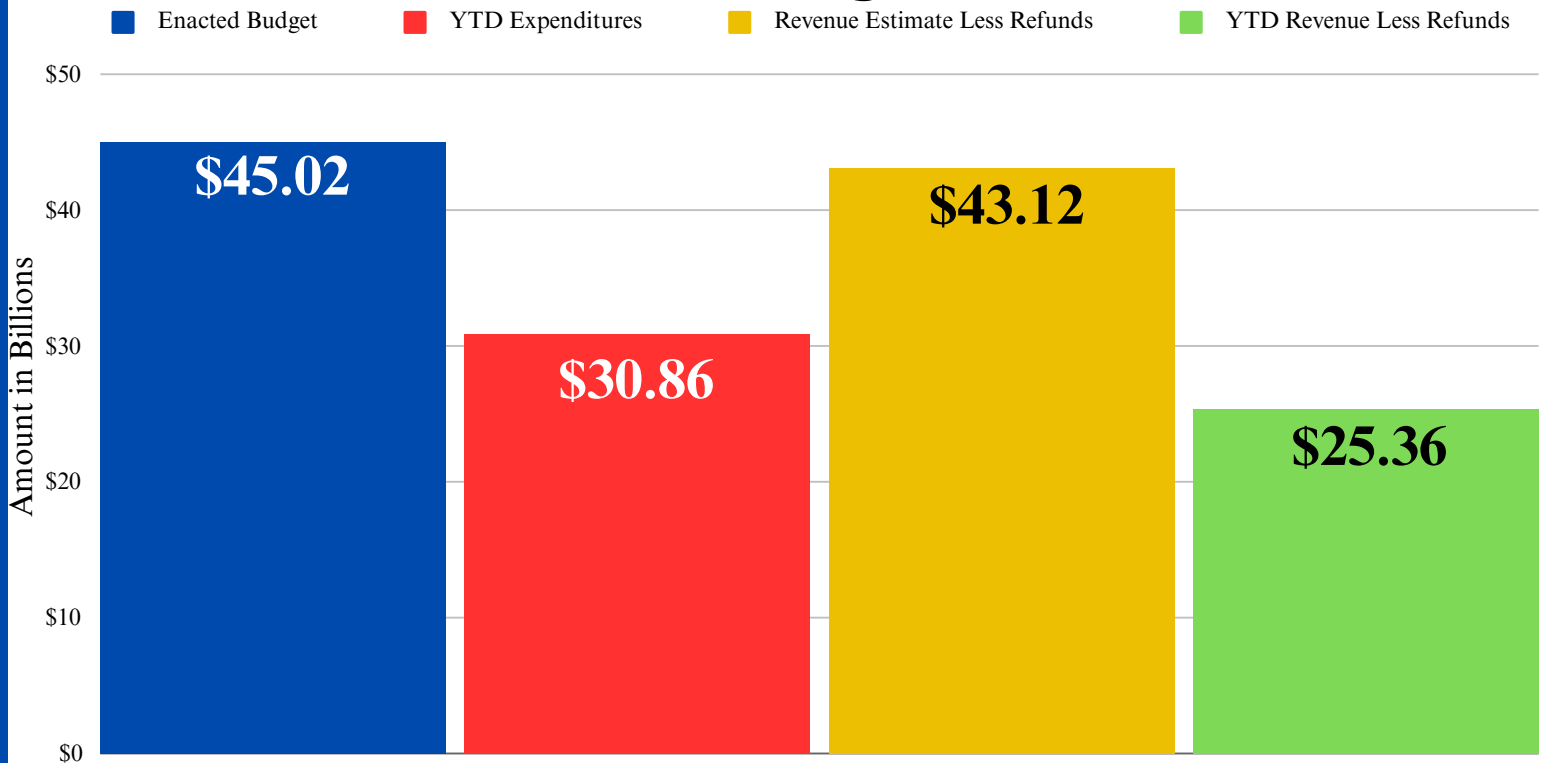
Message from Chairman Grove



While we have a way to go in the budget process, the first two weeks of budget hearings have thus far only confirmed what we already know: the Governor's 2024-25 budget proposal lacks any real detail, has more expenditures than it does revenues, and ultimately eviscerates the General Fund surplus and the Rainy Day Fund balance. Appropriations Committee Members have been shocked at the lack of details provided by agency leaders on implementing the numerous new and expanded spending programs and the new revenue enhancements proposed by the Governor. After his budget address, Governor Shapiro told the press, "Analysis can't be used as an excuse for paralysis." While true, analysis cannot be an excuse for paralysis - there is nothing to actually analyze. From the "Blueprint for Higher Education" to adult-use cannabis to the \$500 million PA SITES program, Governor Shapiro has released marketing brochures with no details, just words and sharp graphics. The sad conclusion is that agency leaders were either unprepared for this year's budget hearings or intentionally left in the dark by the Governor about important details of their respective budgets – both of which are completely unacceptable.

Seth Grove, House Republican Appropriations Chairman

General Fund Budget Overview



Fiscal Year 2023-24 General Fund Revenues

Compared to the Official Estimate
House Appropriations Committee (R)
Thousands of Dollars

Revenue Source	February 2024 Actual	February 2024 Estimate	\$ Amount over / (under) Estimate	2023-24 YTD Actual	2023-24 YTD Estimate	\$ Amount over / (under) Estimate
General Fund	<u>\$2,766,265</u>	<u>\$2,696,800</u>	<u>\$69,465</u>	<u>\$26,519,210</u>	<u>\$26,443,100</u>	<u>\$76,110</u>
Tax Revenue	<u>\$2,700,287</u>	<u>\$2,659,900</u>	<u>\$40,387</u>	<u>\$25,713,937</u>	<u>\$25,882,900</u>	<u>(\$168,963)</u>
Corporation Taxes	<u>\$205,899</u>	<u>\$248,800</u>	<u>(\$42,901)</u>	<u>\$3,188,318</u>	<u>\$3,099,500</u>	<u>\$88,818</u>
Accelerated Deposits	\$0	\$0	\$0	\$0	\$0	\$0
Corporate Net Income	\$139,268	\$158,400	(\$19,132)	\$2,991,582	\$2,901,100	\$90,482
Selective Business	\$66,631	\$90,400	(\$23,769)	\$196,736	\$198,400	(\$1,664)
Gross Receipts	\$19,326	\$34,600	(\$15,274)	\$47,610	\$60,900	(\$13,290)
Utility Property	\$42	\$0	\$42	\$2,372	\$1,200	\$1,172
Insurance Premiums	\$40,108	\$45,600	(\$5,492)	\$110,595	\$99,100	\$11,495
Financial Institutions	\$7,155	\$10,200	(\$3,045)	\$36,159	\$37,200	(\$1,041)
Bank Shares	\$5,703	\$10,100	(\$4,397)	\$21,811	\$21,600	\$211
Mutual Thrifts	\$1,453	\$100	\$1,353	\$14,348	\$15,600	(\$1,252)
Consumption Taxes	<u>\$1,123,039</u>	<u>\$1,092,200</u>	<u>\$30,839</u>	<u>\$10,425,032</u>	<u>\$10,457,200</u>	<u>(\$32,168)</u>
Sales and Use Tax	<u>\$1,012,066</u>	<u>\$975,400</u>	<u>\$36,666</u>	<u>\$9,506,782</u>	<u>\$9,497,300</u>	<u>\$9,482</u>
Non-Motor Vehicle	\$927,025	\$895,600	\$31,425	\$8,644,188	\$8,641,700	\$2,488
Motor Vehicle	\$85,041	\$79,800	\$5,241	\$862,594	\$855,600	\$6,994
Cigarette	\$64,367	\$68,400	(\$4,033)	\$503,589	\$525,100	(\$21,511)
Other Tobacco Products	\$12,417	\$13,400	(\$983)	\$98,352	\$109,100	(\$10,748)
Malt Beverage	\$1,590	\$1,400	\$190	\$14,083	\$14,600	(\$517)
Liquor	\$32,598	\$33,600	(\$1,002)	\$302,226	\$311,100	(\$8,874)
Other Taxes	<u>\$1,371,349</u>	<u>\$1,318,900</u>	<u>\$52,449</u>	<u>\$12,100,587</u>	<u>\$12,326,200</u>	<u>(\$225,613)</u>
Personal Income Tax	<u>\$1,162,768</u>	<u>\$1,122,200</u>	<u>\$40,568</u>	<u>\$10,539,300</u>	<u>\$10,804,700</u>	<u>(\$265,400)</u>
Withholding	\$1,071,921	\$1,059,500	\$12,421	\$8,683,909	\$8,692,100	(\$8,191)
Estimated	\$29,534	\$26,500	\$3,034	\$1,398,338	\$1,721,400	(\$323,062)
Annual	\$61,313	\$36,200	\$25,113	\$457,053	\$391,200	\$65,853
Realty Transfer	\$37,628	\$25,700	\$11,928	\$338,564	\$336,000	\$2,564
Inheritance	\$140,679	\$141,200	(\$521)	\$1,015,336	\$967,200	\$48,136
Gaming	\$30,029	\$29,200	\$829	\$240,427	\$243,400	(\$2,973)
Minor and Repealed	\$246	\$600	(\$354)	(\$33,040)	(\$25,100)	(\$7,940)
Non-Tax Revenue	<u>\$65,979</u>	<u>\$36,900</u>	<u>\$29,079</u>	<u>\$805,273</u>	<u>\$560,200</u>	<u>\$245,073</u>
Liquor Store Profits	\$0	\$0	\$0	\$100,000	\$100,000	\$0
Licenses and Fees	\$11,771	\$8,800	\$2,971	\$104,062	\$85,500	\$18,562
Miscellaneous	<u>\$49,210</u>	<u>\$23,100</u>	<u>\$26,110</u>	<u>\$553,507</u>	<u>\$327,000</u>	<u>\$226,507</u>
Treasury	\$53,133	\$21,800	\$31,333	\$541,777	\$311,300	\$230,477
Escheats	(\$6,035)	(\$3,000)	(\$3,035)	(\$57,050)	(\$74,600)	\$17,550
Other Misc & Transfers	\$2,112	\$4,300	(\$2,188)	\$68,780	\$90,300	(\$21,520)
Fines, Penalties, Interest	\$4,998	\$5,000	(\$2)	\$47,703	\$47,700	\$3

Fiscal Year 2023-24 General Fund Revenues

Compared to the Prior Year Collections

House Appropriations Committee (R)

Thousands of Dollars

Revenue Source	February 2023 Actual	February 2024 Actual	Month % Growth vs Prior Year	2022-23 YTD Actual	2023-24 YTD Actual	YTD % Growth vs Prior Year
<u>General Fund</u>	<u>\$2,827,817</u>	<u>\$2,766,265</u>	<u>(2.2%)</u>	<u>\$26,092,821</u>	<u>\$26,519,210</u>	<u>1.6%</u>
<u>Tax Revenue</u>	<u>\$2,778,048</u>	<u>\$2,700,287</u>	<u>(2.8%)</u>	<u>\$25,658,488</u>	<u>\$25,713,937</u>	<u>0.2%</u>
<u>Corporation Taxes</u>	<u>\$303,843</u>	<u>\$205,899</u>	<u>(32.2%)</u>	<u>\$3,266,075</u>	<u>\$3,188,318</u>	<u>(2.4%)</u>
Accelerated Deposits	\$1	\$0	(100.0%)	(\$3,439)	\$0	(100.0%)
Corporate Net Income	\$207,485	\$139,268	(32.9%)	\$3,034,988	\$2,991,582	(1.4%)
Selective Business	\$96,357	\$66,631	(30.9%)	\$234,526	\$196,736	(16.1%)
Gross Receipts	\$39,540	\$19,326	(51.1%)	\$77,990	\$47,610	(39.0%)
Utility Property	\$5	\$42	733.3%	\$3,288	\$2,372	(27.9%)
Insurance Premiums	\$42,368	\$40,108	(5.3%)	\$116,483	\$110,595	(5.1%)
Financial Institutions	\$14,444	\$7,155	(50.5%)	\$36,766	\$36,159	(1.6%)
Bank Shares	\$13,701	\$5,703	(58.4%)	\$21,744	\$21,811	0.3%
Mutual Thrifts	\$744	\$1,453	95.3%	\$15,022	\$14,348	(4.5%)
<u>Consumption Taxes</u>	<u>\$1,122,844</u>	<u>\$1,123,039</u>	<u>0.0%</u>	<u>\$10,379,266</u>	<u>\$10,425,032</u>	<u>0.4%</u>
<u>Sales and Use Tax</u>	<u>\$1,001,924</u>	<u>\$1,012,066</u>	<u>1.0%</u>	<u>\$9,388,810</u>	<u>\$9,506,782</u>	<u>1.3%</u>
Non-Motor Vehicle	\$912,490	\$927,025	1.6%	\$8,499,078	\$8,644,188	1.7%
Motor Vehicle	\$89,433	\$85,041	(4.9%)	\$889,732	\$862,594	(3.1%)
Cigarette	\$74,163	\$64,367	(13.2%)	\$572,136	\$503,589	(12.0%)
Other Tobacco Products	\$12,760	\$12,417	(2.7%)	\$102,352	\$98,352	(3.9%)
Malt Beverage	\$1,470	\$1,590	8.2%	\$14,734	\$14,083	(4.4%)
Liquor	\$32,528	\$32,598	0.2%	\$301,235	\$302,226	0.3%
<u>Other Taxes</u>	<u>\$1,351,361</u>	<u>\$1,371,349</u>	<u>1.5%</u>	<u>\$12,013,147</u>	<u>\$12,100,587</u>	<u>0.7%</u>
<u>Personal Income Tax</u>	<u>\$1,160,536</u>	<u>\$1,162,768</u>	<u>0.2%</u>	<u>\$10,364,238</u>	<u>\$10,539,300</u>	<u>1.7%</u>
Withholding	\$1,078,495	\$1,071,921	(0.6%)	\$8,163,796	\$8,683,909	6.4%
Estimated	\$29,872	\$29,534	(1.1%)	\$1,699,076	\$1,398,338	(17.7%)
Annual	\$52,169	\$61,313	17.5%	\$501,367	\$457,053	(8.8%)
Realty Transfer	\$29,057	\$37,628	29.5%	\$436,478	\$338,564	(22.4%)
Inheritance	\$133,253	\$140,679	5.6%	\$984,822	\$1,015,336	3.1%
Gaming	\$29,197	\$30,029	2.9%	\$242,203	\$240,427	(0.7%)
Minor and Repealed	(\$681)	\$246	(136.1%)	(\$14,595)	(\$33,040)	126.4%
<u>Non-Tax Revenue</u>	<u>\$49,769</u>	<u>\$65,979</u>	<u>32.6%</u>	<u>\$434,333</u>	<u>\$805,273</u>	<u>85.4%</u>
Liquor Store Profits	\$0	\$0		\$100,000	\$100,000	0.0%
Licenses and Fees	\$9,238	\$11,771	27.4%	\$86,369	\$104,062	20.5%
<u>Miscellaneous</u>	<u>\$35,232</u>	<u>\$49,210</u>	<u>39.7%</u>	<u>\$201,667</u>	<u>\$553,507</u>	<u>174.5%</u>
Treasury	\$38,483	\$53,133	38.1%	\$237,671	\$541,777	128.0%
Escheats	\$0	(\$6,035)		\$3	(\$57,050)	(2008892.5%)
Other Misc & Transfers	(\$3,251)	\$2,112	(165.0%)	(\$36,007)	\$68,780	(291.0%)
Fines, Penalties, Interest	\$5,299	\$4,998	(5.7%)	\$46,298	\$47,703	3.0%

Revenues Explained

General Fund collections of \$2.77 billion in February were \$69.5 million higher than the official monthly estimate, driven by strong collections of Sales and Use Tax and Personal Income Tax, which exceeded the official monthly estimate by \$36.7 million and \$40.6 million, respectively. Year-to-Date (YTD) collections, which are comprised of tax and non-tax revenue, remain above the official estimate by \$76.1 million; however, tax revenue collections remain less than the YTD estimate by \$169.0 million, narrowing slightly from \$209.4 million in the month of January.

Monthly collections for February 2024 were less than those of February 2023 by 2.2% largely due to a drop in corporate tax collections. YTD collections of \$26.52 billion are growing by a rate of 1.6% over YTD collections of the prior year.







February 2024 monthly collections:

- **Total Tax Revenue** collections **exceeded the monthly estimate by \$40.4 million**, however, collections were **below those of the prior year by \$77.8 million, or 2.8%**.
- **Total Corporation Taxes** were **less than the official monthly estimate by \$42.9 million**, driven largely by drops in collections of Corporate Net Income Tax and Gross Receipts Tax.
- **Sales and Use Tax (SUT) non-motor vehicle** collections remained strong and **exceeded the monthly estimate by \$31.4 million**. Similarly, **SUT motor vehicle collections** also **exceeded estimate by \$5.2 million**.
- All categories of **Personal Income Tax (PIT) (PIT annual, PIT quarterly estimated, and PIT withholding)** collections **exceeded the official estimates for the first time this calendar year**. Collectively, these tax collections were \$40.6 million over the official estimate for the month.
- **Realty Transfer Tax** collections **exceeded the monthly estimate by \$11.9 million**.
- **Inheritance Tax** collections again **fell short of the monthly estimate by \$521,000**.
- **Non-Tax Revenue** collections of \$66.0 million were **above estimate for the month by \$29.1 million**, led by continued strength of interest earnings.

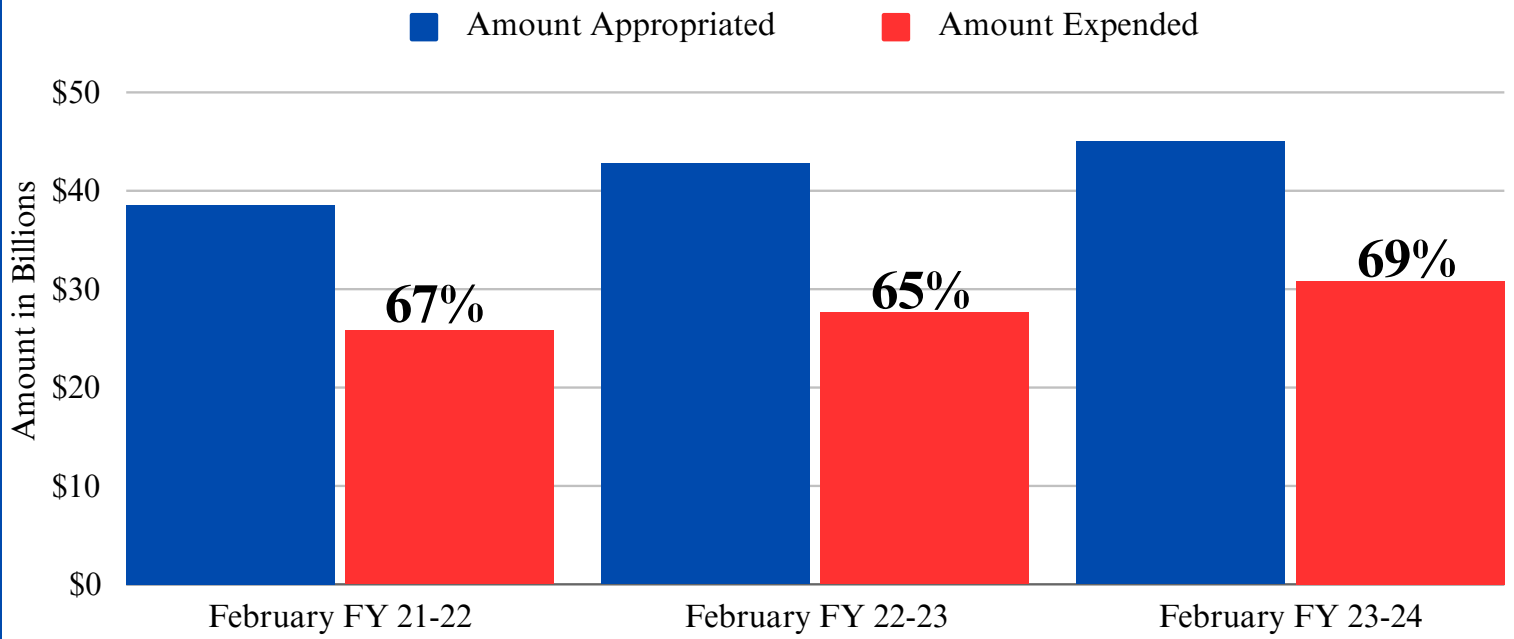
Fiscal Year-to-Date (YTD) collections through the month of February 2024:

- **Total Tax Revenue** collections of \$25.71 billion through February 2024 are **slightly above the YTD collections of the prior fiscal year by \$55.4 million, or 0.2%**.
- **YTD Corporate Net Income Tax** collections of \$3.00 billion remain **above estimate by \$90.5 million**.
- **YTD SUT non-motor vehicle collections** of \$8.64 billion are **above collections of the prior fiscal year by 1.7%**. **SUT motor vehicle collections** of \$862.6 million are **below collections of the prior fiscal year by 3.1%**.
- **YTD PIT withholding** collections of \$8.68 billion are **above collections of the prior fiscal year by 6.4%**; however, **YTD PIT annual and YTD PIT estimated payments** remain **below collections of the prior fiscal year, although tightening, by 8.8% and 17.7%, respectively**.
- **Realty Transfer Tax YTD** collections of \$338.6 million through the month of February remain **below collections of the prior year by \$97.9 million, or 22.4%**.
- **YTD Non-Tax Revenue** collections of \$805.3 million are **above collections of the prior fiscal year by 85.4%**. This is attributable to the exceptional strength of interest earnings, which totaled \$541.8 million.

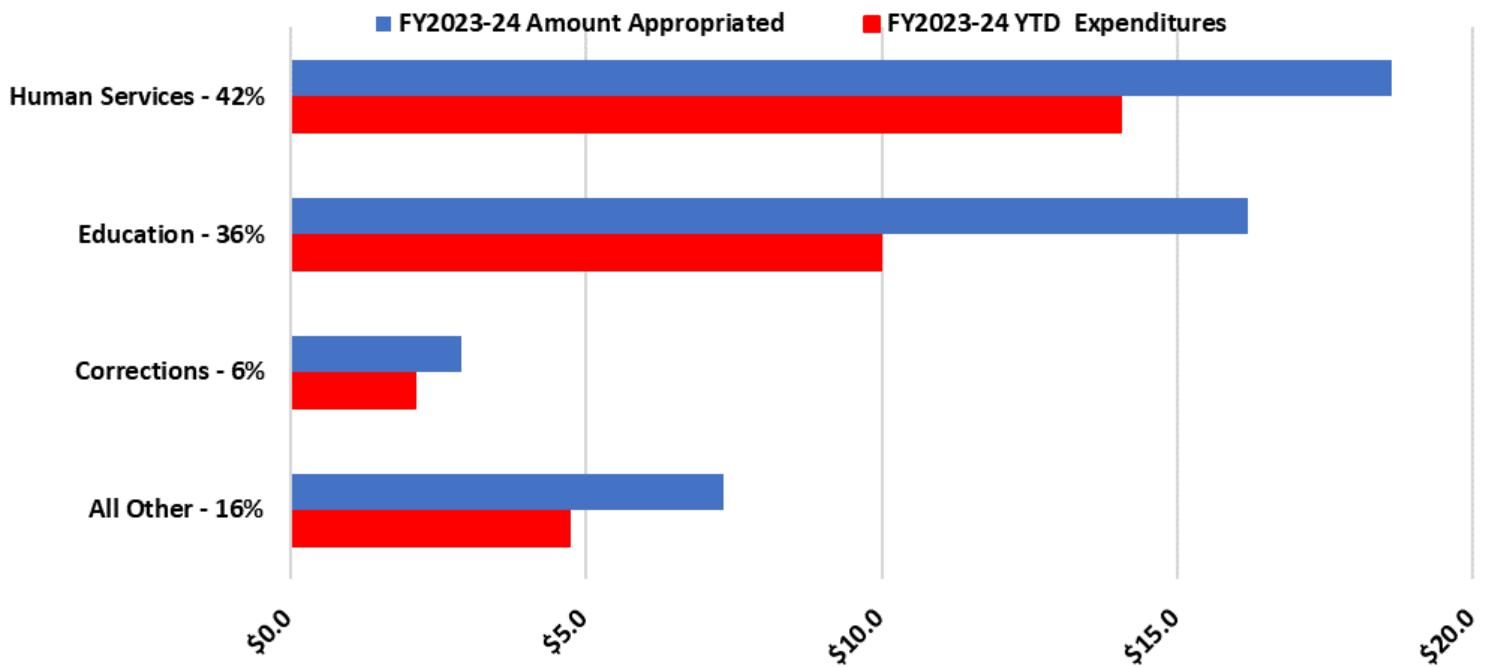
February 2024 Revenue Collections

Total General Fund		Personal Income Tax	
Estimate: \$2.697 billion	Actual: \$2.766 billion 	Estimate: \$1.122 billion	Actual: \$1.163 billion 
Total Corporation Taxes		Sales Tax	
Estimate: \$248.8 million	Actual: \$205.9 million 	Estimate: \$975.4 million	Actual: \$1.012 billion 
Non-Tax Revenue		All Other Taxes	
Estimate: \$36.9 million	Actual: \$66 million 	Estimate: \$313.5 million	Actual: \$319.6 million 

Status of Appropriations



FY2023-24 Budget - Top 3 Agencies (84% of Budget) Status of Appropriations as of February 2024

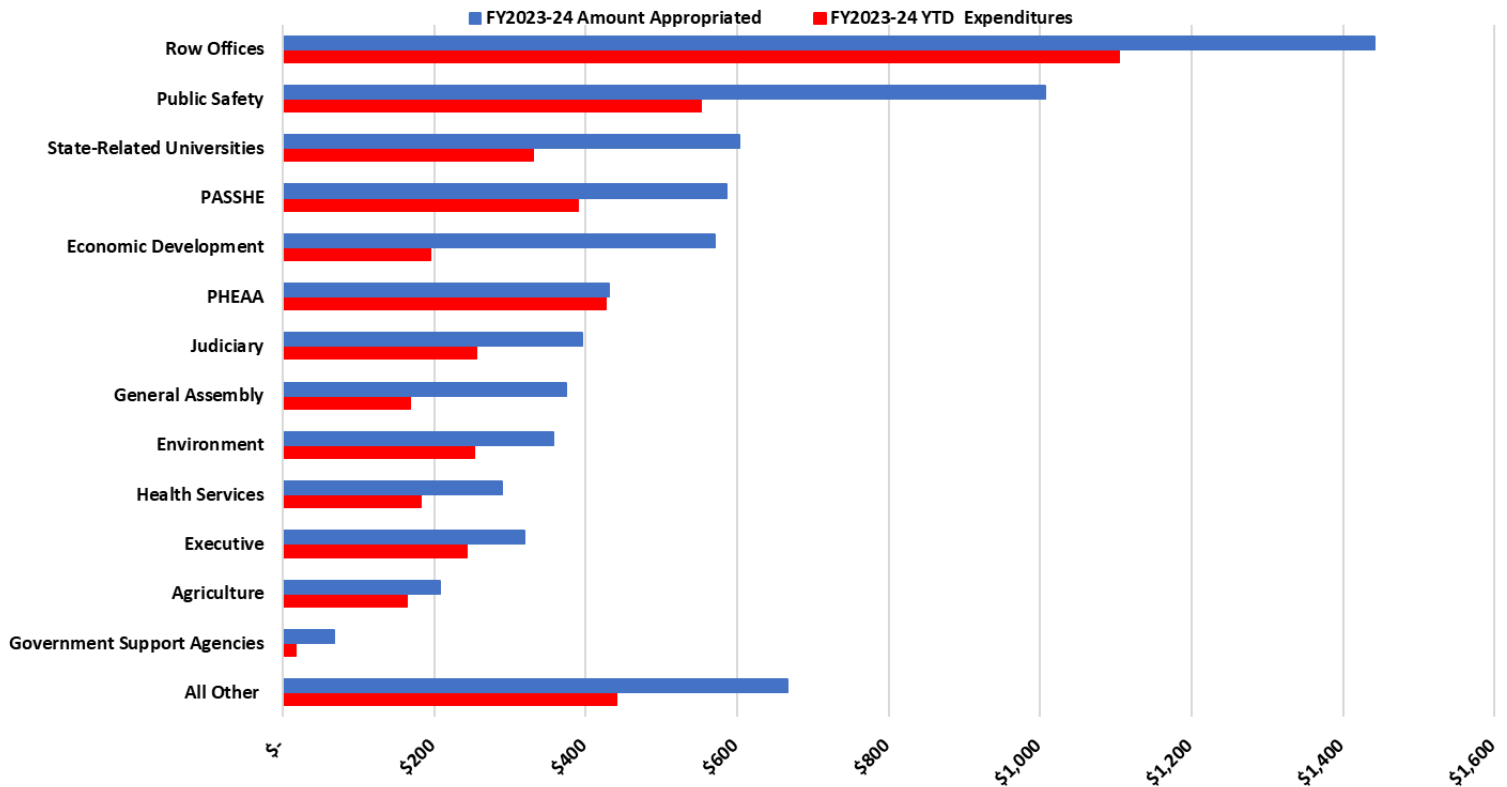


All Spending information from Commonwealth Accounting System, Status of Appropriations Report.

FY2023-24 Budget - All Other Agencies (16% of Budget)

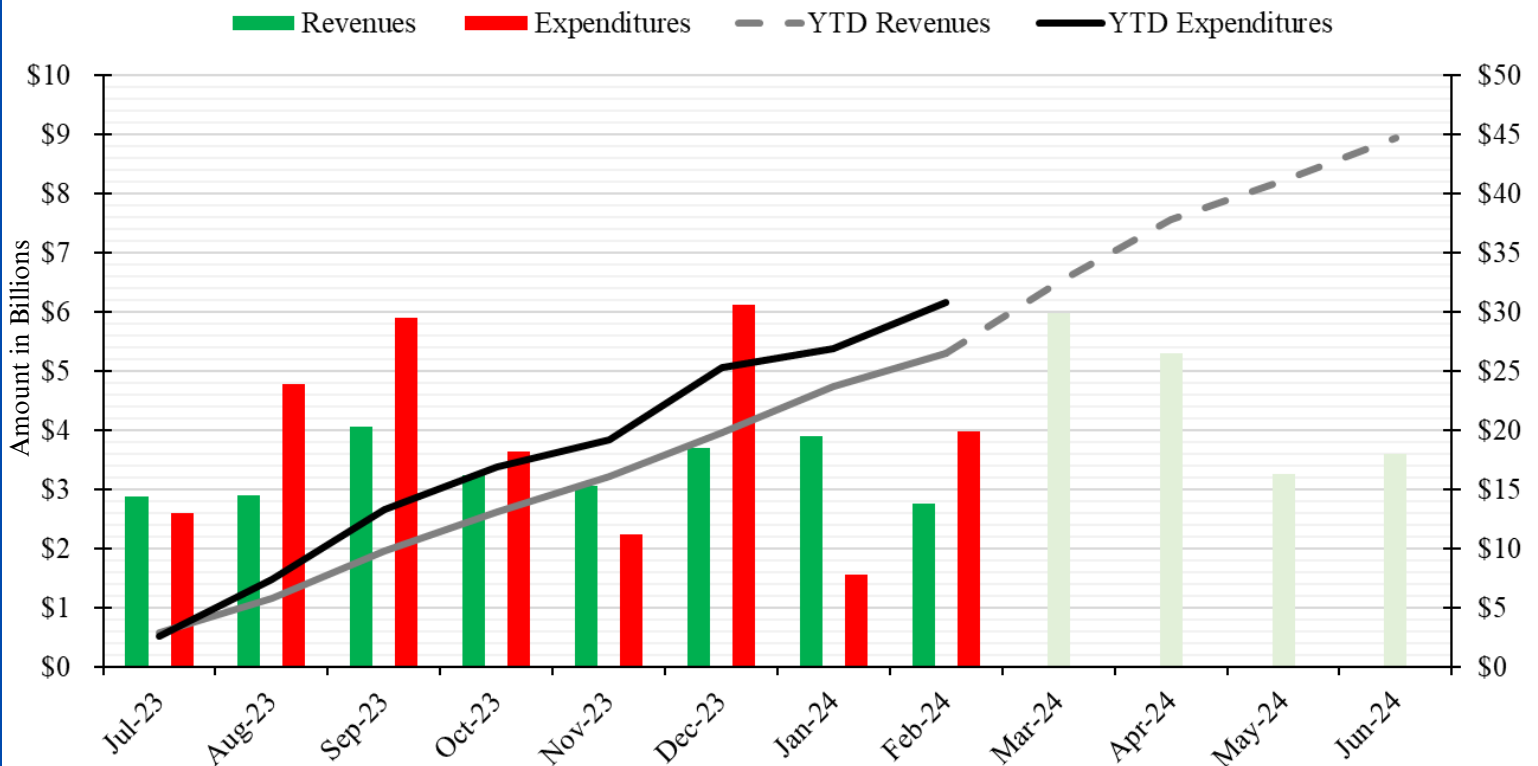
Status of Appropriations as of February 2024

Amounts in Millions



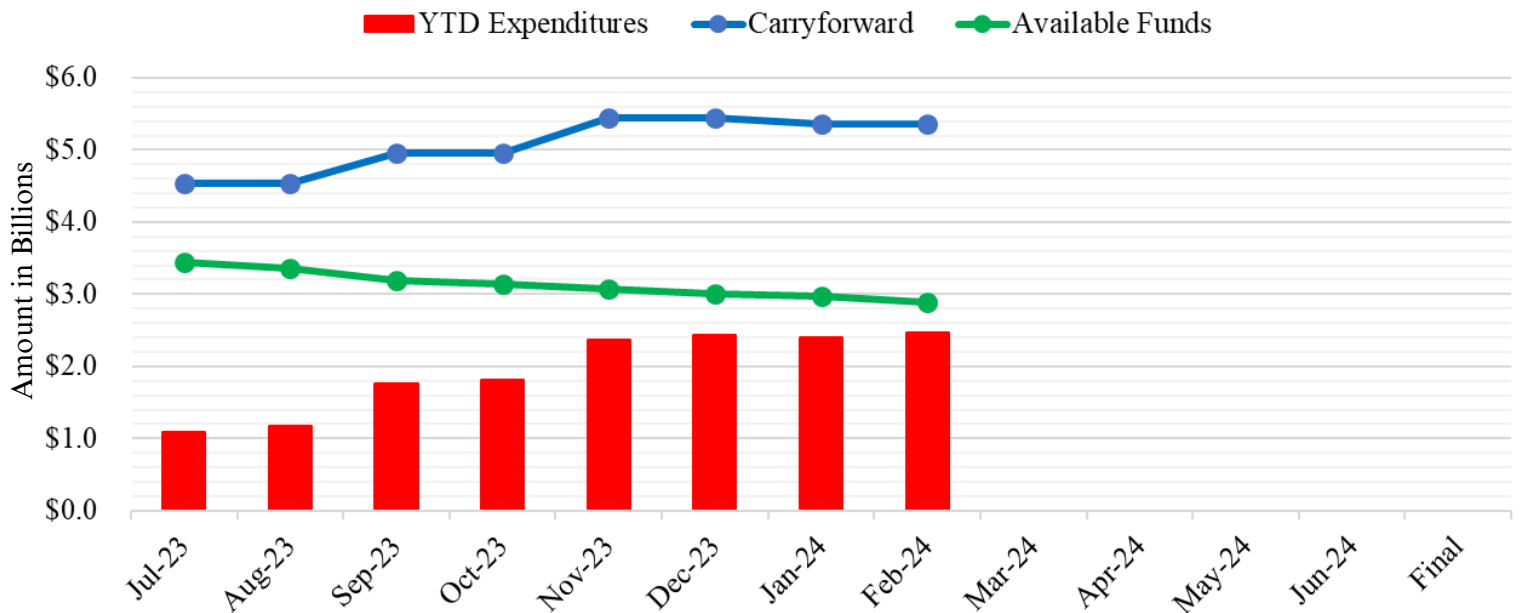
2023-24 GENERAL FUND

Expenditures and Revenues



PRIOR YEAR FUNDS

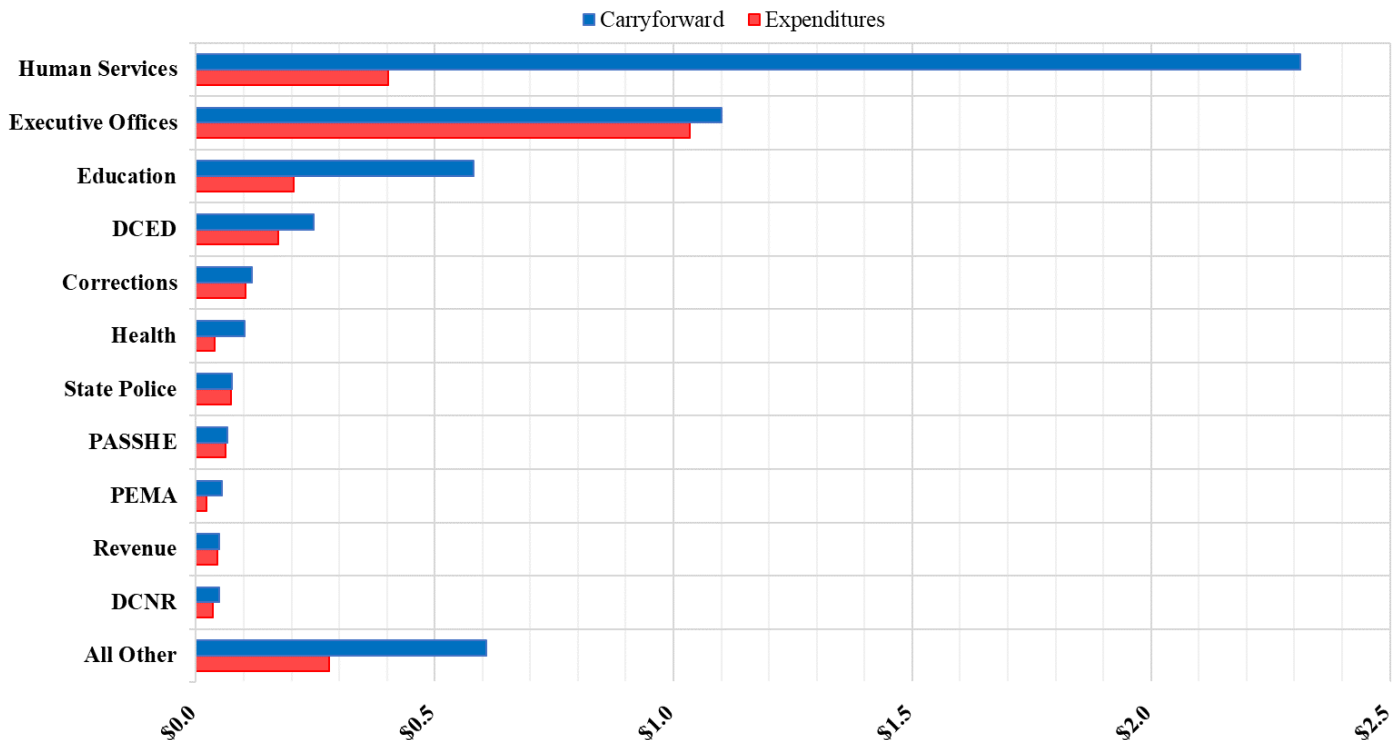
FY2023-24 General Fund



PRIOR YEAR FUNDS - TOP 10 AGENCIES*

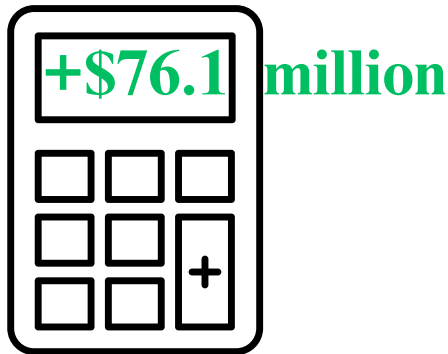
FY2023-24 as of February 2024

Amounts in Billions



*Under the Governor's jurisdiction

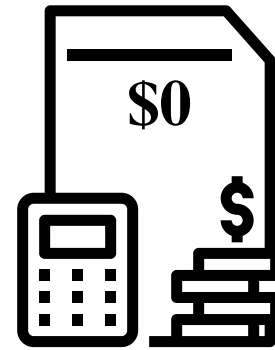
YTD Revenue Performance



Budget Surplus



Ledger 5 Expenditures



Rainy Day Fund



50 Days of Sunshine

Budget Policy Update

The Next Budget Leap

As the calendar flips to March, we say goodbye to February 29th for another four years. Four years may seem like a long time, but it will be here sooner than we think.

Aside from the routine four-year political questions like who will be running for President, US Senate, early names for Governor, and which party will control the legislature, there is another important question we must also address: how much will Pennsylvania need to raise taxes?

Governor Shapiro is fond of sharing the disingenuous claim that the Commonwealth will have an \$11 billion surplus if we pass his budget (ironically, even the Governor has said he doesn't think his budget proposal will be adopted without changes). The first point to remember is that the General Fund surplus will be reduced to \$3.4 billion under his plan. The Rainy Day Fund, statutorily limited to emergency spending to cover lost revenues from an economic downturn, will likely total close to \$7 billion. However, that's only for one year, after which both balances deplete rapidly. Conflating the General Fund surplus and Rainy Day Fund balance is misleading at best.

The Next Budget Leap (continued)

The Governor also conveniently forgets to mention that his budget spends more money than it takes in through revenues, worsening Pennsylvania's structural deficit. Don't take the House Republicans' word for it. The Governor's own Revenue Secretary, Pat Browne, confirmed this during his budget hearing. So did Marc Steir, the Executive Director of the left-leaning Pennsylvania Policy Center, at a House Finance Subcommittee meeting earlier this month. Both also confirmed the Governor's proposal spends down the General Fund surplus and Rainy Day Fund to balance the budget in the future.

The five-year outlook on Pennsylvania's finances doesn't look good, no matter which numbers you use. For his part, Governor Shapiro would expect taxpayers to believe that after this 8.4% increase in state spending, a governmental transformation will occur, and spending will only increase an average of 2% over the next four years. This 2% growth also assumes the Governor will abandon the spending he committed to in the Basic Education Funding Commission Report after this fiscal year.

When taking the Governor's growth projections and adding a \$1 billion increase per year in basic education spending increases his administration also supports, the FY 2027-28 budget will have burned through the General Fund surplus and the Rainy Day Fund balance. By FY 2028-29, the legislature and the Governor would need to raise taxes, the equivalent of a 46% increase in the personal income tax, to close a \$6.4 billion structural deficit.

Of course, policymakers are not powerless in this budget process. These are projections based on the Governor's current spending proposals. Thankfully, there are actions the legislature can take to avoid this fate four years from now. The most impactful of these actions is the adoption of zero-based budgeting.

Throughout the budget hearings, House Republicans have asked agencies under the Governor's jurisdiction questions about zero-based budgeting. Then Montgomery County Commissioner Josh Shapiro, along with this current Budget Secretary Uri Monson, implemented zero-based budgeting in the county to close their structural deficit.

The FY 2024-25 budget proposal, which spends more than \$3.7 billion over the current fiscal year, also includes initiatives of \$2.5 billion in new or expanded government programs. Yet, when asked, agency leaders have little to no information on how and why they will spend this new money. From the \$500 million PA SITES program to the Governor's "Blueprint for Higher Education," leader after leader was either unprepared or willfully obstinate. Zero-based budgeting would fix this problem by requiring agency leaders to establish their core functions and defend every dollar their agency spends as fulfilling that core function, starting at zero dollars and building their budgets from the ground up.

We can also implement Program Integrity initiatives to safeguard taxpayer dollars in programs throughout state government. In 2020, then-Attorney General Shapiro said, "It's possible, no, likely, that Pennsylvania is losing \$3 billion a year to fraud." These remarks were made while supporting a bi-partisan package of Program Integrity bills, many of which still have not been signed into law or adopted by agencies he now controls.

On the next February 29th, as Governor Shapiro is campaigning for President, will Pennsylvania be preparing for an income tax increase? We'll have a pretty good idea whenever the FY 2024-25 budget is complete.