



# July 2024

## Financial Brief

### Message from Chairman Grove

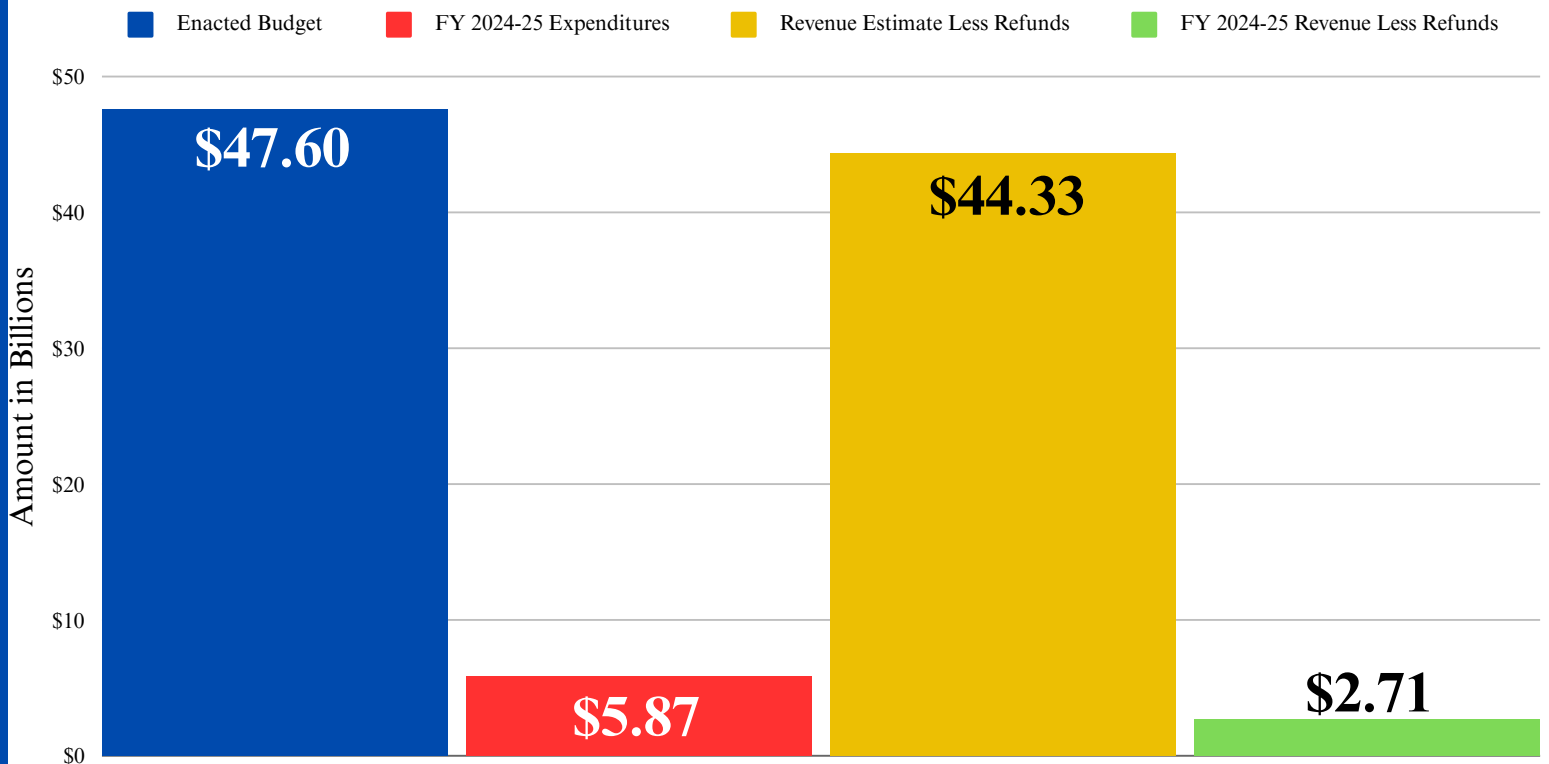


Finally, Pennsylvania has a state budget. While the immediate impact on the Commonwealth's finances due to tardiness will be minimal, the long-term effects of the budget's spending already is showing significant causes for concern. The FY 2024-25 budget spends a total of \$47.6 billion, representing an increase in state appropriations by \$2.7 billion, or 6.0%, over the prior fiscal year. This elevated level of spending will draw down the General Fund surplus from \$6.83 billion to \$3.61 billion by the close of the fiscal year. As a reminder, when Governor Shapiro took office in January 2023, the General Fund surplus was over \$8 billion.

As with the previous fiscal year, this brief will keep track of revenues compared to the official estimate and to the prior fiscal year. This brief will also continue to track agency spending of current and prior year funds. We will keep up-to-date information on the General Fund and Rainy Day Fund surpluses, as well as total Ledger 5 expenditures. Please note that the official monthly revenue estimate has yet to be published by the Department of Revenue, therefore the August brief will have more details.

Seth Grove, House Republican Appropriations Chairman

### General Fund Budget Overview



# Fiscal Year 2024-25 General Fund Revenues

*Compared to the Prior Year Collections*

**House Appropriations Committee (R)**

*Thousands of Dollars*

Revenue Source	July 2023 Actual	July 2024 Actual	Month % Growth vs Prior Year	2023-24 Actual	2024-25 Actual	% Growth vs Prior Year
<b>General Fund</b>	<b><u>\$2,881,471</u></b>	<b><u>\$2,991,090</u></b>	<b><u>3.8%</u></b>	<b><u>\$2,881,471</u></b>	<b><u>\$2,991,090</u></b>	<b><u>3.8%</u></b>
<b>Tax Revenue</b>	<b><u>\$2,782,775</u></b>	<b><u>\$2,910,896</u></b>	<b><u>4.6%</u></b>	<b><u>\$2,782,775</u></b>	<b><u>\$2,910,896</u></b>	<b><u>4.6%</u></b>
<b>Corporation Taxes</b>	<b><u>\$188,185</u></b>	<b><u>\$216,374</u></b>	<b><u>15.0%</u></b>	<b><u>\$188,185</u></b>	<b><u>\$216,374</u></b>	<b><u>15.0%</u></b>
Accelerated Deposits	\$0	\$0		\$0	\$0	
Corporate Net Income	\$181,874	\$212,315	16.7%	\$181,874	\$212,315	16.7%
Selective Business	\$6,311	\$4,059	(35.7%)	\$6,311	\$4,059	(35.7%)
Gross Receipts	\$2,067	(\$2,048)	(199.0%)	\$2,067	(\$2,048)	(199.0%)
Utility Property	\$110	\$22	(79.6%)	\$110	\$22	(79.6%)
Insurance Premiums	(\$650)	(\$2,570)	295.6%	(\$650)	(\$2,570)	295.6%
Financial Institutions	\$4,784	\$8,654	80.9%	\$4,784	\$8,654	80.9%
Bank Shares	\$3,902	\$8,651	121.7%	\$3,902	\$8,651	121.7%
Mutual Thrifts	\$881	\$3	(99.7%)	\$881	\$3	(99.7%)
<b>Consumption Taxes</b>	<b><u>\$1,384,150</u></b>	<b><u>\$1,345,221</u></b>	<b><u>(2.8%)</u></b>	<b><u>\$1,384,150</u></b>	<b><u>\$1,345,221</u></b>	<b><u>(2.8%)</u></b>
<b>Sales and Use Tax</b>	<b><u>\$1,317,752</u></b>	<b><u>\$1,290,887</u></b>	<b><u>(2.0%)</u></b>	<b><u>\$1,317,752</u></b>	<b><u>\$1,290,887</u></b>	<b><u>(2.0%)</u></b>
Non-Motor Vehicle	\$1,202,394	\$1,168,237	(2.8%)	\$1,202,394	\$1,168,237	(2.8%)
Motor Vehicle	\$115,357	\$122,650	6.3%	\$115,357	\$122,650	6.3%
Cigarette	\$15,213	\$5,740	(62.3%)	\$15,213	\$5,740	(62.3%)
Other Tobacco Products	\$12,496	\$11,837	(5.3%)	\$12,496	\$11,837	(5.3%)
Malt Beverage	\$2,197	\$1,706	(22.4%)	\$2,197	\$1,706	(22.4%)
Liquor	\$36,493	\$35,052	(3.9%)	\$36,493	\$35,052	(3.9%)
<b>Other Taxes</b>	<b><u>\$1,210,440</u></b>	<b><u>\$1,349,301</u></b>	<b><u>11.5%</u></b>	<b><u>\$1,210,440</u></b>	<b><u>\$1,349,301</u></b>	<b><u>11.5%</u></b>
<b>Personal Income Tax</b>	<b><u>\$1,055,405</u></b>	<b><u>\$1,192,629</u></b>	<b><u>13.0%</u></b>	<b><u>\$1,055,405</u></b>	<b><u>\$1,192,629</u></b>	<b><u>13.0%</u></b>
Withholding	\$971,350	\$1,089,842	12.2%	\$971,350	\$1,089,842	12.2%
Estimated	\$45,119	\$60,360	33.8%	\$45,119	\$60,360	33.8%
Annual	\$38,936	\$42,428	9.0%	\$38,936	\$42,428	9.0%
Realty Transfer	\$1,104	(\$3,095)	(380.3%)	\$1,104	(\$3,095)	(380.3%)
Inheritance	\$127,916	\$128,697	0.6%	\$127,916	\$128,697	0.6%
Gaming	\$18,830	\$24,998	32.8%	\$18,830	\$24,998	32.8%
Minor and Repealed	\$7,185	\$6,072	(15.5%)	\$7,185	\$6,072	(15.5%)
<b>Non-Tax Revenue</b>	<b><u>\$98,695</u></b>	<b><u>\$80,194</u></b>	<b><u>(18.7%)</u></b>	<b><u>\$98,695</u></b>	<b><u>\$80,194</u></b>	<b><u>(18.7%)</u></b>
Liquor Store Profits	\$0	\$0		\$0	\$0	
Licenses and Fees	\$10,293	\$7,580	(26.4%)	\$10,293	\$7,580	(26.4%)
<b>Miscellaneous</b>	<b><u>\$82,338</u></b>	<b><u>\$66,242</u></b>	<b><u>(19.5%)</u></b>	<b><u>\$82,338</u></b>	<b><u>\$66,242</u></b>	<b><u>(19.5%)</u></b>
Treasury	\$61,390	\$60,353	(1.7%)	\$61,390	\$60,353	(1.7%)
Escheats	(\$1,638)	(\$11,271)	587.9%	(\$1,638)	(\$11,271)	587.9%
Other Misc & Transfers	\$22,586	\$17,160	(24.0%)	\$22,586	\$17,160	(24.0%)
Fines, Penalties, Interest	\$6,065	\$6,372	5.1%	\$6,065	\$6,372	5.1%







# Revenues Explained

*On July 11, 2024, the Secretary of the Budget and the Secretary of Revenue certified the Official Revenue Estimate for the General Fund at \$46,087,400,000. As no monthly distribution of this Official Revenue Estimate has been made available by the Department of Revenue at this time, the information included in this report compares July 2024 revenue collections to July 2023 collections. It is anticipated that the Department of Revenue will release the monthly distribution for the Fiscal Year 2024-25 Official Revenue Estimate later this month.*

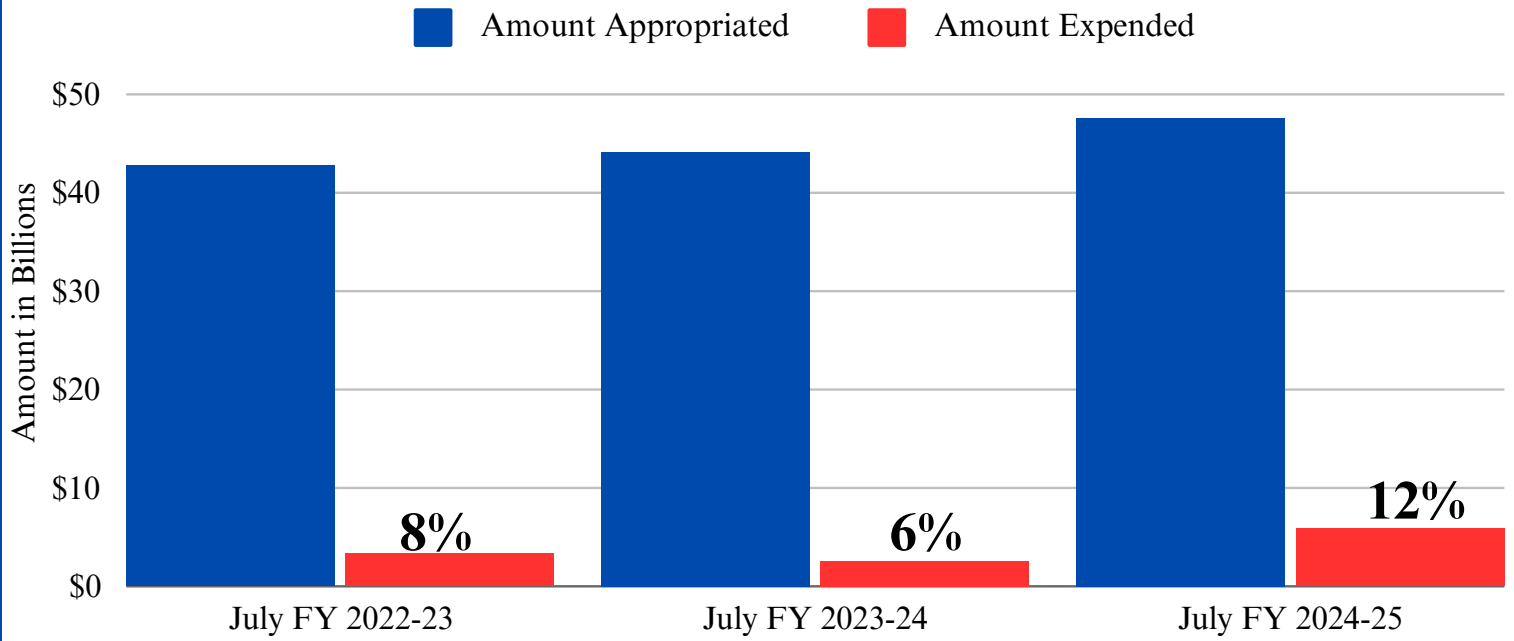
General Fund collections of \$2.99 billion in July 2024 were \$109.6 million, or 3.8%. above collections of July 2023. For comparison purposes, July 2023 exceeded those of July 2022 by \$185.3 million, or 6.9%.

## July 2024 monthly collections:

- **Total Tax Revenue** collections of \$2.91 billion **exceeded collections of July 2023 by \$128.1 million, or 4.6%.**
- **Total Corporation Taxes** of \$216.4 million represent an **increase of \$28.2 million, or 15.0%, over July 2023.**
- **Total Sales and Use Tax (SUT)** collections were **less than the collection of July 2023 by \$26.9 million, or 2.0%.** SUT non-motor vehicle collections **fell short of July 2023 by \$34.2 million** while SUT motor vehicle collections **exceeded collections by \$7.3 million, or 6.3%.**
- **Total Personal Income Tax (PIT)** (annual, quarterly estimated, and withholding) collections **exceeded collections of July 2023 by a collective \$137.2 million: PIT annual** collections **exceeded collections by \$3.5 million, or 9.0%; PIT quarterly estimated** collections **exceeded collections by \$15.2 million, or 33.8%; and, PIT withholding** collections **exceeded collections by \$118.5 million, or 12.2%.**
- **Inheritance Tax** collections **narrowly exceeded collections of July 2023 by \$781,000, or 0.6%.**
- **Non-Tax Revenue** collections of \$80.2 million were **below collections of July 2023 by \$18.5 million, or 18.7%.** Of these collections, **treasury investment earnings** of \$60.4 million were **less than that of July 2023 by \$1.0 million, or 1.7%.**

July 2024 Revenue Collections			
Total General Fund		Personal Income Tax	
July 2023: \$2.881 billion	July 2024: <b>\$2.991 billion</b> 	July 2023: \$1.055 billion	July 2024: <b>\$1.193 billion</b> 
Total Corporation Taxes		Sales Tax	
July 2023: \$188.2 million	July 2024: <b>\$216.4 million</b> 	July 2023: \$1.318 billion	July 2024: <b>\$1.291 billion</b> 
Non-Tax Revenue		All Other Taxes	
July 2023: \$98.7 million	July 2024: <b>\$80.2 million</b> 	July 2023: \$221.4 million	July 2024: <b>\$211.0 million</b> 

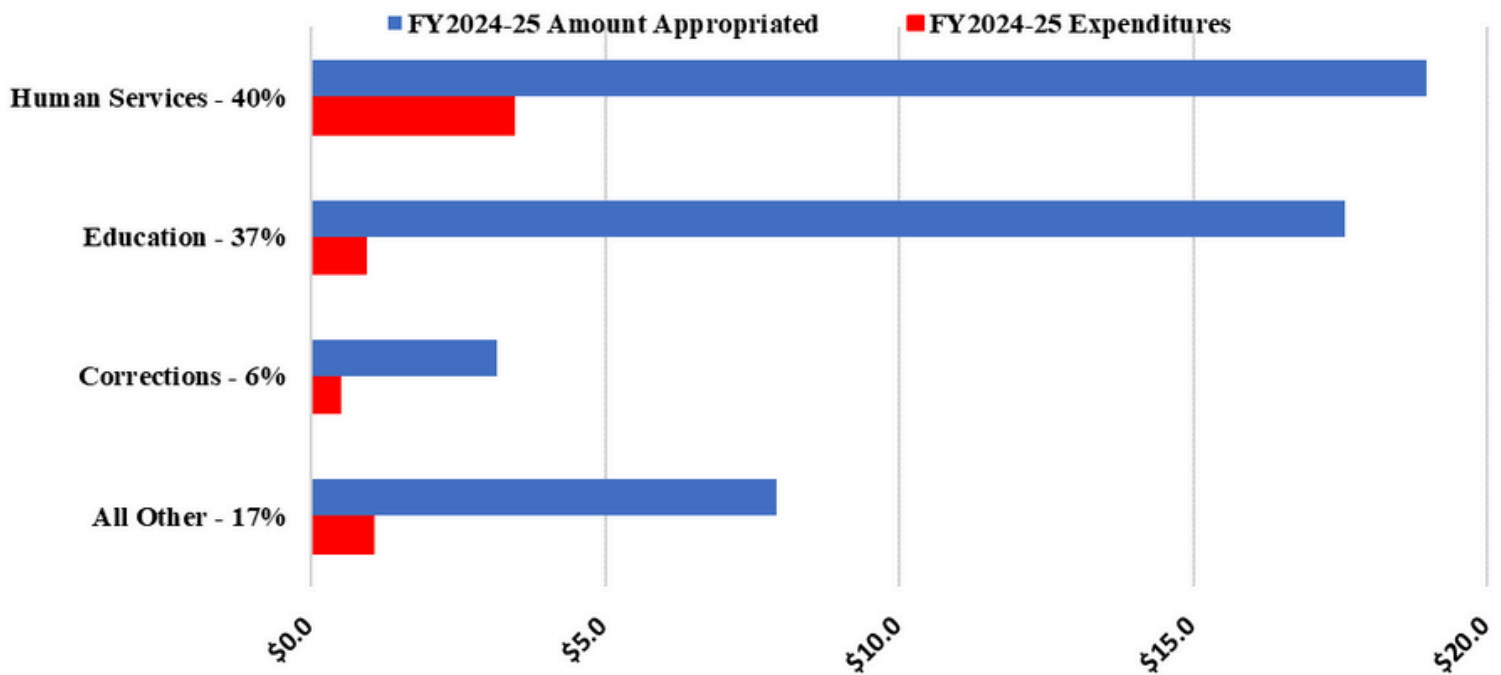
# Status of Appropriations



## FY2024-25 Budget - Top 3 Agencies (83% of Budget)

### Status of Appropriations as of July 2024

*Amounts in Billions (\$)*

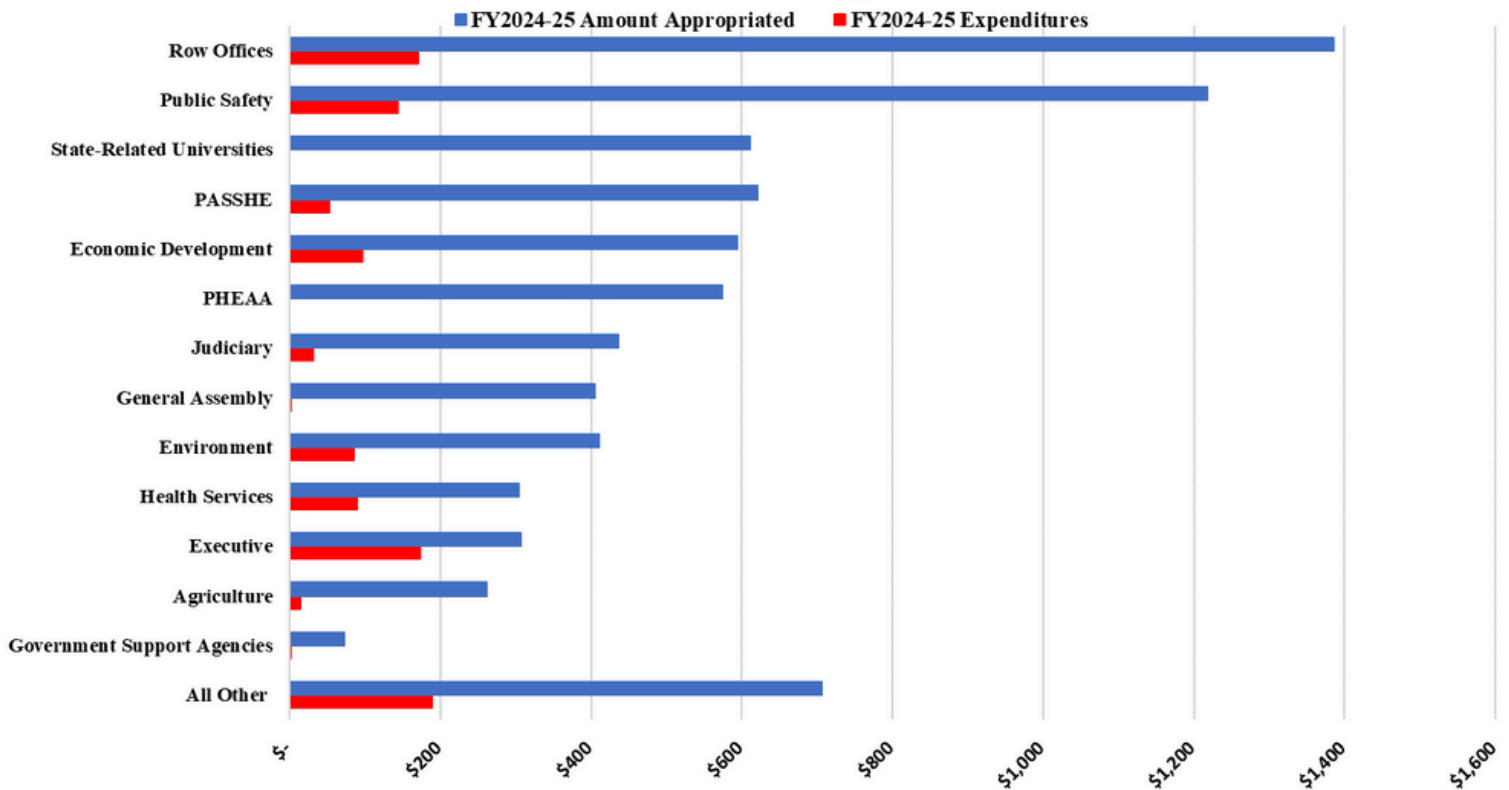


All Spending information from Commonwealth Accounting System, Status of Appropriations Report.

## FY2024-25 Budget - All Other Agencies (17% of Budget)

Status of Appropriations as of July 2024

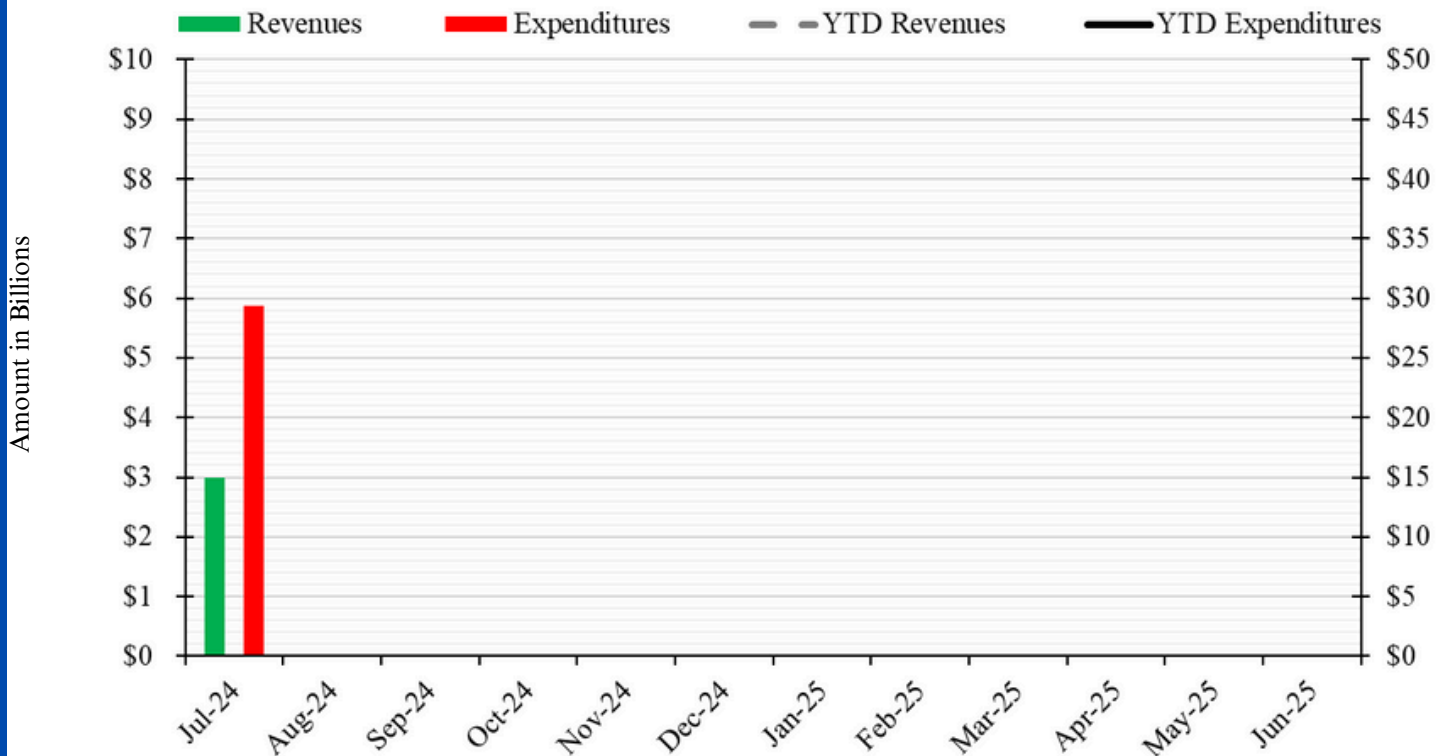
Amounts in Millions (\$)



FISCAL YEAR 2024-25

## GENERAL FUND REVENUES & EXPENDITURES

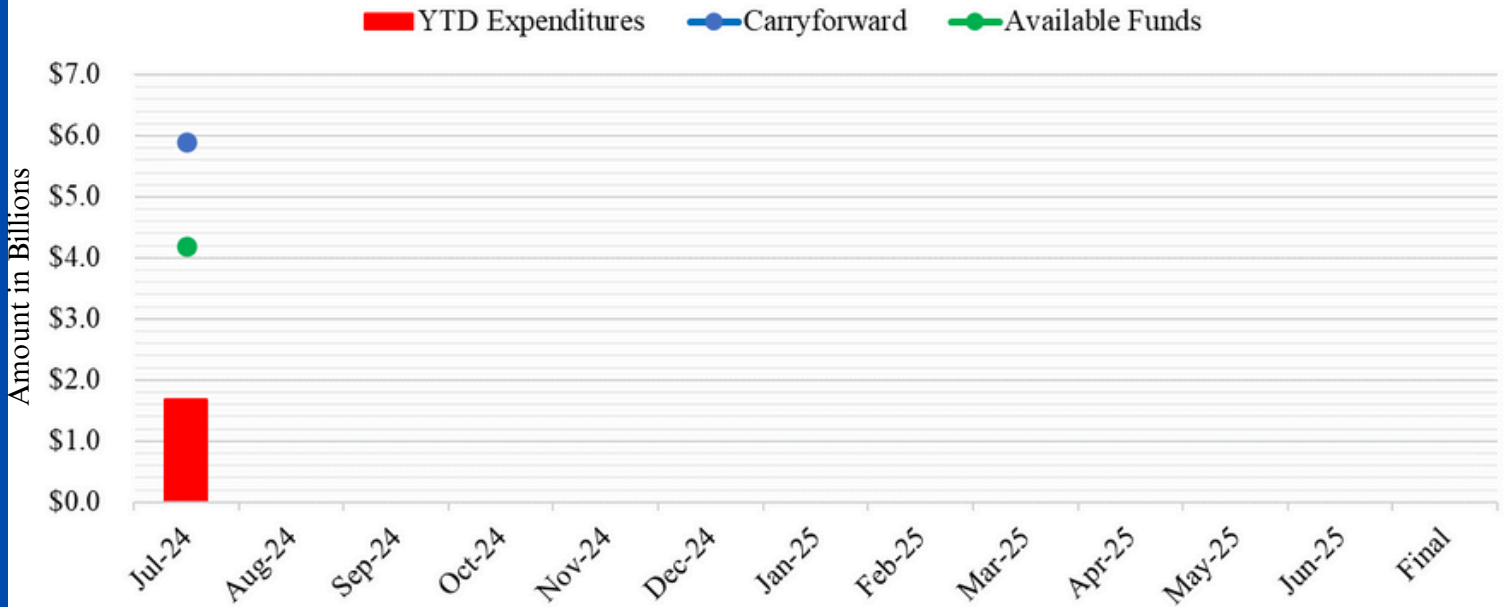
Amounts in Billions (\$)



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

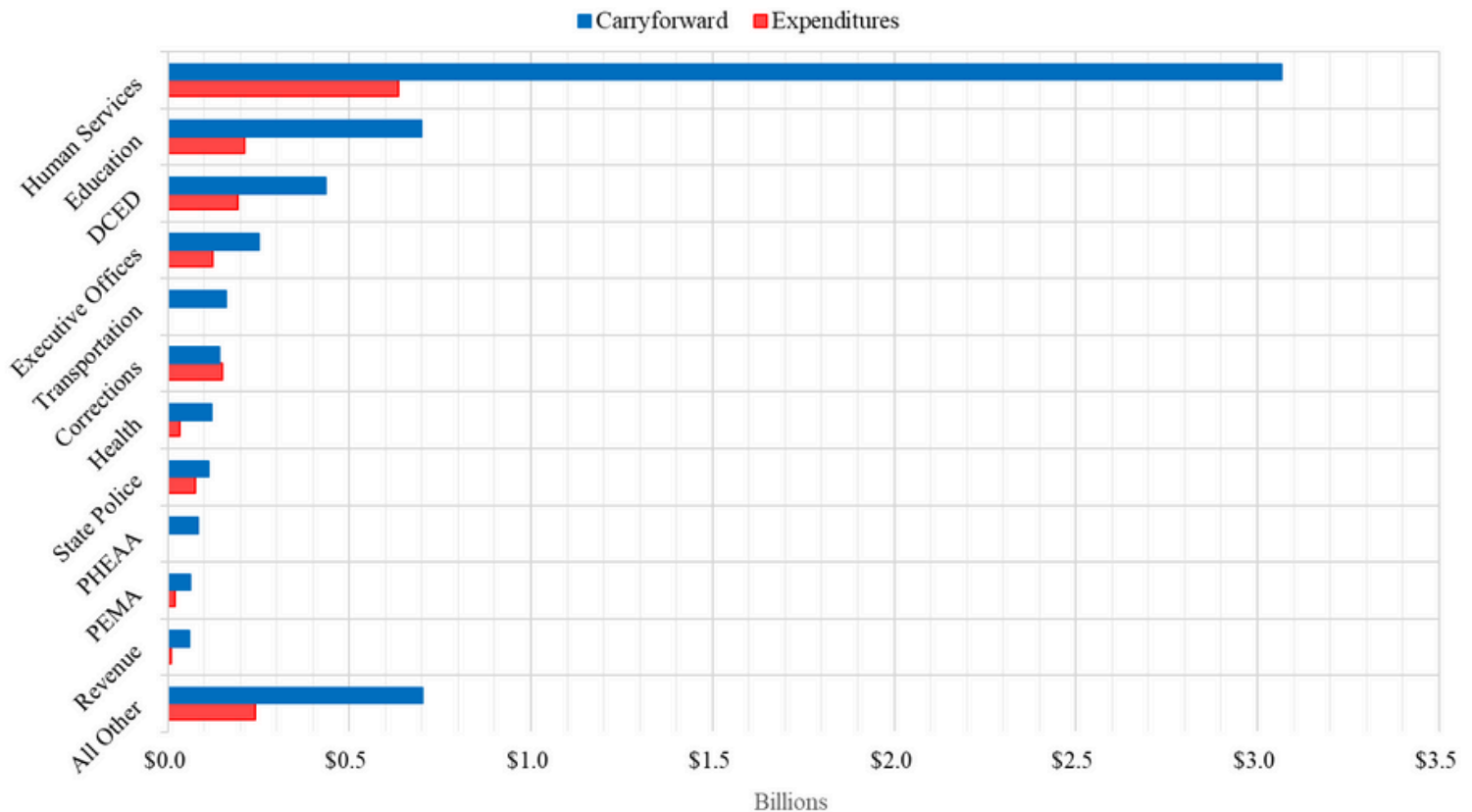
# PRIOR YEAR FUNDS

## FY2024-25 General Fund



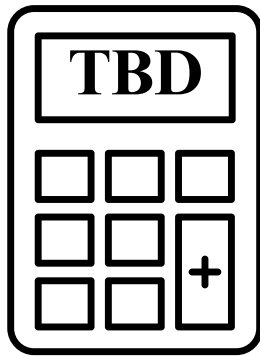
## PRIOR YEAR FUNDS - TOP 10 AGENCIES\*

### FY2024-25 as of July 2024



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

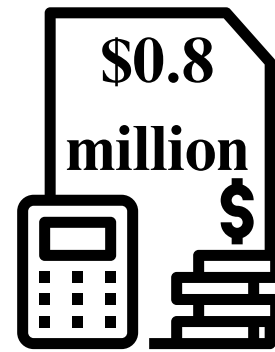
## YTD Revenue Performance



**Budget Surplus**



## Ledger 5 Expenditures



**Rainy Day Fund**



*48 Days of Sunshine*

## Budget Policy Update

### Deficits have Consequences

When Governor Josh Shapiro was sworn into office in January 2023, he inherited a Commonwealth with an \$8 billion surplus. With the final FY 2024-25 budget now in place, the surplus will be reduced to a little more than \$3 billion by June 30, 2025, and will be completely gone in the next fiscal year thereafter.

The General Fund surplus is being depleted largely due to Pennsylvania's structural deficit – in other words, state recurring expenses continue to exceed state recurring revenues. Structural deficits have major consequences for Pennsylvania's finances and, ultimately, for Pennsylvania taxpayers. Given recent economic data and the dire financial direction of the Commonwealth, it's essential now more than ever to provide a factually complete account of revenues and expenditures.

The cause of this financial mismanagement is no mystery and has been well-documented by House Republicans for several years. Many of the warnings and concerns shared by House Republicans were echoed and confirmed by outside watchdog groups and the nonpartisan Independent Fiscal Office (IFO).

## Deficits have Consequences (continued)

As a refresher, the Commonwealth has carried a budget surplus in recent fiscal years due to an influx in federal funds from various Federal COVID-19-related spending programs, not exceptional economic growth or overtaxing hardworking Pennsylvanians. The IFO analyzed budget and revenue growth over a five fiscal year period, starting with FY 2018-19 (i.e. before the pandemic), and compared it with FY 2023-24, the last year pandemic-related federal dollars were infused into the state budget. Their findings: spending increased by 33%, but revenue increased by only 30%.

Spending exceeding revenues is a concern in itself, but equally as important to examine are the areas of strong revenue growth (or lack thereof). For example, non-tax revenue increased 102%, mainly due to investment returns on the now dwindling General Fund surplus. The Corporate Net Income tax (CNI) increased by 66%; however, this growth is likely unsustainable as the bi-partisan CNI rate reduction and increase of net loss deduction continues. Another area of growth was the Inheritance tax, which grew 56%, a rather morbid revenue source to prop up spending. The analysis showed that personal income and sales and use taxes grew by an average of 26% and 29%, respectively. These two tax categories account for the vast majority of our state revenues.

With this five-year trend in mind, it's important to examine the most recent complete revenue picture, FY 2023-24. The best indicator of revenue growth analysis is a year-over-year review. House Democrats are touting that General Fund revenues exceeded the official estimate by over \$800 million, a completely factual claim but not factually complete. Year-over-year growth (FY2023-24 v/s FY2022-23) in the General Fund was only 1.2%, hardly enough to keep up with spending that grew at a rate of 5.8%.

However, this 1.2% figure is only part of the picture. Tax revenue only grew by 0.2% year-over-year, meaning that non-tax revenue is driving total General Fund revenue. As mentioned in the five-year analysis, non-tax revenue is primarily driven by surplus investments from the Treasurer's office, a surplus we will soon no longer have as the Governor and House Democrats continue their spending spree.

Equally important to examining state revenues is taking an even closer look at state spending. The FY 2024-25 budget spends a total of \$47.6 billion, representing an increase in state appropriations by \$2.7 billion, or 6.0%, over the prior fiscal year. Human Services and Education account for 81% of General Fund spending in FY 2024-25. When Corrections, State Police, and Debt Service are added, 92% of the state spending is accounted for. This leaves the General Assembly, Judiciary, agencies such as DEP, DCNR, Labor and Industry, and DCED all funded within 8% of the total budget.

The IFO five-year review on the pandemic's impact on spending showed Human Services spending grew 41%, while Education grew 27%. 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 period was \$2.225 billion. Since Governor Shapiro took office, total General Fund spending has increased by \$4.64 billion, an average annual increase of 5.3%. Again, it is worth noting that Shapiro also inherited an \$8 billion surplus, which will be gone before the close of FY 2025-26.

The Commonwealth did not reach this financial instability overnight. State spending has been on a steady upward trend since FY 2012-13, but the consequences of the structural deficit will need to be dealt with in the next budget cycle. We have four real options: raid the Rainy Day Fund (which is solely for emergencies), raise taxes, cut spending, or use budget gimmicks to "balance" the budget. Which consequence will we choose?