



May 2024

Financial Brief

Message from Chairman Grove

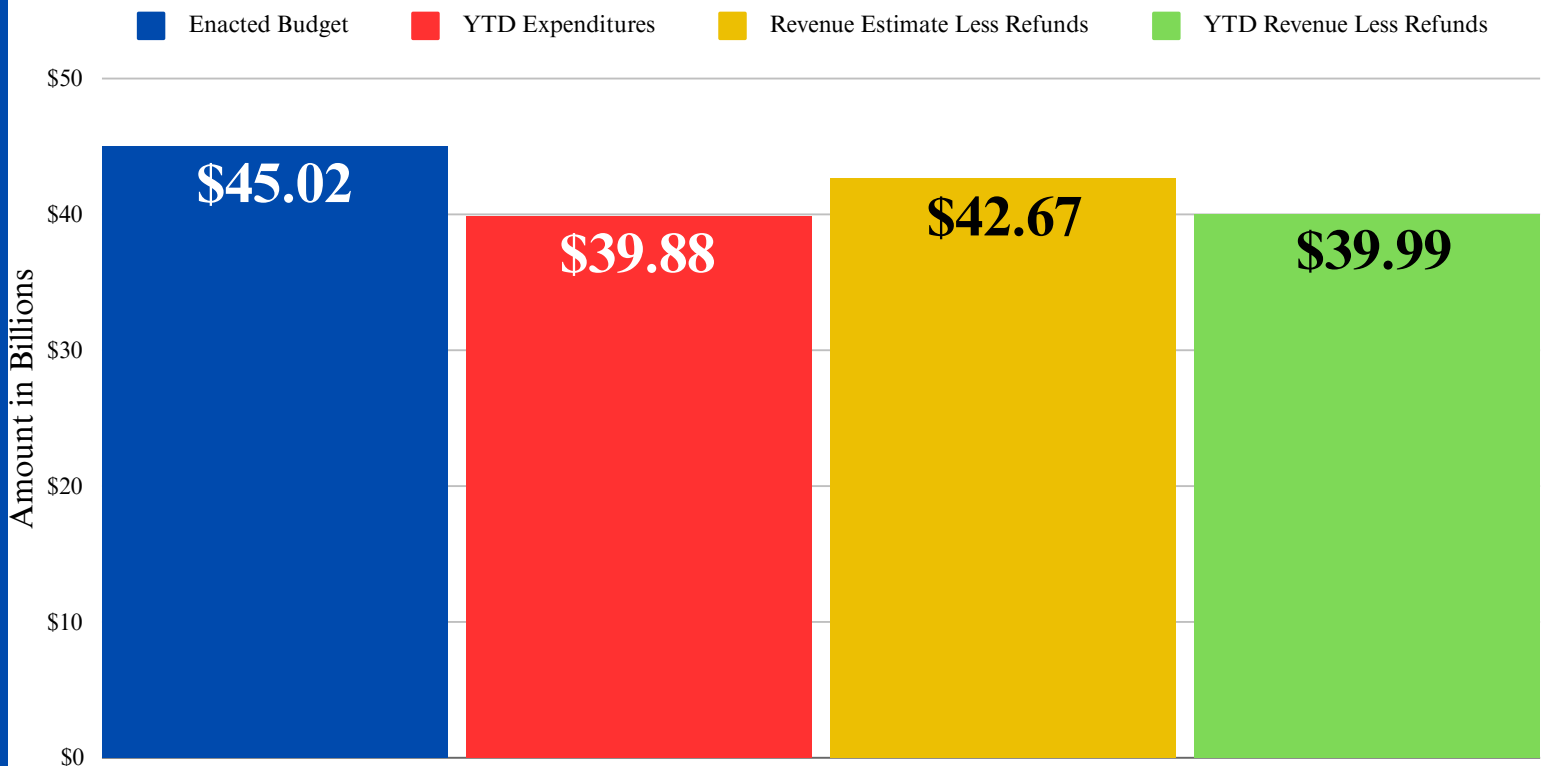


May saw General Fund revenues exceed the official monthly estimate by \$86.4 million, bringing total collections for the fiscal year to \$825.7 million above estimate. While encouraging, there are reasons to be cautious. Tax revenue collections of \$40.3 billion through May are a mere 0.4% higher than collections at this point last year. Further, on May 20th, the Independent Fiscal Office released their Initial Revenue Estimate for FY2024-25, which is \$337.1 million less than the FY2024-25 revenue estimate included in the Governor's Executive Budget. On top of these, additional ESNs were issued to increase the record refund reserve to \$1.937 billion to account for tax overpayments, growing nearly \$680 million since the first issuance of an ESN in April 2023. It may not stop there.

As we head into final budget negotiations, it is now, more than ever, imperative to make prudent fiscal decisions regarding the use of our one-time budget surplus given stagnant revenue growth, record tax refunds, and estimates for the upcoming fiscal year. As Chairman of the House Republican Appropriations Committee, I have warned that the current fiscal year's budget, and the Governor's proposed FY2024-25 budget, are more than what the Commonwealth can remotely afford to ensure long-term fiscal sustainability.

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	May 2024 Actual	May 2024 Estimate	\$ Amount over / (under) Estimate	2023-24 YTD Actual	2023-24 YTD Estimate	\$ Amount over / (under) Estimate
General Fund	<u>\$3,356,405</u>	<u>\$3,270,000</u>	<u>\$86,405</u>	<u>\$41,840,809</u>	<u>\$41,015,100</u>	<u>\$825,709</u>
Tax Revenue	<u>\$3,274,774</u>	<u>\$3,231,200</u>	<u>\$43,574</u>	<u>\$40,307,270</u>	<u>\$39,921,700</u>	<u>\$385,570</u>
Corporation Taxes	<u>\$391,508</u>	<u>\$489,400</u>	<u>(\$97,892)</u>	<u>\$7,562,565</u>	<u>\$7,328,300</u>	<u>\$234,265</u>
Accelerated Deposits	\$0	\$0	\$0	\$0	\$0	\$0
Corporate Net Income	\$355,207	\$464,200	(\$108,993)	\$4,734,152	\$4,655,300	\$78,852
Selective Business	\$36,302	\$25,200	\$11,102	\$2,828,412	\$2,673,000	\$155,412
Gross Receipts	\$4,126	(\$2,500)	\$6,626	\$1,385,125	\$1,303,700	\$81,425
Utility Property	\$16,746	\$22,700	(\$5,954)	\$44,052	\$46,400	(\$2,348)
Insurance Premiums	\$8,086	\$4,400	\$3,686	\$1,009,404	\$997,800	\$11,604
Financial Institutions	\$7,344	\$600	\$6,744	\$389,832	\$325,100	\$64,732
Bank Shares	\$515	\$500	\$15	\$355,281	\$300,000	\$55,281
Mutual Thrifts	\$6,829	\$100	\$6,729	\$34,551	\$25,100	\$9,451
Consumption Taxes	<u>\$1,323,156</u>	<u>\$1,215,800</u>	<u>\$107,356</u>	<u>\$14,185,108</u>	<u>\$14,054,200</u>	<u>\$130,908</u>
Sales and Use Tax	<u>\$1,197,854</u>	<u>\$1,080,800</u>	<u>\$117,054</u>	<u>\$13,030,702</u>	<u>\$12,831,000</u>	<u>\$199,702</u>
Non-Motor Vehicle	\$1,075,898	\$966,200	\$109,698	\$11,798,956	\$11,636,500	\$162,456
Motor Vehicle	\$121,956	\$114,600	\$7,356	\$1,231,746	\$1,194,500	\$37,246
Cigarette	\$71,392	\$80,100	(\$8,708)	\$589,031	\$628,600	(\$39,569)
Other Tobacco Products	\$12,406	\$13,300	(\$894)	\$133,612	\$149,200	(\$15,588)
Malt Beverage	\$1,962	\$1,700	\$262	\$19,401	\$19,700	(\$299)
Liquor	\$39,543	\$39,900	(\$357)	\$412,362	\$425,700	(\$13,338)
Other Taxes	<u>\$1,560,110</u>	<u>\$1,526,000</u>	<u>\$34,110</u>	<u>\$18,559,598</u>	<u>\$18,539,200</u>	<u>\$20,398</u>
Personal Income Tax	<u>\$1,301,525</u>	<u>\$1,290,900</u>	<u>\$10,625</u>	<u>\$16,325,953</u>	<u>\$16,472,800</u>	<u>(\$146,847)</u>
Withholding	\$1,170,264	\$1,161,900	\$8,364	\$12,187,931	\$12,115,600	\$72,331
Estimated	\$56,460	\$35,600	\$20,860	\$2,039,859	\$2,360,300	(\$320,441)
Annual	\$74,801	\$93,400	(\$18,599)	\$2,098,163	\$1,996,900	\$101,263
Realty Transfer	\$51,483	\$47,800	\$3,683	\$478,879	\$461,700	\$17,179
Inheritance	\$146,858	\$128,800	\$18,058	\$1,515,222	\$1,359,800	\$155,422
Gaming	\$37,698	\$36,100	\$1,598	\$342,003	\$345,600	(\$3,597)
Minor and Repealed	\$22,545	\$22,400	\$145	(\$102,458)	(\$100,700)	(\$1,758)
Non-Tax Revenue	<u>\$81,631</u>	<u>\$38,800</u>	<u>\$42,831</u>	<u>\$1,533,539</u>	<u>\$1,093,400</u>	<u>\$440,139</u>
Liquor Store Profits	\$0	\$0	\$0	\$185,100	\$185,100	\$0
Licenses and Fees	\$4,921	\$10,100	(\$5,179)	\$162,534	\$153,000	\$9,534
Miscellaneous	<u>\$70,214</u>	<u>\$22,300</u>	<u>\$47,914</u>	<u>\$1,120,004</u>	<u>\$689,400</u>	<u>\$430,604</u>
Treasury	\$62,507	\$18,200	\$44,307	\$709,639	\$366,100	\$343,539
Escheats	\$6,618	\$3,200	\$3,418	\$327,356	\$230,900	\$96,456
Other Misc & Transfers	\$1,089	\$900	\$189	\$83,010	\$92,400	(\$9,390)
Fines, Penalties, Interest	\$6,497	\$6,400	\$97	\$65,901	\$65,900	\$1

Fiscal Year 2023-24 General Fund Revenues

Compared to the Prior Year Collections

House Appropriations Committee (R)

Thousands of Dollars

Revenue Source	May 2023 Actual	May 2024 Actual	Month % Growth vs Prior Year	2022-23 YTD Actual	2023-24 YTD Actual	YTD % Growth vs Prior Year
General Fund	<u>\$3,292,192</u>	<u>\$3,356,405</u>	<u>2.0%</u>	<u>\$41,231,034</u>	<u>\$41,840,809</u>	<u>1.5%</u>
Tax Revenue	<u>\$3,209,763</u>	<u>\$3,274,774</u>	<u>2.0%</u>	<u>\$40,162,370</u>	<u>\$40,307,270</u>	<u>0.4%</u>
Corporation Taxes	<u>\$445,354</u>	<u>\$391,508</u>	<u>(12.1%)</u>	<u>\$7,664,409</u>	<u>\$7,562,565</u>	<u>(1.3%)</u>
Accelerated Deposits	\$0	\$0	<u>(100.0%)</u>	<u>(\$3,430)</u>	\$0	<u>(100.0%)</u>
Corporate Net Income	\$424,376	\$355,207	<u>(16.3%)</u>	\$5,125,285	\$4,734,152	<u>(7.6%)</u>
Selective Business	\$20,977	\$36,302	73.1%	\$2,542,554	\$2,828,412	11.2%
Gross Receipts	<u>(\$3,186)</u>	\$4,126	<u>(229.5%)</u>	\$1,177,433	\$1,385,125	17.6%
Utility Property	\$18,041	\$16,746	<u>(7.2%)</u>	\$45,549	\$44,052	<u>(3.3%)</u>
Insurance Premiums	\$2,838	\$8,086	185.0%	\$960,258	\$1,009,404	5.1%
Financial Institutions	\$3,285	\$7,344	123.6%	\$359,314	\$389,832	8.5%
Bank Shares	\$516	\$515	<u>(0.1%)</u>	\$329,144	\$355,281	7.9%
Mutual Thrifts	\$2,769	\$6,829	146.6%	\$30,170	\$34,551	14.5%
Consumption Taxes	<u>\$1,254,190</u>	<u>\$1,323,156</u>	<u>5.5%</u>	<u>\$14,071,610</u>	<u>\$14,185,108</u>	<u>0.8%</u>
Sales and Use Tax	<u>\$1,116,239</u>	<u>\$1,197,854</u>	7.3%	<u>\$12,812,687</u>	<u>\$13,030,702</u>	1.7%
Non-Motor Vehicle	\$985,142	\$1,075,898	9.2%	\$11,551,555	\$11,798,956	2.1%
Motor Vehicle	\$131,098	\$121,956	<u>(7.0%)</u>	\$1,261,132	\$1,231,746	<u>(2.3%)</u>
Cigarette	\$85,362	\$71,392	<u>(16.4%)</u>	\$687,381	\$589,031	<u>(14.3%)</u>
Other Tobacco Products	\$12,127	\$12,406	2.3%	\$139,218	\$133,612	<u>(4.0%)</u>
Malt Beverage	\$1,789	\$1,962	9.6%	\$20,122	\$19,401	<u>(3.6%)</u>
Liquor	\$38,671	\$39,543	2.3%	\$412,202	\$412,362	0.0%
Other Taxes	<u>\$1,510,220</u>	<u>\$1,560,110</u>	<u>3.3%</u>	<u>\$18,426,351</u>	<u>\$18,559,598</u>	<u>0.7%</u>
Personal Income Tax	<u>\$1,299,081</u>	<u>\$1,301,525</u>	0.2%	<u>\$16,187,920</u>	<u>\$16,325,953</u>	0.9%
Withholding	\$1,143,339	\$1,170,264	2.4%	\$11,659,593	\$12,187,931	4.5%
Estimated	\$31,368	\$56,460	80.0%	\$2,284,007	\$2,039,859	<u>(10.7%)</u>
Annual	\$124,374	\$74,801	<u>(39.9%)</u>	\$2,244,320	\$2,098,163	<u>(6.5%)</u>
Realty Transfer	\$50,336	\$51,483	2.3%	\$579,226	\$478,879	<u>(17.3%)</u>
Inheritance	\$131,427	\$146,858	11.7%	\$1,395,650	\$1,515,222	8.6%
Gaming	\$28,934	\$37,698	30.3%	\$336,583	\$342,003	1.6%
Minor and Repealed	\$441	\$22,545	5013.4%	<u>(\$73,028)</u>	<u>(\$102,458)</u>	40.3%
Non-Tax Revenue	<u>\$82,429</u>	<u>\$81,631</u>	<u>(1.0%)</u>	<u>\$1,068,664</u>	<u>\$1,533,539</u>	<u>43.5%</u>
Liquor Store Profits	\$0	\$0		\$185,100	\$185,100	0.0%
Licenses and Fees	\$10,802	\$4,921	<u>(54.4%)</u>	\$151,010	\$162,534	7.6%
Miscellaneous	<u>\$64,778</u>	<u>\$70,214</u>	8.4%	<u>\$667,544</u>	<u>\$1,120,004</u>	67.8%
Treasury	\$56,655	\$62,507	10.3%	\$385,202	\$709,639	84.2%
Escheats	\$0	\$6,618		\$3	\$327,356	11526531.4%
Other Misc & Transfers	\$8,123	\$1,089	<u>(86.6%)</u>	\$282,339	\$83,010	<u>(70.6%)</u>
Fines, Penalties, Interest	\$6,849	\$6,497	<u>(5.1%)</u>	\$65,010	\$65,901	1.4%

Revenues Explained

General Fund collections of \$3.36 billion in May were \$86.4 million higher than the official monthly estimate, led by strong Non-Motor Sales and Use Tax Collections. Year-to-Date (YTD) General Fund collections of \$41.84 billion exceed estimate by \$825.7 million, or 2.0%, through May.

Governor Shapiro's Executive Budget assumes fiscal year 2023-24 General Fund collections will exceed estimate by \$656.5 million come June 30, 2024.

During May, the Office of the Budget issued additional ESNs to increase the refund reserve to account for higher-than-expected tax refunds being issued this fiscal year. The total authorized amount now stands at \$1.94 billion.







May 2024 monthly collections:

- **Total Tax Revenue** collections of \$3.27 billion **exceeded the monthly estimate by \$43.6 million** and were **above that of the prior year by \$65.0 million, or 2.0%**.
- **Total Corporation Taxes** were **below the official monthly estimate by \$97.9 million**, largely attributable to the **Corporate Net Income Tax**, which was **\$109.0 million below the official monthly estimate**.
- **Total Sales and Use Tax (SUT)** collections were strong for the month of May and **exceeded the official monthly estimate by \$117.1 million**. **SUT non-motor vehicle** collections **exceeded the official monthly estimate by \$109.7 million** while **SUT motor vehicle** collections **exceeded estimate by \$7.4 million**.
- **Total Personal Income Tax (PIT) (annual, quarterly estimated, and withholding)** collections **exceeded the official monthly estimate by \$10.6 million**. **PIT withholding and PIT quarterly estimated** collections both **exceeded the official monthly estimate by \$8.4 and \$20.9 million, respectively**, while **PIT annual** collections were **\$18.6 million short of the official monthly estimate**.
- **Realty Transfer Tax** collections of \$51.5 million **exceeded the official monthly estimate by \$3.7 million**.
- **Inheritance Tax** collections **exceeded the monthly estimate by \$18.1 million**.
- **Non-Tax Revenue** collections of \$81.6 million were **above the estimate for the month by \$42.8 million**, led by the continued strength of interest earnings, which exceeded the official monthly estimate by \$44.3 million.

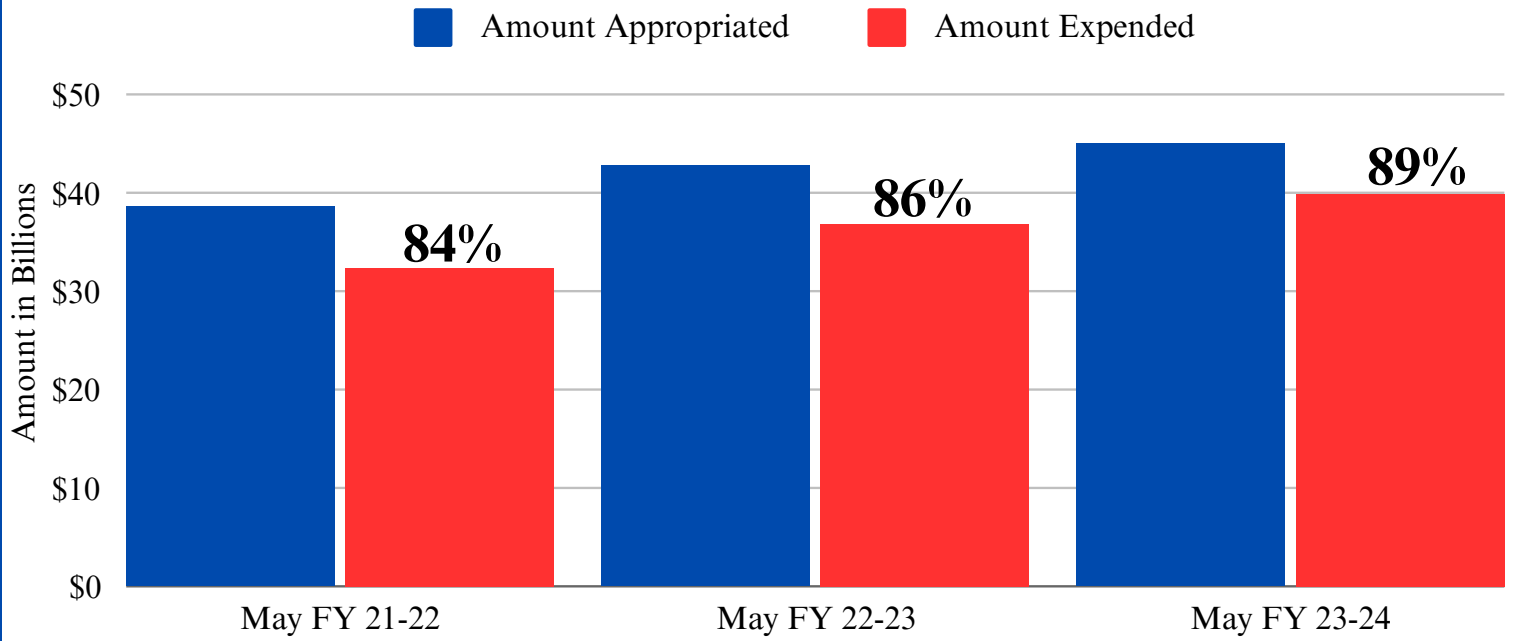
Fiscal Year-to-Date (YTD) collections through the month of May 2024:

- **Total Tax Revenue** collections of \$40.31 billion through May are **slightly above the YTD collections of the prior fiscal year by \$144.9 million, or 0.4%**.
- **YTD Corporate Net Income Tax** collections of \$4.73 billion remain **below YTD collections of the prior fiscal year by 7.6%**.
- **YTD Total Sales and Use Tax** collections are **narrowly above YTD collections of the prior fiscal year by 1.7%**. **SUT non-motor vehicle** collections of \$11.80 billion are **above collections of the prior fiscal year by 2.1%** while **SUT motor vehicle** collections of \$1.23 billion are **below collections of the prior fiscal year by 2.3%**.
- **YTD Total PIT** collections of \$16.33 billion are **slightly above collections of the prior fiscal year by 0.9%**. **YTD PIT withholding** is **above collections of the prior fiscal year by 4.5%** while **YTD PIT annual and YTD PIT estimated payments** remain **below collections of the prior fiscal year by 6.5% and 10.7%, respectively**.
- **Realty Transfer Tax YTD** collections of \$478.9 million through the month of May remain **below collections of the prior year by \$100.3 million, or 17.3%**.
- **YTD Non-Tax Revenue** collections of \$1.53 billion are **above collections of the prior fiscal year by 43.5%**. This is attributable to the exceptional strength of interest earnings which are 84.2% higher than the prior fiscal year, totaling \$709.6 million.

May 2024 Revenue Collections

Total General Fund		Personal Income Tax	
Estimate: \$3.270 billion	Actual: \$3.356 billion 	Estimate: \$1.291 billion	Actual: \$1.302 billion 
Total Corporation Taxes		Sales Tax	
Estimate: \$489.4 million	Actual: \$391.5 million 	Estimate: \$1.081 billion	Actual: \$1.198 billion 
Non-Tax Revenue		All Other Taxes	
Estimate: \$38.8 million	Actual: \$81.6 million 	Estimate: \$370.1 million	Actual: \$383.9 million 

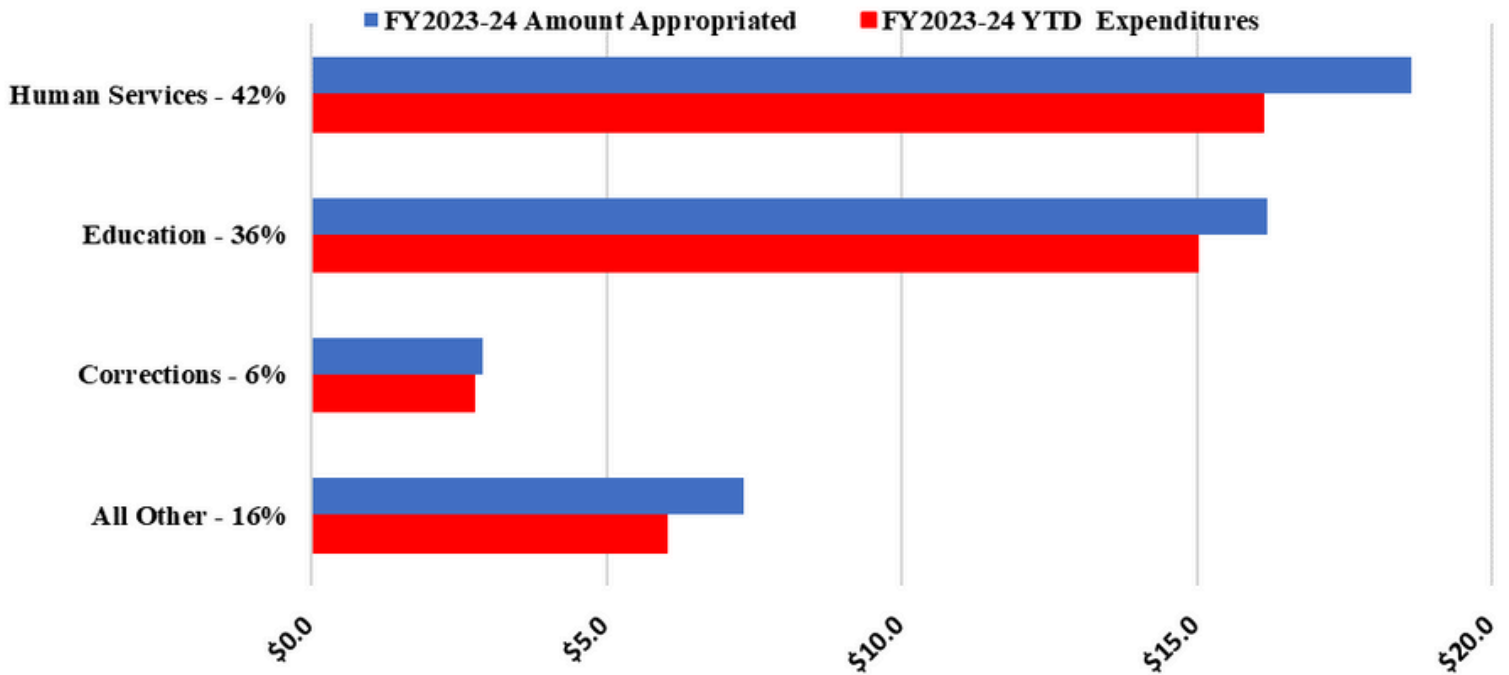
Status of Appropriations



FY2023-24 Budget - Top 3 Agencies (84% of Budget)

Status of Appropriations as of May 2024

Amounts in Billions

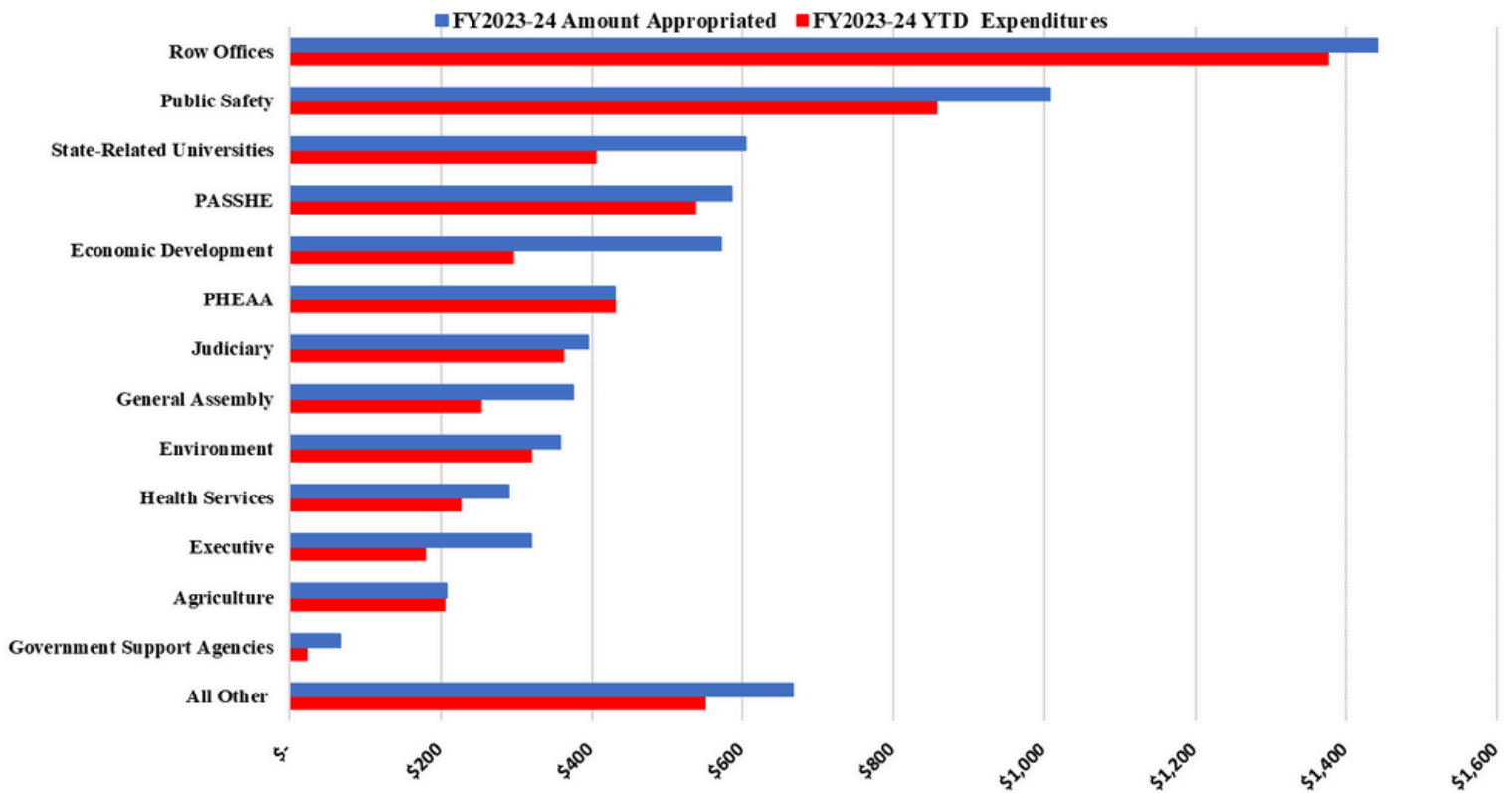


All Spending information from Commonwealth Accounting System, Status of Appropriations Report.

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

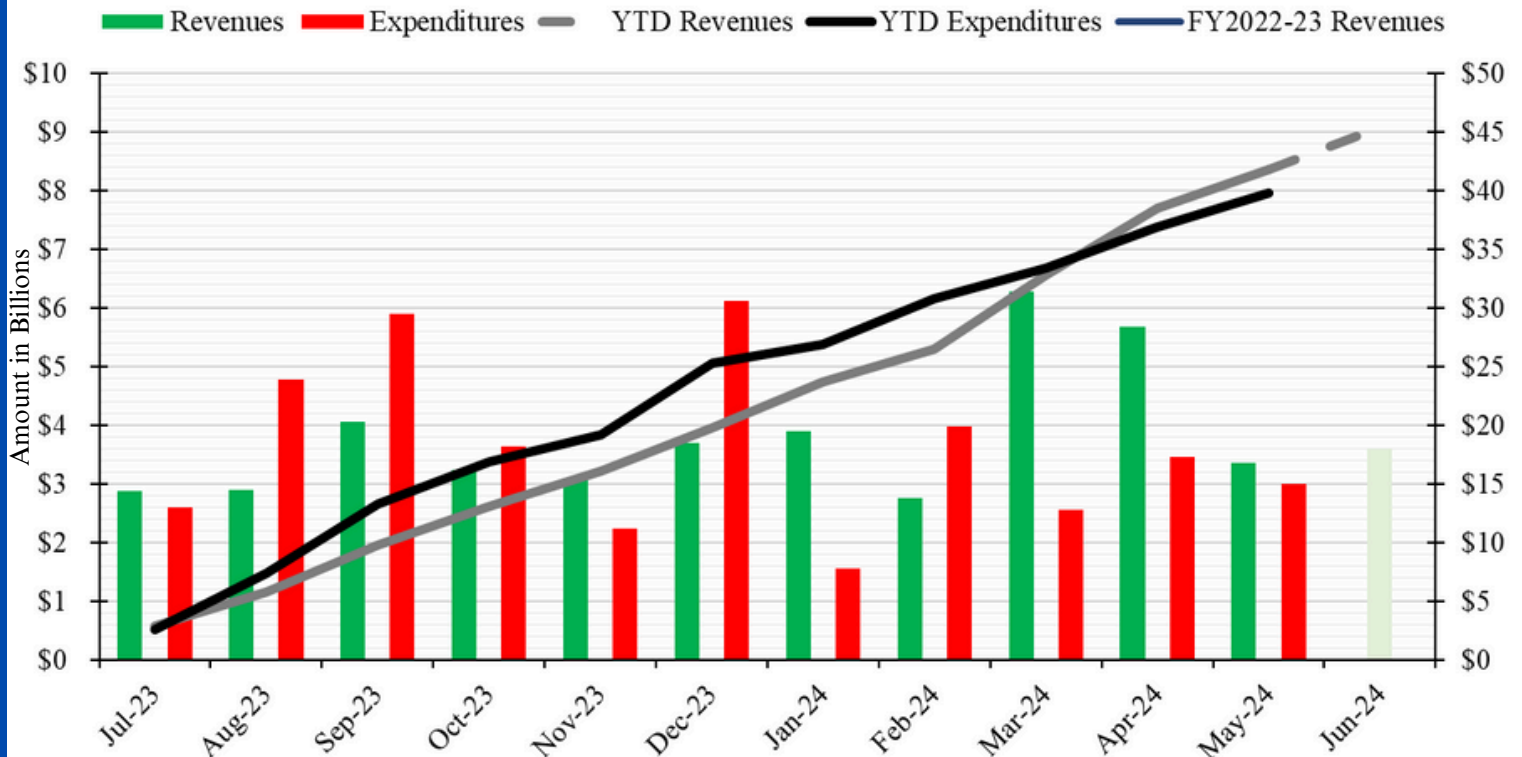
Status of Appropriations as of May 2024

Amounts in Millions



2023-24 GENERAL FUND

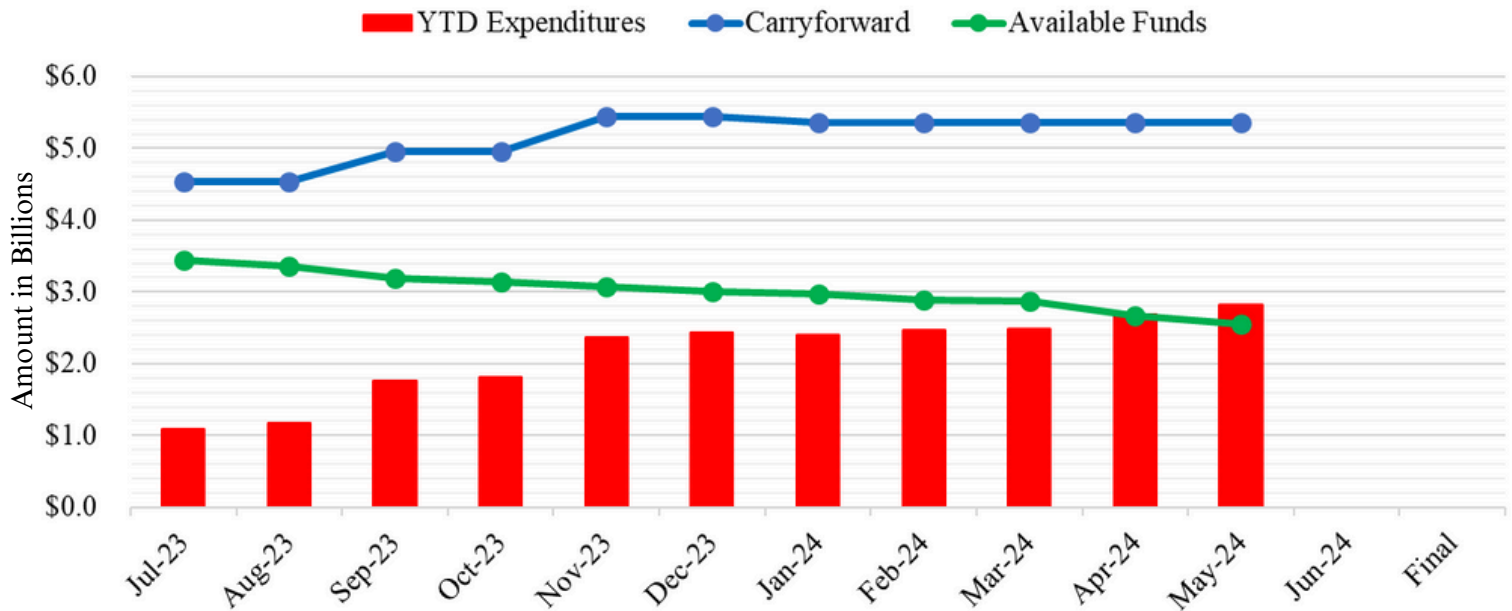
Expenditures and Revenues



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

PRIOR YEAR FUNDS

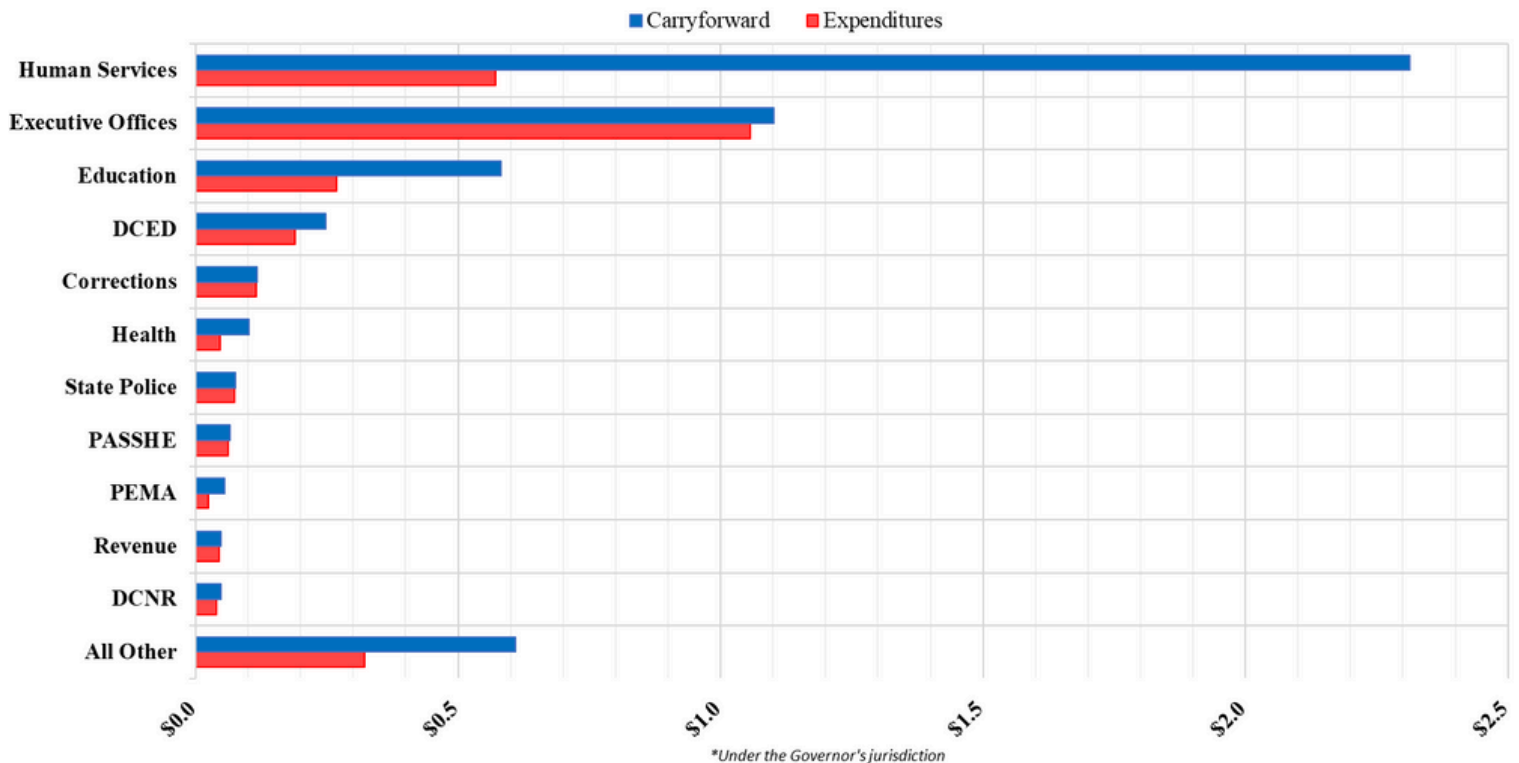
FY2023-24 General Fund



PRIOR YEAR FUNDS - TOP 10 AGENCIES*

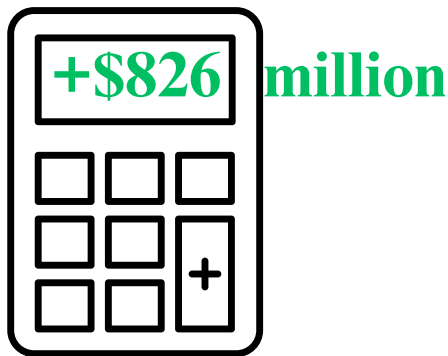
FY2023-24 as of May 2024

Amounts in Billions

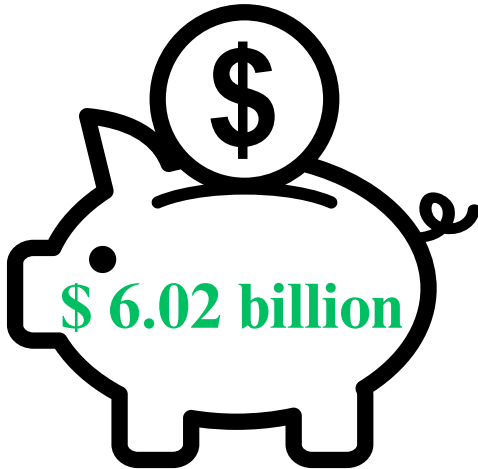


All Spending information from Commonwealth Accounting System, Status of Appropriations Report.

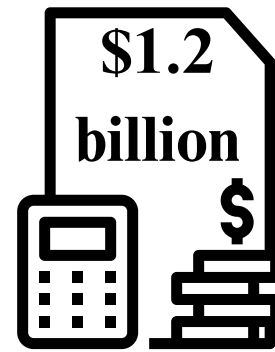
YTD Revenue Performance



Budget Surplus



Ledger 5 Expenditures



Rainy Day Fund



50 Days of Sunshine

Budget Policy Update

Foundation of Stone or Sand?

We are less than 30 days away from the start of the 2024-25 Fiscal Year and scores of financial and policy decisions remain in the air. But the biggest question is: Will we build this state budget on a foundation of stone or sand?

Of course, you never want to build a house on sand; this will naturally lead to structural issues. The same principle applies to state budgeting. No one denies Pennsylvania has a structural deficit, but exactly how bad is it? Can we fix it with a few nails and duct tape?

In its most recent update, the Independent Fiscal Office (IFO) projects Fiscal Year 2023-24 revenues will total \$45.34 billion. However, this does not reflect tax refunds, which will reduce that total by nearly \$2 billion. Since April 2023, Pennsylvania's refund reserve has grown by an astonishing \$679.1 million, reaching a record high of \$1.937 billion at the end of May and counting. This is an important factor to consider heading into budget negotiations for the next fiscal year as Democrats have again proposed creating a state version of the fraud-ridden federal Earned Income Tax credit which will undoubtedly lead to more tax refunds.

Stone or Sand? (continued)

It is also important to note that the IFO projects year-over-year growth in the General Fund of 1.5% and tax revenue growth of 2.0% for Fiscal Year 2024-25. For comparison, the current Fiscal Year General Fund year-to-date growth and Tax Revenue growth are 1.5% and 0.4%, respectively, with the main driver being investment returns and unclaimed property in the State Treasury.

While Pennsylvania does currently have a \$6 billion budget surplus, it is not the result of recurring revenue sources but rather prudent measures to save one-time federal stimulus dollars. This is where the specter of the structural deficit begins to loom large. A structural deficit occurs when a government spends more than it takes in through revenues over multiple budget cycles, even when the economy is strong.

Looking forward to Fiscal Year 2024-25, the IFO projects an initial revenue estimate of \$46.02 billion. The projected revenues are well below the \$48.34 billion spending proposed by Governor Shapiro, before tax refunds. It is important to note that the IFO revenue estimates don't consider tax refund payments, which reduces the overall revenue available in the General Fund.

Governor Shapiro's own budget documents project costs continuing to outpace revenues – so what can we do about it? Unfortunately, a few nails and duct tape won't be enough to keep Pennsylvania afloat in the future.

By implementing the “Back to Basics” plan offered by Republican members of the House Appropriations Committee, we can reverse the trends of overspending and decreasing revenues. Part of the plan is to implement Zero-Based Budgeting (ZBB).

House Republicans have been calling for ZBB for several sessions. What we needed was a partner in the Executive Branch to get it done. In 2016, then-County Commissioner Josh Shapiro said in an interview, “I believe zero-based budgeting is the most important thing governments can do.”

Requiring agencies to justify their spending from the bottom up, not just because of their prior year's budget, will help us identify each line item's constitutional and statutory functions. By moving to ZBB, all programs will be reviewed and examined for effectiveness, necessity, and cost/benefit analysis, ultimately leading to the most effective use of valuable taxpayer dollars.

ZBB can also ensure that each agency implements any necessary recommendations from the Performance-Based Budgeting Committee and State and Federal audits.

We must work to increase the number of people, jobs, and businesses in the Commonwealth by enacting common-sense reforms like business permitting and re-establishing a competitive tax structure.

The stakes of this budget are very clear: spending the budget surplus without a plan to grow Pennsylvania's economy will only increase the structural deficit and cause a need for a tax increase in the near future. The question remains, will we build this state budget on a foundation of stone or sand?