



December 2023 Financial Brief

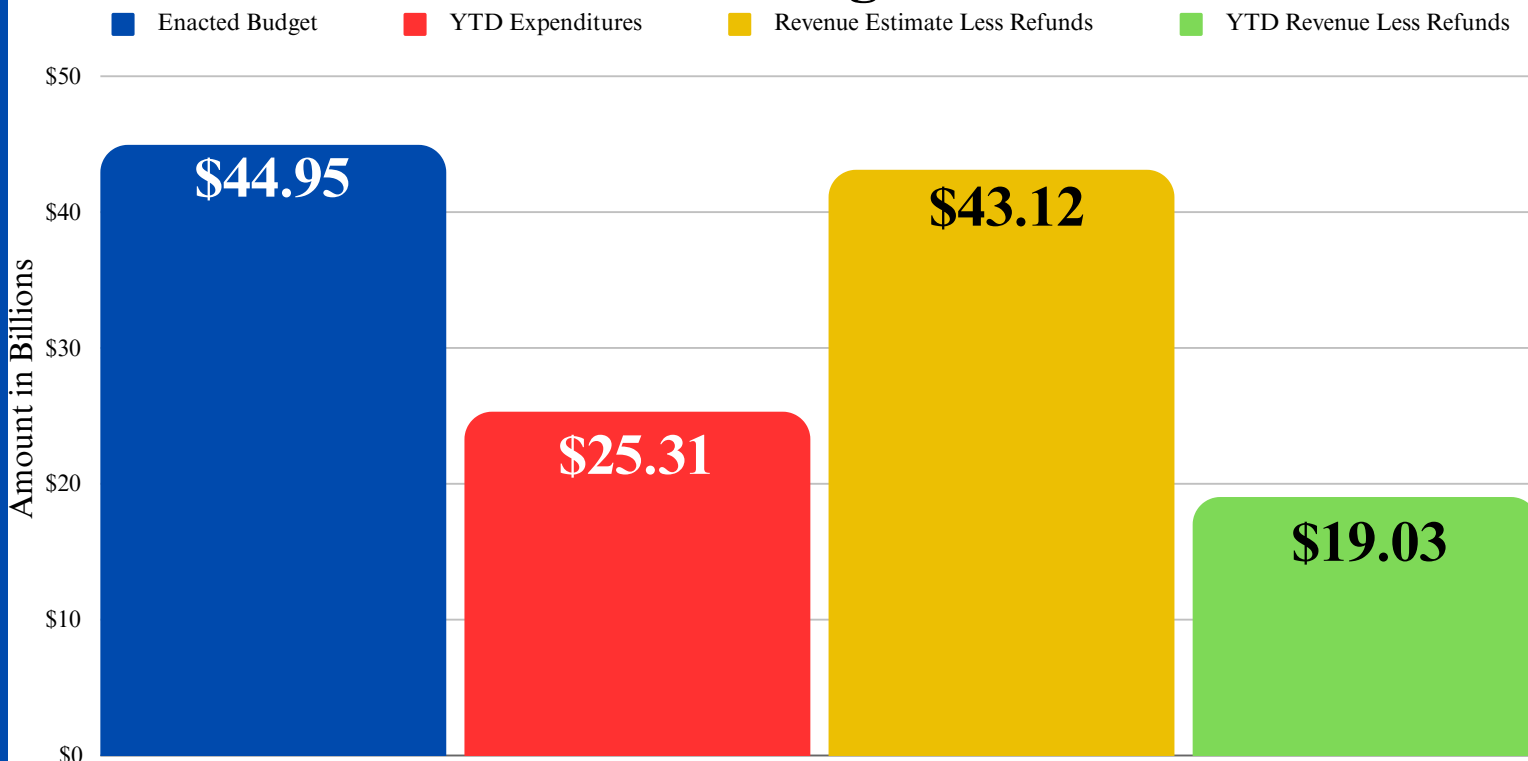
Message from Chairman Grove



166 days late, but Pennsylvania finally has a completed 2023-24 Fiscal Year Budget! House Republicans' ability to stick together and fight for our principles resulted in impressive budget wins, especially in education reform: we increased the Educational Improvement Tax Credit (EITC) and Opportunity Scholarship Tax Credit (OSTC) programs by \$150 million, a significant victory for school choice, while also providing more transparency with our state-related universities by holding the line on approval of their funding. However, on the revenue side, concerns remain as General Fund revenues are falling short in most categories. While the Corporate Net Income Tax continues to come in above estimate, the Department of Revenue stated: "Corporation Tax collections in December are primarily Corporate Net Income Tax (CNIT) estimated payments from tax year 2023, which is the first year of the CNIT rate phasedown. The year-over-year growth rate of -12% is slightly larger than the effect from the 10% cut in the rate (to 8.99% from 9.99%). This could imply that taxpayers had overpaid earlier in the year or that profits for 2023 were weaker than expected." Either scenario put forward by DOR is concerning for our fiscal health moving forward.

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	December 2023 Actual	December 2023 Estimate	\$ Amount over / (under) Estimate	2023-24 YTD Actual	2023-24 YTD Estimate	\$ Amount over / (under) Estimate
General Fund	<u>\$3,699,593</u>	<u>\$3,769,200</u>	<u>(\$69,607)</u>	<u>\$19,844,859</u>	<u>\$19,915,600</u>	<u>(\$70,741)</u>
Tax Revenue	<u>\$3,644,123</u>	<u>\$3,720,800</u>	<u>(\$76,677)</u>	<u>\$19,291,186</u>	<u>\$19,441,700</u>	<u>(\$150,514)</u>
Corporation Taxes	<u>\$889,538</u>	<u>\$939,900</u>	<u>(\$50,362)</u>	<u>\$2,702,077</u>	<u>\$2,618,600</u>	<u>\$83,477</u>
Accelerated Deposits	\$0	\$0	\$0	\$0	\$0	\$0
Corporate Net Income	\$877,629	\$926,400	(\$48,771)	\$2,641,954	\$2,567,500	\$74,454
Selective Business	\$11,909	\$13,500	(\$1,591)	\$60,124	\$51,100	\$9,024
Gross Receipts	\$2,805	\$5,100	(\$2,295)	\$22,345	\$21,300	\$1,045
Utility Property	\$0	\$0	\$0	\$2,306	\$1,200	\$1,106
Insurance Premiums	\$1,722	\$700	\$1,022	\$8,585	\$2,200	\$6,385
Financial Institutions	\$7,382	\$7,700	(\$318)	\$26,887	\$26,400	\$487
Bank Shares	\$3,052	\$1,900	\$1,152	\$14,938	\$11,300	\$3,638
Mutual Thrifts	\$4,329	\$5,800	(\$1,471)	\$11,949	\$15,100	(\$3,151)
Consumption Taxes	<u>\$1,326,697</u>	<u>\$1,314,100</u>	<u>\$12,597</u>	<u>\$7,907,014</u>	<u>\$8,047,300</u>	<u>(\$140,286)</u>
Sales and Use Tax	<u>\$1,176,034</u>	<u>\$1,166,900</u>	<u>\$9,134</u>	<u>\$7,177,807</u>	<u>\$7,294,000</u>	<u>(\$116,193)</u>
Non-Motor Vehicle	\$1,078,930	\$1,069,900	\$9,030	\$6,503,451	\$6,620,400	(\$116,949)
Motor Vehicle	\$97,104	\$97,000	\$104	\$674,356	\$673,600	\$756
Cigarette	\$80,396	\$75,600	\$4,796	\$404,616	\$415,400	(\$10,784)
Other Tobacco Products	\$12,106	\$13,900	(\$1,794)	\$73,853	\$81,800	(\$7,947)
Malt Beverage	\$1,755	\$1,700	\$55	\$10,935	\$11,700	(\$765)
Liquor	\$56,406	\$56,000	\$406	\$239,803	\$244,400	(\$4,597)
Other Taxes	<u>\$1,427,888</u>	<u>\$1,466,800</u>	<u>(\$38,912)</u>	<u>\$8,682,094</u>	<u>\$8,775,800</u>	<u>(\$93,706)</u>
Personal Income Tax	<u>\$1,253,067</u>	<u>\$1,285,700</u>	<u>(\$32,633)</u>	<u>\$7,522,413</u>	<u>\$7,645,100</u>	<u>(\$122,687)</u>
Withholding	\$1,111,638	\$1,111,300	\$338	\$6,345,389	\$6,365,800	(\$20,411)
Estimated	\$111,899	\$136,700	(\$24,801)	\$813,300	\$959,500	(\$146,200)
Annual	\$29,530	\$37,700	(\$8,170)	\$363,723	\$319,800	\$43,923
Realty Transfer	\$45,403	\$46,200	(\$797)	\$253,546	\$267,900	(\$14,354)
Inheritance	\$117,933	\$117,100	\$833	\$769,698	\$707,600	\$62,098
Gaming	\$34,841	\$36,800	(\$1,959)	\$174,045	\$183,200	(\$9,155)
Minor and Repealed	(\$23,355)	(\$19,000)	(\$4,355)	(\$37,607)	(\$28,000)	(\$9,607)
Non-Tax Revenue	<u>\$55,470</u>	<u>\$48,400</u>	<u>\$7,070</u>	<u>\$553,673</u>	<u>\$473,900</u>	<u>\$79,773</u>
Liquor Store Profits	\$0	\$0	\$0	\$100,000	\$100,000	\$0
Licenses and Fees	\$8,914	\$29,800	(\$20,886)	\$54,904	\$73,500	(\$18,596)
Miscellaneous	<u>\$40,992</u>	<u>\$12,700</u>	<u>\$28,292</u>	<u>\$361,541</u>	<u>\$262,800</u>	<u>\$98,741</u>
Treasury	\$53,303	\$28,800	\$24,503	\$374,622	\$264,900	\$109,722
Escheats	(\$12,680)	(\$16,200)	\$3,520	(\$46,993)	(\$43,200)	(\$3,793)
Other Misc & Transfers	\$370	\$100	\$270	\$33,912	\$41,100	(\$7,188)
Fines, Penalties, Interest	\$5,563	\$5,900	(\$337)	\$37,228	\$37,600	(\$372)

Fiscal Year 2023-24 General Fund Revenues

Compared to the Prior Year Collections

House Appropriations Committee (R)

Thousands of Dollars

Revenue Source	December 2022 Actual	December 2023 Actual	Month % Growth vs Prior Year	2022-23 YTD Actual	2023-24 YTD Actual	YTD % Growth vs Prior Year
General Fund	<u>\$4,041,831</u>	<u>\$3,699,593</u>	<u>(8.5%)</u>	<u>\$19,699,322</u>	<u>\$19,844,859</u>	<u>0.7%</u>
Tax Revenue	<u>\$3,986,374</u>	<u>\$3,644,123</u>	<u>(8.6%)</u>	<u>\$19,352,630</u>	<u>\$19,291,186</u>	<u>(0.3%)</u>
Corporation Taxes	<u>\$1,008,716</u>	<u>\$889,538</u>	<u>(11.8%)</u>	<u>\$2,738,869</u>	<u>\$2,702,077</u>	<u>(1.3%)</u>
Accelerated Deposits	(\$1)	\$0	(100.0%)	(\$3,442)	\$0	(100.0%)
Corporate Net Income	\$994,604	\$877,629	(11.8%)	\$2,660,697	\$2,641,954	(0.7%)
Selective Business	\$14,113	\$11,909	(15.6%)	\$81,614	\$60,124	(26.3%)
Gross Receipts	\$5,407	\$2,805	(48.1%)	\$29,966	\$22,345	(25.4%)
Utility Property	\$13	\$0	(98.3%)	\$3,283	\$2,306	(29.7%)
Insurance Premiums	\$657	\$1,722	162.1%	\$26,537	\$8,585	(67.6%)
Financial Institutions	\$8,037	\$7,382	(8.2%)	\$21,828	\$26,887	23.2%
Bank Shares	\$2,058	\$3,052	48.3%	\$7,921	\$14,938	88.6%
Mutual Thrifts	\$5,979	\$4,329	(27.6%)	\$13,908	\$11,949	(14.1%)
Consumption Taxes	<u>\$1,326,636</u>	<u>\$1,326,697</u>	<u>0.0%</u>	<u>\$7,903,836</u>	<u>\$7,907,014</u>	<u>0.0%</u>
Sales and Use Tax	<u>\$1,176,450</u>	<u>\$1,176,034</u>	<u>(0.0%)</u>	<u>\$7,126,303</u>	<u>\$7,177,807</u>	<u>0.7%</u>
Non-Motor Vehicle	\$1,074,628	\$1,078,930	0.4%	\$6,437,817	\$6,503,451	1.0%
Motor Vehicle	\$101,822	\$97,104	(4.6%)	\$688,486	\$674,356	(2.1%)
Cigarette	\$81,345	\$80,396	(1.2%)	\$452,282	\$404,616	(10.5%)
Other Tobacco Products	\$12,943	\$12,106	(6.5%)	\$76,813	\$73,853	(3.9%)
Malt Beverage	\$1,740	\$1,755	0.8%	\$11,730	\$10,935	(6.8%)
Liquor	\$54,158	\$56,406	4.2%	\$236,709	\$239,803	1.3%
Other Taxes	<u>\$1,651,021</u>	<u>\$1,427,888</u>	<u>(13.5%)</u>	<u>\$8,709,925</u>	<u>\$8,682,094</u>	<u>(0.3%)</u>
Personal Income Tax	<u>\$1,433,232</u>	<u>\$1,253,067</u>	<u>(12.6%)</u>	<u>\$7,470,244</u>	<u>\$7,522,413</u>	<u>0.7%</u>
Withholding	\$1,240,408	\$1,111,638	(10.4%)	\$6,068,073	\$6,345,389	4.6%
Estimated	\$143,168	\$111,899	(21.8%)	\$999,521	\$813,300	(18.6%)
Annual	\$49,656	\$29,530	(40.5%)	\$402,650	\$363,723	(9.7%)
Realty Transfer	\$55,787	\$45,403	(18.6%)	\$351,897	\$253,546	(27.9%)
Inheritance	\$138,004	\$117,933	(14.5%)	\$725,706	\$769,698	6.1%
Gaming	\$32,997	\$34,841	5.6%	\$178,381	\$174,045	(2.4%)
Minor and Repealed	(\$8,998)	(\$23,355)	159.6%	(\$16,304)	(\$37,607)	130.7%
Non-Tax Revenue	<u>\$55,457</u>	<u>\$55,470</u>	<u>0.0%</u>	<u>\$346,692</u>	<u>\$553,673</u>	<u>59.7%</u>
Liquor Store Profits	\$0	\$0		\$100,000	\$100,000	0.0%
Licenses and Fees	\$37,540	\$8,914	(76.3%)	\$76,940	\$54,904	(28.6%)
Miscellaneous	<u>\$12,931</u>	<u>\$40,992</u>	<u>217.0%</u>	<u>\$133,981</u>	<u>\$361,541</u>	<u>169.8%</u>
Treasury	\$34,502	\$53,303	54.5%	\$161,349	\$374,622	132.2%
Escheats	\$0	(\$12,680)		\$3	(\$46,993)	(1654770.6%)
Other Misc & Transfers	(\$21,572)	\$370	(101.7%)	(\$27,370)	\$33,912	(223.9%)
Fines, Penalties, Interest	\$4,987	\$5,563	11.6%	\$35,770	\$37,228	4.1%

Revenues Explained

General Fund collections of \$3.70 billion in December were \$69.6 million below the official monthly estimate. Non-Motor Sales and Use Tax was the only major tax category to exceed the official monthly estimate for the month of December. Year-to-Date (YTD) collections of \$19.84 remain below the official estimate, deepening to \$70.7 million.

Monthly collections fell below the collections of December 2022 by 8.5%. However, through the first half of the 2023-24 fiscal year, collections of \$19.84 billion are 0.7% higher than they were at this time last fiscal year.

December 2023 monthly collections:

- **Total Tax Revenue** collections fell short of the monthly estimate by \$76.7 million and were below collections of the prior year by \$342.3 million, or 8.6%.
- **Total Corporation Taxes** were below the monthly estimate by \$50.4 million.
- **Sales and Use Tax (SUT) non-motor vehicle** collections reversed their recent trend and exceeded the monthly estimate by \$9.0 million. Similarly, **SUT motor vehicle** collections exceeded estimate by \$104,000.
- **Personal Income Tax (PIT) annual and PIT quarterly estimated collections** fell short of the monthly estimate by \$8.2 million and \$24.8 million, respectively. However, **PIT withholding** narrowly exceeded the monthly estimate by \$338,000.
- **Realty Transfer Tax** collections fell short of the monthly estimate by \$797,000.
- **Inheritance Tax** collections exceeded the monthly estimate by \$833,000.
- **Non-Tax Revenue** collections of \$55.5 million were above estimate for the month by \$7.1 million, led by continued strength of **interest earnings** which totaled \$53.3 million, exceeding estimate by \$24.5 million.

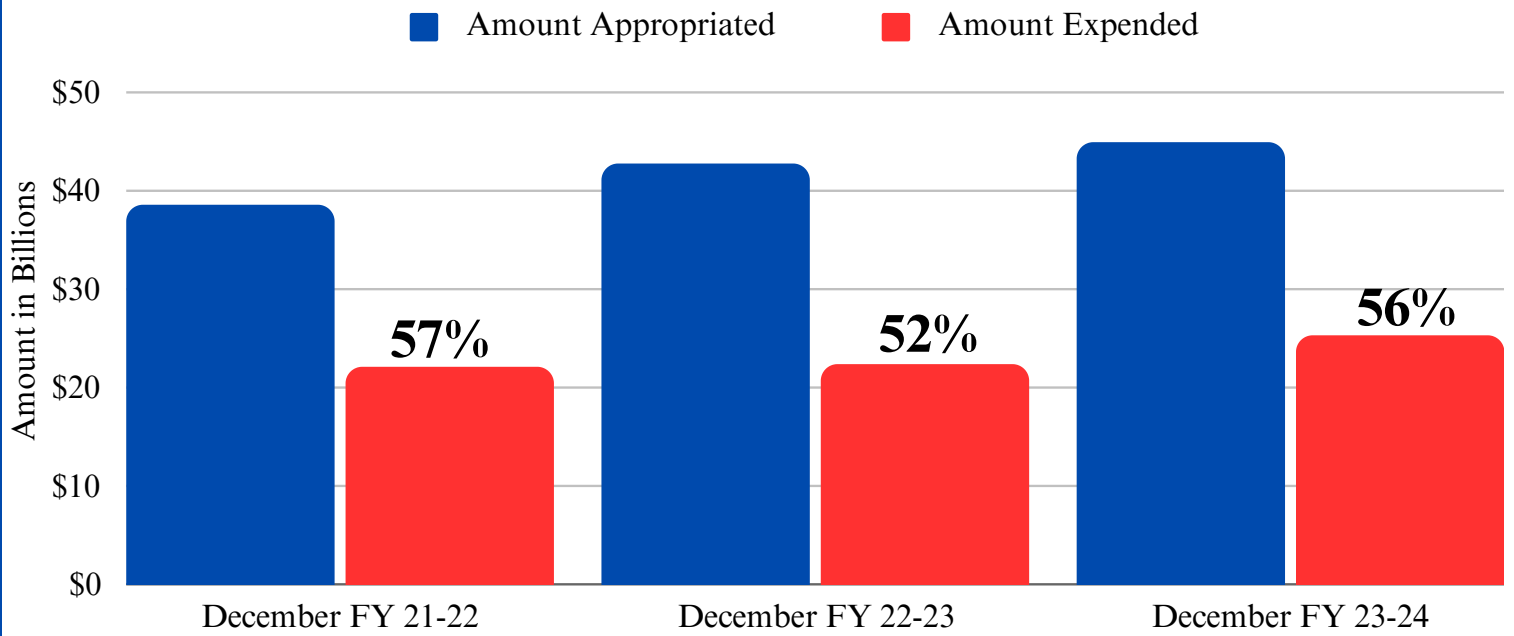
Fiscal Year-to-Date (YTD) collections through the month of December 2023:

- **Total Tax Revenue** collections of \$19.3 billion for the first half of the fiscal year are less than the YTD collections of the prior fiscal year by \$61.4 million, or 0.3%.
- **YTD Corporate Net Income Tax** collections of \$2.6 billion remain above estimate by \$74.5 million.
- **YTD SUT non-motor vehicle** collections of \$6.5 billion are above collection of the prior fiscal year by 1.0% while **SUT motor vehicle** collections of \$674.4 million are below collections of the prior fiscal year by 2.1%.
- **YTD PIT withholding** collections of \$6.3 billion are above collections of the prior fiscal year by 4.6%; however, **YTD PIT annual and YTD PIT estimated payments** are below collections of the prior fiscal year by 9.7% and 18.6%, respectively.
- **Realty Transfer Tax YTD** collections of \$253.5 million through the month of December remain below estimate by \$14.4 million and are below collections of the prior fiscal year by 27.9%.
- **YTD Non-Tax Revenue** collections of \$553.7 million are above collections of the prior fiscal year by 59.7%. This is largely attributable to the exceptional strength of **interest earnings** which total \$374.6 million, which exceed collections by \$213.3 million, or 132.2% of the previous fiscal year.

December 2023 Revenue Collections

Total General Fund		Personal Income Tax	
Estimate: \$3.769 billion	Actual: \$3.700 billion ↓	Estimate: \$1.286 billion	Actual: \$1.253 billion ↓
Total Corporation Taxes		Sales Tax	
Estimate: \$939.9 million	Actual: \$889.5 million ↓	Estimate: \$1.167 billion	Actual: \$1.176 billion ↑
Non-Tax Revenue		All Other Taxes	
Estimate: \$48.4 million	Actual: \$55.5 million ↑	Estimate: \$328.3 million	Actual: \$325.5 million ↓

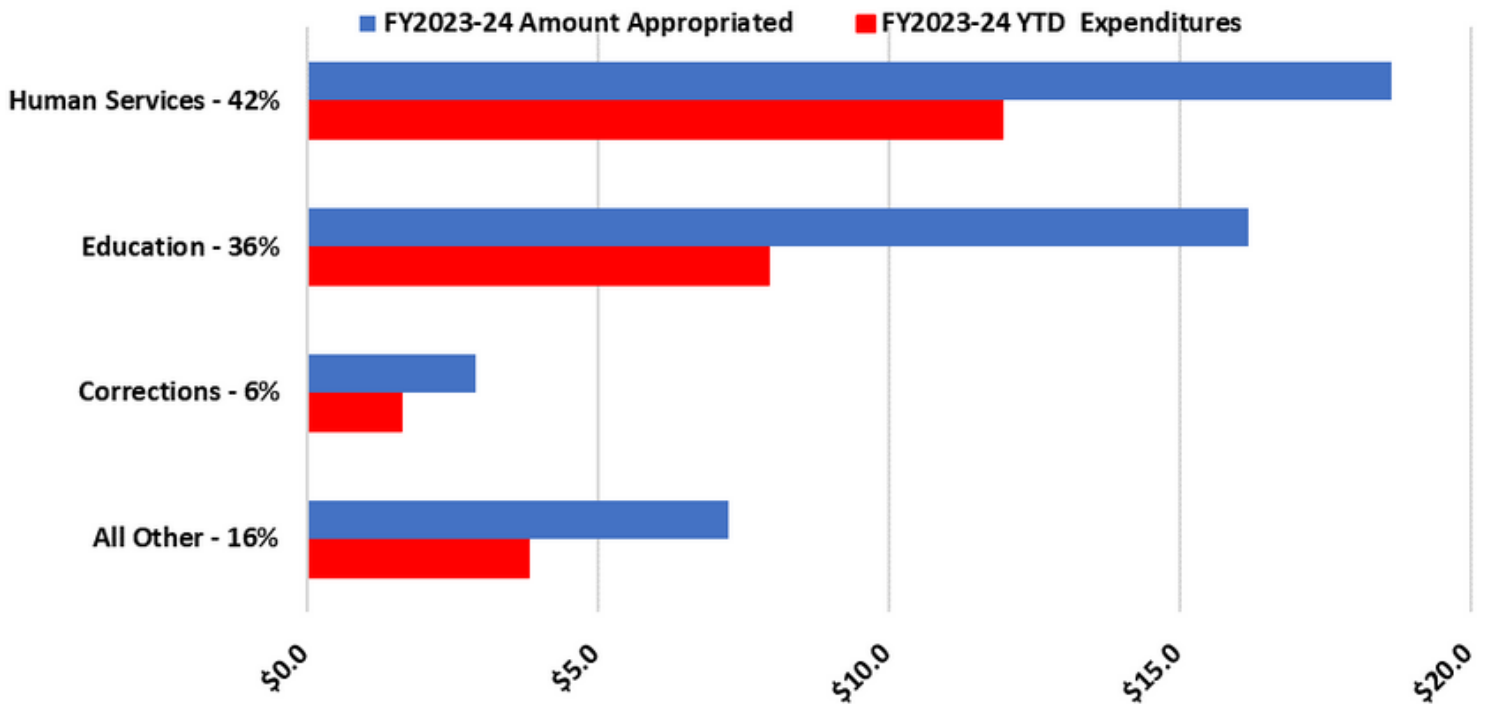
Status of Appropriations



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

Status of Appropriations as of December 2023

Amounts in Billions

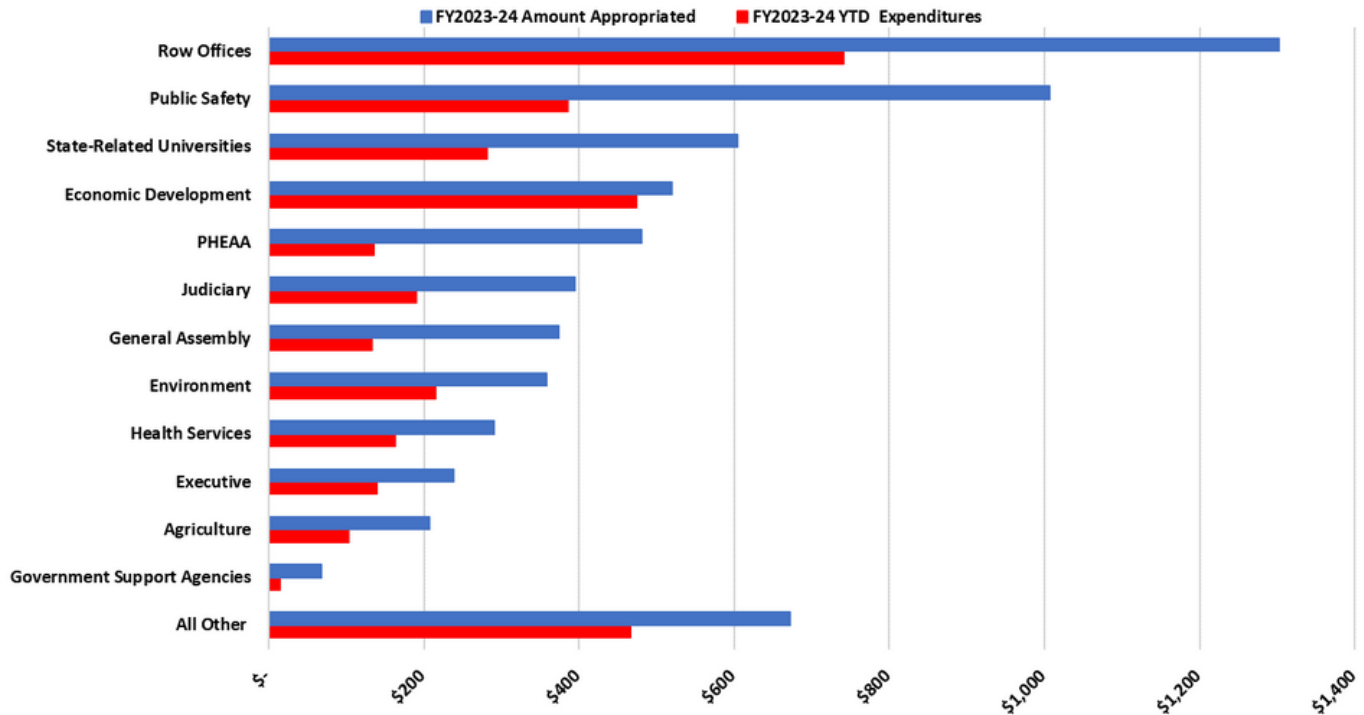


All Spending information from Commonwealth Accounting System, Status of Appropriations Report.

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

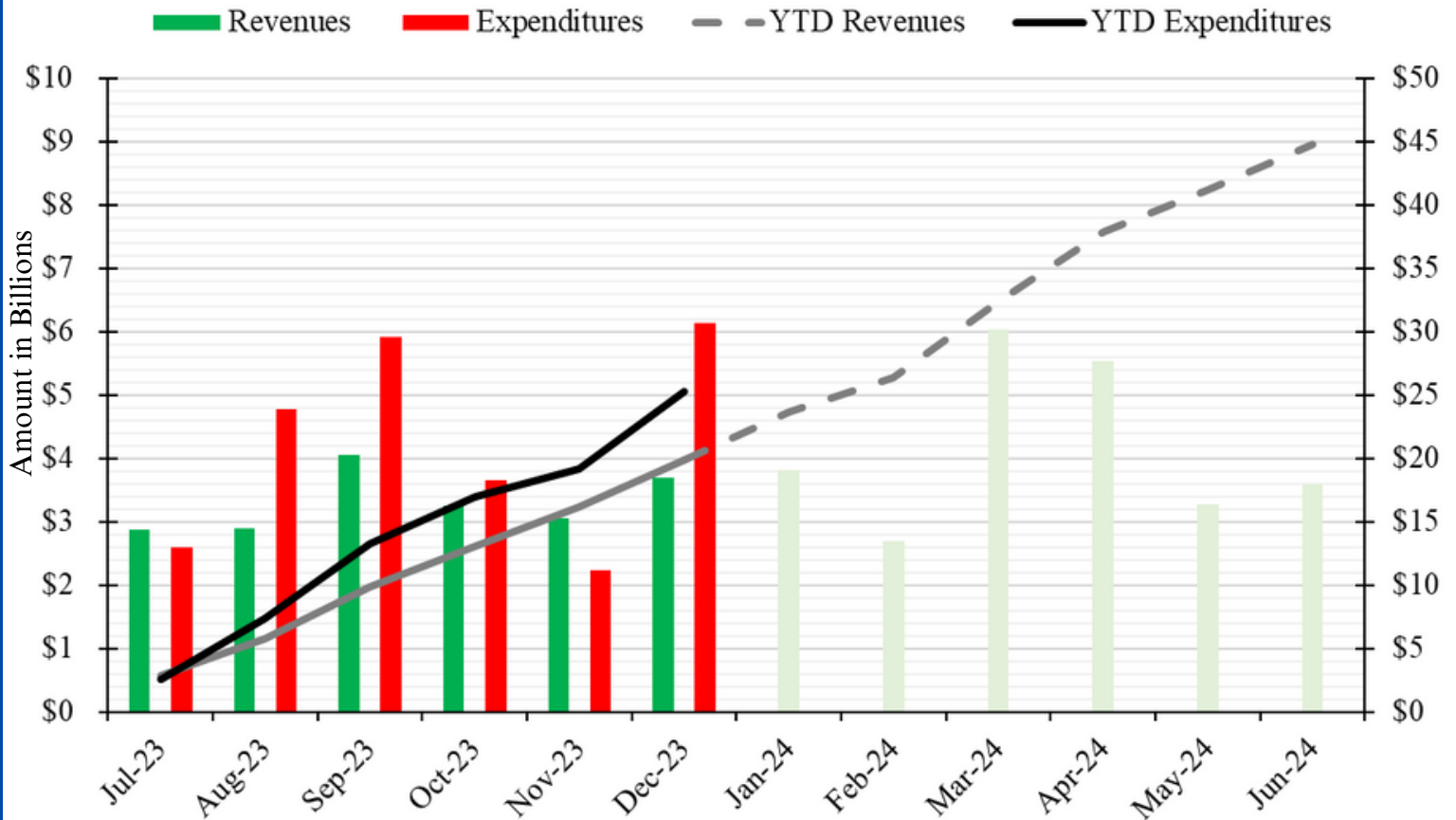
Status of Appropriations as of December 2023

Amounts in Millions



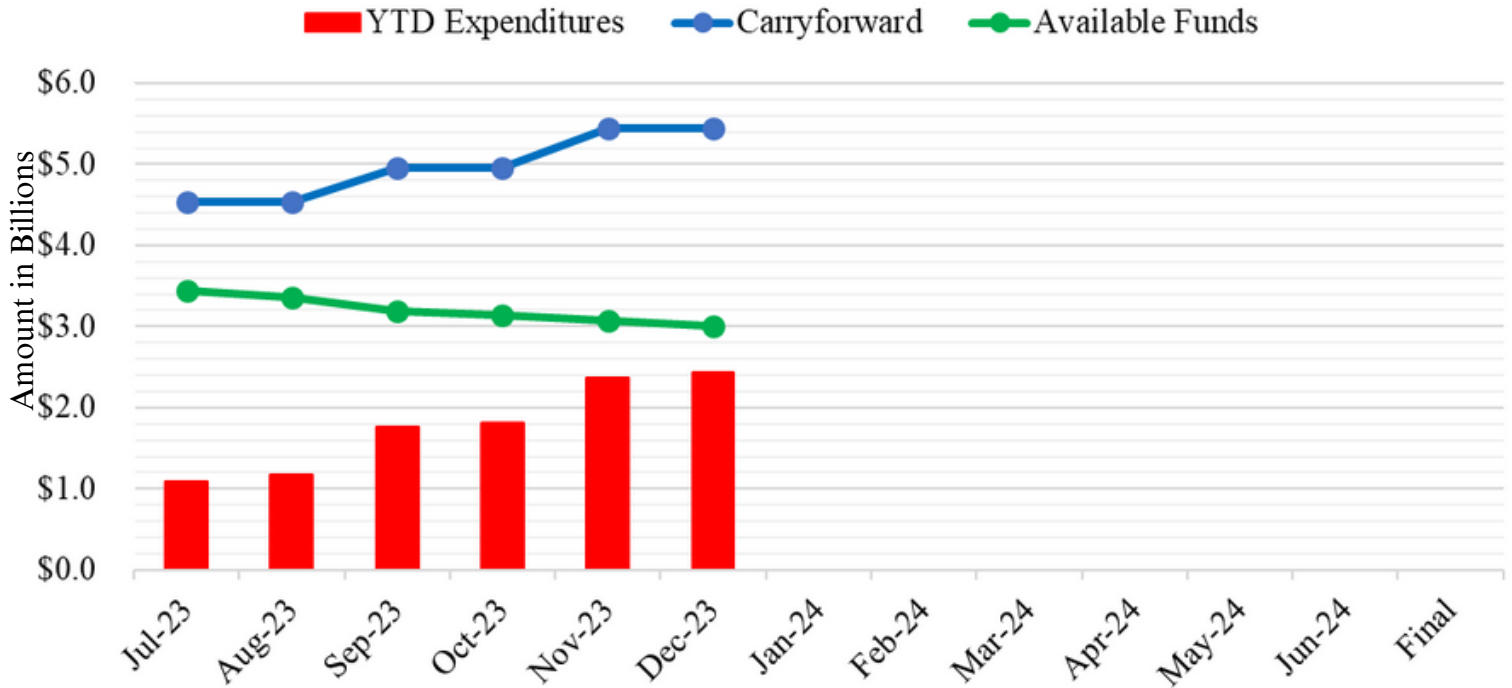
2023-24 GENERAL FUND

Expenditures and Revenues



PRIOR YEAR FUNDS

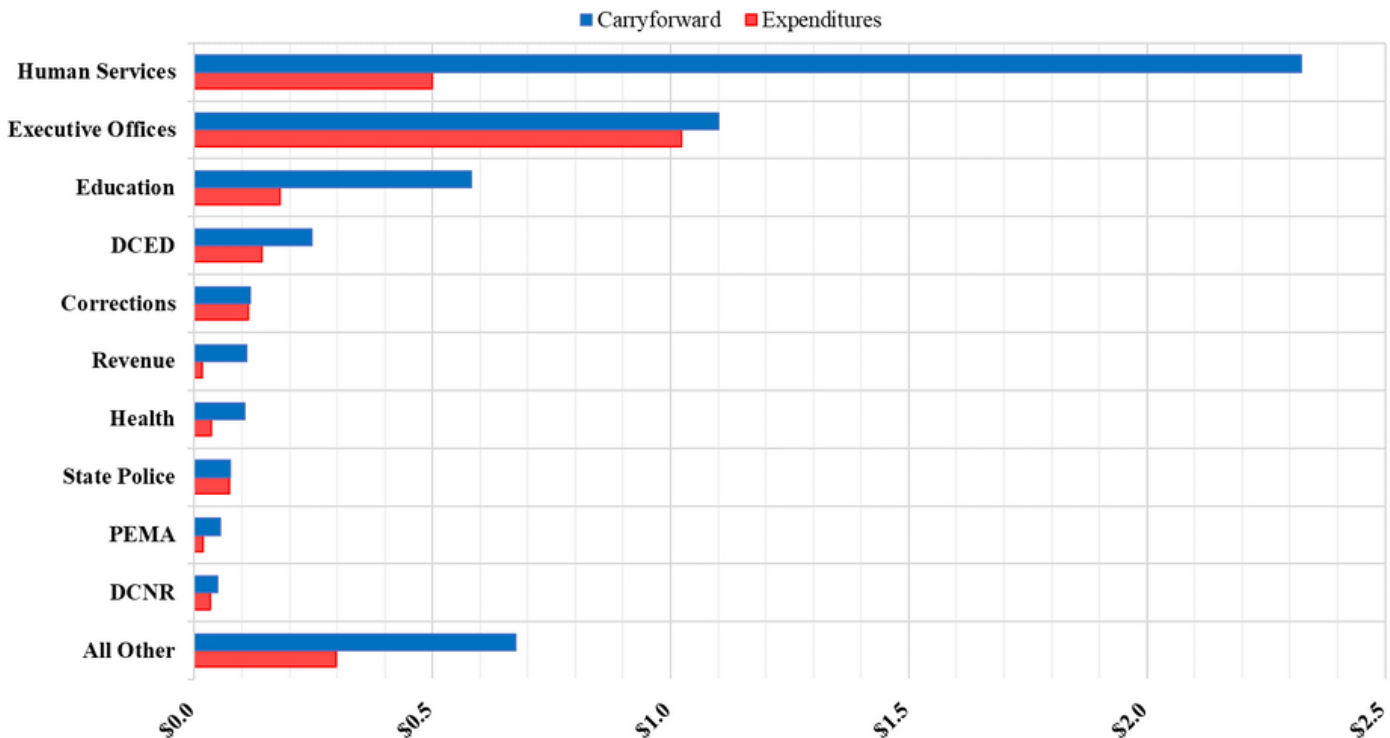
FY2023-24 General Fund



PRIOR YEAR FUNDS - TOP 10 AGENCIES*

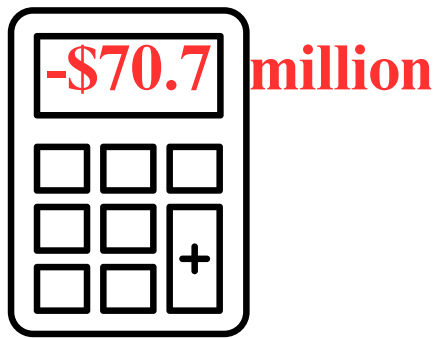
FY2023-24 as of December 2023

Amounts in Billions

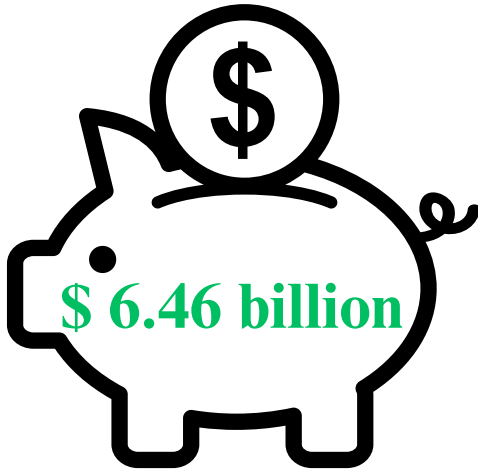


*Under the Governor's jurisdiction

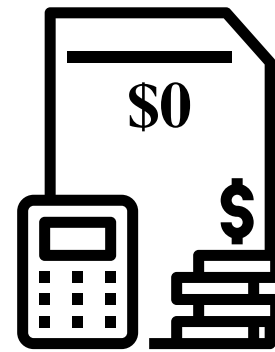
YTD Revenue Performance



Budget Surplus



Ledger 5 Expenditures



Rainy Day Fund



49 Days of Sunshine

Budget Policy Update

Mid-Year Budget Update

As 2024 kicks off, we find ourselves halfway through the 2023-34 Fiscal Year. To date, General Fund revenues, minus refunds, amount to \$19.03 billion. Expenditures so far have reached \$25.31 billion, which is 56% of the enacted 2023-24 state appropriations.

The economic outlook for the next six months is still very clouded. The Federal Reserve has kept the benchmark interest rate at 5.33% as inflation has eased and now appears to be leveling out around 3%. Unemployment has remained flat at 3.4% for three straight months.

With the economy showing no significant improvement, Pennsylvania faces a structural deficit that will only be improved with substantial budgetary reform. In addition, there are also several emerging budget issues heading into the 2024-25 fiscal year.

Mid-Year Budget Update (continued)

The Governor's Office of Administration tracks personnel costs as a percentage of the budget. FY 2022-23 marked the first time this number increased since FY 2014-15. This is especially alarming as this calculation includes federal dollars, which decreased in FY 2022-23. In FY 2021-22, personnel costs reached \$8.6 billion, which was 7.5% of the total budget; in FY 2022-23, this jumped to \$9.1 billion, which resulted in 8.0% of the budget.

Over the course of the former administration, the average salary for a state employee jumped from \$53,843 to \$65,656. The average salary will be increased significantly over the next four years as Governor Shapiro signed off on a 22.1% increase for AFSCME employees. Traditionally, this increase has also been applied to non-union and management employees.

It is also important to remember that salary is only one part of the total costs for employees. The average cost of benefits for employees in FY 2022-23 was \$49,096, or 74.8% of the average salary. Taken together, that equals a total compensation package of \$114,752. Additionally, new contracts for the State Police and State Corrections Officers have yet to be finalized.

In FY 2022-23, the Commonwealth spent \$372 million on overtime. Of that total, \$170 million was spent by the Department of Corrections, and \$46 million was spent by the State Police alone. The Department of Corrections already accounts for 6.4% of the budget, and the State Police budget continues to increase its reliance on the General Fund as costs shift away from the Motor License Fund.

Another issue on the horizon is the Section 1115 Waiver. The PA Department of Human Services announced its intention to submit a Section 1115 Medicaid demonstration waiver to address Health-Related Social Needs (HRSN) and continuous Medicaid eligibility for specific populations. The waiver demonstration would be for five years – January 1, 2025, through January 1, 2030. The application is subject to Centers for Medicare and Medicaid (CMS) approval.

The demonstration would include four main components: Re-entry Supports, Housing Supports, Food and Nutrition Supports, and Continuous Eligibility for Children aged 0-6. Section 1115 waiver demonstrations are typically required to be budget-neutral for the federal government. CMS has allowed services that could otherwise be enacted without Section 1115 waiver authority through a State Plan change to be exempt from this requirement. DHS stated that all four components of this waiver application do not have to meet the traditional budget neutrality requirement.

DHS does not anticipate cost savings in the current fiscal year for DHS and DOC from the waiver demonstration due to the federal maintenance of effort requirement. This funding must supplement, not supplant, current spending. Any "savings" would need to be reinvested.

We still need a complete picture of the financial impact of this waiver. While the goals of the waiver are certainly areas that can be improved, it is still unclear why this proposal is the best path forward.

As we shift focus to the 2024-25 Budget, these concerns, plus the anticipated recommendation of the Basic Education Funding Commission, may have significant impacts on the future direction of the Commonwealth.