



REPORT ON KEY ISSUES FROM THE HOUSE APPROPRIATIONS COMMITTEE

BUDGET BRIEFING

DWIGHT EVANS, DEMOCRATIC CHAIRMAN

March 31, 2008

Revenue Update

Revenues

Total General Fund Revenue was 0.9% or almost \$180.5 million ahead of the official estimate through the third quarter of the fiscal year. By comparison, **the Governor's Executive Budget projects a \$427.5 million surplus by the end of the year.** We are still hopeful that this revenue surplus will materialize when the fiscal year ends on June 30.

The majority of the year-to-date overage can be attributed to Corporation Taxes, which are coming in at 2.3% or \$96.1 million above projections for the year. Year-to-date Sales Tax is 0.4% above projections or \$28 million, while Personal Income Tax collections are up 1.2% or \$82.5 million.

Corporate Taxes

March is a significant month for corporate tax payments as the first quarter estimated payments for the Corporate Net Income Tax (CNI) and Capital Stock/Franchise Tax (CSFT) are due from many corporations and the Gross Receipts Tax is due from electric, telecommunications, and transportation companies.

Corporate tax deposits totaled \$2.3 billion in March, accounting for 59% of all General Fund revenues collected. While year-to-date collections are ahead of estimate by approximately \$96.1 million, March collections were underestimate by \$110.9 million for the month. Total corporate taxes failed to meet the March estimate primarily due to shortfalls in Corporate Net Income (**-\$49 million or -11.3%**), and Gross Receipts (**-\$72.5 million or -5.3%**) taxes. The Governor revised the CNI estimate for the fiscal year downward by \$56.7 million in his 2008/09 Executive Budget. We remain hopeful that CNI revenues will meet the Governor's revised estimate. While Gross Receipts deposits were short \$72.5 million (5.3%) for the month, unexpected revenues in prior months bring the year-to-date total to a \$22 million (-1.6%)

shortfall. Capital Stock/Franchise taxes were above estimate by \$27 million in March.

March CNI and CSFT are usually a predictor of June receipts as the calendar year second quarter estimated payments are due then. The overage in CSFT is a positive indicator for June, whereas CNI shortfall is a negative indicator for the month. Therefore, CSFT could offset some of the possible shortfall in CNI.

Sales Tax

Sales Tax receipts for the year are \$27.7 million ahead of estimate due to non-motor vehicle sales, which are nearly \$51 million over estimate for the year. Surplus non-motor vehicle sales are offsetting a \$23.2 million shortfall in motor vehicle sales. The federal income tax rebate may have an important effect on sales tax receipts in the next few months if individuals spend the rebate on goods rather than paying down bills or putting their rebate in savings.

Personal Income Tax

Personal Income Tax (PIT) collections are above estimate for the year with a slight 1.2% or \$82.5 million surplus for the year. Withholding, which reflects wages and salaries, is \$38.5 million below estimate through the third quarter. Non-withholding (on investment earnings and proprietors' income) has a year-to-date surplus of \$121 million or 10 percent.

Pennsylvania's Economy

Moody's Economy.com reports the probability of a recession in Pennsylvania has been revised downward for March, to 50 percent.

Other states face the probability of recession as well: 57% in Maryland, 60% in New Jersey, 46% in New York and 58% in Ohio. The United States probability of a recession is 56% as of March.

Preliminary General Fund Revenue Report	Official Estimate	Actual	Change from Estimate	
			Amount	Percent
(\$ in millions)	Year-Through-March			
GENERAL FUND TOTAL	\$19,607.6	\$19,788.1	\$180.5	0.92%
I. TAX REVENUE	\$19,256.5	\$19,485.1	\$228.6	1.19%
A. CORPORATION TAXES	\$4,097.4	\$4,194.1	\$96.7	2.36%
B. CONSUMPTION TAXES	\$7,091.6	\$7,126.3	\$34.7	0.49%
1. Sales	\$6,333.6	\$6,361.3	\$27.7	0.44%
a. Non-Motor Vehicle	\$5,502.5	\$5,553.5	\$51.0	0.93%
b. Motor Vehicle	\$831.1	\$807.9	(\$23.2)	-2.80%
2. Cigarette	\$559.3	\$569.4	\$10.1	1.80%
3. Malt Beverage	\$19.4	\$19.7	\$0.3	1.79%
4. Liquor	\$179.3	\$175.9	(\$3.4)	-1.90%
C. OTHER TAXES-TOTAL	\$8,067.5	\$8,164.8	\$97.3	1.21%
1. Personal Income	\$7,148.9	\$7,231.4	\$82.5	1.15%
a. Withholding	\$5,936.8	\$5,898.3	(\$38.5)	-0.65%
b. Non-Withholding	\$1,212.1	\$1,333.1	\$121.0	9.98%
2. Realty Transfer	\$328.4	\$330.7	\$2.3	0.69%
3. Inheritance	\$588.2	\$600.1	\$11.9	2.03%
4. Minor & Repealed	\$2.0	\$2.6	\$0.6	28.39%
II. NON-TAX REVENUE	\$351.1	\$303.0	(\$48.1)	-13.71%
<i>Corporate and Non-tax numbers will differ some from the Department of Revenue's final numbers due to the preliminary nature of the data.</i>				

Job growth had slowed in the second half of 2007, falling with February being the first negative month and March also down slightly. The Pennsylvania Department of Labor and Industry reports that the nonfarm job count fell 2,900 from February but reflects an increase of 13,100 jobs since March 2007. Job losses were spread across several industries and were relatively mild – with the exception of

construction, which lost 1,000 jobs. Despite the overall job decline in March, education and health services remained strong and reached a record high level at 1.08 million jobs. *Global Insight* does not project further decreases, indicating their expectations of a flat employment rate until the fall. Pennsylvania's unemployment rate of 4.9% was two-

tenths of a point below the national rate, which rose to 5.1% in March.

The Pennsylvania real estate market has not seen the dramatic slide in home prices like those seen in other states like Florida, California and New Jersey. Instead, price appreciation has stalled here, at approximately 1.6% over the last year. In the future, home building is expected to slow to approximately the 30,000-unit level in 2008, down from the 45,000-unit pace in 2005.



QUESTIONS AND COMMENTS

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