

General Fund Revenue Estimate

FY 2013-14 Mid-Year Update

Independent Fiscal Office
January 23, 2014

At the beginning of the fiscal year, the Independent Fiscal Office (IFO) forecasted FY 2013-14 General Fund revenues of \$29.154 billion. For comparison, the revenue estimate certified by the Governor and published by the Department of Revenue was \$29.116 billion, a difference of \$38.5 million.

The IFO reviewed its estimate based on actual collections for the first half of the fiscal year and expectations for the second half. Through December, revenues are \$65 million below the IFO estimate. Revenues have been characterized by weak nonmotor vehicle sales tax receipts and lackluster personal income tax remittances from wage and salary withholding.

The table below displays first half growth rates for the General Fund and its three largest revenue sources. It also shows the growth rates for the second half of the fiscal year that would be necessary to meet the IFO's published estimate.

FY 2013-14 Revenue Growth

	1st Half Growth	2nd Half to Meet Estimate
General Fund – Total	0.5%	2.7%
Corp.Net Income	1.3%	1.7%
Sales and Use	2.3%	5.5%
Personal Income	2.7%	3.3%

A significant acceleration in the rate of revenue growth would be necessary in the second half in order to meet these estimates. After a detailed analysis of General Fund revenue sources and trends, the IFO concludes that such growth is not likely. Therefore, a revision to the estimate is warranted.

The revision to the IFO estimate reduces FY 2013-14 revenue expectations by \$150 million, to \$29.005 billion. For comparison, this is about \$112 million below the estimate certified by the Governor at the beginning of the fiscal year.

The table below summarizes the revisions to the IFO estimate. Also, second half growth rates needed to meet the revised estimates are listed.

FY 2013-14 IFO Estimate Revisions

	Estimate Revision (\$ millions)	Revised 2nd Half Growth
General Fund - Total	-\$150	1.8%
Sales and Use	-70	3.9%
Personal Income	-60	2.4%
All Other	-20	-1.3%

The following points provide some context for the major revisions to the revenue estimate.

- Through December, nonmotor vehicle sales tax increased by only 1.6 percent. Stronger than expected motor vehicle sales offset some of this weakness, but second half growth of 5.5 percent appears unlikely even with improved auto sales.
- Personal income tax (PIT) withholding from wages and salaries increased by 2.2 percent in the first half, well below the 3.6 percent projected for the full fiscal year. Employment and wage growth trends support a lower estimate for withholding revenues.
- PIT growth will be restrained by lower annual payments. Payments with the 2013 annual PIT returns (to be filed by April 2014) are expected to decline from the prior year. Prior year payments were higher than normal because some taxpayers received dividends or realized capital gains in 2012 instead of 2013 to avoid federal tax increases.

Depending on the performance of the Pennsylvania economy in the first six months of 2014, the revisions could prove to be conservative. However, marked improvement in jobs and wages, increased business investment and higher consumption of taxable goods and services would signal more sustainable growth and a better revenue outlook.