



# Pennsylvania Fiscal Update

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**National Federation of Independent Business (NFIB)**

December 13, 2017

# Independent Fiscal Office

## ▶ Who we are.

- Established September 2011; 10 staff, but expanding.
- Like the Congressional Budget Office: non-partisan analysis.

## ▶ What we do.

- General Fund revenue estimates (multiple releases).
- Five-year budget and economic outlook (November).
- Supply actuarial notes for pension legislation.
- Performance-based budget reports and tax credit reviews.
- Analysis of collective bargaining agreements.
- Special studies at request of General Assembly.

# A Unique State Office

- ▶ **Structured to provide independent analysis.**
  - In most states, a similar office resides within the legislature.
  - IFO does not provide fiscal notes for proposed legislation.
- ▶ **There is no governing board.**
  - Typically, board comprised of legislators; rotating chair.
  - House and Senate leadership (10) appoints IFO director.
  - Six-year term. Full discretion over hiring.
- ▶ **Office makes NO policy recommendations.**

# IFO Role in the Budget Process

- ▶ **May 1 (prelim) and June 15: issue revenue estimate.**
  - Provides General Assembly a starting point for deliberations.
  - Governor still provides “official certification” of estimate.
- ▶ **November 15: Five-Year Budget Outlook.**
  - Primary purpose: identify long-term structural issues.
  - Has morphed into early deficit estimate for this/next fiscal year.
- ▶ **End of January: Mid-Year Revenue Update.**
  - Updated projections for the current year. Preview of next year.
- ▶ **Early April: analysis of proposals in Executive Budget.**
  - Any proposal that affects tax revenues.

# Today: A (Very) Quick Overview

## ▶ **Highlights from Economic & Budget Outlook.**

- Demographics: rapid aging, domestic out-migration.
- Economics: latest data show 2016 weaker than expected.
- Short- and long-term budget outlook.
- New revenue package: borrowing, transfers and gaming.
- FYTD Revenues: hitting estimate through November.

## ▶ **Looking forward: federal tax reform, property tax reform and General Fund challenges.**

# PA Demographics: Large Retirement Wave

Age Cohort	Number Residents (000s)			Gain or Loss (000s)		Avg. Annual Growth	
	2015	2020	2025	2015-20	2020-25	2015-20	2020-25
0 -19	3,039	3,023	2,981	-16	-42	-0.1%	-0.3%
20 - 64	7,573	7,472	7,407	-102	-65	-0.3%	-0.2%
65 - 79	1,563	1,827	2,111	264	284	3.2%	2.9%
80+	<u>617</u>	<u>635</u>	<u>710</u>	<u>18</u>	<u>75</u>	<u>0.6%</u>	<u>2.2%</u>
<b>Total</b>	<b>12,792</b>	<b>12,957</b>	<b>13,209</b>	<b>165</b>	<b>252</b>	<b>0.3%</b>	<b>0.4%</b>

Note: thousands of residents.

Sources: U.S. Census Bureau and Pennsylvania State Data Center with adjustments by IFO.

# PA Economic Growth Rates

	2013	2014	2015	2016	2017	2018
Real GDP	1.6%	2.0%	2.3%	0.6%	1.8%	1.9%
Wages and Salaries	1.8%	3.9%	4.1%	1.3%	3.8%	3.8%
Philadelphia CPI-U	1.2%	1.3%	-0.1%	0.6%	1.7%	2.0%
Job Gains (000s)	14.3	47.4	46.7	52.2	58.1	55.0

■ Final

■ Preliminary

■ Forecast

Sources: U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics. Forecasts by IFO.

# General Fund Balance Sheet

	17-18	18-19	19-20	20-21	21-22	AAGR
Beginning Balance	-\$1,538	--	--	--	--	
Baseline Revenues	31,055	\$32,187	\$33,200	\$34,428	\$35,460	3.4%
Plus: New Revenues	2,303	216	140	91	77	
Less: Expenditures	31,951	33,516	35,330	36,417	37,447	4.0%
Plus: Lapses	<u>210</u>	<u>125</u>	<u>125</u>	<u>125</u>	<u>125</u>	
<b>Ending Balance</b>	<b>79</b>	<b>-988</b>	<b>-1,865</b>	<b>-1,774</b>	<b>-1,784</b>	

Note: figures in dollar millions. AAGR is the average annual growth rate from FY 17-18 to FY 21-22.  
 Source: IFO Economic & Budget Outlook (November 2017).



# New General Fund Revenues

	17-18	18-19	19-20	20-21	21-22
Tobacco Fund Securitization	\$1,500	--	--	--	--
Miscellaneous Fund Transfers	500	--	--	--	--
Gaming Expansion					
iGaming	42	\$27	\$29	\$9	\$9
Mini-Casinos (Category 4)	40	12	8	8	8
Loan Repayment	12	24	0	0	0
All Other (VGT, Fantasy Sport)	9	6	6	6	6
Corporate Net Operating Loss	207	104	56	24	8
Sales Tax and Other Changes	<u>-8</u>	<u>44</u>	<u>41</u>	<u>44</u>	<u>46</u>
<b>Total Revenues</b>	<b>2,303</b>	<b>216</b>	<b>140</b>	<b>91</b>	<b>77</b>

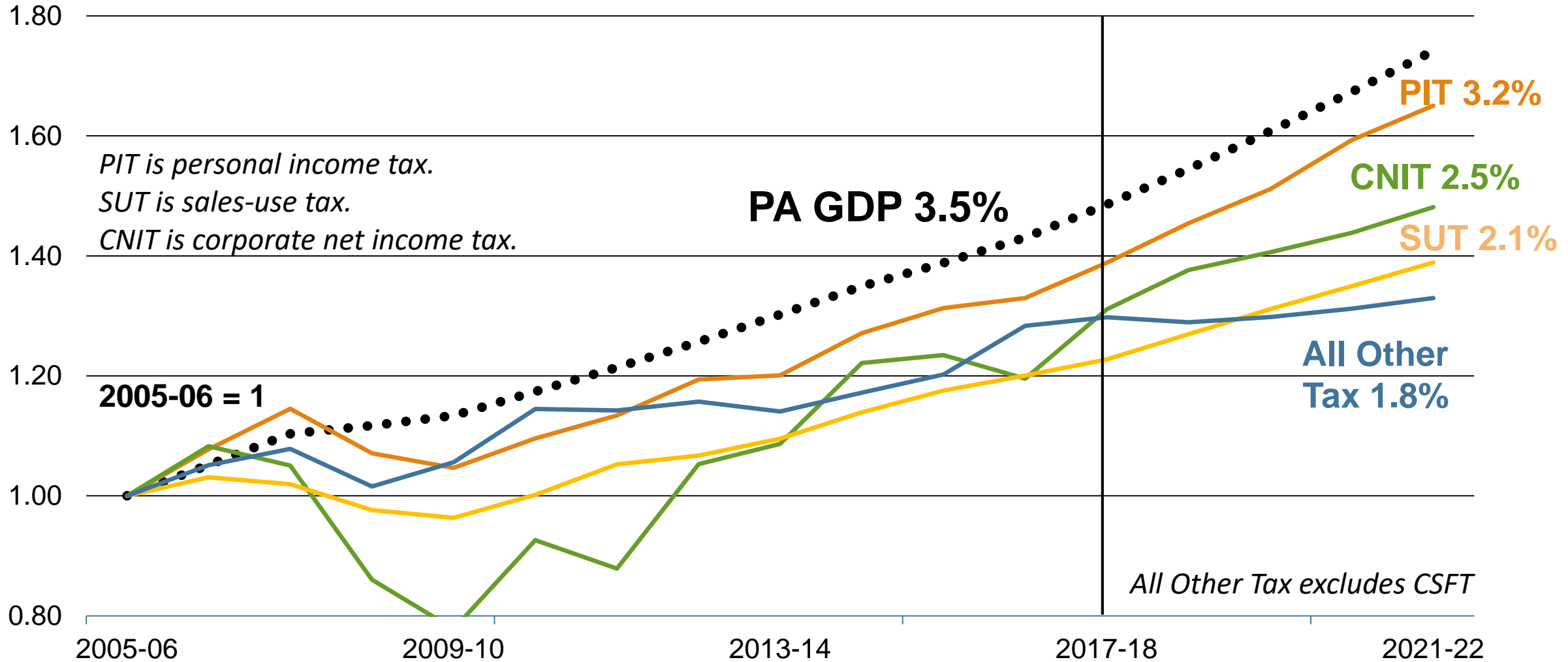
Note: figures in dollar millions. Source: IFO Economic & Budget Outlook (November 2017).

# General Fund Revenue Estimate Holds Up

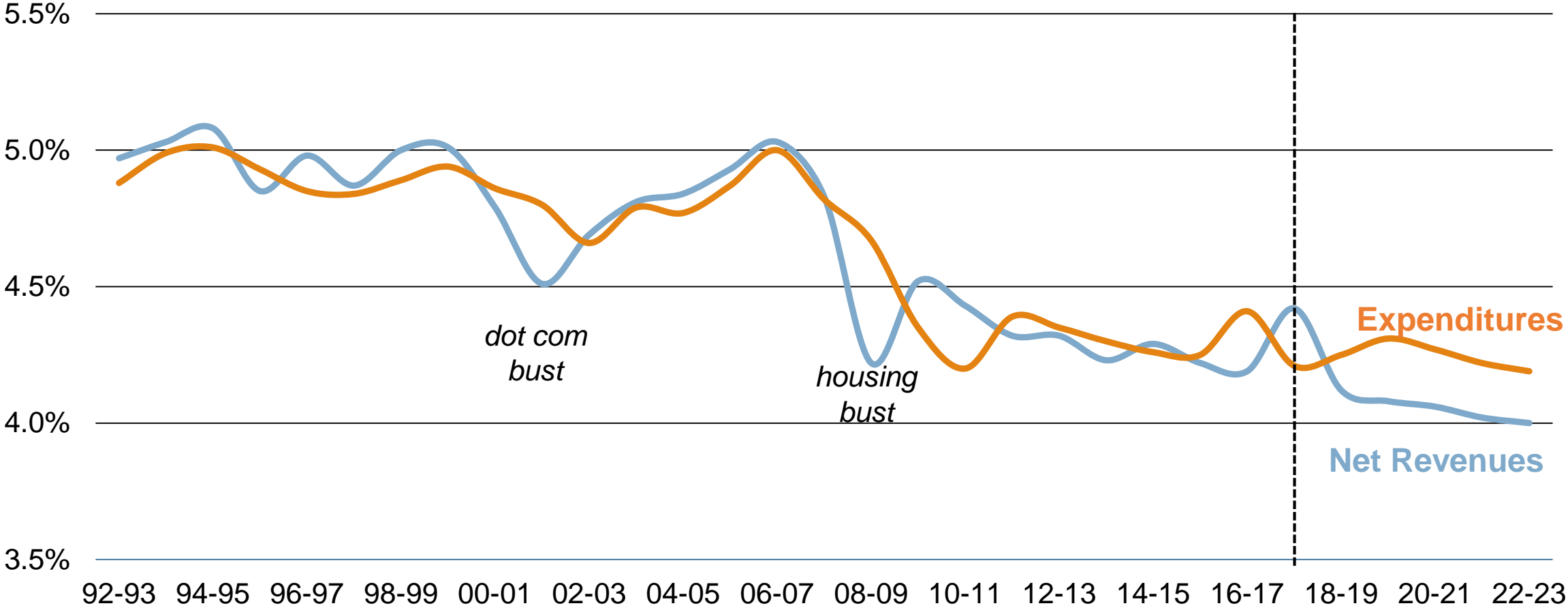
	Results thru Nov		Dollar Difference	
	Amount	Growth	Last Year	Estimate
<b>All General Fund</b>	<b>\$11,237</b>	<b>3.7%</b>	<b>\$401</b>	<b>\$26</b>
Corporate Net Income	760	3.9%	28	9
Sales and Use	4,302	3.9%	162	-9
Personal Income	4,654	4.1%	183	-7
Cigarette	522	-2.4%	-13	-13
Inheritance	403	9.3%	34	31
All Other Tax	523	8.8%	42	20
All Non-Tax	74	-32.3%	-35	-6

Note: figures in dollar millions. Estimate is from the IFO Official Estimate released in June 2017. Excludes one time slots license fee (\$50 million), a state stores fund transfer (\$100 million) and a transfer from a delinquent holding account (\$27 million) received in November 2017.

# Concern: Long-Term Tax Base Erosion



# Revenues and Expenditures Share of GDP



Note: General Fund only. Excludes special and miscellaneous funds.

# Closing Comments

- ▶ **Unclear: Impact of federal tax reform.**
  - 100% expensing (bonus depreciation). Will PA decouple?
  - How will pass through entities be treated?
- ▶ **Possible property tax reform.**
  - IFO recently issued several letters and analyses.
  - Replacement revenues if SD property tax is eliminated.
- ▶ **Future challenges to General Fund.**
  - Reduced support from other funds: Lottery, Tobacco Settlement and Motor License Funds.