Commonwealth of Pennsylvania

# OFFICIAL REVENUE ESTIMATE

FISCAL YEAR 2017-18

June 15 2017

INDEPENDENT FISCAL OFFICE

## About the Independent Fiscal Office

The Independent Fiscal Office (IFO) provides revenue projections for use in the state budget process along with impartial and timely analysis of fiscal, economic and budgetary issues to assist Commonwealth residents and the General Assembly in their evaluation of policy decisions. In that capacity, the IFO does not support or oppose any policy it analyzes, and will disclose the methodologies, data sources and assumptions used in published reports and estimates.


**Independent Fiscal Office**
**Rachel Carson State Office Building, 2nd Floor**
**400 Market Street**
**Harrisburg, PA 17105**

| | |
|---|---|
| Telephone: | 717-230-8293 |
| Email: | contact@ifo.state.pa.us |
| Website: | www.ifo.state.pa.us |
| Staff Contacts: | Matthew Knittel, Director |
| | Mark Ryan, Deputy Director |



The Independent Fiscal Office was created
by the Act of Nov. 23, 2010 (P.L.1269, No.120).

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**INDEPENDENT FISCAL OFFICE**

**Second Floor, Rachel Carson State Office Building**
**400 Market Street**
**Harrisburg, Pennsylvania 17105**

June 15, 2017

The Honorable Members of the Pennsylvania General Assembly:

The Independent Fiscal Office hereby submits its official revenue estimate in accordance with Sections 604-B (a)(1) and 605-B (b) of the Administrative Code of 1929. This report provides revenue estimates for FY 2016-17 and FY 2017-18, and supersedes the initial revenue estimate released by the Independent Fiscal Office on May 2, 2017.

This report contains estimates for unrestricted General Fund and Motor License Fund revenues that may be considered for appropriation in the General Appropriations Act. Estimates for the Lottery Fund represent net revenues after the deduction of certain expenses. Federal funds subject to appropriation are stated separately. A separate report that describes the methodologies used to produce the various revenue estimates included in this report has been posted to our website.

Questions or comments regarding the contents of this report are welcome and can be submitted to contact@ifo.state.pa.us.

Sincerely,

MATTHEW J. KNITTEL
Director

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# Economic Outlook

The economic outlook is the starting point for the General Fund revenue estimate because most revenue models require forecasts of one or more economic variables. The Pennsylvania forecast projects an acceleration of economic growth from 2016 into 2017 and 2018. (See Table 1.1.) The forecast projects that:

- Real GDP (real gross domestic product, excludes inflation) will increase by 1.8 percent (2017) and 1.9 percent (2018).
- The Philadelphia and Pittsburgh CPI-U (consumer price index) will both increase by 2.0 percent in 2017 and 2018.
- Wages and Salaries paid to Pennsylvania residents will increase by 3.7 percent (2017) and 3.8 percent (2018).
- Payroll Employment will expand by 54,400 (2017) and 52,500 (2018) jobs. These employment gains are consistent with gains for recent non-recession years.

**Table 1.1**
**Pennsylvania Economic Growth Rates or Change**

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| Real Gross Dom. Product | 1.6% | 1.9% | 2.6% | 1.1% | 1.8% | 1.9% |
| Philadelphia CPI-U | 1.2% | 1.3% | -0.1% | 0.6% | 2.0% | 2.0% |
| Pittsburgh CPI-U | 1.3% | 1.3% | 0.7% | 1.6% | 2.0% | 2.0% |
| Wages and Salaries | 1.8% | 3.9% | 4.0% | 2.8% | 3.7% | 3.8% |
| Employment Gains (000s) | 14.3 | 47.4 | 46.7 | 52.2 | 54.4 | 52.5 |

Note: Data represent calendar years.
Source: U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics.

Table 1.2 (next page) compares the economic forecast used for the Independent Fiscal Office (IFO) official estimate in June 2016 to the updated June 2017 forecast. The comparison reveals:

- An upward revision to 2015 real GDP growth, but downward revisions for 2016 and 2017.
- Lower consumer price inflation in 2016, but higher inflation for 2017.
- An upward revision to 2015 wage growth, but less growth for 2016. Wage growth is unchanged for 2017.
- Stronger job gains for the current economic forecast.

Overall, the revised forecast reveals weaker-than-anticipated economic growth for 2016, but comparable growth for 2017. These revisions motivate some of the revenue shortfall for the current fiscal year discussed in the next section of this report. The text that follows provides brief discussions for the consumer price index, payroll employment and income trends that motivate revenue projections. Unless otherwise noted, all projections are by the IFO.

**Table 1.2**
**Economic Forecast Comparison**

| | Annual Growth Rate or Change | | | |
|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 |
| **Real GDP** | | | | |
| June 2016 | 2.3% | 1.7% | 1.9% | 2.0% |
| June 2017 | 1.9% | 2.6% | 1.1% | 1.8% |
| **Philadelphia CPI-U** | | | | |
| June 2016 | 1.3% | -0.1% | 1.0% | 1.6% |
| June 2017 | 1.3% | -0.1% | 0.6% | 2.0% |
| **Wages and Salaries** | | | | |
| June 2016 | 4.0% | 3.4% | 3.2% | 3.7% |
| June 2017 | 3.9% | 4.0% | 2.8% | 3.7% |
| **Employment Gains (000s)** | | | | |
| June 2016 | 47.6 | 48.6 | 50.1 | 50.6 |
| June 2017 | 47.4 | 46.7 | 52.2 | 54.4 |

Note: Dates correspond to the month and year the economic forecasts were made.

## Consumer Price Index

For 2016, the Philadelphia CPI-U exhibited modest growth (0.6 percent) from a decline in the prior year. (See Table 1.3.) Gasoline and fuels-utilities prices continued their multi-year decline, and when combined with food-beverage, restrained growth in overall consumer prices.

The quarterly data show that inflation was relatively flat leading up to the fourth quarter of 2016. Shelter, fuels-utilities and gasoline prices strengthened in the fourth quarter, while food-beverage prices recorded further declines. The latest data release for April 2017 reveals a deceleration from the prior two quarters due to deflation for medical care (-0.7 percent) and education-communication (-3.1 percent, not shown) services, despite gains in food-beverage prices (1.2 percent). The forecast projects that inflation will accelerate through the rest of the calendar year.

**Table 1.3**
**Philadelphia Metro Area Consumer Inflation**

| | Year-Over-Year Growth Rates | | | | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 |
| **Philadelphia Metro CPI-U** | **1.8%** | **1.2%** | **1.3%** | **-0.1%** | **0.6%** |
| Food-Beverage | 2.2 | 1.3 | 2.0 | 1.9 | -0.2 |
| Shelter (mortgage-rent) | 2.2 | 1.4 | 2.3 | 2.1 | 1.2 |
| Fuels-Utilities | -1.3 | -0.7 | 0.1 | -5.3 | -2.2 |
| Apparel | 5.7 | 0.3 | -0.4 | -4.3 | 3.3 |
| Gasoline | 4.0 | -3.8 | -2.7 | -28.4 | -10.4 |
| Medical Care | 1.8 | 2.2 | 2.5 | 4.4 | 3.5 |
| Core (exclude energy) | 1.9 | 1.6 | 1.7 | 1.6 | 1.2 |
| | **Year-Over-Year Growth Rates, Recent Quarters** | | | | |
| | **2016.2** | **2016.3** | **2016.4** | **2017.1** | **2017.2** |
| **Philadelphia Metro CPI-U** | **0.4%** | **0.4%** | **1.5%** | **2.1%** | **1.1%** |
| Food-Beverage | -0.5 | -0.2 | -0.9 | -0.7 | 1.2 |
| Shelter (mortgage-rent) | 0.9 | 1.0 | 2.0 | 2.1 | 2.2 |
| Fuels-Utilities | -2.8 | -2.3 | 0.2 | 0.4 | 1.3 |
| Apparel | 6.7 | 2.3 | 6.5 | 4.5 | 2.1 |
| Gasoline | -14.0 | -13.4 | 6.3 | 31.4 | 12.3 |
| Medical Care | 3.7 | 4.3 | 3.4 | 2.1 | -0.7 |
| Core (exclude energy) | 1.1 | 1.1 | 1.5 | 1.4 | 0.7 |

Source: U.S. Bureau of Labor Statistics. CPI-U for the Philadelphia-Wilmington-Atlantic City metro area.

## Payroll Employment

For 2017, the forecast projects that Pennsylvania payroll employment will increase by 54,400 full and part-time jobs. The mining, manufacturing and local government sectors are projected to contract, while all other sectors record expansions. (See Table 1.4.) For local government, the contraction is attributable to educational services, as opposed to municipal jobs. The professional services (includes management and administrative sectors), healthcare-social and leisure-hospitality service sectors comprise roughly 75 percent of the projected job gains. The construction and transportation sectors also record solid job gains.

Preliminary data for the first quarter of 2017 reveal a significant contraction in the manufacturing and mining sectors. (See final column.) The healthcare-social service sector recorded unusually strong gains (31,600), and the forecast assumes that those gains will be reduced once final data are published. The all other category also recorded an unusual gain (in the education sector for colleges, universities and professional schools), and the forecast assumes that gain will be reduced once final data are published. Despite these anticipated reductions, data for the first quarter of 2017 suggest a solid expansion of the Pennsylvania labor market (68,900 annualized rate). Preliminary data for April 2017 suggest an annual gain of 45,300 jobs over April 2016, yielding a total annualized gain of 63,000 for the first four months of 2017.

**Table 1.4**
**Change in Pennsylvania Payroll Employment (000s)**

| | 2013 | 2014 | 2015 | 2016 | 2017 | Pace for 2017 Q1[1] |
|---|---|---|---|---|---|---|
| Mining | -1.1 | 1.7 | -3.8 | -9.0 | -1.5 | -3.5 |
| Construction | -0.4 | 4.8 | 6.5 | 3.7 | 7.5 | 7.3 |
| Manufacturing | -2.7 | 3.0 | 0.0 | -9.3 | -3.1 | -6.5 |
| Wholesale-Retail | -1.3 | 2.8 | 1.0 | -2.7 | 0.3 | -2.4 |
| Transportation | 2.7 | 7.4 | 11.2 | 9.0 | 6.5 | 8.3 |
| Professional Services | 14.9 | 13.3 | 18.0 | 14.4 | 12.4 | 10.7 |
| Health-Social | 6.5 | 14.3 | 11.2 | 23.7 | 18.5 | 31.6 |
| Leisure-Hospitality | 8.0 | 5.1 | 7.5 | 13.1 | 10.0 | 12.2 |
| All Government | -11.9 | -9.4 | -6.5 | 0.0 | -0.6 | -1.4 |
| Federal | -3.4 | -1.3 | 0.4 | 0.9 | 0.0 | 1.2 |
| State | -1.0 | -0.7 | -0.1 | 0.0 | 0.1 | -2.3 |
| Local | -7.5 | -7.3 | -6.8 | -0.9 | -0.7 | -0.3 |
| All Other | -0.6 | 4.3 | 1.5 | 9.3 | 4.3 | 12.7 |
| **Total Annual Change** | **14.3** | **47.4** | **46.7** | **52.2** | **54.4** | **68.9** |

Note: Professional Services includes the Management and Administration sectors.

[1] Figures represent annualized pace of employment growth for 2017 Q1.

Source: U.S. Bureau of Labor Statistics. Forecast by IFO.

## Pennsylvania Current Income

Current Income, a measure constructed by the IFO, includes all income received by Pennsylvania residents. It has five components: (1) wages and salaries, (2) capital income (interest, dividends, rent-royalties and capital gains), (3) net business profits (partnerships, S corporations and sole proprietors), (4) retirement income (pensions and IRAs) and (5) government transfers (Social Security and income maintenance benefits). Unlike income measures published by the U.S. Bureau of Economic Analysis in the National Income and Product Accounts, Current Income does not include imputed income, and reflects actual income received that can be spent or saved. It also includes realized capital gains, which are excluded from published income measures.

For 2016, the forecast shows modest or negative growth for all income sources except retirement and savings. For 2017, the forecast projects solid growth for capital income (9.7 percent) as capital gains, interest and dividends outpace general economic growth. Net business profits (8.1 percent) expand at a faster pace, and exceed growth in wages paid to employees (3.7 percent). Government transfers (2.9 percent) grow moderately due to the small cost of living adjustment (0.3 percent) for Social Security recipients. The forecast assumes that some capital and business income was shifted from 2016 into 2017 due to an anticipated federal income tax rate cut.

**Table 1.5**
**Pennsylvania Current Income**

| | Dollar Amounts (billions) | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | |
| Wages-Salaries[1] | $294.1 | $306.1 | $317.1 | $326.2 | $338.3 | $351.1 | |
| Interest-Divs-Gains | 49.4 | 58.3 | 61.8 | 59.9 | 65.7 | 70.3 | |
| Net Business | 54.3 | 57.2 | 61.3 | 61.9 | 67.0 | 70.3 | |
| Retirement-Savings | 48.3 | 51.6 | 54.9 | 58.1 | 61.4 | 64.9 | |
| Gov't Transfers | 58.1 | 58.2 | 59.9 | 61.0 | 62.7 | 65.6 | |
| **Total** | **504.2** | **531.4** | **555.0** | **567.1** | **595.2** | **622.2** | |
| | **Annual Growth Rates** | | | | | | |
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | AAGR[2] |
| Wages-Salaries[1] | 1.8% | 4.1% | 3.6% | 2.9% | 3.7% | 3.8% | 3.6% |
| Interest-Divs-Gains | -13.5 | 18.0 | 6.0 | -3.2 | 9.7 | 7.1 | 7.3 |
| Net Business | -1.5 | 5.3 | 7.3 | 1.0 | 8.1 | 5.0 | 5.3 |
| Retirement-Savings | 7.2 | 6.9 | 6.4 | 5.7 | 5.8 | 5.6 | 6.1 |
| Gov't Transfers | 1.0 | 0.2 | 2.9 | 1.9 | 2.9 | 4.5 | 2.5 |
| **Total** | **0.1** | **5.4** | **4.4** | **2.2** | **5.0** | **4.5** | **4.3** |

[1] Includes resident adjustment for individuals who live in Pennsylvania but work in another state.
[2] Average annual growth rate from 2013 to 2018.
Note: For additional detail regarding Current Income, see Revenue Estimate Methodology, IFO (June 2017).

## Economic and Tax Revenue Growth

Table 1.6 provides a comparison of annual growth rates for (1) three major income forecasts, (2) personal income tax (PIT) revenues and (3) sales and use tax (SUT) revenues over the most recent five-year period. The three income series motivate the projection of these major revenue sources. Current Income typically outpaces wages and salaries because it includes business profits and capital income, which have relatively high growth rates, as shown by the all other income line.

The five-year average growth rate for PIT revenues is 3.1 percent per annum (tax year or calendar year basis). Non-withholding revenues, which are driven by business income and capital gains, declined in 2016 but generally grow at a faster pace than withholding if not impacted by actual (2013, the "fiscal cliff") or anticipated (2016) changes in the federal tax code. SUT revenues grow at an average rate of 2.6 percent per annum. As shown by Table 1.6, taxable consumer spending generally expands at a slower rate than income when trends are viewed over multiple years. For 2017, the forecast projects that resident incomes will expand by 5.0 percent, nearly the same rate as PIT revenues, and considerably faster than SUT revenues (2.4 percent). Data for the first five months of the calendar year show that base non-motor SUT revenues (excludes tax law changes) increased by only 0.7 percent from the prior year.

The table illustrates two factors that negatively impact revenues for this and next fiscal year. First, modest income growth for CY 2016 across many income sources. (See Table 1.5.) Second, an unusually large difference in growth rates between income (5.0 percent) and taxable spending, or SUT revenues (2.4 percent) for CY 2017.

**Table 1.6**
**Primary Economic and Revenue Series**

| | Annual Growth Rates, Calendar Years | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | AAGR[1] |
| Current Income | 0.1% | 5.4% | 4.4% | 2.2% | 5.0% | 3.4% |
| Wages-Salaries | 1.8 | 4.1 | 3.6 | 2.9 | 3.7 | 3.2 |
| All Other Income | -2.2 | 7.2 | 5.6 | 1.2 | 6.6 | 3.6 |
| Personal Income Tax | -0.1 | 5.3 | 3.9 | 1.0 | 5.3 | 3.1 |
| Withholding[2] | 2.3 | 3.1 | 3.5 | 2.5 | 3.9 | 3.1 |
| Non-Withholding | -7.5 | 12.5 | 5.0 | -3.4 | 9.8 | 3.0 |
| Sales and Use Tax | 1.7 | 3.8 | 3.1 | 1.7 | 2.4 | 2.6 |
| Non-Motor Vehicle[3] | 1.4 | 3.2 | 3.1 | 2.1 | 2.0 | 2.4 |
| Motor Vehicle | 3.3 | 7.6 | 3.2 | -0.4 | 5.2 | 3.8 |

[1] Average annual growth rate from 2012 to 2017.

[2] The 2014 PIT withholding rate has been adjusted to account for one extra deposit day. Computations exclude transfers to the Enhanced Revenue Collections Account (ERCA).

[3] The SUT non-motor growth rate excludes recent tax law changes and transfers to ERCA.

# Official Revenue Estimate

This section provides revised revenue estimates for FY 2016-17 and official estimates for FY 2017-18 for the General Fund, Motor License Fund, Lottery Fund and federal funds subject to appropriation. The subsequent pages provide detail on the projected levels and growth rates for those funds. An appendix contains historical data that displays long-term revenue and economic trends.

For the purpose of this official revenue estimate, all projections are made on a "current law" basis. Therefore, revenue projections exclude any statutory changes or administrative actions proposed in the Executive Budget.[1]

## The General Fund

In June 2016, the Independent Fiscal Office (IFO) released its official General Fund revenue estimate of $32.5 billion for FY 2016-17.[2] On May 2, 2017, the office released a revised estimate that reduced that estimate by $695 million.[3] Based on revenue collections since May, projections for June and the determination that an anticipated $200 million transfer will not occur, this release further reduces collections by $205 million, for a total reduction of $900 million from the June 2016 estimate. (See Table 2.1.) Relative to FY 2015-16, this latest estimate reflects an increase of $709 million (2.3 percent).

For FY 2017-18, the official estimate is $32.5 billion, an increase of $880 million over the current fiscal year. (See Table 2.2.) The underlying base growth rate is 3.9 percent, but certain technical factors reduce the projected growth rate to 2.8 percent:

- Special fund transfers in FY 2016-17 do not recur ($231 million).
- The 2017 tax amnesty has a positive impact on revenue in FY 2016-17 ($100 million), but reduces revenue in FY 2017-18 ($10 million).
- The capital stock and franchise tax is eliminated in FY 2017-18 ($25 million).
- Credits enacted in July 2016 reduce revenues in FY 2017-18 ($20 million).
- Receipt of a one-time settlement payment in FY 2016-17 ($18 million).

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[1] An analysis of the proposed statutory changes can be found in *Analysis of Revenue Proposals in the 2017-18 Executive Budget,* IFO (April 2017) at http://www.ifo.state.pa.us/releases.cfm?type=6.
[2] The $32.5 billion includes adjustments to reflect tax law changes enacted in July 2016.
[3] The initial May estimate can be found at: http://www.ifo.state.pa.us/releases.cfm?type=6.

**Table 2.1**
**Adjustment to Revenue Estimate for FY 2016-17**

| | June 2016 Estimate | | June 2017 Estimate | | Dollar |
|---|---|---|---|---|---|
| | Amount | Growth | Amount | Growth | Change |
| **Total General Fund** | **$32,510** | **5.2%** | **$31,610** | **2.3%** | **-$900** |
| **Total Tax Revenue** | **31,675** | **4.7** | **30,707** | **1.5** | **-968** |
| **Total Corporation Taxes** | **5,036** | **-1.9** | **4,814** | **-6.2** | **-222** |
| Corporate Net Income | 2,945 | 3.6 | 2,761 | -2.9 | -184 |
| Gross Receipts | 1,260 | -3.5 | 1,223 | -6.3 | -37 |
| Utility Property | 41 | 4.8 | 40 | 3.0 | -1 |
| Insurance Premiums | 431 | -7.3 | 441 | -5.0 | 10 |
| Financial Institutions | 359 | 8.8 | 321 | -2.8 | -38 |
| Other Corporate Taxes | 0 | -100.0 | 28 | -81.6 | 28 |
| **Total Consumption Taxes** | **11,969** | **8.0** | **11,706** | **5.7** | **-263** |
| Sales and Use | 10,240 | 4.5 | 9,970 | 1.8 | -270 |
| Non-Motor | 8,859 | 4.9 | 8,597 | 1.8 | -262 |
| Motor | 1,382 | 2.6 | 1,373 | 1.9 | -9 |
| Cigarette | 1,286 | 41.1 | 1,266 | 38.9 | -20 |
| Other Tobacco Products | 45 | n.a. | 84 | n.a. | 39 |
| Malt Beverage | 25 | 0.2 | 24 | -2.6 | -1 |
| Liquor | 372 | 6.8 | 362 | 4.1 | -10 |
| **Total Other Taxes** | **14,670** | **4.5** | **14,187** | **1.0** | **-483** |
| Personal Income | 13,056 | 4.4 | 12,662 | 1.3 | -394 |
| Withholding | 9,680 | 3.1 | 9,618 | 2.4 | -62 |
| Quarterly | 1,883 | 6.2 | 1,738 | -2.0 | -145 |
| Annual | 1,493 | 11.2 | 1,306 | -2.7 | -187 |
| Realty Transfer | 506 | 5.1 | 480 | -0.4 | -26 |
| Inheritance | 1,013 | 5.2 | 968 | 0.6 | -45 |
| Table Games | 123 | 23.2 | 121 | 21.2 | -2 |
| Minor and Repealed | -28 | -418.1 | -45 | -734.3 | -17 |
| **Total Non-Tax Revenue** | **836** | **29.8** | **903** | **40.3** | **67** |
| State Store Fund Transfers | 142 | 41.8 | 217 | 117.1 | 75 |
| Licenses and Fees | 132 | 12.9 | 120 | 3.0 | -12 |
| Treasury | 14 | -0.4 | 19 | 38.0 | 5 |
| Escheats | 128 | -49.0 | 179 | -28.5 | 51 |
| Other Miscellaneous | 326 | 258.9 | 293 | 222.4 | -33 |
| Fines, Penalties & Interest | 95 | 31.3 | 75 | 4.5 | -20 |

Note: figures in dollar millions. Due to rounding, detail may not sum to total. Growth rates based on the unrounded amounts.

**Table 2.2**
**General Fund Estimate for FY 2017-18**

| | Estimated 2016-17 | | Projected 2017-18 | |
|---|---|---|---|---|
| | Amount | Growth | Amount | Growth |
| **Total General Fund** | **$31,610** | **2.3%** | **$32,491** | **2.8%** |
| **Total Tax Revenue** | **30,707** | **1.5** | **31,773** | **3.5** |
| **Total Corporation Taxes** | **4,814** | **-6.2** | **4,906** | **1.9** |
| Corporate Net Income | 2,761 | -2.9 | 2,855 | 3.4 |
| Gross Receipts | 1,223 | -6.3 | 1,241 | 1.5 |
| Utility Property | 40 | 3.0 | 42 | 3.7 |
| Insurance Premiums | 441 | -5.0 | 446 | 1.0 |
| Financial Institutions | 321 | -2.8 | 323 | 0.6 |
| Other Corporation Taxes | 28 | -81.6 | 0 | -100.0 |
| **Total Consumption Taxes** | **11,706** | **5.7** | **11,995** | **2.5** |
| Sales and Use | 9,970 | 1.8 | 10,236 | 2.7 |
| Non-Motor | 8,597 | 1.8 | 8,833 | 2.7 |
| Motor | 1,373 | 1.9 | 1,404 | 2.2 |
| Cigarette | 1,266 | 38.9 | 1,241 | -2.0 |
| Other Tobacco Products | 84 | n.a. | 114 | 36.7 |
| Malt Beverage | 24 | -2.6 | 23 | -5.3 |
| Liquor | 362 | 4.1 | 381 | 5.2 |
| **Total Other Taxes** | **14,187** | **1.0** | **14,871** | **4.8** |
| Personal Income | 12,662 | 1.3 | 13,322 | 5.2 |
| Withholding | 9,618 | 2.4 | 9,975 | 3.7 |
| Quarterly | 1,738 | -2.0 | 1,875 | 7.8 |
| Annual | 1,306 | -2.7 | 1,472 | 12.7 |
| Realty Transfer | 480 | -0.4 | 504 | 5.0 |
| Inheritance | 968 | 0.6 | 970 | 0.2 |
| Table Games | 121 | 21.2 | 122 | 0.2 |
| Minor and Repealed | -45 | -734.3 | -46 | -2.0 |
| **Total Non-Tax Revenue** | **903** | **40.3** | **718** | **-20.5** |
| State Store Fund Transfers | 217 | 117.1 | 185 | -14.8 |
| Licenses and Fees | 120 | 3.0 | 173 | 43.6 |
| Treasury | 19 | 38.0 | 19 | 2.1 |
| Escheats | 179 | -28.5 | 221 | 23.2 |
| Other Miscellaneous | 293 | 222.4 | 44 | -85.1 |
| Fines, Penalties & Interest | 75 | 4.5 | 77 | 1.9 |

Note: figures in dollar millions. Due to rounding, detail may not sum to total. Growth rates based on the unrounded amounts.

The text that follows provides a brief description of the factors that motivate trends across revenue sources for FY 2016-17 and FY 2017-18.

## Corporate Net Income

The revised corporate net income tax (CNIT) estimate for FY 2016-17 is $2,761 million. The estimate reflects a decrease of $82 million (-2.9 percent) over the prior fiscal year, and is $184 million lower than the IFO's official estimate. The revision is largely driven by weak final payments attributable to tax years 2015 and 2016. These payments reflect large year-over-year declines in domestic, non-financial corporate profits for many sectors, including petroleum and coal products, utilities, machinery, and computer and electronic products.

The FY 2017-18 forecast projects that domestic, non-financial corporate profits will increase at a rapid rate in 2017 (7.9 percent) and 2018 (9.6 percent). CNIT revenues are projected to grow at a slower rate (3.4 percent) due to the complete phase-out of the capital stock and franchise tax, which reduces revenues as unused capital stock and franchise tax credits are transferred and applied against the CNIT. Several new tax credits enacted in 2016 also restrain CNIT revenues.

## Gross Receipts

The revised gross receipts tax (GRT) estimate for FY 2016-17 is $1,223 million. The estimate reflects a decrease of $82 million (-6.3 percent) from the prior fiscal year, and is $37 million lower than the IFO's official estimate. The downward revision is attributable to both the electric and telecommunications sectors, which generated weaker than anticipated estimated payments in March for tax year 2017. Preliminary data suggest that the decline in electric payments may be attributable to falling prices and reduced demand for the first quarter of 2017. Weak telecommunications remittances are likely affected by the continued erosion of the tax base, specifically, the shift to data services (not subject to GRT) and the bundling of telecommunication services for a flat fee. For FY 2017-18, GRT revenues are projected to increase by 1.5 percent, as electric revenues stabilize.

## Sales and Use

The revised sales and use tax estimate for FY 2016-17 is $9,970 million. The estimate reflects an increase of $175 million (1.8 percent) over the prior fiscal year, and is $270 million lower than the IFO's official estimate. Motor vehicle revenues expand moderately, with projected growth of 1.9 percent for this fiscal year. Non-motor revenues are projected to grow at a rate of 1.8 percent, and recent tax law changes (cap on vendor discount, expansion of tax base to include digital downloads, tax amnesty) were the primary factors driving growth. If those changes and new special fund transfers (Commonwealth Financing Authority) are excluded, the underlying base growth rate is 0.9 percent.

For FY 2017-18, the forecast projects that total sales tax revenues will increase by 2.7 percent, and the growth of non-motor revenues (2.7 percent) will outpace motor vehicle revenues (2.2 percent). The modest increase in non-motor vehicle revenues is due to the expiration of tax amnesty and increased transfers to the Commonwealth Financing Authority.

## Personal Income

The revised personal income tax estimate for FY 2016-17 is $12,662 million. The estimate reflects an increase of $156 million (1.3 percent) over the prior fiscal year, and is $394 million lower than the IFO's official estimate. The shortfall is split between withholding (-$62 million), quarterly (-$145 million) and annual (-$187 million) collections. For tax year 2016, weak quarterly and annual payments are due to lower-than-expected growth in non-withheld sources of income such as dividends, capital gains, net business profits, rents and royalties. The forecast includes a significant decline in Marcellus shale royalty payments for 2016 due to very low natural gas prices. The forecast also reflects a shift of business profits and capital gains from tax year 2016 to 2017 by high-income tax filers who may have delayed the realization of certain income at the end of 2016 in anticipation of lower federal tax rates in 2017.[4]

For FY 2017-18, the forecast projects a solid increase ($659 million, 5.2 percent) in personal income taxes. (See Table 2.2.) Withholding revenues increase by 3.7 percent ($357 million), while revenues from non-withheld income exhibit stronger growth ($302 million, 9.9 percent), partly due to the income shift from the prior year.

## Other Revenue Sources

Other revenue sources that have a notable impact on General Fund revenue trends for FY 2016-17 and FY 2017-18 include:

- Tax law changes that became effective August 1, 2016 (1) increased the state cigarette tax from $1.60 to $2.60 per pack, (2) created a Philadelphia local tax transfer to hold the city harmless from any decline in local cigarette tax collections and (3) increased the transfer to the Agricultural Conservation Easement Purchase Fund (ACEP) by $5 million. These provisions are projected to increase net cigarette tax collections by $388 million in FY 2016-17 and $400 million in FY 2017-18.
- A tax on other tobacco products (OTP) was also enacted in 2016. Under those provisions, a tax of $0.55 per ounce is imposed on smokeless, pipe and roll-your-own tobacco. In addition, a 40 percent tax is imposed on the wholesale price of e-cigarette products, including any liquids sold for use in e-cigarettes. For FY

[4] In April, federal and state governments receive significant final or annual payments for the prior tax year. For April 2017, these final payments were down roughly 4 percent for Pennsylvania and the federal government. Most of those payments are attributable to individuals with business or capital income upon which tax was not withheld.

2016-17, OTP revenues have been higher than anticipated and are expected to reach $84 million. For FY 2017-18 (first full year of the tax), collections are projected at $114 million.

- License and fees collections for FY 2017-18 include the payment of the $50 million slots license fee by the second Philadelphia category 2 facility.
- Bank shares collections are expected to decline by 3.6 percent for FY 2016-17, despite an increase in the tax rate from 0.89 percent to 0.95 percent effective January 1, 2017.

## The Motor License Fund

The Motor License Fund (MLF) includes various excise taxes levied on a per gallon basis and revenue from license and registration fees. The official estimate projects that MLF collections will grow at a rate of 2.1 percent ($57 million) for FY 2016-17 and 3.1 percent ($84 million) for FY 2017-18.

Motor License Fund revenues continue to be impacted by Act 89 of 2013. The legislation (1) tied increases for most fees levied under Title 75 to the rate of inflation,[5] (2) transitioned certain fee revenue to the Multimodal Transportation Fund and Public Transportation Trust Fund over a period of four years,[6] (3) gradually lifted the average wholesale price (AWP) of fuel, until the cap was eliminated for calendar year 2017[7] and (4) repealed the liquid fuels and fuels taxes and replaced them with an oil company franchise tax (OFT) component. Act 89 fee increases scheduled to take effect July 1, 2017 were determined based on the change in the consumer price index for all urban consumers (CPI-U) for the period February 1, 2015 to January 31, 2017, or 3.9075 percent. Unrestricted revenue from the excise taxes imposed on fuel consumed by motor vehicles generates the largest share of MLF collections (roughly 60 percent).

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[5] Inflation adjustments occur in calendar years ending in an odd number.
[6] Those fees will be fully transitioned beginning with FY 2017-18.
[7] The OFT rate on a cents per gallon basis is calculated annually based on the AWP of gasoline and diesel fuel. Beginning with calendar year 2017, the minimum AWP is set at $2.99 per gallon. For the 12-month period ending September 30, 2016, the Department of Revenue determined the actual AWP to be $1.42 per gallon. Therefore, the AWP used to calculate the 2017 OFT rates was the statutory minimum of $2.99 per gallon.

**Table 2.3**
**Motor License Fund Summary**

| | Estimated 2016-17 | | Projected 2017-18 | |
|---|---|---|---|---|
| | Amount | Growth | Amount | Growth |
| **Total Motor License Fund** | **$2,714** | **2.1%** | **$2,798** | **3.1%** |
| Oil Company Franchise | 893 | 6.7 | 951 | 6.5 |
| Act 89 OFT - Liquid Fuels | 566 | -0.4 | 567 | 0.2 |
| Act 89 OFT - Fuels | 146 | -2.6 | 147 | 0.1 |
| Other Liquid Fuels Taxes | 111 | 5.8 | 115 | 4.2 |
| **Motor Licenses and Fees** | **975** | **1.2** | **994** | **2.0** |
| Vehicle Registration & Titling | 736 | 2.1 | 754 | 2.4 |
| Registration Other States - IRP | 119 | -3.0 | 122 | 2.5 |
| Operator's Licenses | 70 | -2.6 | 70 | 0.4 |
| Other Licenses and Fees | 51 | 4.5 | 49 | -2.8 |
| **Other Motor Receipts** | **24** | **-32.4** | **24** | **-1.2** |
| Treasury | 15 | -22.9 | 15 | 2.7 |
| Transportation | 9 | -33.1 | 8 | -7.8 |
| General Services | 1 | -6.1 | 1 | 0.0 |

Note: figures in dollar millions. Due to rounding, detail may not sum to total. Growth rates based on the unrounded amounts.

## The Lottery Fund

The official revenue estimate projects that Lottery Fund net revenues will decrease by $85 million (-4.6 percent) for FY 2016-17 and increase by $37 million (2.1 percent) for FY 2017-18. Instant ticket sales, which include Fast Play, decrease by $13 million (-0.5 percent) for the current fiscal year and increase by $58 million (2.1 percent) for FY 2017-18. Sales of numbers games (Pick 2, Pick 3, Pick 4, Pick 5 and Wild Ball) exhibit steady growth for this fiscal year (1.9 percent) and a slight decline next year (-1.6 percent). Following a significant jackpot year in FY 2015-16, multi-state lotto sales moderate in FY 2016-17 (-25.9 percent). The FY 2017-18 estimate assumes multi-state lotto sales increase by 8.7 percent, returning to historical levels.

**Table 2.4**
**Lottery Fund Summary**

| | Estimated 2016-17 | | Projected 2017-18 | |
|---|---|---|---|---|
| | Amount | Growth | Amount | Growth |
| **Total Lottery Fund** | **$1,759** | **-4.6%** | **$1,796** | **2.1%** |
| Gross Ticket Sales | 3,999 | -3.3 | 4,086 | 2.2 |
| Field Paid Prizes & Commissions | -2,399 | -2.4 | -2,438 | 1.6 |
| Miscellaneous Revenues | 159 | -5.4 | 148 | -6.9 |
| **Detail** | | | | |
| Gross Ticket Sales | 3,999 | -3.3 | 4,086 | 2.2 |
| Instant Tickets | 2,780 | -0.5 | 2,838 | 2.1 |
| Multi-State Lotto Games | 368 | -25.9 | 400 | 8.7 |
| In-State Lotto | 259 | -2.4 | 265 | 2.4 |
| Numbers Games | 592 | 1.9 | 583 | -1.6 |
| Miscellaneous Revenues | 159 | -5.4 | 148 | -6.9 |
| Gaming Fund Transfers | 148 | -11.4 | 146 | -1.4 |
| Other Miscellaneous Revenue | 11 | n.a. | 2 | -81.8 |

Note: figures in dollar millions. Due to rounding, detail may not sum to total. Growth rates based on the unrounded amounts. Raffle included in In-State Lotto.

## Federal Funds

Federal funds appropriations confer authority to spend money that the federal government may provide, and state agencies request annual spending authority as part of the budget process. In general, a federal funds appropriation does not guarantee funding at any particular level. In fact, the actual funds received and disbursed may be considerably less than the appropriated amounts. Agencies typically request authority to spend all federal funds anticipated for a given fiscal year.

The IFO reviewed Request for Appropriation of Federal Funds (RAFF) forms and reports provided by the Office of the Budget regarding requested federal funds authority. These reports show a 0.2 percent decrease in requested federal funds spending authority across all agencies for next fiscal year. Therefore, the office projects that agencies will require $26.3 billion in federal funds authority from the General Assembly for FY 2017-18. Executive authorizations are not included.

The departments of Human Services (DHS), Education and Health comprise roughly 92 percent of the total federal funds authority requested by the Commonwealth. The text that follows provides highlights for those agencies.

**Table 2.5**
**Federal Funds Summary**

| | Available 2016-17 | | Projected 2017-18 | |
|---|---|---|---|---|
| | Amount | Growth | Amount | Growth |
| **Total Federal Funds** | **$26,382** | **7.5%** | **$26,336** | **-0.2%** |
| **Human Services** | **21,388** | **9.7** | **21,385** | **0.0** |
| Medical Assistance | 18,268 | 10.0 | 18,275 | 0.0 |
| Social Services | 1,150 | -1.8 | 1,150 | 0.0 |
| Child Services | 950 | 5.8 | 935 | -1.5 |
| Administration Grants | 530 | 29.4 | 544 | 2.7 |
| Children's Health Insurance | 387 | 20.8 | 411 | 6.1 |
| ARRA | 103 | 1.1 | 70 | -31.4 |
| **Education** | **2,389** | **0.7** | **2,367** | **-0.9** |
| Grants and Subsidies | 2,144 | 1.0 | 2,179 | 1.6 |
| Administration Grants | 210 | -1.1 | 163 | -22.8 |
| Assessments | 22 | 0.0 | 15 | -31.8 |
| All Other | 13 | -19.4 | 11 | -13.9 |
| **Health** | **561** | **6.0** | **564** | **0.5** |
| WIC | 276 | 0.0 | 276 | 0.0 |
| Administration Grants | 77 | -2.3 | 88 | 14.4 |
| State Health Centers | 31 | -8.8 | 30 | -5.4 |
| All Others | 176 | 26.2 | 170 | -3.7 |
| **All Other Agencies** | **2,044** | **-4.3** | **2,020** | **-1.2** |

Note: figures in dollar millions. Due to rounding, detail may not sum to total. Growth rates based on the unrounded amounts.

## Department of Human Services

For FY 2017-18, DHS requests authority to spend up to $21.4 billion in federal funds, roughly the same amount as the current year. Federal funds authorized for DHS comprise approximately 81 percent of the Commonwealth's total federal funds authority for FY 2017-18.

The federal government provides financial assistance to the Commonwealth for Medical Assistance (MA) payments made on behalf of eligible recipients who receive various medical services. This assistance generally requires state matching funds and represents the largest commitment of federal funds ($18.3 billion) in the state budget. (See Table 2.5.) Beginning January 1, 2017, the federal match rate for recipients granted coverage under the MA expansion provisions of the Affordable Care Act falls from 100 percent to 95 percent. The federal match rate further declines to 94 percent effective January 1, 2018. As a result, the FY 2017-18 MA amount is roughly the same as the current fiscal year.

Social services grants ($1.1 billion) provide funds for programs that promote self-sufficiency, discourage substance abuse and provide shelters to counter domestic violence. Child services grants ($935 million) reimburse counties for various programs that provide services to eligible children. Administration grants ($544 million) provide for the reimbursement of administrative costs and funding for various training programs.

## Department of Education

For FY 2017-18, the Department of Education requests authority to spend up to $2.4 billion in federal funds, a decrease of 0.9 percent over the current year. Grants and subsidies ($2.2 billion) comprise 92 percent of education-related federal funds. The grants provide funding for improvement initiatives for educationally-deprived students, students with disabilities and limited English proficiency. Administration grants are expected to decline by $48 million (-22.8 percent) for FY 2017-18. The reduction is due largely to the absence of Preschool Development Grants in that year ($30 million in FY 2016-17).

## Department of Health

For FY 2017-18, the Department of Health requests authority to spend up to $564 million in federal funds, an increase of 0.5 percent over the current year. Of that amount, $276 million will be used for the Women, Infants, and Children (WIC) program. WIC provides nutrition services, breast feeding support, healthcare and social service referrals and healthy foods to an average of over 240,000 participants per month.

# Appendix: Historical Data

**Table A.1**
**Historical General Fund Revenues**

| Fiscal Year | Total | Corp. Net Inc. | Other Corporate | Sales and Use | Personal Income | All Other |
|---|---|---|---|---|---|---|
| 2007-08 | $27,928 | $2,418 | $3,040 | $8,497 | $10,908 | $3,066 |
| 2008-09 | 25,530 | 1,980 | 2,854 | 8,136 | 10,199 | 2,361 |
| 2009-10 | 27,648 | 1,791 | 2,788 | 8,029 | 9,969 | 5,071 |
| 2010-11 | 27,497 | 2,131 | 2,761 | 8,590 | 10,436 | 3,579 |
| 2011-12 | 27,678 | 2,022 | 2,941 | 8,772 | 10,801 | 3,141 |
| 2012-13 | 28,647 | 2,423 | 2,766 | 8,894 | 11,371 | 3,192 |
| 2013-14 | 28,607 | 2,502 | 2,397 | 9,130 | 11,437 | 3,142 |
| 2014-15 | 30,593 | 2,811 | 2,305 | 9,493 | 12,107 | 3,875 |
| 2015-16 | 30,902 | 2,842 | 2,291 | 9,795 | 12,506 | 3,467 |
| 2016-17 | 31,610 | 2,761 | 2,053 | 9,970 | 12,662 | 4,164 |
| 2017-18 | 32,491 | 2,855 | 2,051 | 10,236 | 13,322 | 4,026 |
| AAGR | 1.5% | 1.7% | -3.9% | 1.9% | 2.0% | 2.8% |

Note: figures in dollar millions. Due to rounding, detail may not sum to total. AAGR is the average annual growth rate from 2007-08 to 2017-18.

**Figure A.1**
**Annual Growth Rates of Selected Tax Revenue Sources**

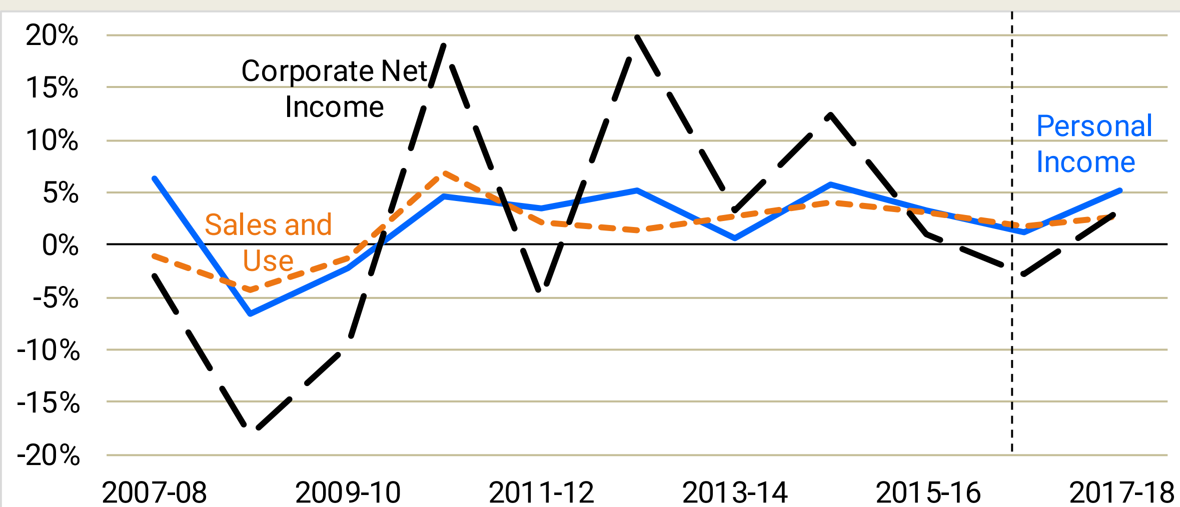


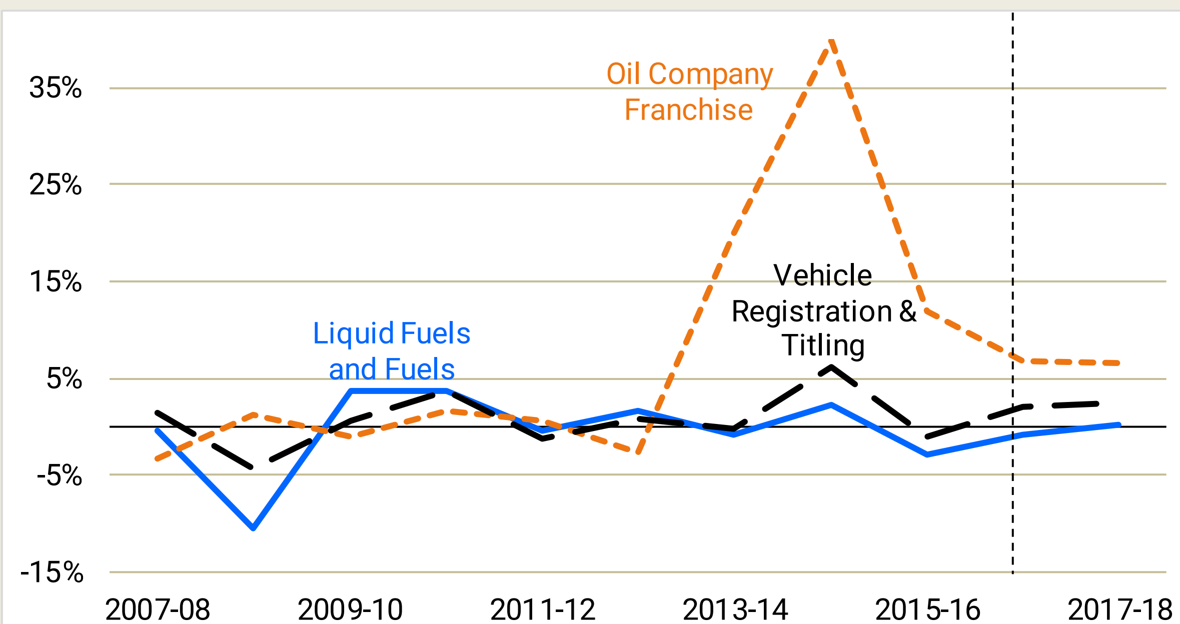
**Table A.2**
**Historical Motor License Fund Revenues**

| Fiscal Year | Total | Liquid Fuels and Fuels[1] | Oil Company Franchise | Vehicle Reg. and Titling | All Other |
|---|---|---|---|---|---|
| 2007-08 | $2,668 | $749 | $448 | $694 | $777 |
| 2008-09 | 2,557 | 670 | 453 | 665 | 769 |
| 2009-10 | 2,641 | 694 | 448 | 668 | 831 |
| 2010-11 | 2,521 | 720 | 455 | 692 | 654 |
| 2011-12 | 2,414 | 717 | 458 | 683 | 556 |
| 2012-13 | 2,416 | 728 | 445 | 688 | 555 |
| 2013-14 | 2,447 | 723 | 534 | 686 | 504 |
| 2014-15 | 2,612 | 739 | 747 | 728 | 397 |
| 2015-16 | 2,658 | 718 | 837 | 720 | 383 |
| 2016-17 | 2,714 | 712 | 893 | 736 | 374 |
| 2017-18 | 2,798 | 714 | 951 | 754 | 380 |
| AAGR | 0.5% | -0.5% | 7.8% | 0.8% | -6.9% |

Note: figures in dollar millions. Due to rounding, detail may not sum to total. AAGR is the average annual growth rate from 2007-08 to 2017-18.

[1] Includes the original Liquid Fuels and Fuels Tax and the Oil Company Franchise Tax replacement.

**Figure A.2**
**Annual Growth Rates of Selected MLF Revenue Sources**



## Table A.3
## Historical Lottery Fund Collections

| Fiscal Year | Total Gross Sales | Instant Tickets | Multi-State Lotto | In-State Lotto | Numbers |
|---|---|---|---|---|---|
| 2007-08 | $3,089 | $1,707 | $357 | $339 | $686 |
| 2008-09 | 3,088 | 1,758 | 311 | 327 | 693 |
| 2009-10 | 3,066 | 1,749 | 354 | 280 | 682 |
| 2010-11 | 3,208 | 1,922 | 340 | 271 | 674 |
| 2011-12 | 3,481 | 2,135 | 429 | 271 | 646 |
| 2012-13 | 3,700 | 2,305 | 485 | 279 | 631 |
| 2013-14 | 3,800 | 2,445 | 447 | 296 | 611 |
| 2014-15 | 3,820 | 2,592 | 381 | 250 | 597 |
| 2015-16 | 4,135 | 2,793 | 496 | 265 | 581 |
| 2016-17 | 3,999 | 2,780 | 368 | 259 | 592 |
| 2017-18 | 4,086 | 2,838 | 400 | 265 | 583 |
| AAGR | 2.8% | 5.2% | 1.1% | -2.4% | -1.6% |

Note: figures in dollar millions. Due to rounding, detail may not sum to total. AAGR is the average annual growth rate from 2007-08 to 2017-18. Raffle included in In-State Lotto.

## Figure A.3
## Annual Growth Rates of Lottery Revenue Sources

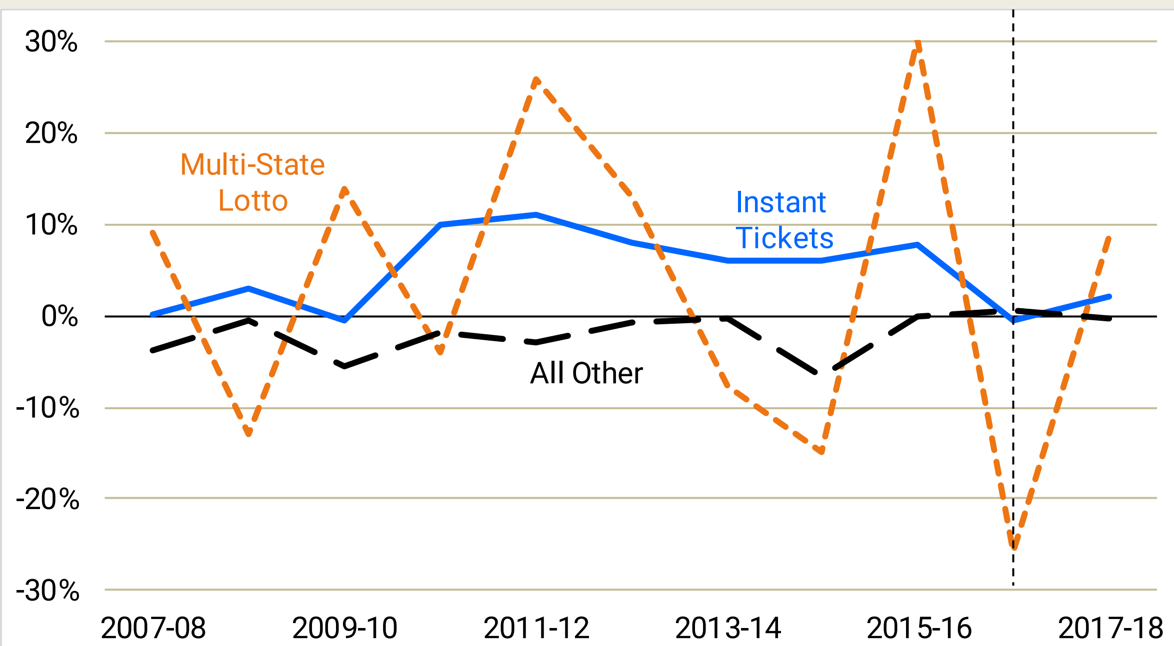


**Table A.4**
**Comparison of Tax Revenue to Other State Variables**

| Fiscal Year | General Fund Tax Revenues | Personal Income Tax | Sales and Use Tax | Nominal GDP | CPI-U (level) |
|---|---|---|---|---|---|
| 2007-08 | $27,293 | $10,908 | $8,497 | $569,654 | 220.4 |
| 2008-09 | 25,295 | 10,199 | 8,136 | 576,698 | 223.7 |
| 2009-10 | 24,910 | 9,969 | 8,029 | 585,313 | 225.5 |
| 2010-11 | 26,461 | 10,436 | 8,590 | 606,037 | 230.8 |
| 2011-12 | 27,149 | 10,801 | 8,772 | 626,654 | 236.0 |
| 2012-13 | 28,067 | 11,371 | 8,894 | 648,844 | 239.5 |
| 2013-14 | 28,098 | 11,437 | 9,130 | 672,287 | 242.5 |
| 2014-15 | 29,492 | 12,107 | 9,493 | 696,592 | 244.0 |
| 2015-16 | 30,258 | 12,506 | 9,795 | 716,669 | 244.6 |
| 2016-17 | 30,707 | 12,662 | 9,970 | 738,774 | 247.7 |
| 2017-18 | 31,773 | 13,322 | 10,236 | 767,403 | 252.6 |
| AAGR | 1.5% | 2.0% | 1.9% | 3.0% | 1.4% |

Note: figures in dollar millions. AAGR is the average annual growth rate from 2007-08 to 2017-18.

**Figure A.4**
**Annual Growth Rates of Major Tax Revenues and State GDP**