

COMMONWEALTH OF PENNSYLVANIA

# BUDGET & ECONOMIC UPDATE

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Pennsylvania Association of School  
Business Officials



INDEPENDENT FISCAL OFFICE  
JUNE 5, 2018

# FY 17-18 Revenues Close to Estimate

	<b>FYTD Revenues Through May 2018</b>		
	<b>Amount</b>	<b>Change</b>	<b>Growth</b>
<b>General Fund</b>	<b>\$31,483</b>	<b>\$3,078</b>	<b>10.8%</b>
Corporate Net Income	2,318	188	8.8
Gross Receipts	1,143	-65	-5.4
Inheritance	928	72	8.5
Sales and Use	9,418	407	4.5
PIT - Withholding	9,268	405	4.6
PIT - Other	2,992	410	15.9
All Tobacco	1,190	-26	-2.1
All Other Tax	1,761	97	5.9
All Non-Tax	2,468	1,589	180.8

Note: Dollar amounts in millions. PIT is personal income tax.

# Two Estimates of the Federal Tax Cut

	FFY 2018-19 (\$ billions)	
	Joint Committee	U Penn Wharton
Individuals and Pass Throughs	-\$188.8	-\$168.5
Corporate – rate and tax base	-133.8	-129.2
Corporate - tax on foreign profits	<u>42.6</u>	<u>40.5</u>
<b>Total Tax Cut</b>	<b>-280.0</b>	<b>-257.2</b>
All Individual and Pass Throughs	-188.8	-168.5
One-Third Net Corporate (see note)	<u>-30.4</u>	<u>-29.5</u>
<b>Tax Cut Realized</b>	<b>-219.2</b>	<b>-198.1</b>
Estimated PA Share	3.5%	3.5%
<b>Increase in PA Disposable Income</b>	<b>7.7</b>	<b>6.9</b>

Note: Corporations use revenues from the tax cut to (1) pay dividends, (2) repurchase shares, (3) purchase equipment/structures, (4) pay workers, (5) pay down debt, (6) reduce prices or (7) simply retain the funds. The computation assumes that one-third of the tax cut in the first full fiscal year will flow through to individuals as higher dividends, capital gains or wages. Excludes indirect (dynamic) effects of tax cuts, which would manifest in later years.

# PA Economic Growth Rates

	2014	2015	2016	2017	2018
Real GDP	2.0%	2.6%	0.9%	1.9%	2.3%
Wages-Salaries	3.9%	4.1%	1.3%	3.3%	4.3%
Net Job Gains (000s)	48.0	47.3	50.0	62.9	62.5
Philadelphia CPI-U	1.3%	-0.1%	0.6%	1.3%	1.8%
Pittsburgh CPI-U	1.3%	0.7%	1.6%	2.2%	n.a.
House Price Index	2.3%	2.5%	4.0%	4.7%	5.2%
Philadelphia MSA	1.7%	2.5%	6.1%	6.7%	6.3%
Pittsburgh MSA	4.2%	3.6%	5.2%	4.4%	6.9%

Note: Net job gains exclude self-employed. Values for 2018 reflect data for the first quarter of 2018 (house price index) or are forecasts by the IFO (all other). House Price Index for purchase-only transactions.  
Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics and Federal Housing Finance Agency.

# Change in PA Payroll Jobs (000s)

	2015	2016	2017	2018
Mining	-3.8	-8.9	1.6	1.0
Construction	6.6	3.8	9.6	8.0
Manufacturing	0.1	-8.1	1.7	2.0
Wholesale-Retail	1.2	-3.8	-8.6	-4.0
Transportation-Storage	11.2	9.5	8.0	7.0
Professional Services	17.9	13.9	8.7	11.0
Healthcare-Social Assist	11.1	22.6	26.9	27.0
Leisure-Hospitality	7.9	12.4	8.6	8.0
State-Federal Gov't	0.2	1.0	-0.6	-1.0
Local Gov't	-6.7	-2.2	0.6	-1.0
All Other Sectors	<u>1.5</u>	<u>9.7</u>	<u>6.4</u>	<u>4.5</u>
<b>Total Change</b>	<b>47.3</b>	<b>50.0</b>	<b>62.9</b>	<b>62.5</b>

Note: Professional Services includes the Management and Administrative-Waste Management sectors.  
Source: U.S. Bureau of Labor Statistics.

# PA Natural Gas Statistics

	2014	2015	2016	2017	2018
Production (bcf)	4,053	4,582	5,082	5,354	5,888
Growth	31.3%	13.1%	10.9%	5.4%	10.0%
New Wells Spud	1,350	783	503	810	810
Growth	13.6%	-42.0%	-35.8%	61.0%	0.0%
Henry Hub Price (mcf)	\$4.39	\$2.63	\$2.52	\$2.99	\$2.92
Regional PA Hub (mcf)	\$3.14	\$1.43	\$1.55	\$2.20	\$2.36
Impact Fee (millions)	\$224	\$188	\$173	\$218	n.a.

Note: Production and new wells spud for horizontal wells only. Regional PA hub price is weighted average for the Dominion South and Leidy hubs. Impact Fee for 2017 is an IFO estimate.

Sources: IFO tabulations of data submitted to the PA Department of Environmental Protection. Impact Fee revenues from PA Public Utility Commission. Forecasts by IFO.

# Recent Economic Acceleration

## Wage income - statewide growth strong.

- Withholding growth **+4.4%** since start of FY 17-18.
- Rough split: **+1.1%** job gains | **+3.3%** average wage.

## Non-wage income - solid gains too.

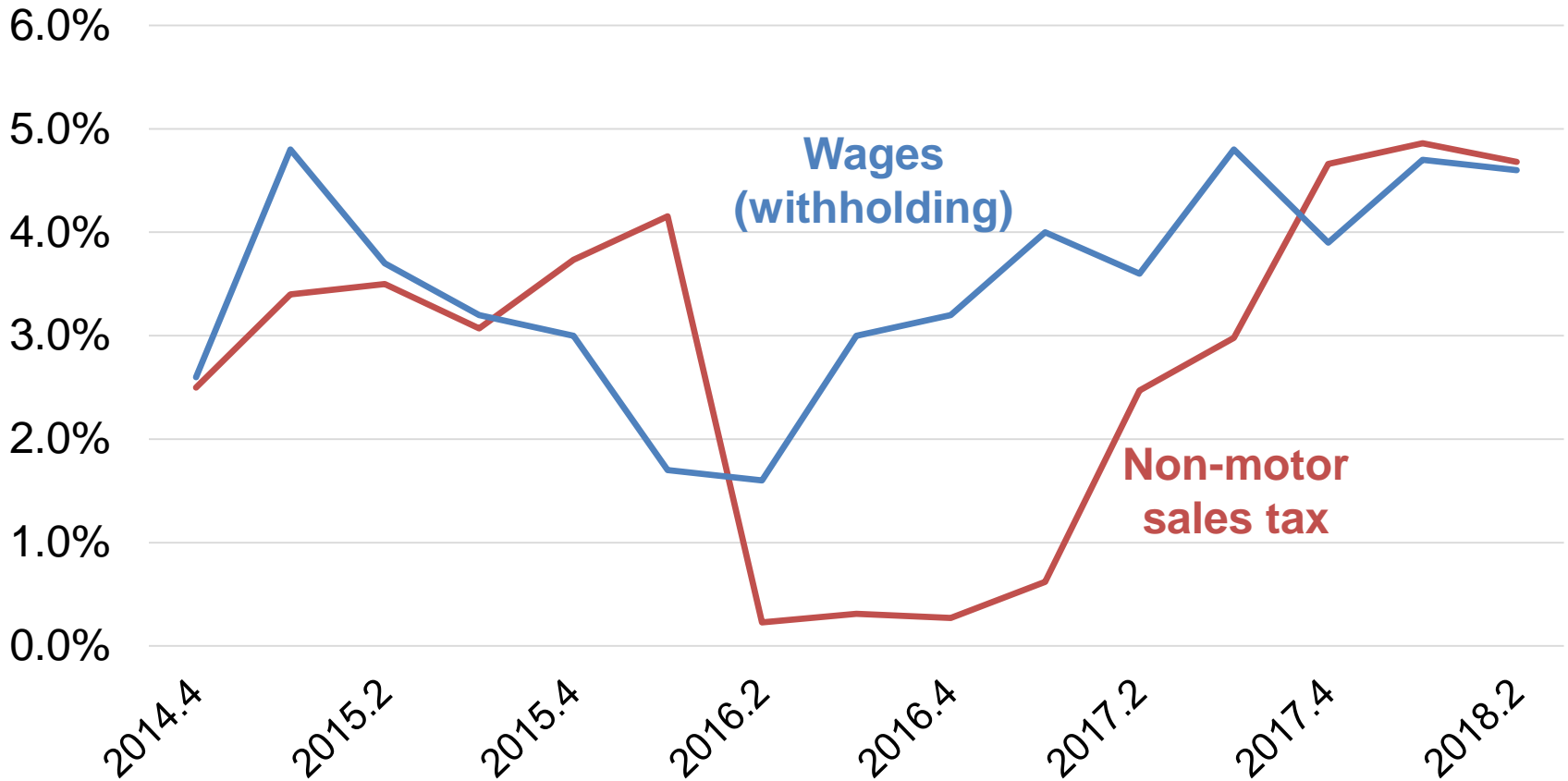
- Capital gains, interest, dividends, net profits.
- No published data yet. Look to tax revenues.
- Final personal income tax payments up **+13.0%**.

## Spending - non-motor sales tax recovers.

- Base growth rate: **+5.1%** last seven months.
- Compare to **+1.0%** for FY 16-17.

# PA Consumer Income vs. Spending

## Year-Over-Year Growth Rates



Note: Sales tax growth rate controls for tax law changes and transfers. Data are lagged one month to coincide with withholding. Withholding growth rate controls for any extra deposit days in quarter.



# IFO Initial Revenue Estimate FY 18-19

	Amount	Change or Growth	
		Dollar	Percent
<b>General Fund</b>	<b>\$33,943</b>	<b>-\$558</b>	<b>-1.6%</b>
<b>All Tax Revenue</b>	<b>33,273</b>	<b>1,342</b>	<b>4.2</b>
Corporate Net Income	3,163	267	9.2
Gross Receipts	1,235	82	7.1
Sales and Use	10,687	384	3.7
PIT - Withholding	10,460	431	4.3
PIT - Other	3,541	179	5.3
All Tobacco	1,302	-25	-1.8
All Other Tax	2,885	24	0.8
<b>All Non-Tax Revenue</b>	<b>670</b>	<b>-1,900</b>	<b>-74.0</b>

Note: Dollar amounts in millions. PIT is personal income tax.

# General Fund Revenue Comparison

	2017-18	2018-19
<b>IFO (May 2018)</b>	<b>\$34,501</b>	<b>\$33,943</b>
Growth Rate	8.9%	-1.6%
<b>Executive Budget (Feb 2018)*</b>	<b>\$34,752</b>	<b>\$33,972</b>
Growth Rate	9.7%	-2.2%
<b>Dollar Difference</b>	<b>-\$251</b>	<b>-\$28</b>
Proposed Severance Tax		\$249

Note: Dollar amounts in millions.  
\*FY 2018-19 Executive Budget. Excludes severance tax revenue proposal.

# General Fund Balance Sheet

	Exec. Budget 2017-18	Updated 2017-18
Adjusted Beginning Balance	-\$1,524	-\$1,524
Gross Revenues	34,752	34,501
Less: Refunds	-1,385	-1,285
Plus: Prior Year Lapses	<u>210</u>	<u>210</u>
Available Revenues	32,053	31,902
Appropriations	<u>31,998</u>	<u>31,998</u>
<b>Surplus / Deficit</b>	<b>55</b>	<b>-96</b>

Note: Dollar amounts in millions. Appropriations includes projected supplementals.  
Source: FY 2018-19 Executive Budget. Updated amount is an IFO estimate.

# Property Tax

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# Property Tax Discussion

- ▶ **Revenue update**
- ▶ **Homestead rebate analysis**
- ▶ **Recent proposal for elimination**

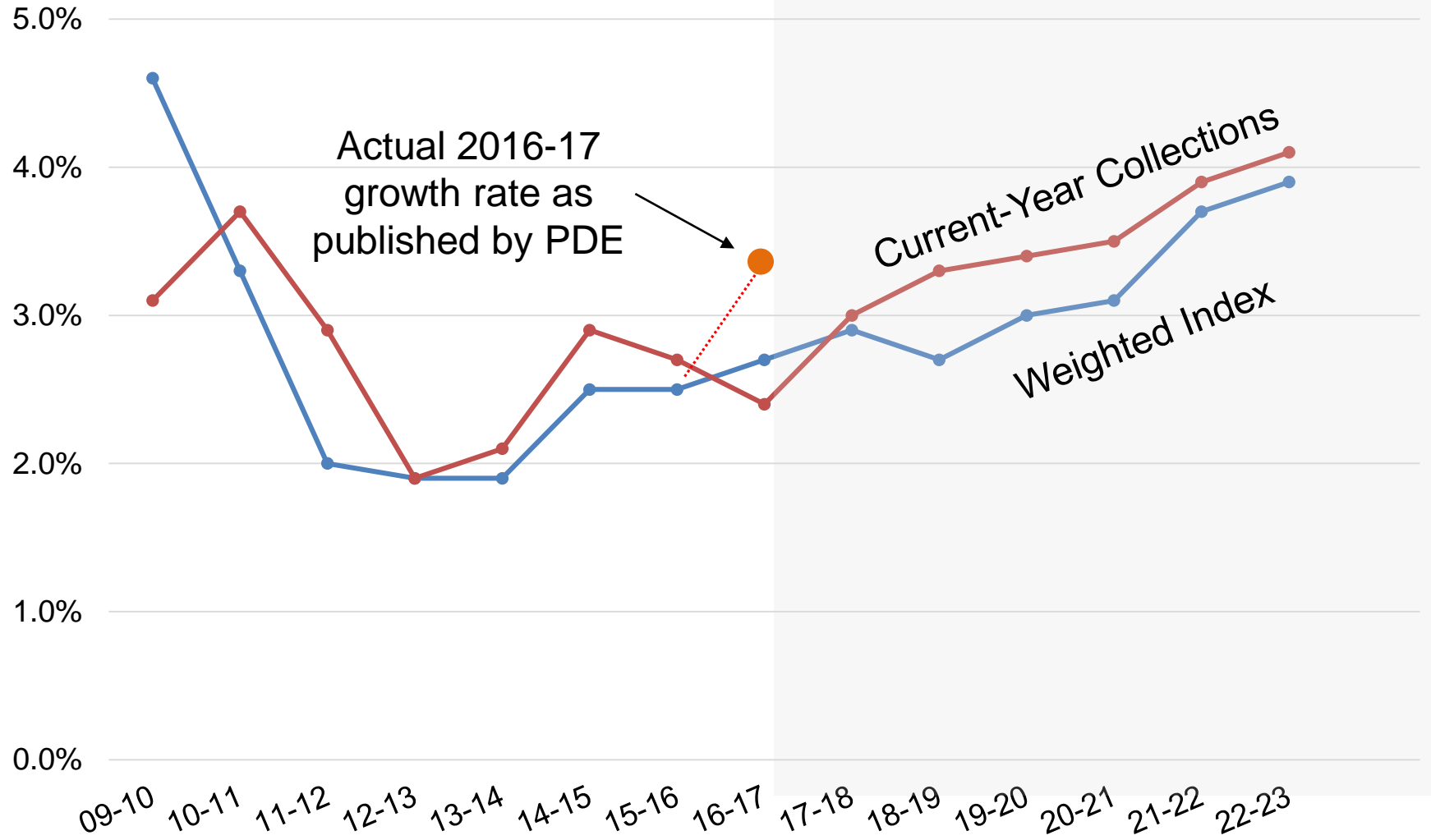
# FY 2016-17 Collections

## PDE released AFR revenue data last month

<b>Fiscal Year</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
Current & Interim	12,285	12,615	13,052
Act 1 Allocations	530	530	532
Delinquent	<u>575</u>	<u>569</u>	<u>552</u>
Total	13,390	13,714	14,136

Note: Dollar amounts in millions.  
Source: Pennsylvania Department of Education, Annual Financial Reports.

# Most Recent Forecast – Jan 2018



# Homestead Rebate Summary

	<b>Baseline: Currently Eligible</b>	<b>Potential Woodwork Effect</b>	<b>Estimates Adjusted for Woodwork</b>
<b><u>School Property Tax and Homestead Estimates (FY 2017-18)</u></b>			
School Property Tax (SPT) Paid - (\$ millions) – excludes Act 1	\$13,312	\$0	\$13,312
SPT Paid by Homesteads (\$ millions) – excludes Act 1	\$7,222	\$536	\$7,758
Number of Homesteads Above the Statewide Average SPT	1,094,900	81,100	1,176,000
Number of Homesteads Below the Statewide Average SPT	<u>1,874,600</u>	<u>142,000</u>	<u>2,016,600</u>
Total Number of Homesteads	2,969,500	223,100	3,192,600
Statewide Average SPT Per Homestead (\$)	\$2,432	n.a.	\$2,432
Statewide Median SPT Per Homestead (\$)	\$1,972	n.a.	\$1,972
<b><u>Fiscal Impact of Rebate</u></b>			
Uncapped: Each Homestead Receives Statewide Average (\$ millions)	\$7,222	\$536	\$7,758
Rebates for Homesteads Above Statewide Average SPT (\$ millions)	\$2,663	\$197	\$2,860
Rebates for Homesteads Below Statewide Average SPT (\$ millions)	<u>\$1,726</u>	<u>\$137</u>	<u>\$1,862</u>
Total Capped Rebate (\$ millions)	\$4,389	\$334	\$4,722



# Rebate Methodology

- ▶ **Utilizes IFO school property tax and homestead forecast as a baseline.**
- ▶ **Estimates informed by detailed data from the American Community Survey Public Use Microdata Sample (PUMS).**
  - 35 county groupings. Analyzed the distribution of home values for each grouping.
  - School property tax collections arrayed into deciles assuming collections follow the distribution of home values.
  - Computations for the rebate were based on these distributions.

# Woodwork Effect

- ▶ **IFO homestead forecast is based on homesteads receiving exclusions under Act 1.**
- ▶ **Existence of significant homestead relief may motivate an increase in applications for qualified properties.**
- ▶ **Census data suggest that there are 15% more owner-occupied properties than there are homesteads.**
  - Analysis uses a 7.5% increase in homesteads (mid-point).
  - Assumes that newly approved homesteads have the same characteristics as currently-approved homesteads.

# Changes in Student Enrollment

District Group	Six-Year Change	Annual Rate
Top 25%	4.3%	0.7%
Second 25%	-2.1%	-0.4%
Third 25%	-7.8%	-1.3%
Bottom 25%	<u>-13.4%</u>	<u>-2.2%</u>
<b>All Districts</b>	<b>-2.9%</b>	<b>-0.5%</b>

Note: School districts were ranked from highest to lowest based on growth in average daily membership between 2010-11 and 2016-17. There are 125 school districts in each group.  
Source: Pennsylvania Department of Education.

# Distributing Replacement Revenue

- ▶ **Few school districts are growing.**
  - Only 115 school districts displayed any growth for the most recent 6-year period ending in 2016-17.
  - 34 districts grew at an annual rate of 1% or more.
  - 247 districts declined at an annual rate of 1% or more.
- ▶ **Growing vs. declining districts.**
  - Faster growing districts may experience inflation-adjusted declines in per-student revenue.
  - Districts with greatest enrollment declines may experience largest increases in per-student revenue.