

BUDGET & ECONOMIC UPDATE

The Allegheny Conference on Community
Development and The Chamber of
Commerce for Greater Philadelphia



FY 17-18 Revenues Close to Estimate

	FYTD Revenues Through May 2018		
	Amount	Change	Growth
General Fund	\$31,483	\$3,078	10.8%
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>
Total Tax Cut	-280.0	-257.2
All Individual and Pass Throughs	-188.8	-168.5
One-Third Net Corporate (see note)	<u>-30.4</u>	<u>-29.5</u>
Tax Cut Realized	-219.2	-198.1
Estimated PA Share	3.5%	3.5%
Increase in PA Disposable Income	7.7	6.9

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>
Total Change	47.3	50.0	62.9	62.5

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.

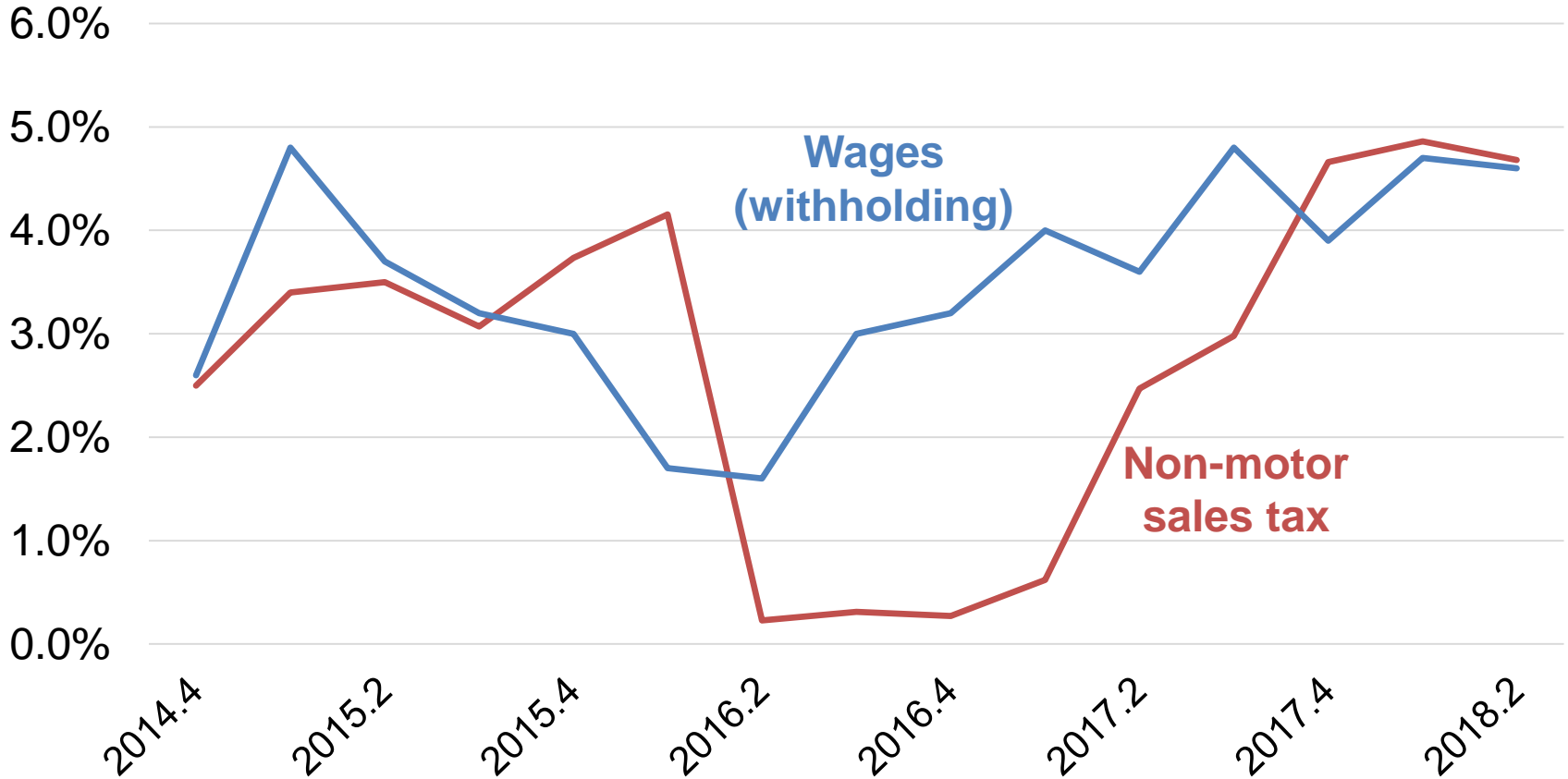
- Capital gains, interest, dividends, net profits.
- No published data yet. Look to tax revenues.
- Final personal income tax payments up **+13.0%**.

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

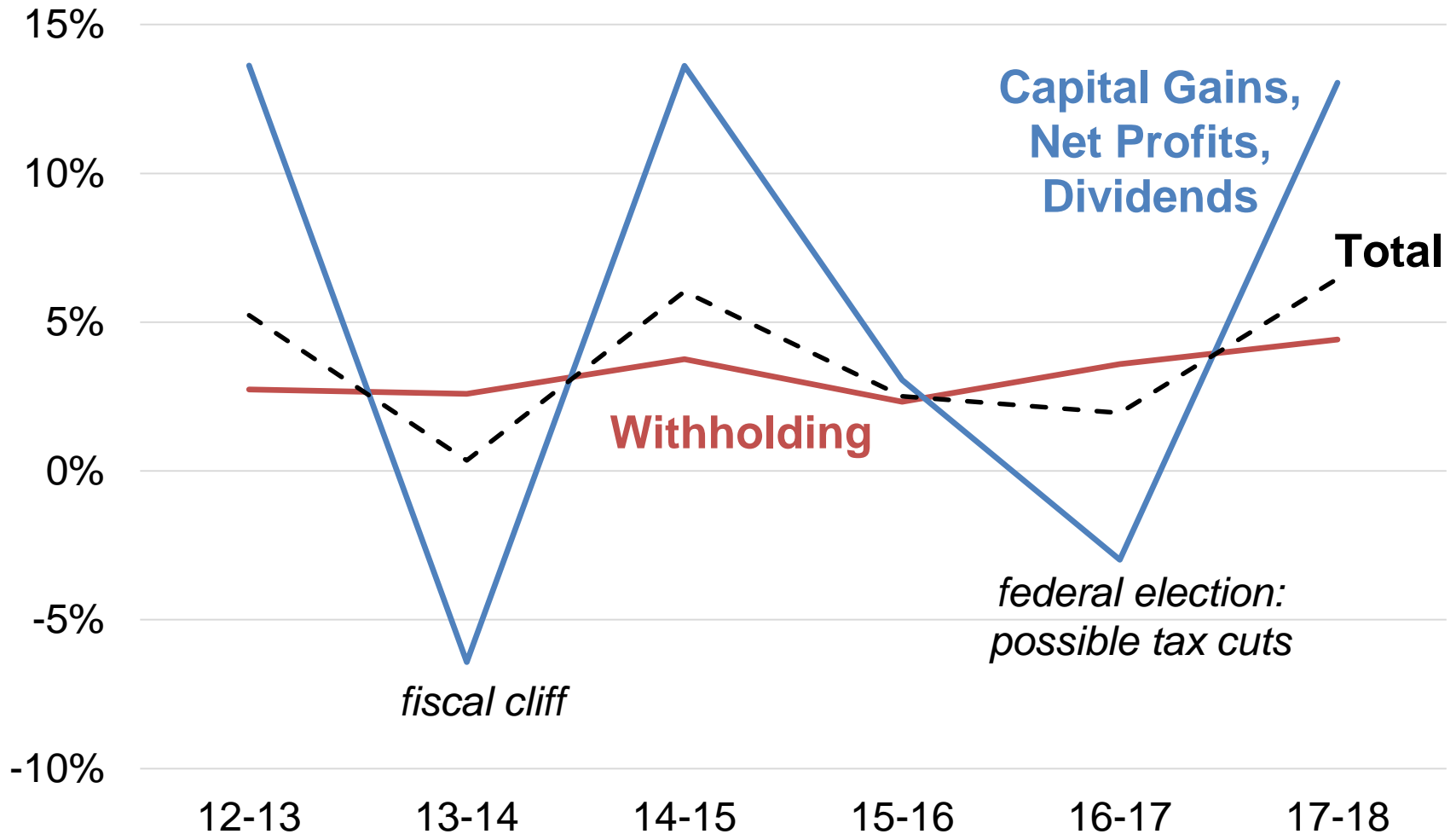
Year-Over-Year Growth Rates



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.

Personal Income Tax Revenues

Annual Growth Rates



IFO Initial Revenue Estimate FY 18-19

	Amount	Change or Growth	
		Dollar	Percent
General Fund	\$33,943	-\$558	-1.6%
All Tax Revenue	33,273	1,342	4.2
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
All Non-Tax Revenue	670	-1,900	-74.0

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

General Fund Revenue Comparison

	2017-18	2018-19
IFO (May 2018)	\$34,501	\$33,943
Growth Rate	8.9%	-1.6%
Executive Budget (Feb 2018)*	\$34,752	\$33,972
Growth Rate	9.7%	-2.2%
Dollar Difference	-\$251	-\$28
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>
Surplus / Deficit	55	-96

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