

COMMONWEALTH OF PENNSYLVANIA

INITIAL  
**REVENUE ESTIMATE**  
FISCAL YEAR 2018-19



INDEPENDENT FISCAL OFFICE  
MAY 1, 2018

# IFO Initial Estimate FY 2018-19

## **Today's presentation.**

- PA economy: growth appears to accelerate recently.
- FY 17-18: hitting estimate except for JUA transfer.
- FY 18-19: moderately strong tax revenue growth.

## **Final estimate to be released June 15.**

- May and June: large CNIT payments.
- Will sales tax maintain recent strength?
- Corporate Tax Bulletin. Potential revenue package.

# Review of FY 2017-18 Estimates

	Dollar Amount	Growth Rate
<b>IFO Official (June 17)</b>	<b>\$32,491</b>	<b>2.6%</b>
Revenue Package (Nov 17)		
Gaming Expansion	103	
Transfers-Revenue Bonds	2,000	
NOLs-Other	<u>151</u>	
<b>IFO Revised Official</b>	<b>34,745</b>	<b>9.7%</b>
Administration Official (Nov 17)	34,704	9.6%
Executive Budget (Feb 18)	34,752	9.7%

Note: Dollar amounts in millions.

# FY 2017-18 Gains Driven by Economy

	<b>Amount</b>
<b>IFO Revised Official</b>	<b>\$34,745</b>
JUA Transfer (Act 44)	-200
Corporate Net Income	-176
Escheats	-109
Gross Receipts	-89
Non-Motor Sales	93
Personal Income	110
All Other	<u>128</u>
<b>May 1 Estimate</b>	<b>34,501</b>
<b>Total Revision</b>	<b>-\$244</b>
JUA Transfer (Act 44)	-200
All Other	-44

Note: Dollar amounts in millions. JUA is Pennsylvania Professional Liability Joint Underwriting Association.

# Economic Outlook

---

# Notable Economic Trends

## **PA wage growth accelerates.**

- Statewide annual wage growth **~+4.3%**.
- Split: **+1.0%** job gains | **+3.3%** average wage.

## **Non-motor sales tax recovers.**

- Base growth rate: **~+5%** last six months.
- Motor vehicle purchases continue to lag.

## **PA inflation remains subdued.**

- For 2018 Q1 CPI-U for U.S. is 2.3%.
- For Philadelphia metro it is 0.5%.

# PA Economic Growth Rates

	2015	2016	2017	2018	2019
Real GDP	2.3%	0.6%	1.9%	2.3%	2.2%
Wages-Salaries	4.1%	1.3%	3.3%	4.3%	4.2%
Net Job Gains (000s)	47.3	50.0	62.9	62.5	57.0
Philadelphia CPI-U	-0.1%	0.6%	1.3%	1.8%	2.2%
Home Price Index	2.5%	4.0%	4.6%	--	--
Mid-Atlantic Gasoline	-29.2%	-10.5%	14.8%	8.7%	--

Note: Job gains exclude self-employed individuals. Growth rate for gasoline for 2018 uses prices through April 2018.  
 Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, U.S. Energy Information Administration and Federal Housing Finance Agency. Forecasts by IFO.

# Recent PA Economic Growth Rates

	2017.1	2017.2	2017.3	2017.4	2018.1
Real GDP	2.0%	1.8%	1.4%	--	--
Wages-Salaries	2.8%	1.9%	1.9%	4.2%	--
Net Job Gains (000s)	54.3	61.4	60.4	71.2	71.3
Philadelphia CPI-U	2.1%	1.0%	1.4%	0.8%	0.5%
Home Price Index	4.3%	4.6%	4.5%	4.9%	--
Mid-Atlantic Gasoline	25.8%	8.5%	14.2%	12.4%	10.0%

Note: All growth rates are year-over-year and based on the latest published values from federal agencies. Net job gains based on non-seasonally adjusted data and exclude self-employed individuals.  
Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, U.S. Energy Information Administration 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.

# 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.

# Concern: Federal Deficits and Interest Rates

	2015	2016	2017	2018	2019	2020
10-Year Treasury Note	2.1%	1.8%	2.3%	3.0%	3.7%	4.1%
3-Month Treasury Bill	0.1	0.3	0.9	1.9	2.9	3.6
Federal Funds Rate	0.1	0.4	1.0	1.9	3.1	3.8
Federal Deficit	-\$438	-\$585	-\$665	-\$804	-\$981	-\$1,008
Gross Federal Debt	18,120	19,539	20,206	21,375	22,546	23,675

Note: Dollar amounts in billions.  
Sources: Congressional Budget Office, Budget and Economic Outlook, various years.

# FY 2017-18 Revenue Forecast

---

# FY 2017-18 Revenue Trends

## **Corporate Income: impact from TCJA 2017.**

- Lowers federal rate from 35% to 21%.
- Firms shift taxable income out of 2017.

## **Personal Income: broad gains.**

- Withholding growth accelerates through year.
- Likely strong capital gains, interest and dividends.

## **Non-Motor Sales: strong past six months.**

- July to Oct: 2.1% base growth.
- Nov to Apr: 4.8% base growth.

# FYTD Revenues Through April

	April 2018	Dollar Change	Annual Growth	Diff w/ Estimate
<b>General Fund</b>	<b>\$29,027</b>	<b>\$3,204</b>	<b>12.4%</b>	<b>\$173</b>
Corp. Net Income	2,065	136	7.1	-91
Gross Receipts	1,141	-69	-5.7	-84
Inheritance	819	47	6.1	34
Sales and Use	8,540	353	4.3	54
PIT - Withholding	8,387	386	4.8	46
PIT - Other	2,920	390	15.4	72
All Tobacco	1,077	-22	-2.0	-36
All Other Tax	1,623	82	5.3	112
All Non-Tax	2,456	1,902	343.5	65

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

# Revised Revenue Estimate FY17-18

**IFO Revised = \$34,501 million**

**Net Revision = -\$244 million**

Gains		Losses	
Personal Income	\$110	JUA Transfer	-\$200
Non-Motor Sales	93	Corp. Net Income	-176
Gaming Expansion	37	Escheats	-109
Insurance Premiums	37	Gross Receipts	-89
Bank Shares	34	Cigarette	-31
Inheritance	23	Motor Veh Sales	-31
All Other	<u>66</u>	All Other	<u>-8</u>
<b>Total</b>	<b>\$400</b>	<b>Total</b>	<b>-\$644</b>

Note: Dollar amounts in millions. JUA is Pennsylvania Professional Liability Joint Underwriting Association.

# Tax Revenue Growth Rates

	2015-16	2016-17	2017-18
<b>All Tax Revenue</b>	<b>2.9%</b>	<b>2.0%</b>	<b>3.9%</b>
Corporate Net Income	1.1	-3.2	5.3
Gross Receipts	3.4	-5.7	-6.3
Sales - Non-Motor	3.4	2.2	3.4
Sales - Motor Vehicle	1.6	1.5	0.5
PIT - Withholding	3.5	2.4	4.3
PIT - Other	2.6	-2.1	10.2
Cigarette	-1.7	38.4	-4.1
All Other	7.8	6.8	7.4

Note: All Other excludes capital stock and franchise tax. PIT is personal income tax.



# Corporate Net Income Tax

## **Final payments underperform (March-April).**

- Another portion of final payment remitted in May.
- Smaller NOL impact? More income shifting?

## **How did firms respond to Tax Bulletin?**

- Has it been fully reflected in recent payments?
- Have firms delayed payments pending resolution?

## **First estimated payment for 2018 is strong.**

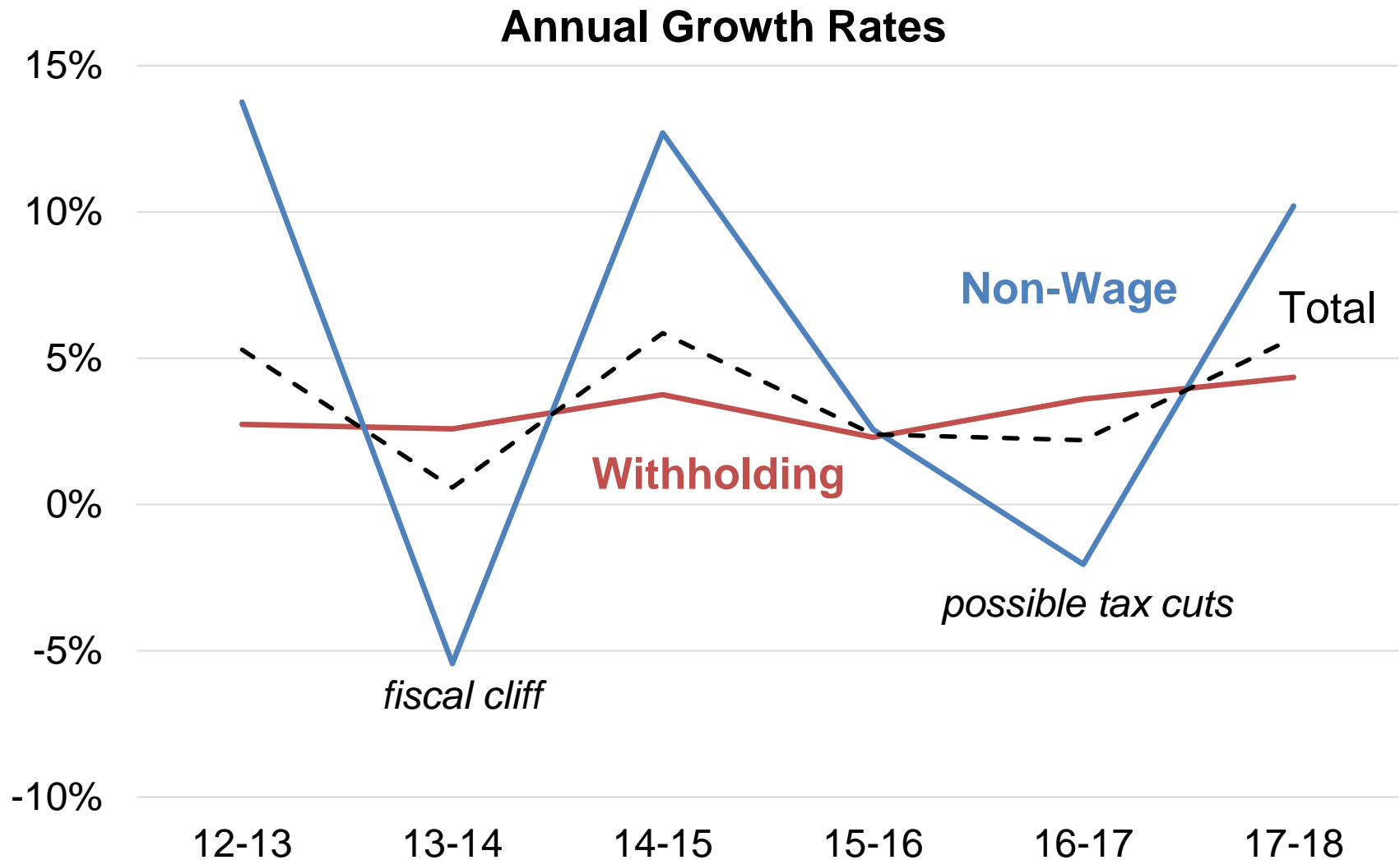
- March estimated payment up +9.0%.
- Continued strength due to federal base expansion and some reversal of income shifting.

# Personal Income Tax Revenues

	12-13	13-14	14-15	15-16	16-17	17-18
Withholding	\$8,523	\$8,744	\$9,072	\$9,283	\$9,614	\$10,030
Growth	2.7%	2.6%	3.8%	2.3%	3.6%	4.3%
Non-Wage	2,848	2,693	3,036	3,114	3,050	3,362
Growth	13.8%	-5.4%	12.7%	2.6%	-2.0%	10.2%
<b>Total</b>	<b>11,371</b>	<b>11,437</b>	<b>12,108</b>	<b>12,397</b>	<b>12,664</b>	<b>13,391</b>
Growth	5.3%	0.6%	5.9%	2.4%	2.2%	5.7%

Note: Dollar amounts in millions. Withholding amount for FY 15-16 reduced to reflect extra deposit day.

# Personal Income Tax Revenues



# Gross Receipts Tax Revenues

	13-14	14-15	15-16	16-17	17-18
Electric	\$831	\$858	\$906	\$860	\$789
Telecom	<u>448</u>	<u>404</u>	<u>399</u>	<u>370</u>	<u>363</u>
<b>Total Revenue</b>	<b>1,279</b>	<b>1,262</b>	<b>1,305</b>	<b>1,230</b>	<b>1,152</b>
Electric	-2.4%	3.2%	5.5%	-5.0%	-8.2%
Telecom	<u>-1.4%</u>	<u>-9.9%</u>	<u>-1.1%</u>	<u>-7.3%</u>	<u>-2.1%</u>
<b>Total Revenue</b>	<b>-2.1%</b>	<b>-1.4%</b>	<b>3.4%</b>	<b>-5.7%</b>	<b>-6.4%</b>

Note: Dollar amounts in millions.

# Gaming Expansion Revenues

	Original 2017-18	Revised 2017-18	Dollar Change
Loan Repayments	\$12.0	\$12.0	\$0.0
Category 3 Expansion	6.7	1.0	-5.7
Fantasy Contests	0.8	0.2	-0.5
Mini Casino Licenses	40.0	127.0	87.0
iGaming	42.0	0.0	-42.0
Video Game Terminals	<u>1.8</u>	<u>0.0</u>	<u>-1.8</u>
<b>Total</b>	<b>103.2</b>	<b>140.2</b>	<b>37.0</b>

Note: Dollar amounts in millions.

# Lottery Sales Growth Recovers

	14-15	15-16	16-17	17-18	18-19
<b>Gross Ticket Sales</b>	<b>\$3,820</b>	<b>\$4,135</b>	<b>\$4,001</b>	<b>\$4,189</b>	<b>\$4,305</b>
Instant Tickets	2,592	2,793	2,782	2,912	3,021
Numbers Games	597	581	590	570	558
In-State Lotto	250	265	260	282	289
Multi-State Lotto	381	497	370	425	437
<b>Growth Rates</b>	<b>0.5%</b>	<b>8.3%</b>	<b>-3.2%</b>	<b>4.7%</b>	<b>2.8%</b>
Instant Tickets	6.0	7.8	-0.4	4.7	3.7
Numbers Games	-2.4	-2.6	1.5	-3.4	-2.1
In-State Lotto	-15.4	5.8	-1.8	8.5	2.4
Multi-State Lotto	-14.8	30.3	-25.6	15.0	2.9

Note: Dollar amounts in millions. In-State Lotto includes Raffle. Figures exclude net impact from Lottery expansion.

# FY 2018-19 Revenue Forecast

---

# Initial FY 2018-19 Revenue Forecast

## **Solid tax revenue growth (+4.2%).**

- Federal tax cuts continue to flow into economy.
- Bolsters consumer and business spending.
- Reversal of some income shifts. CNIT base expands.
- Other fundamentals are solid (e.g., housing).

## **Weak non-tax revenue growth (-74%).**

- Non-recurring transfers and revenue bond proceeds.
- Non-recurring mini-casino fees.
- Liquor store profits held flat (\$185 million).



# Initial Revenue Estimate FY 2018-19

	Amount	Change or Growth	
		Dollar	Percent
<b>General Fund</b>	<b>\$33,943</b>	<b>-\$558</b>	<b>-1.6%</b>
<b>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>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%
Dollar Difference	-\$251	-\$28
<b>Two-Year Total</b>		<b>-\$279</b>

Note: Dollar amounts in millions.  
\*FY 2018-19 Executive Budget, General Fund Financial Statement. Excludes revenue proposals.

# Looking Forward

## Revenue risks remain for FY 2017-18.

- CNIT: May (final) and June (estimated) payments.
- Does legislation override Corporate Tax Bulletin?
- FY 17-18: ~\$50 million | FY 18-19: ~\$160 million.
- Escheats: liquidations occur in May and June.
- PIT: second estimated payment in June.

## Economic risks for FY 2018-19.

- Can wage growth stay above 4.0%?
- Do businesses continue to spend and invest?
- Do corporate profits rebound?

# Questions / Discussion

Final Estimate June 15

Presentation posted  
at IFO website

[www.ifo.state.pa.us](http://www.ifo.state.pa.us)