Commonwealth of Pennsylvania

OFFICIAL REVENUE ESTIMATE

FISCAL YEAR 2018-19

June 18 2018

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.

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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

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

June 18, 2018

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 2017-18 and FY 2018-19, and supersedes the initial revenue estimate released by the Independent Fiscal Office on May 1, 2018.

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 General Fund appropriation are stated separately. A separate report that describes the methodologies used to produce the various revenue estimates included in this report will be 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 sources require forecasts of one or more economic variables. The Pennsylvania forecast projects an acceleration of economic growth from 2017 into 2018 partly due to the federal income tax reduction enacted by the Tax Cuts and Jobs Act (TCJA) of 2017. (See Table 1.1.) The forecast projects that:

- Real GDP (real gross domestic product, excludes inflation) will increase by 2.3 percent (2018) and 2.2 percent (2019).
- The Philadelphia and Pittsburgh CPI-U (consumer price index) will increase by 1.8 percent (2018) and 2.2 percent (2019).
- Wages and Salaries paid to Pennsylvania residents will increase by 4.3 percent (2018) and 4.2 percent (2019).
- Payroll Employment will expand by 62,500 (2018) and 57,000 (2019) net jobs.

Table 1.1
Pennsylvania Economic Growth Rates or Change

	2014	2015	2016	2017	2018	2019
Real Gross Dom. Product	2.0%	2.3%	0.6%	1.9%	2.3%	2.2%
Philadelphia CPI-U	1.3%	-0.1%	0.6%	1.3%	1.8%	2.2%
Pittsburgh CPI-U	1.3%	0.7%	1.6%	2.2%	1.8%	2.2%
Wages and Salaries	3.8%	4.1%	1.3%	3.3%	4.3%	4.2%
Employment Gains (000s)	48.0	47.3	50.0	62.9	62.5	57.0

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 revenue estimate in June 2017 to the June 2018 forecast. The comparison shows:

- An upward revision to 2017 and 2018 real GDP growth.
- Lower consumer price inflation in 2017 and 2018.
- A downward revision to 2016 wage growth, but stronger growth for 2018.
- Stronger job gains for the June 2018 economic forecast.

The revised economic forecast shows more robust growth for 2018. For future years, growth rates will likely return to long-run trends because the main impact of the TCJA will have been phased-in, and although the level of economic output will be higher, the act will have a much smaller impact on economic growth rates after 2018. Many analysts have raised concerns regarding economic growth beyond 2018 due to the impact of higher federal debt on long-term interest rates. For example, the latest Budget and Economic Outlook (April 2018) from the Congressional Budget Office projects that the yield on a 10-year U.S. Treasury note will increase from 2.3 percent (2017) to 3.7 percent (2019) while the 3-month U.S. Treasury bill increases from 0.9 percent to 2.9 percent.

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 forecasts are by the IFO.

Table 1.2
Economic Forecast Comparison

	Annual Growth Rate or Change			
	2015	2016	2017	2018
Real GDP				
June 2017	2.6%	1.1%	1.8%	1.9%
June 2018	2.3%	0.6%	1.9%	2.3%
Philadelphia CPI-U				
June 2017	-0.1%	0.6%	2.0%	2.0%
June 2018	-0.1%	0.6%	1.3%	1.8%
Wages and Salaries				
June 2017	4.0%	2.8%	3.7%	3.8%
June 2018	4.1%	1.3%	3.3%	4.3%
Employment Gains (000s)				
June 2017	46.7	52.2	54.4	52.5
June 2018	47.3	50.0	62.9	62.5

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

Consumer Price Index

For 2017, the Philadelphia CPI-U exhibited moderate growth (1.3 percent) but still accelerated from the previous year (0.6 percent). (See Table 1.3.) With the exception of gasoline, all CPI-U components recorded minor price gains. Especially notable was the modest increase of the medical care component (0.4 percent) following two years of strong growth. The medical care component reflects out-of-pocket medical costs for consumers (includes deductions from paychecks) and does not reflect insurance premiums paid by businesses.

Table 1.3
Philadelphia Metro Area Consumer Price Inflation

	Year-Over-Year Growth Rates				
	2013	**2014**	**2015**	**2016**	**2017**
Philadelphia Metro CPI-U	**1.2%**	**1.3%**	**-0.1%**	**0.6%**	**1.3%**
Food-Beverage	1.3	2.0	1.9	-0.2	0.4
Shelter	1.4	2.3	2.1	1.2	2.0
Fuels-Utilities	-0.7	0.1	-5.3	-2.2	1.1
Apparel	0.3	-0.4	-4.3	3.3	0.7
Gasoline	-3.8	-2.7	-28.4	-10.4	18.0
Medical Care	2.2	2.5	4.4	3.5	0.4
Core (exclude energy)	1.6	1.7	1.6	1.2	0.8
	Year-Over-Year Growth Rates, Recent Quarters				
	2017.1	**2017.2**	**2017.3**	**2017.4**	**2018.1**
Philadelphia Metro CPI-U	**2.1%**	**1.0%**	**1.4%**	**0.8%**	**0.5%**
Food-Beverage	-0.7	0.7	0.5	1.1	0.3
Shelter	2.1	2.2	2.3	1.6	1.3
Fuels-Utilities	0.4	1.4	0.4	2.0	2.9
Apparel	4.5	0.8	3.5	-6.3	-0.9
Gasoline	34.1	11.5	18.1	14.0	15.3
Medical Care	2.1	-0.5	-0.4	1.0	2.0
Core (exclude energy)	1.4	0.7	1.0	0.4	-0.1

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

The quarterly data reveal a clear deceleration of inflation on a year-over-year basis since the first quarter of 2017. Only the fuels-utilities and gasoline components show inflationary pressures for the Philadelphia metro region. For the first quarter of 2018, the core CPI-U, which excludes energy, declined from the same quarter in the prior year. The forecast projects that inflation will accelerate moderately through the remainder of 2018. These regional rates are much lower than comparable U.S. rates for the first quarter, which were 2.3 percent (all items) and 1.9 percent (excludes energy).

Payroll Employment

For 2018, the forecast projects that Pennsylvania payroll employment will increase by 62,500 full and part-time jobs. The wholesale-retail and government sectors are projected to contract, while all other sectors record expansions. (See Table 1.4.) The professional services (includes management and administrative sectors), healthcare-social and leisure-hospitality service sectors comprise roughly 75 percent of the projected net job gains. The construction and transportation sectors also record solid gains. The recovery of natural gas prices coincides with modest net job gains for the mining sector, while the manufacturing sector also recovers after a significant contraction in 2016.

Preliminary data for the first quarter of 2018 show very strong job gains on a year-over-year basis for the Pennsylvania economy (71,300 on an annual basis, not seasonally adjusted). The only exceptions are the retail and government sectors, which both recorded contractions. The forecast assumes that those job gains will be revised downward once final data become available and the figures are rebenchmarked in March 2019.

Table 1.4
Change in Pennsylvania Payroll Employment (000s)

	2014	2015	2016	2017	2018
Mining	1.7	-3.8	-8.9	1.6	1.0
Construction	4.8	6.6	3.8	9.6	8.0
Manufacturing	3.0	0.1	-8.1	1.7	2.0
Wholesale-Retail	3.3	1.2	-3.8	-8.6	-4.0
Transportation	7.4	11.2	9.5	8.0	7.0
Professional Services	13.5	17.9	13.9	8.7	11.0
Healthcare-Social	14.4	11.1	22.6	26.9	27.0
Leisure-Hospitality	5.3	7.9	12.4	8.6	8.0
State-Federal Gov't	-2.0	0.2	1.0	-0.6	-1.0
Local Gov't	-7.4	-6.7	-2.2	0.6	-1.0
All Other Sectors	4.0	1.5	9.7	6.4	4.4
Total Annual Change	**48.0**	**47.3**	**50.0**	**62.9**	**62.5**

Note: Professional Services includes the Management and Administration sectors.
Source: U.S. Bureau of Labor Statistics. Forecast by IFO.

Pennsylvania Cash Income

Cash Income, an income 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, Cash 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 moderate or negative growth for all income sources except retirement and savings. Many analysts believe that taxpayers anticipated a tax cut based on federal election results and delayed the recognition of certain income (e.g., capital gain and business income) for that year. For 2017, the forecast projects solid growth for capital income (12.6 percent) as capital gains, interest and dividends all expand. Net business profits (2.5 percent) shows modest growth as some filers delay income recognition due to the tax cuts enacted by the TCJA. For 2018, all components record solid growth and the forecast projects that Cash Income expands by 5.2 percent.

Table 1.5
Pennsylvania Cash Income

	Dollar Amounts (billions)						
	2014	2015	2016	2017	2018	2019	
Wages-Salaries[1]	$306.0	$317.9	$322.1	$332.7	$347.0	$361.6	
Interest-Divs-Gains	58.3	60.9	57.8	65.1	71.5	76.4	
Net Business	57.2	59.7	60.3	61.8	65.9	69.0	
Retirement-Savings	51.8	54.5	57.6	60.9	64.1	67.3	
Gov't Transfers	58.4	60.1	61.1	62.1	64.4	67.2	
Total	**531.7**	**553.1**	**558.9**	**582.6**	**612.9**	**641.5**	
	Annual Growth Rates						
	2014	2015	2016	2017	2018	2019	AAGR[2]
Wages-Salaries[1]	4.0%	3.9%	1.3%	3.3%	4.3%	4.2%	3.4%
Interest-Divs-Gains	18.0	4.5	-5.1	12.6	9.8	6.8	5.5
Net Business	5.3	4.5	1.0	2.5	6.5	4.8	3.8
Retirement-Savings	5.6	5.2	5.7	5.7	5.2	5.0	5.4
Gov't Transfers	0.6	2.9	1.5	1.7	3.7	4.4	2.8
Total	**5.3**	**4.0**	**1.0**	**4.2**	**5.2**	**4.7**	**3.8**

[1] Includes resident adjustment for individuals who live in Pennsylvania but work in another state.

[2] Average annual growth rate from 2014 to 2019.

Note: For additional detail, see IFO Revenue Estimate Methodology, to be released June 2018.

Income and Tax Revenue Growth

Table 1.6 provides a comparison of annual growth rates for (1) Cash Income and its two components, (2) personal income tax (PIT) revenues and (3) sales and use tax (SUT) revenues over a five-year period. The two component income series motivate the projection of these major tax revenue sources. Wages and salaries reflect the compensation paid to payroll employees, and does not include self-employed individuals. All other income includes all non-wage income such as business, capital and retirement income, as well as government transfers (e.g., Social Security).

The five-year average growth rate for PIT revenues is 4.2 percent per annum (tax year or calendar year basis). Non-withholding revenues, which are driven by business income and capital gains, generally grow at a faster pace than withholding. SUT revenues grow at an average rate of 3.1 percent per annum. As shown by Table 1.6, taxable consumer spending generally expands at a slower pace than income when trends are viewed over multiple years. For 2018, the forecast projects that Cash Income will expand by 5.2 percent, roughly the same rate as PIT revenues (4.9 percent), and considerably faster than SUT revenues (4.0 percent). For most years, income and PIT revenue growth will exceed SUT because (1) higher-income residents save significant income and (2) an increasing share of consumer spending flows to non-taxable goods and services over time.

Table 1.6
Comparison of Income and Tax Revenue Growth Rates

	Annual Growth Rates, Calendar Years					
	2014	2015	2016	2017	2018	AAGR[1]
Cash Income	5.3%	4.0%	1.0%	4.2%	5.2%	3.9%
Wages-Salaries	4.0	3.9	1.3	3.3	4.3	3.4
All Other Income	7.1	4.2	0.7	5.5	6.4	4.7
Personal Income Tax	5.3	3.9	1.3	5.4	4.9	4.2
Withholding[2]	3.1	3.5	2.5	4.2	4.3	3.5
Non-Withholding	12.5	5.0	-2.0	9.2	6.8	6.2
Sales and Use Tax	3.8	3.1	1.7	2.9	4.0	3.1
Non-Motor Vehicle[3]	3.2	3.1	2.1	2.8	4.1	3.1
Motor Vehicle	7.6	3.2	-0.4	3.3	3.3	3.4

[1] Average annual growth rate from 2013 to 2018.

[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 2017-18 and official estimates for FY 2018-19 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, except as noted in the corporate net income tax discussion, all projections are made on a "current law" basis and exclude any statutory changes or administrative actions proposed in the *2018-19 Executive Budget*.

The General Fund

In June 2017, the Independent Fiscal Office (IFO) released its official General Fund revenue estimate of $32.5 billion for FY 2017-18. In November 2017, the IFO released estimates of the incremental revenue impact from (1) Acts 42, 43, 44 and 55 of 2017 and (2) an October 2017 Pennsylvania Supreme Court decision on net operating loss deductions. The adjustments increased General Fund revenues by $2.3 billion, for an updated FY 2017-18 official estimate of $34.7 billion.

Based on revenue collections through mid-June and projections for the remainder of the fiscal year, this revised estimate reduces revenues by $226 million from the IFO's FY 2017-18 official revenue estimate. (See Table 2.1.) Nearly all of the revision ($200 million) is attributable to the lack of a funds transfer from the Pennsylvania Professional Liability Joint Underwriting Association, which was included in the updated official revenue estimate per Act 44, but was blocked as a result of a federal court ruling. Relative to FY 2016-17, the revised estimate reflects an increase of $2.9 billion (9.0 percent).

For FY 2018-19, the official estimate is $33.9 billion, a decline of $607 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 -1.8 percent:

- Net proceeds from the sale of revenue bonds backed by future payments due the Commonwealth under the Tobacco Master Settlement Agreement impact FY 2017-18 and do not recur (-$1.5 billion in miscellaneous revenue).
- Special fund transfers in FY 2017-18 do not recur (-$300 million).
- One-time gaming fees in FY 2017-18 exceed the one-time revenues anticipated in FY 2018-19 (-$94 million).

Table 2.1
Adjustment to Revenue Estimate for FY 2017-18

	June 2017 Estimate[1]		June 2018 Estimate		Dollar
	Amount	Growth	Amount	Growth	Change
Total General Fund	**$34,745**	**9.7%**	**$34,519**	**9.0%**	**-$226**
Total Tax Revenue	**31,926**	**3.8**	**31,964**	**3.9**	**38**
Total Corporation Taxes	**5,089**	**5.7**	**4,850**	**0.7**	**-239**
Corporate Net Income	3,072	11.7	2,840	3.2	-232
Gross Receipts	1,241	0.9	1,154	-6.2	-87
Utility Property	42	4.3	34	-15.6	-8
Insurance Premiums	412	-5.0	456	5.3	44
Financial Institutions	322	-0.2	366	13.4	44
Total Consumption Taxes	**12,002**	**2.3**	**12,065**	**2.8**	**63**
Sales and Use	10,241	2.4	10,357	3.5	116
Non-Motor Vehicle	8,837	2.3	8,957	3.7	120
Motor Vehicle	1,404	2.7	1,400	2.4	-4
Cigarette	1,241	-1.7	1,195	-5.3	-46
Other Tobacco Products	114	36.3	117	39.8	3
Malt Beverage	25	2.5	24	-0.4	-1
Liquor	381	5.3	372	2.7	-9
Total Other Taxes	**14,835**	**4.5**	**15,049**	**6.0**	**214**
Personal Income	13,281	4.9	13,416	5.9	135
Withholding	9,985	3.9	10,044	4.5	59
Quarterly	1,875	8.0	2,030	16.9	155
Annual	1,421	8.1	1,343	2.2	-78
Realty Transfer	504	5.3	521	9.1	17
Inheritance	970	-0.8	1,022	4.5	52
Gaming	124	2.6	121	0.6	-3
Minor and Repealed	-43	-10.7	-32	18.6	11
Total Non-Tax Revenue	**2,819**	**207.6**	**2,555**	**178.8**	**-264**
State Store Fund Transfers	185	-14.5	185	-14.5	0
Licenses and Fees	262	120.1	328	174.9	66
Treasury	19	-5.2	25	24.1	6
Escheats	221	15.2	86	-55.4	-135
Other Miscellaneous	2,056	608.9	1,856	539.9	-200
Fines, Penalties & Interest	77	-3.4	77	-3.4	0

[1] The IFO official estimate published June 2017 plus the estimate of incremental revenues from Acts 42, 43, 44 and 55 of 2017 published November 2017.
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 Revenue Estimate for FY 2018-19

	Estimated 2017-18		Projected 2018-19	
	Amount	Growth	Amount	Growth
Total General Fund	**$34,519**	**9.0%**	**$33,913**	**-1.8%**
Total Tax Revenue	**31,964**	**3.9**	**33,227**	**4.0**
Total Corporation Taxes	**4,850**	**0.7**	**5,122**	**5.6**
Corporate Net Income	2,840	3.2	3,082	8.5
Gross Receipts	1,154	-6.2	1,213	5.1
Utility Property	34	-15.6	35	2.7
Insurance Premiums	456	5.3	428	-6.2
Financial Institutions	366	13.4	365	-0.3
Total Consumption Taxes	**12,065**	**2.8**	**12,416**	**2.9**
Sales and Use	10,357	3.5	10,751	3.8
Non-Motor Vehicle	8,957	3.7	9,324	4.1
Motor Vehicle	1,400	2.4	1,427	2.0
Cigarette	1,195	-5.3	1,136	-4.9
Other Tobacco Products	117	39.8	119	1.6
Malt Beverage	24	-0.4	23	-5.3
Liquor	372	2.7	387	4.0
Total Other Taxes	**15,049**	**6.0**	**15,689**	**4.2**
Personal Income	13,416	5.9	14,012	4.4
Withholding	10,044	4.5	10,475	4.3
Quarterly	2,030	16.9	2,060	1.5
Annual	1,343	2.2	1,477	10.0
Realty Transfer	521	9.1	543	4.2
Inheritance	1,022	4.5	1,046	2.4
Gaming	121	0.6	129	6.4
Minor and Repealed	-32	18.6	-42	-33.2
Total Non-Tax Revenue	**2,555**	**178.8**	**686**	**-73.1**
State Store Fund Transfers	185	-14.5	185	-0.1
Licenses and Fees	328	174.9	224	-31.8
Treasury	25	24.1	20	-18.4
Escheats	86	-55.4	110	28.7
Other Miscellaneous	1,856	539.9	69	-96.3
Fines, Penalties & Interest	77	-3.4	78	2.2

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 2017-18 and FY 2018-19.

Corporate Net Income

The revised corporate net income tax (CNIT) estimate for FY 2017-18 is $2,840 million. The estimate reflects an increase of $89 million (3.2 percent) over the prior fiscal year, and is $232 million lower than the IFO's official estimate. The revision is driven by weak final payments attributable to tax year 2017. The IFO official estimate was issued prior to the enactment of the TCJA of 2017. That act reduced the federal corporate net income tax rate from 35 to 21 percent. Due to that significant rate reduction, it is likely that many corporations shifted taxable income out of tax year 2017. Those actions would reduce final payments for tax year 2017 that are generally remitted in March, April and May, which is consistent with revenue patterns at both the state and federal levels.

The FY 2018-19 forecast projects strong growth (8.5 percent) for CNIT revenues. Three factors drive that result. First, in addition to tax rate reduction, other federal tax law changes will expand the state tax base, most notably the elimination of the Section 199 manufacturing deduction and the limitation on interest deductions. Second, a portion of the taxable income shifting that reduces tax year 2017 payments should bolster revenues attributable to tax year 2018. Finally, most forecasters project that domestic corporate profits will show strong growth in 2018. For example, the CBO projects growth of 9.4 percent, while IHS Markit projects growth of 5.9 percent. For this estimate, the IFO assumed a profits growth rate of 6.3 percent for 2018.

The final revenue estimate assumes that pending legislation will be enacted that provides for regular Modified Accelerated Cost Recovery System (MACRS) depreciation deductions for firms that claim bonus depreciation on their federal corporate income tax return. Corporate Tax Bulletin 2017-02 denied depreciation deductions for those firms until the equipment was sold or disposed.

Gross Receipts

The revised gross receipts tax (GRT) estimate for FY 2017-18 is $1,154 million. The estimate reflects a decrease of $76 million (-6.2 percent) from the prior fiscal year, and is $87 million lower than the IFO's official estimate. The reduction is primarily the result of lower than anticipated estimated payments (tax year 2018) for the electric and telecommunications sectors. According to data from the U.S. Energy Information Administration (EIA), Pennsylvania electric receipts declined in tax years 2016 and 2017. The decline was attributable to reduced demand and lower prices. Telecommunications receipts are likely impacted 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 2018-19, GRT revenues are projected to increase by 5.1 percent, as electric receipts begin to recover in tax year 2018. This projection is reduced by $12.4 million for mandated utility rate reductions related to the federal TCJA of 2017.

Sales and Use

The revised sales and use tax estimate for FY 2017-18 is $10,357 million. The estimate reflects an increase of $352 million (3.5 percent) over the prior fiscal year, and is $116 million higher than the IFO's official estimate. Non-motor vehicle revenues are projected to grow at a rate of 3.7 percent, supported by strong collections related to online transactions and digital downloads. Motor vehicle revenues are projected to grow by 2.4 percent for this fiscal year due to strong collections in the second quarter.

For FY 2018-19, the forecast projects that total sales tax revenues will increase by 3.8 percent, and the growth of non-motor vehicle revenues (4.1 percent) will continue to outpace motor vehicle revenues (2.0 percent). The strong growth in non-motor vehicle revenues is partly due to a recent tax law change that requires online marketplace sellers to either remit any sales tax due to the Commonwealth or notify the Department of Revenue of sales tax owed by customers.

Personal Income

The revised personal income tax estimate for FY 2017-18 is $13,416 million. The estimate reflects an increase of $752 million (5.9 percent) over the prior fiscal year, and is $135 million higher than the IFO's official estimate. An overage in quarterly ($155 million) and withholding ($59 million) payments for the fiscal year is partially offset by a shortfall in annual remittances (-$78 million). Taxpayers had an incentive to remit payments for tax year 2017 during the calendar year (as estimated payments) rather than April 2018 (as annual payments) due to the limitation of the federal deduction for state and local taxes (SALT) for tax year 2018.

For FY 2018-19, the forecast projects a solid increase ($596 million, 4.4 percent) in personal income taxes. (See Table 2.2.) Withholding revenue is expected to increase by 4.3 percent ($431 million). Non-withheld revenues are projected to exhibit above average growth in FY 2018-19 ($165 million, 4.9 percent), due to (1) the shifting of certain income from 2017 to 2018 to take advantage of reduced federal personal income tax rates, (2) higher interest rates and (3) strong capital gains and dividend income growth.

Other Revenue Sources

Other revenue sources that have a notable impact on General Fund revenue trends for FY 2017-18 and FY 2018-19 include:

- On March 1, 2017, the Commonwealth Court of Pennsylvania issued orders placing Penn Treaty Network America Insurance Company and its wholly-owned subsidiary, American Network Insurance Company, into liquidation. The Pennsylvania Life and Health Insurance Guaranty Association (PLHIGA) will continue to service policies and provide coverage to impacted Pennsylvania residents. To offset the added cost to the association, PLHIGA assessments to member insurers have increased, generating additional PLHIGA tax credits that may be used to offset insurance premiums tax liabilities. The PLHIGA credits are expected to reduce General Fund revenues by $33 million in FY 2018-19.

- Licenses and fees collections for FY 2017-18 include $127 million from the auction of five mini-casino licenses that took place in early 2018, a slots license fee ($50 million) and a table game certificate fee ($24.8 million). The FY 2018-19 estimate includes $12.5 million in table game fees associated with the new mini-casinos, $30 million for sports wagering licenses and $54 million for iGaming certificates and operator licenses.
- Escheats collections are projected to total $85.5 million in FY 2017-18 and $110 million in FY 2018-19. Recent collections have been impacted by a significant increase in claim payments. In 2015, legislation reduced the holding period of unclaimed property from five to three years. This shortened period facilitates the return of unclaimed property to its rightful owner.
- Other miscellaneous collections for FY 2017-18 reflect $1.5 billion for the net proceeds from the sale of revenue bonds backed by future payments due the Commonwealth under the Tobacco Master Settlement Agreement and $300 million from the lease of the Farm Show Complex and various special fund transfers.
- Estimates do not include any proceeds from the transfer of funds from the Pennsylvania Professional Liability Joint Underwriting Association (JUA) for this fiscal year or next. The $200 million JUA transfer to the General Fund required by Act 44 has been blocked as a result of a federal court ruling.

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 7.0 percent ($194 million) for FY 2017-18 and 0.3 percent ($9 million) for FY 2018-19.

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,[1] (2) transitioned certain fee revenue to the Multimodal Transportation Fund and Public Transportation Trust Fund over a period of four years,[2] (3) gradually lifted the average wholesale price (AWP) of fuel, until the cap was eliminated for calendar year 2017[3] and (4) repealed the liquid fuels and fuels taxes and replaced them with an oil company franchise tax

[1] Inflation adjustments occur in calendar years ending in an odd number.
[2] Those fees are fully transitioned beginning with FY 2017-18.
[3] 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, 2017, the Department of Revenue determined the actual AWP to be $1.68 per gallon. Therefore, the AWP used to calculate the 2018 OFT rates was the statutory minimum of $2.99 per gallon.

(OFT) component. Act 89 fee increases effective 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.

Motor License Fund collections for FY 2017-18 are boosted by the July 2017 fee increases, and an increase in the OFT rate (roughly 10.6 percent on a fiscal year blended basis). For FY 2018-19, there will be no general increase in fees or the OFT rate, but the Act 89 liquid fuels and fuels OFT rate will decline (roughly 2.9 percent on a fiscal year blended basis). For these reasons, FY 2018-19 MLF revenues are projected to be flat.

Table 2.3
Motor License Fund Summary

	Estimated 2017-18		Projected 2018-19	
	Amount	Growth	Amount	Growth
Total Motor License Fund	**$2,953**	**7.0%**	**$2,962**	**0.3%**
Liquid Fuels Taxes	**1,849**	**6.7**	**1,874**	**1.3**
Oil Company Franchise	1,018	12.6	1,039	2.0
Act 89 OFT - Liquid Fuels	532	-6.9	527	-1.0
Act 89 OFT - Fuels	150	2.0	150	0.6
Other Liquid Fuels Taxes	150	35.0	158	5.5
Motor Licenses and Fees	**1,049**	**4.8**	**1,066**	**1.7**
Vehicle Registration & Titling	784	3.5	788	0.5
Registration Other States - IRP	140	15.0	141	0.5
Operator's Licenses	65	-7.4	77	20.0
Other Licenses and Fees	60	17.1	60	0.2
Other Motor Receipts	**54**	**114.7**	**22**	**-59.7**
Vehicle Fines Clearing Acct	2	-28.5	2	n.a.
Treasury	48	218.8	15	-68.5
Transportation	4	-40.2	4	2.3
General Services	1	20.4	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 total Lottery Fund net revenues will increase by $83 million (4.9 percent) for FY 2017-18 and increase by $67 million (3.8 percent) for FY 2018-19. Instant ticket sales, which include Fast Play, exhibit steady growth of $143 million (5.1 percent) for the current fiscal year and $117 million (4.0 percent) for FY 2018-19. Multi-state lotto sales show significant growth in FY 2017-18 (17.8 percent) due to (1) a strong winter for Powerball and (2) strong sales for Megamillions in March when it recorded its fourth largest jackpot ($521 million). The FY 2018-19 estimate assumes multi-state lotto sales return to historical trends, increasing by 2.7 percent. Sales of numbers games (Pick 2, Pick 3, Pick 4, Pick 5 and Wild Ball) continue their long-term trend decline for this fiscal year (-3.6 percent) and next fiscal year (-2.1 percent). Keno was recently added to the mix of games offered by the Pennsylvania Lottery. The revenue estimate assumes it generates $1.5 million in incremental weekly sales for FY 2018-19.

Table 2.4
Lottery Fund Summary

	Estimated 2017-18		Projected 2018-19	
	Amount	Growth	Amount	Growth
Total Lottery Fund	**$1,780**	**4.9%**	**$1,847**	**3.8%**
Gross Ticket Sales	4,205	5.1	4,401	4.7
Field Paid Prizes & Commissions	-2,579	5.2	-2,695	4.5
Miscellaneous Revenues	154	3.1	141	-8.4
Detail				
Gross Ticket Sales	4,205	5.1	4,401	4.7
Instant Tickets	2,924	5.1	3,042	4.0
Multi-State Lotto	435	17.8	447	2.7
In-State Lotto	269	3.3	278	3.3
Numbers Games	569	-3.6	557	-2.1
Keno	8	n.a.	78	n.a.
Miscellaneous Revenues	154	3.1	141	-8.4
Gaming Fund Transfers	146	-1.6	140	-4.0
Other Miscellaneous Revenue	8	n.a.	1	-84.8

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. iLottery and Xpress Sports are not reflected in this table.

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. 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 2.8 percent increase in requested federal appropriations of General Fund monies across all agencies for next fiscal year. Therefore, the office projects that agencies will require $27.6 billion in General Fund federal spending authority for FY 2018-19. Executive authorizations and non-General Fund requests for appropriations are not included.

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

Department of Human Services

For FY 2018-19, DHS requests authority to spend up to $22.6 billion in federal funds, a 3.4 percent increase over the current year. Federal funds authorized for DHS comprise approximately 82 percent of the General Fund federal spending request for FY 2018-19.

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 ($19.4 billion) from the General Fund. (See Table 2.5.) While the federal match rate for recipients granted coverage under the MA expansion provisions of the Affordable Care Act are falling over the forecast period, the rates for standard MA recipients continue to rise slightly.[4] In addition, the MA line item reflects the creation of the new Community HealthChoices (CHC) program. The total CHC grant request is $1.67 billion for FY 2018-19, but only $171 million of this amount represents new spending. (The remaining federal funds are reprogrammed from existing MA long-term care programs.) As a result of these changes, the total projected FY 2018-19 MA amount is 4.0 percent more than the current fiscal year.

[4] The rate for MA expansion recipient's declines according to the following schedule: 100 percent to 95 percent effective January 1, 2017, to 94 percent effective January 1, 2018 and to 93 percent effective January 1, 2019. The rate for standard MA recipients increased from 51.78 percent to 51.82 percent effective October 1, 2017, and will rise to 52.25 effective October 1, 2018.

Social services grants ($1.1 billion) provides funds for programs that promote self-sufficiency, discourage substance abuse and provide shelters to counter domestic violence. Child services grants ($1.1 billion) reimburse counties for various programs that provide services to eligible children. Administration grants ($489 million) provide for the reimbursement of administrative costs and funding for various training programs.

Table 2.5
Summary of General Fund Federal Appropriation Requests

	Available 2017-18		Projected 2018-19	
	Amount	Growth	Amount	Growth
Total Federal Funds	**$26,883**	**1.7%**	**$27,637**	**2.8%**
Human Services	**21,808**	**1.7**	**22,560**	**3.4**
Medical Assistance	18,653	1.7	19,401	4.0
Social Services	1,164	1.3	1,098	-5.7
Child Services	966	3.4	1,070	10.7
Administration Grants	542	2.3	489	-9.7
Children's Health Insurance	411	6.1	444	8.2
ARRA	71	-30.4	57	-19.8
Education	**2,402**	**0.5**	**2,415**	**0.6**
Grants and Subsidies	2,179	1.6	2,247	3.1
Administration Grants	197	-6.6	138	-29.9
Assessments	15	-31.8	15	0.0
All Other	11	-13.5	16	39.4
Health	**571**	**1.7**	**573**	**0.5**
WIC	276	0.0	278	0.8
Administration Grants	90	16.8	87	-3.8
State Health Centers	30	-5.4	34	13.9
All Other	175	-0.8	175	-0.1
All Other Agencies	**2,103**	**2.7**	**2,088**	**-0.7**

Note: figures in dollar millions. Due to rounding, detail may not sum to total. Growth rates based on the unrounded amounts. ARRA is American Recovery and Reinvestment Act.

Department of Education

For FY 2018-19, the Department of Education requests authority to spend up to $2.4 billion in General Fund federal monies, an increase of 0.6 percent over the current year. Grants and subsidies ($2.2 billion) comprise 93 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 $59 million (-29.9 percent) for FY 2018-19. The reduction is due largely to the absence of the Striving Readers Grant which was $50.2 million in FY 2017-18.[5]

Department of Health

For FY 2018-19, the Department of Health requests authority to spend up to $573 million in General Fund federal revenue, an increase of 0.5 percent over the current year. Of that amount, $278 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 226,000 participants per month in FY 2016-17.

[5] The Striving Readers Grant provides funding for the development of a comprehensive approach to improving literacy outcomes for all children, birth through grade 12.

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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
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	31,669	2,751	2,063	10,004	12,664	4,186
2017-18	34,519	2,840	2,010	10,357	13,416	5,896
2018-19	33,913	3,082	2,040	10,751	14,012	4,028
AAGR	2.3%	6.2%	-3.4%	3.3%	3.9%	-2.5%

Note: figures in dollar millions. Due to rounding, detail may not sum to total. AAGR is the average annual growth rate from FY 2009-10 to FY 2018-19.

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

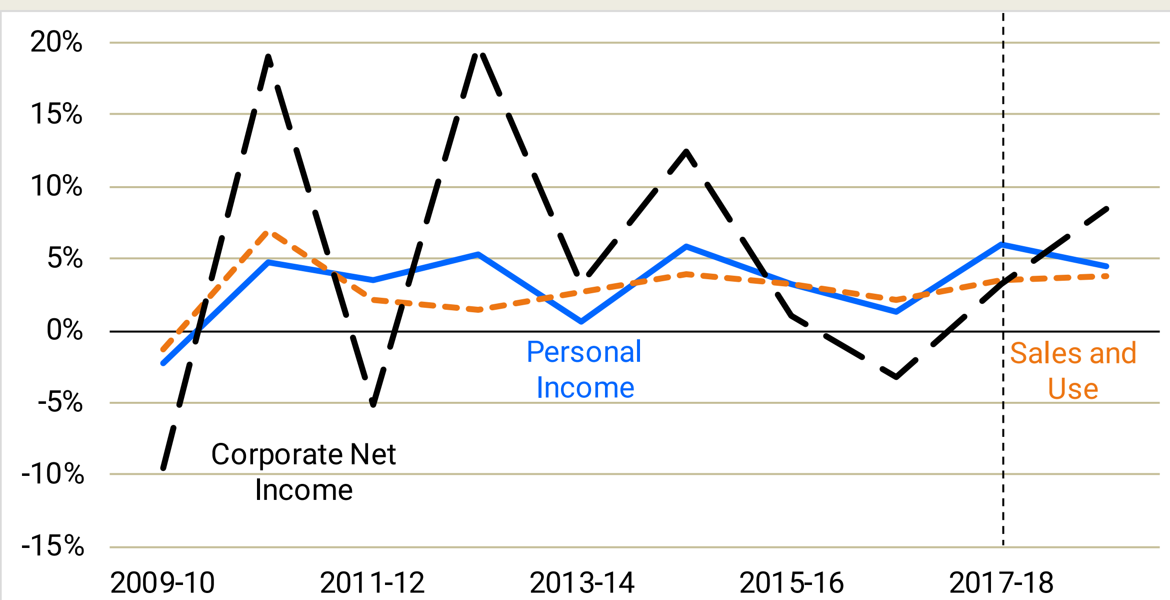

Table A.2
Historical Motor License Fund Revenues

Fiscal Year	Total	Liquid Fuels and Fuels[1]	Oil Company Franchise	Vehicle Reg. and Titling	All Other
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	2,759	718	904	758	379
2017-18	2,953	681	1,018	784	469
2018-19	2,962	677	1,039	788	459
AAGR	1.3%	-0.3%	9.8%	1.8%	-6.4%

Note: figures in dollar millions. Due to rounding, detail may not sum to total. AAGR is the average annual growth rate from FY 2009-10 to FY 2018-19.

[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

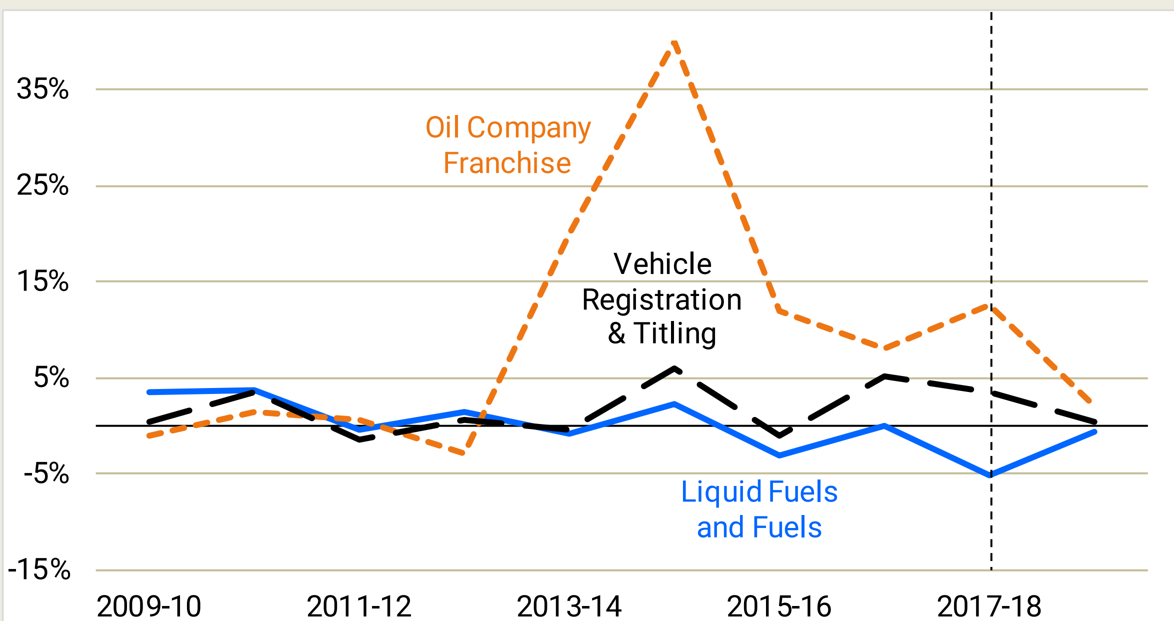

Table A.3
Historical Lottery Fund Collections

Fiscal Year	Total Gross Sales	Instant Tickets	Multi-State Lotto	In-State Lotto	Numbers Games
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	4,001	2,782	369	260	590
2017-18	4,205	2,924	435	269	569
2018-19	4,401	3,042	447	278	557
AAGR	4.1%	6.3%	2.6%	-0.1%	-2.2%

Note: figures in dollar millions. Due to rounding, detail may not sum to total. AAGR is the average annual growth rate from FY 2009-10 to FY 2018-19. Raffle included in In-State Lotto. The FY 2018-19 estimate includes Keno but not iLottery and Xpress Sports.

Figure A.3
Annual Growth Rates of Lottery Revenue Sources

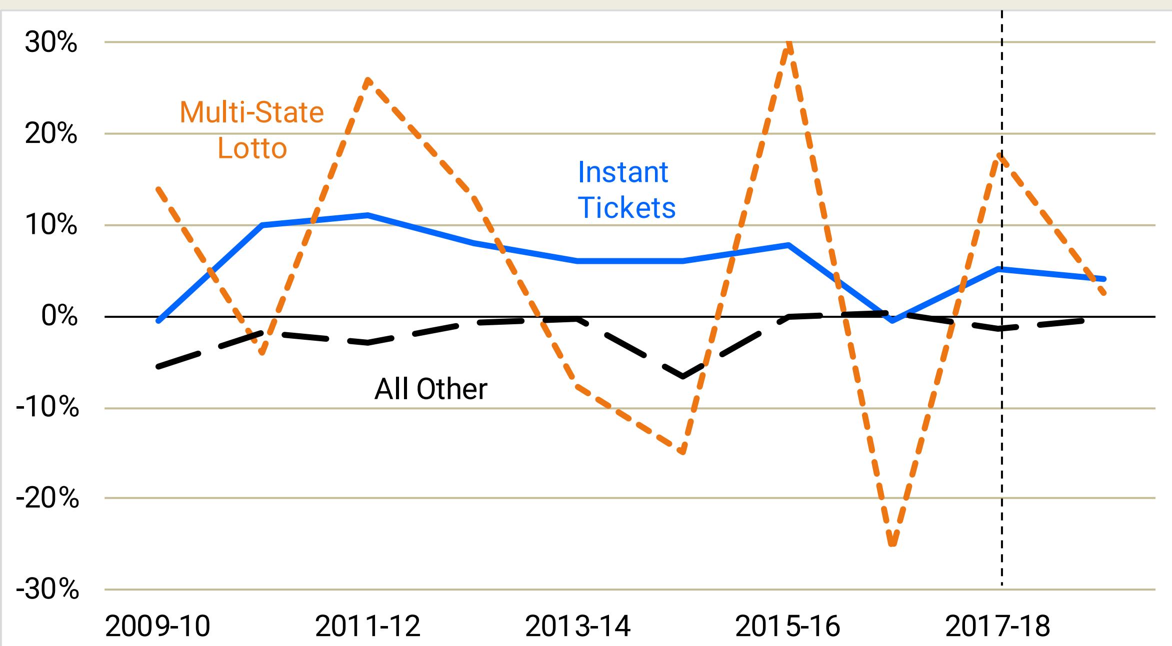

Table A.4
Comparison of Tax Revenue to Other State Variables

Fiscal Year	General Fund Tax Revenues	Personal Income Tax	Sales and Use Tax	Nominal GDP	CPI-U (level)
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	672,744	242.5
2014-15	29,492	12,107	9,493	697,709	244.0
2015-16	30,258	12,506	9,795	716,842	244.6
2016-17	30,752	12,664	10,004	738,017	246.9
2017-18	31,964	13,416	10,357	768,270	250.7
2018-19	33,227	14,012	10,751	801,763	255.7
AAGR	3.3%	3.9%	3.3%	3.6%	1.4%

Note: figures in dollar millions. AAGR is the average annual growth rate from FY 2009-10 to FY 2018-19.

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