

COMMONWEALTH OF PENNSYLVANIA

# BUDGET & ECONOMIC UPDATE

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Pennsylvania Institute of Certified  
Public Accountants (PICPA)



INDEPENDENT FISCAL OFFICE  
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# Optimistic Revenue Outlook

## **FY 17-18: revenues are close to estimate.**

- Gains (PIT and SUT) offset losses (CNIT and GRT).
- ~\$200 million short: non-receipt of JUA transfer.
- Tax revenue growth: 16-17 (+1.6%) | 17-18 (+3.9%).

## **FY 18-19: tax revenue growth of +4.2%.**

- Federal tax cut continues to flow into economy.
- Corporate base expansion enhances revenues.
- Tight labor market sustains wage growth.
- Inflation accelerates above 2%. Helps pricing power.

# Strong Labor Market = Income Gains

## Wage income - statewide growth is 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.

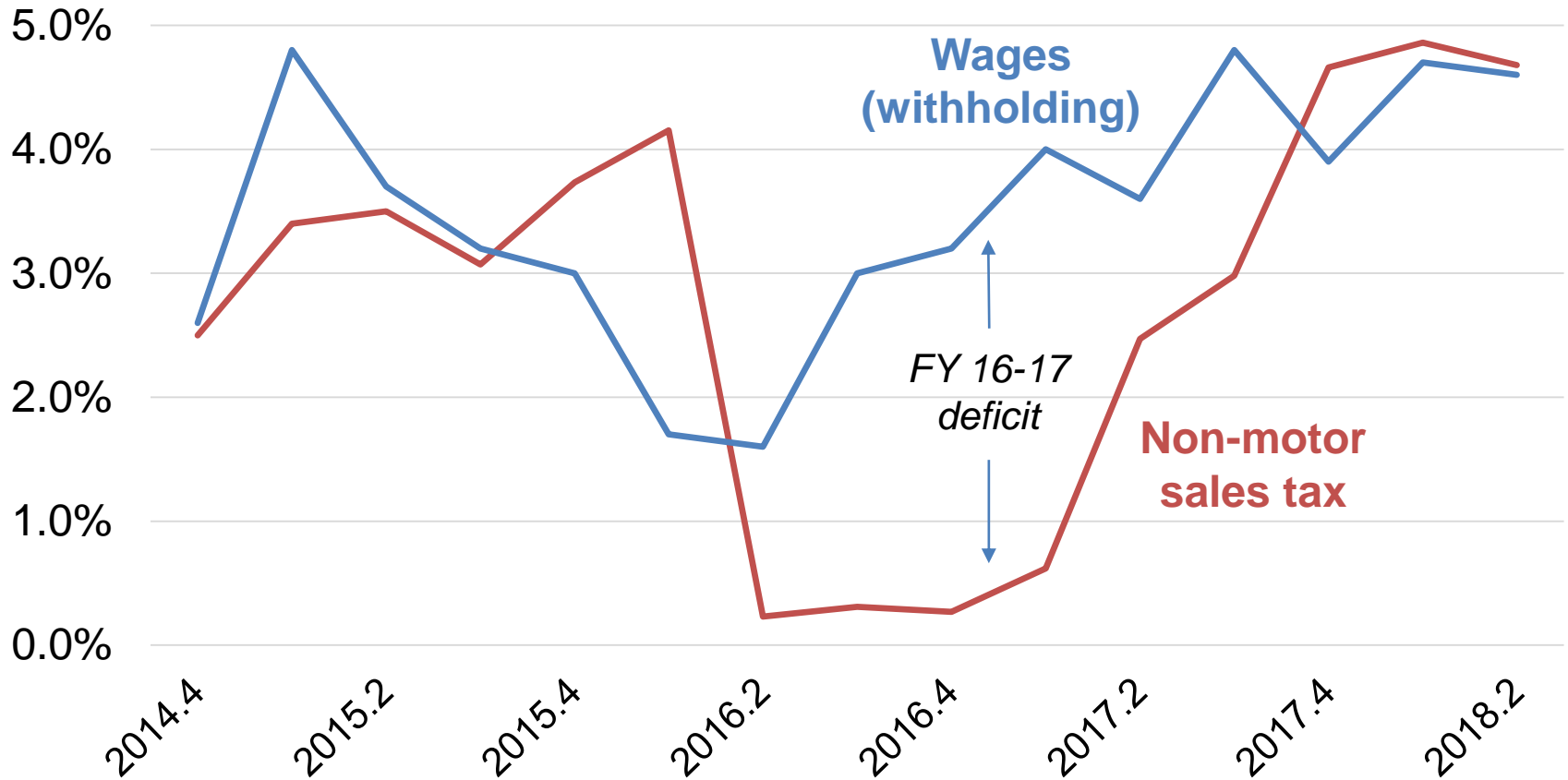
- Capital gains, interest, dividends, net profits.
- No published data yet. Look to tax revenues.
- Final personal income tax payments up **+11.7%**.

## 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.

# PA Economic Growth Rates

	2015	2016	2017	2018
Real GDP	2.6%	0.9%	1.9%	2.3%
Wages-Salaries	4.1%	1.3%	3.3%	4.3%
Net Job Gains (000s)	47.3	50.0	62.9	62.5
Philadelphia CPI-U	-0.1%	0.6%	1.3%	1.8%
Pittsburgh CPI-U	0.7%	1.6%	2.2%	n.a.
House Price Index	2.5%	4.0%	4.7%	5.2%
Mid-Atlantic Gasoline	-29.2%	-10.5%	14.8%	15.0%
All Consumer Debt	2.2%	4.2%	2.0%	2.5%

Note: Net job gains exclude self-employed. Values for 2018 reflect data for the first quarter of 2018 (house price index and consumer debt), data through May (gasoline) 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, Energy Information Administration, Federal Reserve Bank of New York and Federal Housing Finance Agency.

# Change in PA Payroll Jobs (000s)

	2015	2016	2017	2018
<b>Mining</b>	-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
<b>Professional Services</b>	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.

# Select PA Professional Services Detail

	<u>Change or Growth</u>			<b>Level</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2017</b>
<b>Number of Jobs (includes part-time)</b>				
Legal	14	101	256	49,827
Accounting-Bookkeeping	802	505	377	36,133
Architecture-Engineering	-38	290	288	57,454
Computer System Design	3,525	2,434	-137	70,678
Management-Consulting	203	2,298	1,031	51,126
<b>Average Wage (includes part-time)</b>				
Legal	2.0%	2.9%	7.1%	\$98,611
Accounting-Bookkeeping	3.5%	2.8%	3.2%	\$72,980
Architecture-Engineering	2.3%	1.1%	1.8%	\$82,915
Computer System Design	3.4%	0.4%	3.2%	\$105,386
Management-Consulting	4.7%	1.2%	1.9%	\$97,774
Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages. 2017 is preliminary.				

# 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.



# FY 2017-18 Revenue Forecast

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# FY 2017-18 Revenue Themes

## **Corporate Income: multiple revenue impacts.**

- TCJA of 2017: rate reduction and base broadening.
- Elimination of \$5 million NOL cap.
- Tax Bulletin 2017-02 eliminates certain deductions.

## **Personal Income: broad gains, timing issues.**

- 4<sup>th</sup> estimated payment for 2017 up **+31.7%**.
- FY 17-18 refunds down from last year.
- 1<sup>st</sup> estimated payment for 2018 up **+15.2%**.

## **Sales-Use: consistent strength since November.**

- Good holiday season and impact of TCJA.
- Business spending likely helps (~one-third of tax base).

# 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	<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.

# FY 17-18 Revenues Through May

	<u>Revenues Thru May 2018</u>			Change to Estimate
	Amount	Change	Growth	
<b>General Fund</b>	<b>\$31,483</b>	<b>\$3,078</b>	<b>10.8%</b>	<b>-\$244</b>
Corporate Net Income	2,318	188	8.8	-176
Gross Receipts	1,143	-65	-5.4	-89
Inheritance	928	72	8.5	+23
Sales and Use	9,418	407	4.5	+62
PIT - Withholding	9,268	405	4.6	+45
PIT - Other	2,992	410	15.9	+65
All Tobacco	1,190	-26	-2.1	-28
All Other Tax	1,761	97	5.9	+104
All Non-Tax	2,468	1,589	180.8	-250

Note: Dollar amounts in millions. PIT is personal income tax. Non-tax revenues include \$1.5 billion in revenue bonds and \$300 million in miscellaneous transfers (\$175 million from Farm Show Complex lease).

# Corporate Net Income Tax

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

- Expected strong gains from NOL change.
- Smaller NOL impact? More income shifting?

## **U.S. non-financial domestic profits rebound.**

- 2015 **-1.6%** | 2016 **-4.1%** | 2017 **+3.1%**.
- Data for first quarter at **+5.8%** (year-over-year).

## **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.

# Income and Sales Tax Revenues

	Annual Growth Rates				
	13-14	14-15	15-16	16-17	17-18
Withholding	2.6%	3.8%	2.3%	3.6%	4.5%
Estimated-Final	<u>-6.5%</u>	<u>13.6%</u>	<u>3.1%</u>	<u>-3.0%</u>	<u>12.9%</u>
<b>Personal Income</b>	<b>0.3%</b>	<b>6.0%</b>	<b>3.4%</b>	<b>1.0%</b>	<b>6.5%</b>
Non-Motor Vehicle	2.7%	3.6%	3.2%	1.0%	2.8%
Motor Vehicle	<u>4.9%</u>	<u>8.3%</u>	<u>1.6%</u>	<u>1.5%</u>	<u>2.4%</u>
<b>Sales and Use</b>	<b>3.0%</b>	<b>4.2%</b>	<b>3.0%</b>	<b>1.0%</b>	<b>2.7%</b>

Note: Withholding growth rate for FY 15-16 adjusted to reflect an extra deposit day. Estimated-Final growth rate adjusted for net inflows from the Enhanced Revenue Collection Account (ERCA). Non-Motor growth rate controls for transfers and tax law changes.

# Other Major Revenue Sources

	Annual Growth Rates			Amount
	15-16	16-17	17-18	17-18
Cigarette	-1.7%	38.4%	-4.1%	\$1,210
Gross Receipts	3.4	-5.7	-6.3	1,152
Inheritance	-4.0	1.6	1.6	993
Realty Transfer	16.4	1.9	8.3	514
Insurance Premiums	2.3	-6.7	3.5	449
Liquor	4.1	4.0	4.1	377
Bank Shares	<u>12.2</u>	<u>-2.3</u>	<u>5.3</u>	<u>340</u>
<b>Total</b>	<b>3.5</b>	<b>-1.9</b>	<b>0.7</b>	<b>3,825</b>

Note: Realty Transfer growth rate controls for the new HARE transfer. Dollar amounts in millions.

# Average Growth Rate Comparison

	2013-18 Avg Rate
Nominal PA GDP	3.5%
Total PA Wages-Salaries	3.4%
Weighted PA CPI-U	1.2%
<b>All General Fund Taxes</b>	<b>2.6%</b>
Personal Income	3.3%
Sales and Use	3.0%
Corporate Net Income	3.3%
Gross Receipts	-2.5%
Cigarette	3.4%
All Other	-0.2%

Note: Average annual growth rate from FY 12-13 to FY 17-18. Weighted CPI-U uses Philadelphia (two-thirds) and Pittsburgh (one-third) metro CPI-U's for calendar years 2013 to 2018.



# FY 2018-19 Revenue Forecast

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# 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>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%
<b>Dollar Difference</b>	<b>-\$251</b>	<b>-\$28</b>
<b>Two-Year Total</b>		<b>-\$279</b>
Proposed Severance Tax (excluded from above)		\$249

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

# General Fund Balance Sheet FY 17-18

	Executive Budget	IFO Updated
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.

# Questions / Discussion

Final Estimate Posted June 18

Presentation posted  
at IFO website

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