
Background Information for the House / Senate Appropriations Committees

prepared by the
Independent Fiscal Office



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Independent Fiscal Office

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Independent Fiscal Office - Overview

Background

The office was created by Act 120 of 2010. Matthew Knittel has served as director since the inception of the office in September 2011, and currently he supervises a staff of eight. Analysts generally have backgrounds in economics or other disciplines with a quantitative emphasis. The FY 2014-15 Executive Budget proposes an appropriation of \$1.675 million for the office, which is the same as the amount appropriated for the current fiscal year. The office employed a summer intern and anticipates filling a vacancy created by the departure of a staff member.

Mission Statement

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 will not support or oppose any policy it analyzes, and will disclose the methodologies, data sources and assumptions used in published reports and estimates. The IFO will seek to establish collaborative relationships with the General Assembly, executive agencies and various non-governmental organizations that have an interest in the policy making process.

Role in the Budget Process

The statute creating the IFO outlines several points at which the office is required to provide budget-related information to policy makers. In addition to the statutory duties, the IFO seeks to work with the majority and minority chairs of the Appropriations Committees to analyze the state economy and revenues. The deadlines for budget-related duties are as follows:

- | | |
|-------------|--|
| November 15 | Prepare an assessment of the state's fiscal condition for the current year and the succeeding five fiscal years by taking account of the state economy, demographics, revenues and expenditures. |
| January 31 | Convene a revenue conference with the chairs of the Appropriations Committees, the Secretary of the Budget and the Secretary of Revenue to discuss economic trends and revenue performance. |
| May 1 | Provide an initial revenue estimate for the remainder of the current fiscal year and the succeeding fiscal year. |
| June 15 | Provide a final revenue estimate for the current fiscal year and the succeeding fiscal year. |

Other Services

When possible, the IFO also provides economic and revenue analysis to members of the General Assembly. The office does not intend to duplicate services provided by the standing committees, but it seeks to use available state, federal and private data sources to expand the types of information and analysis available to policy makers.

IFO Reports and Analyses

Monthly Reports:

- *Revenue Trends Report.* Displays monthly and fiscal year-to-date revenues and compares them to the same period of the prior year. Presents three-month and twelve-month growth rate trends.
- *Monthly Economic Report.* A concise listing of the latest economic releases for Pennsylvania and the U.S.

Revenue Estimates:

- *Initial Revenue Estimate.* Due by May 1 each year.
- *Official Revenue Estimate.* Due by June 15 each year.
- *Quarterly Revenue Estimates.* Issued after the beginning of the fiscal year. Provides a quarterly breakdown of the IFO's official estimate with adjustments for tax law changes enacted in conjunction with the state budget.
- *Five-Year Economic and Budget Outlook.* Due by November 15 each year.
- *Quarterly Revenue Review.* Published after each quarter to compare the IFO's revenue estimates to actual revenues.
- *Mid-Year Update.* Published in January. Revised revenue estimate for the current year based on actual collections for the first half of the fiscal year and expectations for the second half.

Special Reports and Analyses *(issued since January 1, 2013):*

- Proposed Sales Tax Exemption: Aircraft Sales, Parts and Maintenance and Repair
- Corporate Tax Base Erosion: Analysis of Policy Options
- An Analysis of Medicaid Expansion in Pennsylvania
- Pennsylvania Turnpike Toll Revenue Projections: CY 2013 to CY 2024
- Uncapping the Film Production Tax Credit: A Fiscal and Economic Analysis
- School Property Taxes Paid by Homesteads
- An Analysis of Michigan Property Tax Reform
- Analysis of Proposal to Replace School Property Taxes: House Bill 76 and Senate Bill 76
- Analysis of School Property Taxes Paid by Homeowners Age 70 and Older
- 2013 Tax Comparison Study
- The Pennsylvania Lottery: Historical Data and Interstate Comparisons

All reports published by the office are available on its website at www.ifo.state.pa.us.

Independent Fiscal Office – Summary of Revenue Estimates

FY 2013-14 IFO Official Revenue Estimate

(\$ millions)

Revenue Source	Estimate	Growth
General Fund - Total	\$29,154	1.8%
Corporate Net Income	2,460	1.5%
Sales and Use	9,239	3.9%
Personal Income	11,720	3.1%
All Other	5,736	-3.7%*

* 0.8% growth rate for “all other” if the capital stock and franchise tax is excluded.

Actual First-half Growth Rates and Second-half Growth Rates Necessary to Meet Estimate

Revenue Source	Actual 1 st Half	2 nd Half Needed
General Fund - Total	0.5%	2.7%
Corporate Net Income	1.3%	1.7%
Sales and Use	2.3%	5.5%
Personal Income	2.7%	3.3%

FY 2013-14 IFO Official Revenue Estimate – Mid-Year Update

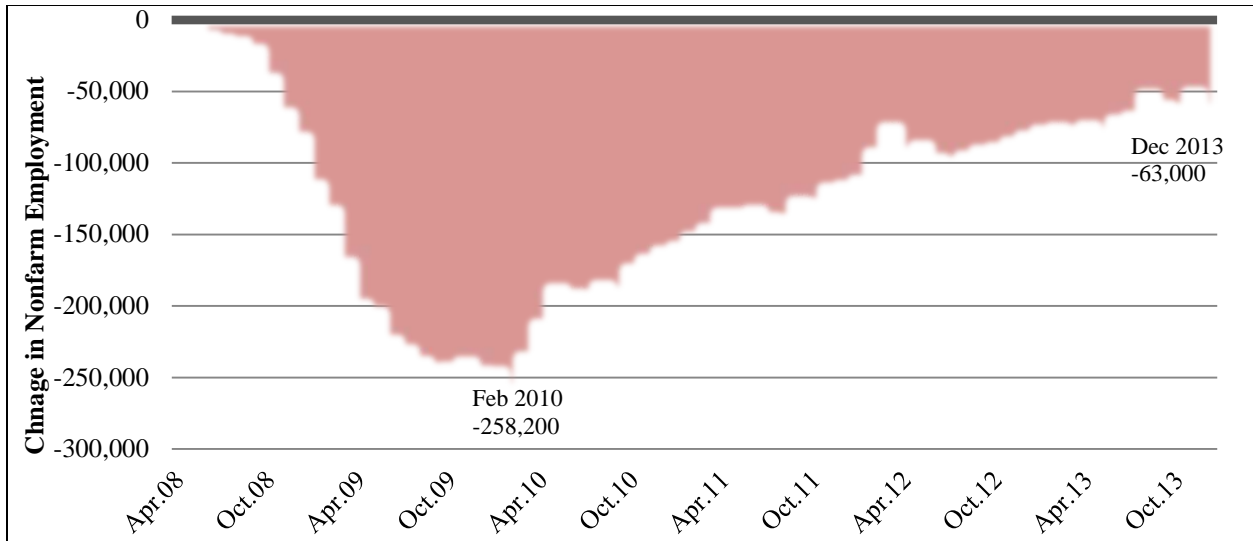
(\$ millions)

Revenue Source	Estimate Revision	Revised Estimate	Revised Fiscal Year Growth	Revised 2 nd Half Growth
General Fund - Total	-\$150	\$29,004	1.2%	1.8%
Corporate Net Income	0	2,460	1.5%	1.7%
Sales and Use	-70	9,169	3.1%	3.9%
Personal Income	-60	11,660	2.5%	2.4%
All Other	-20	5,716	-4.1%	-1.3%

The Pennsylvania Economy - Employment

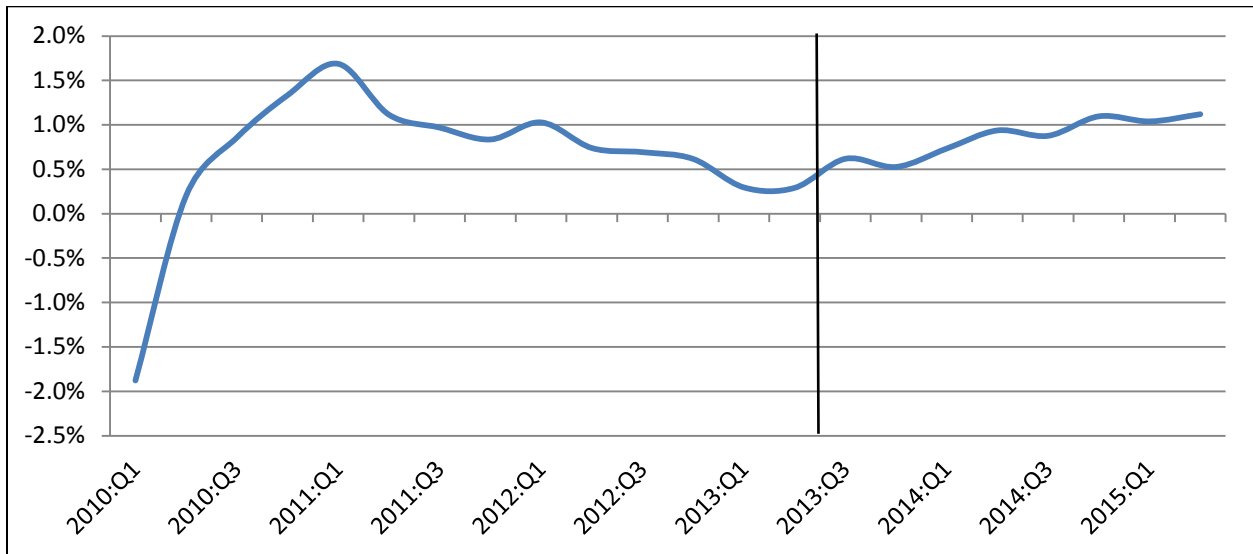
- In February 2010, Pennsylvania employment was 258,200 below its pre-recession peak. Employment has recovered somewhat since then, but it remains 63,000 below the peak.
- Employment growth in 2014 and 2015 is expected to be steady, but modest. At projected rates, the pre-recession peak could be reached in late 2014 or 2015.

PA Employment – Comparison to Pre-Recession Peak



April 2008 peak = 5,824,600 jobs. February 2010 trough = 5,566,400 jobs. December 2013 = 5,761,600 jobs.
 Current Employment Statistics, seasonally adjusted. Source: U.S. Bureau of Labor Statistics.

PA Nonfarm Employment – Year Over Year Growth Rates



Source: IHS Economics, January 2014 and the Independent Fiscal Office.

Employment – Total Job Gains / Losses Since the U.S. Peak

Pennsylvania (thousands of jobs)	2008 Q1	2013 Q4	change	percent
Natural Resource-Mining	21	35	14	65.2%
Construction	259	227	-32	-12.2%
Manufacturing	654	566	-88	-13.4%
Transportation-Utility	239	249	10	4.1%
Wholesale	240	225	-15	-6.3%
Retail	657	631	-26	-4.0%
Information	108	88	-19	-17.8%
Financial	331	311	-20	-6.0%
Professional	316	322	7	2.1%
Management	112	132	20	17.9%
Administrative	285	295	10	3.5%
Education	224	232	9	3.9%
Health	867	952	85	9.8%
Leisure-Hospitality	505	533	29	5.7%
Other Service	254	259	5	1.9%
Government	748	711	-37	-5.0%
Federal	103	97	-6	-6.1%
State	<u>645</u>	<u>614</u>	<u>-31</u>	<u>-4.8%</u>
Total	5,818	5,769	-50	-0.9%

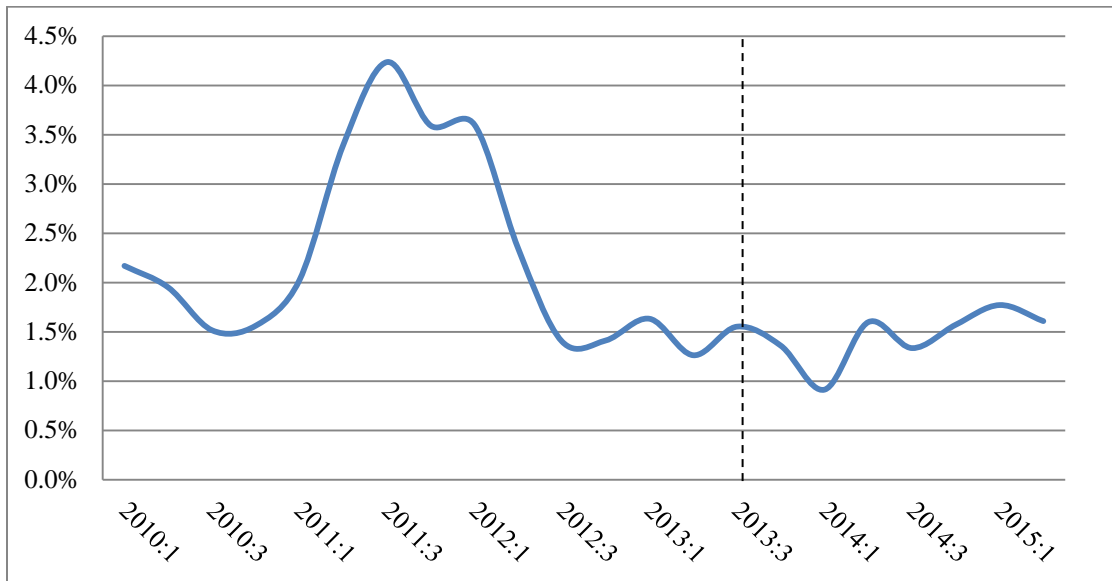
United States (thousands of jobs)	2008 Q1	2013 Q4	change	percent
Natural Resource-Mining	750	885	135	18.0%
Construction	7,445	5,849	-1,596	-21.4%
Manufacturing	13,694	12,013	-1,681	-12.3%
Transportation-Utility	5,109	5,077	-33	-0.6%
Wholesale	6,026	5,788	-238	-3.9%
Retail	15,535	15,324	-211	-1.4%
Information	3,022	2,685	-337	-11.2%
Financial	8,270	7,908	-362	-4.4%
Professional	7,819	8,196	377	4.8%
Management	1,902	2,057	155	8.1%
Administrative	8,270	8,513	243	2.9%
Education	2,994	3,398	403	13.5%
Health	15,652	17,432	1,780	11.4%
Leisure-Hospitality	13,539	14,287	748	5.5%
Other Service	5,531	5,498	-33	-0.6%
Government	22,416	21,860	-556	-2.5%
Federal	2,746	2,709	-37	-1.3%
State	<u>19,670</u>	<u>19,151</u>	<u>-520</u>	<u>-2.6%</u>
Total	137,973	136,768	-1,205	-0.9%

Sources: U.S. Bureau of Labor Statistics and IHS Economics, January 2014.

The Pennsylvania Economy – Inflation and Gasoline Prices

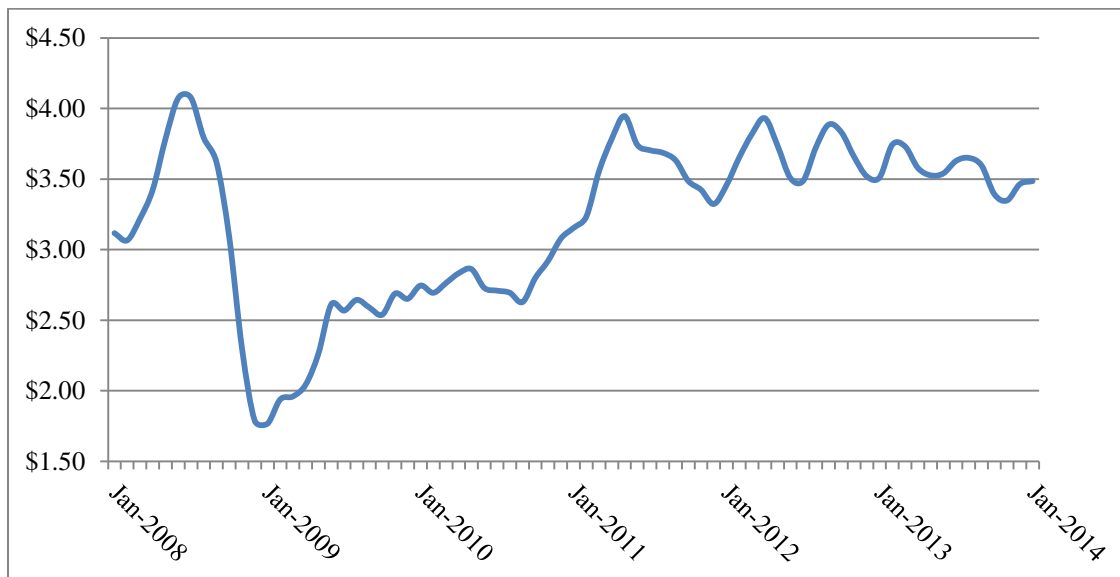
- Inflation is forecasted to remain low through 2014, but will pick up slightly with economic activity in early 2015.
- Monthly average gasoline prices were \$3.68 per gallon in 2012 and \$3.56 per gallon in 2013.

Consumer Price Index (PA-NJ-DE-MD)



Source: IHS Economics, January 2014.

Average Gasoline Prices: Central Atlantic Region

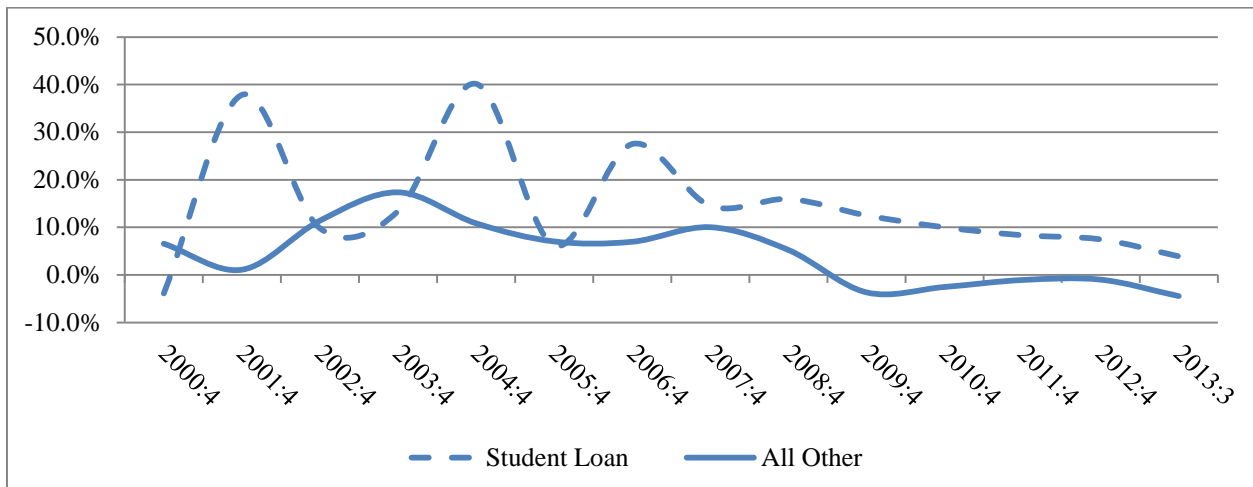


Regular unleaded gasoline. Source: Energy Information Administration.

The Pennsylvania Economy – Consumer Debt

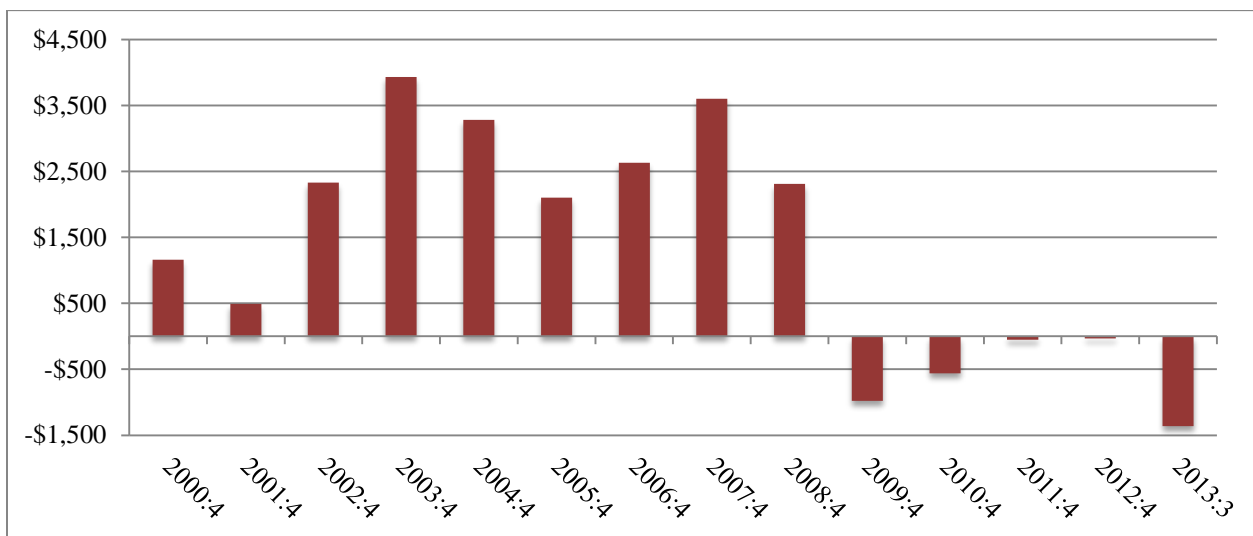
- While per capita student loan debt continues to rise (3.9 percent in 2013:3), consumers are paying down or taking on less “all other debt” on a per capita basis (-4.5 percent).
- Since the recession, consumer debt levels have been shrinking. In the third quarter of 2013, total per capita debt was down by \$1,360 from the previous year. The reduction is due to lower mortgage and credit card balances.

PA Student Loan and All-Other Debt Per Capita – Year Over Year Growth Rates



“All Other” includes mortgage, credit card, auto and other miscellaneous debt. Source: Federal Reserve Bank of New York.

PA Dollar Change in Per Capita Total Debt

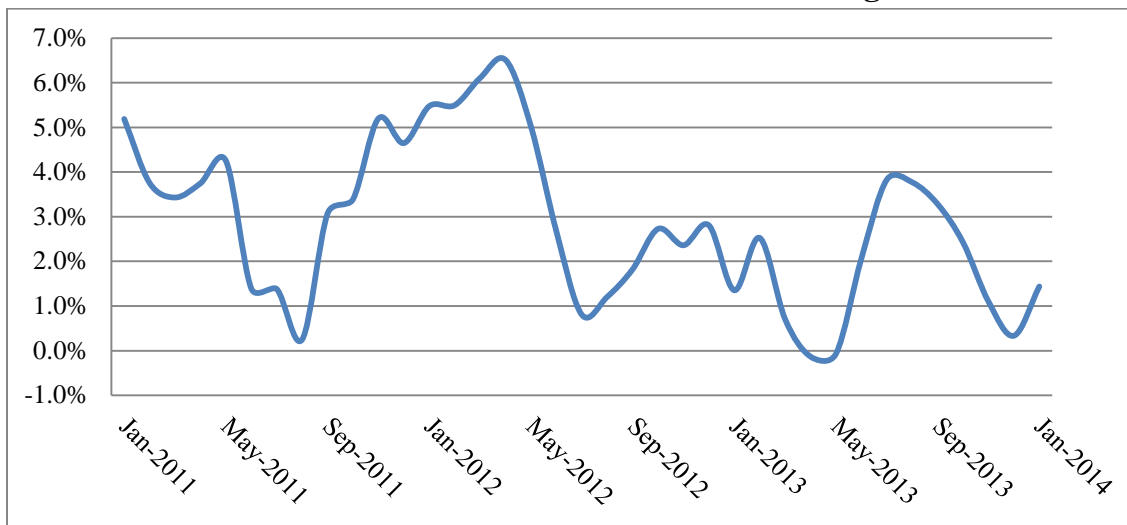


Source: Federal Reserve Bank of New York.

General Fund Revenues – Non-Motor Sales and Use Tax

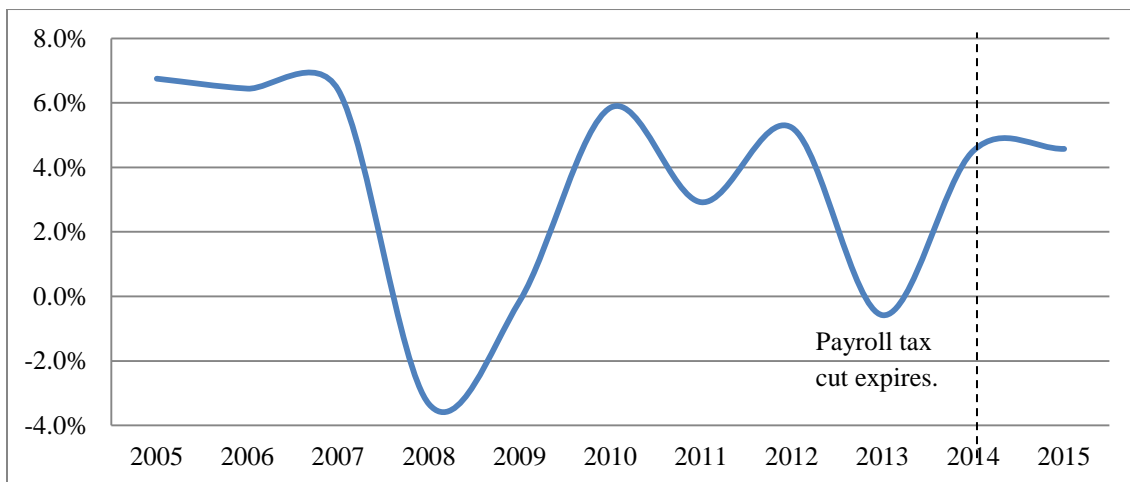
- Fiscal year-to-date collections through January grew by 2.0% over the same period last year. Collections are trending well below the levels the IFO anticipated at the time estimates were finalized in June.
- The growth of disposable current income (the amount consumers have available to spend after taxes) is expected to grow at 4.5% for 2014 and 4.6% in 2015, following a decline in 2013 due to the expiration of the payroll tax cut and modest wage growth.

Non-Motor Sales Tax Collections – Three-Month Average Growth Rate



Beginning in June 2011, collections are adjusted for mandated prepayments to allow a consistent comparison.

PA Disposable Current Income – Year Over Year Growth Rates

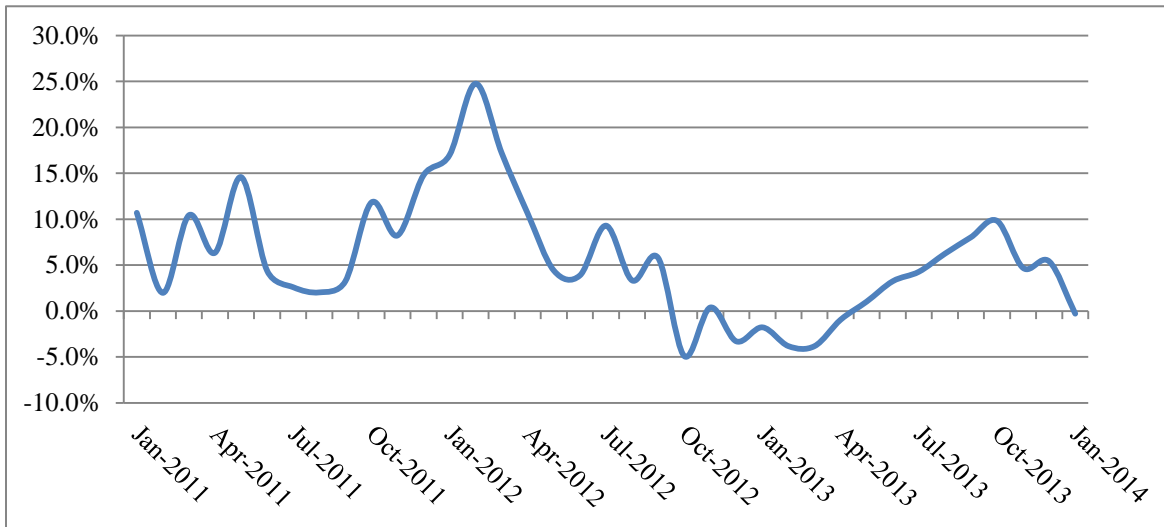


Source: Independent Fiscal Office.

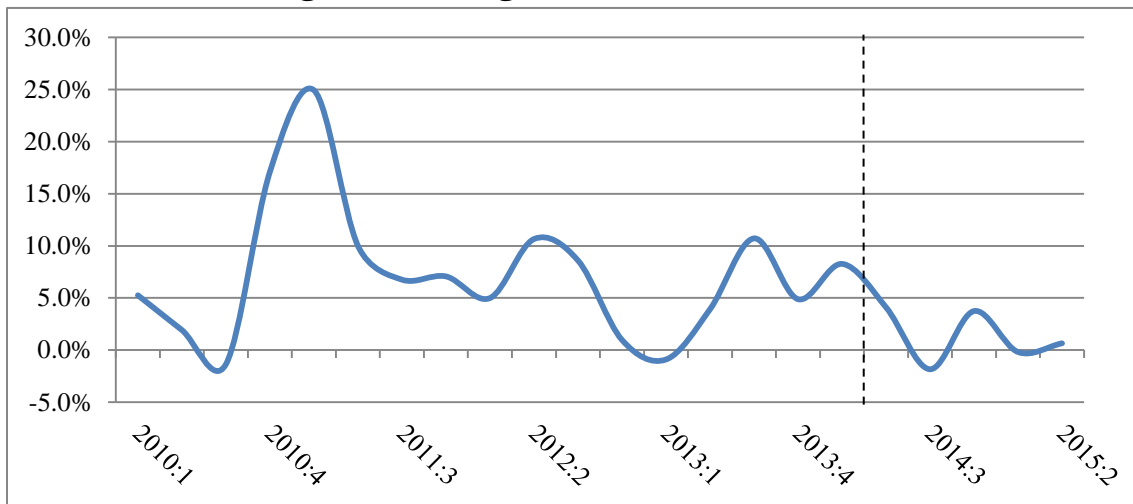
General Fund Revenues – Motor Vehicle Sales Tax

- Motor vehicle sales taxes have grown by 5.4% for the first half of this fiscal year.
- Pennsylvania new car and light truck registrations are forecasted to grow 3.0% in 2014 and 1.5% in 2015.

Motor Vehicle Sales Tax Collections – Three-Month Average Growth Rate



PA New Car and Light Truck Registrations – Year Over Year Growth Rates

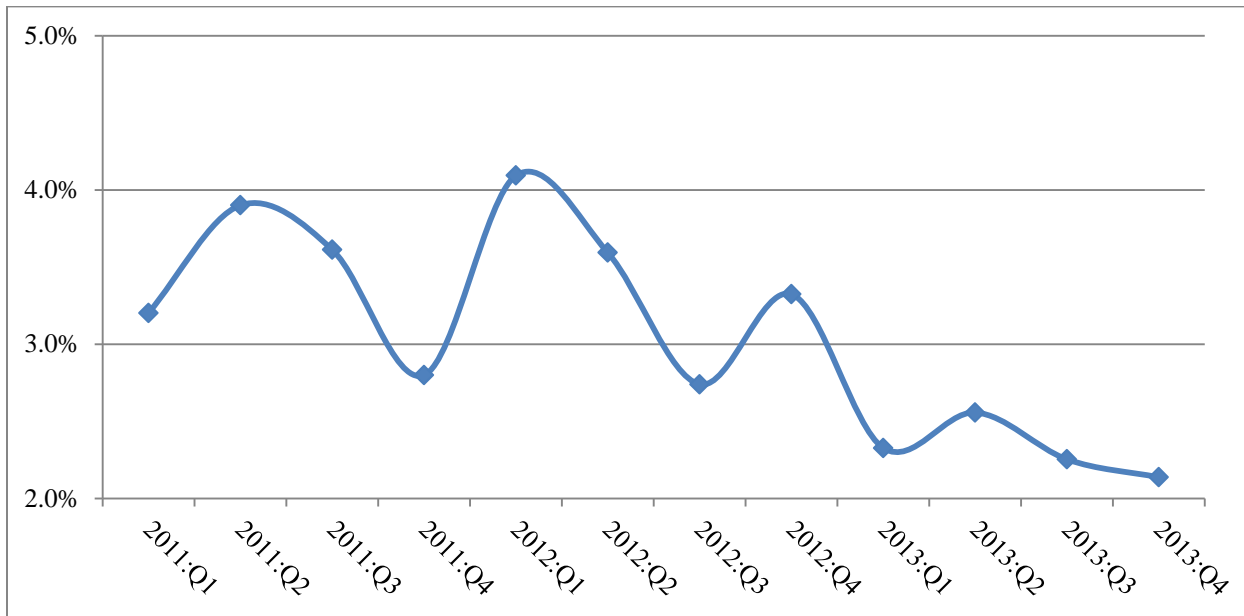


Number of units. Source: IHS Economics, January 2014 and the Independent Fiscal Office.

General Fund Revenues - Personal Income Tax Withholding

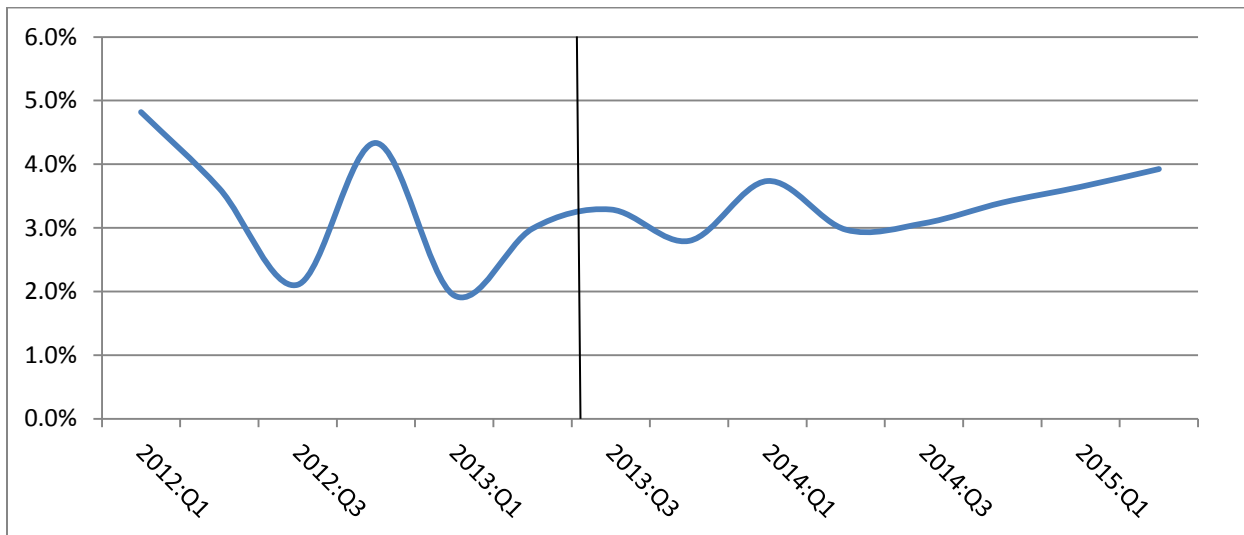
- While employer withholding revenues have grown over the previous year, the rate of growth has been declining since early 2012. For the fiscal year through January, revenues grew by 2.0%.
- The current IFO forecast projects modest wage growth in the 3% to 4% range through the middle of 2015.

PIT – Withholding Year Over Year Growth Rates



Quarterly revenues are aligned to allow for comparability based on payment due dates.

PA Wages – Year Over Year Growth Rates

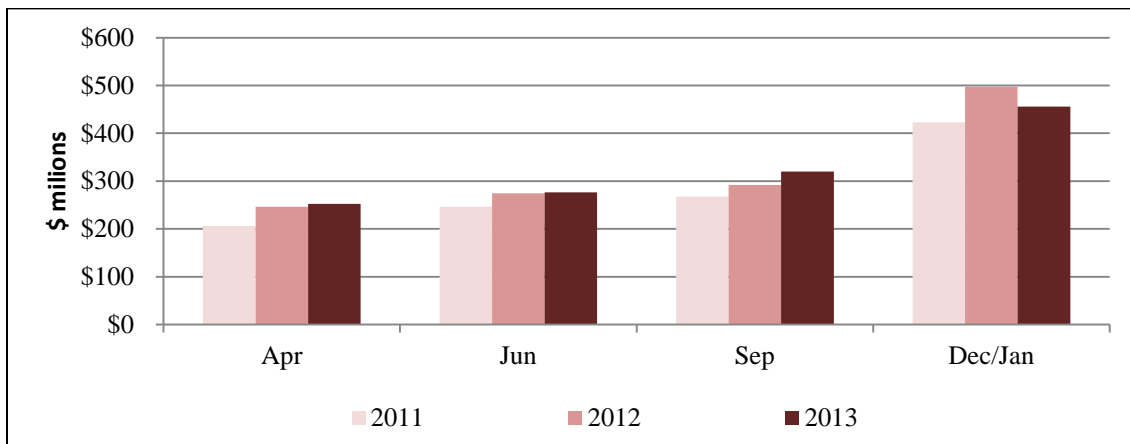


Source: IHS Economics, January 2014 and the Independent Fiscal Office.

General Fund Revenues - Personal Income Tax Nonwithholding

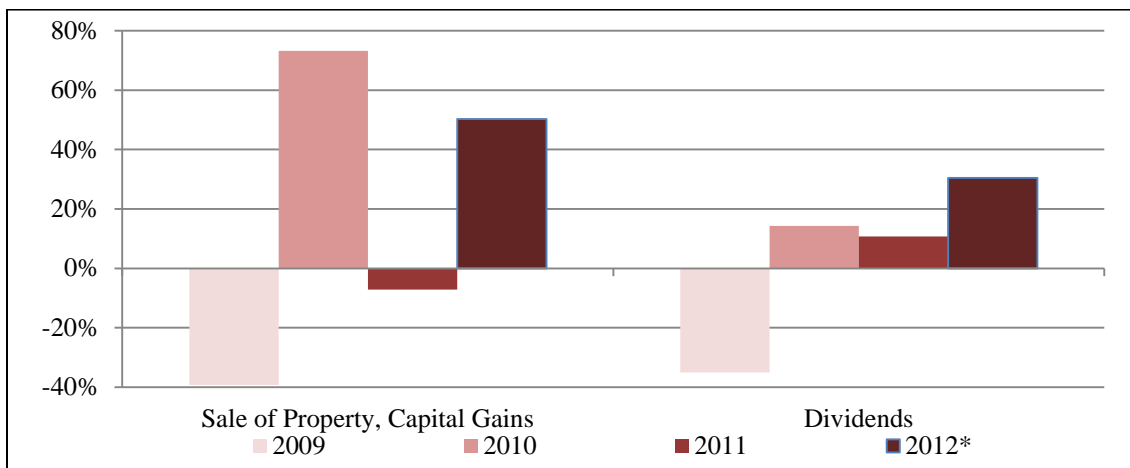
- Fourth quarter estimated payments for calendar year 2013 (December 2013 and January 2014) are down 8.4 percent over last year (see the first chart below). Quarterly payments, particularly the last quarter, tend to be a good predictor of the annual payment due in April of the following year.
- Tax return data support the view that taxpayers received dividends and accelerated the recognition of capital gains at the end of 2012 in anticipation of federal tax increases for 2013 (see second chart below). As a result, the growth rate of dividends and capital gains will be significantly lower in 2013. This translates into lower estimated and final payments for tax year 2013.

PIT – Quarterly Estimated Payments



The final quarterly payment for a calendar year is due the following January. Some of this revenue is typically collected in December, so these months are shown together.

PIT - Selected Nonwithholding Growth Rates



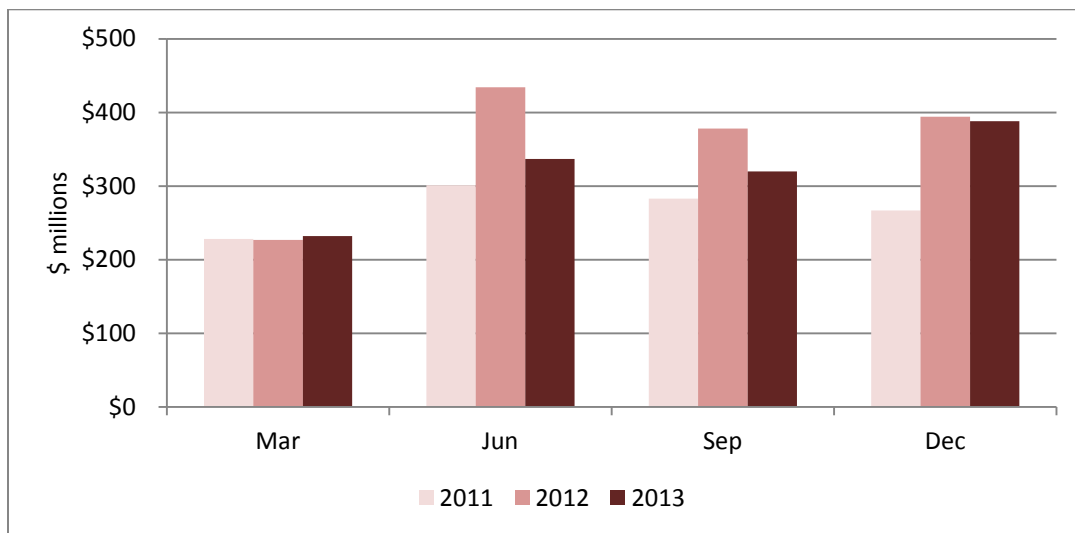
* 2012 growth rate is based on unpublished data as of January 10, 2014.

Source: PA Department of Revenue. PIT Statistics Booklets, Table 6. Calculations by the Independent Fiscal Office.

General Fund Revenues - Corporate Net Income Tax

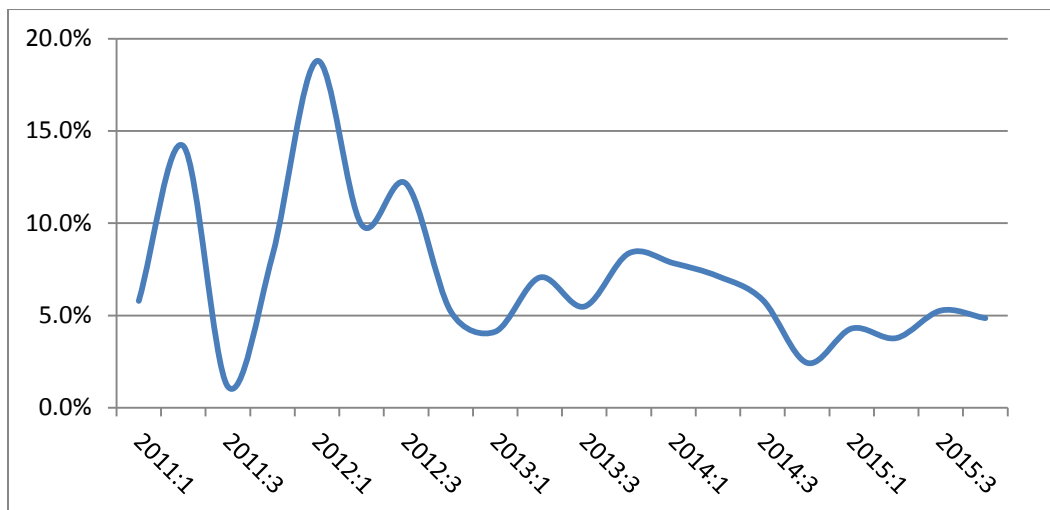
- Through January, corporate net income tax revenues increased by 3.1% over the prior fiscal year. Final payments (generally associated with tax year 2012) increased by 40% and estimated payments (generally associated with tax year 2013) declined by 5%. Weak estimated payments suggest that final payments in April may be modest.
- Domestic corporate profits are projected to grow modestly through 2015. In addition to profits, recent tax law changes will affect corporate net income tax receipts.

Corporate Net Income Tax – Quarterly Estimated Payments



The primary months for quarterly estimated payments are displayed.

Domestic Corporate Profits – Year Over Year Growth Rates

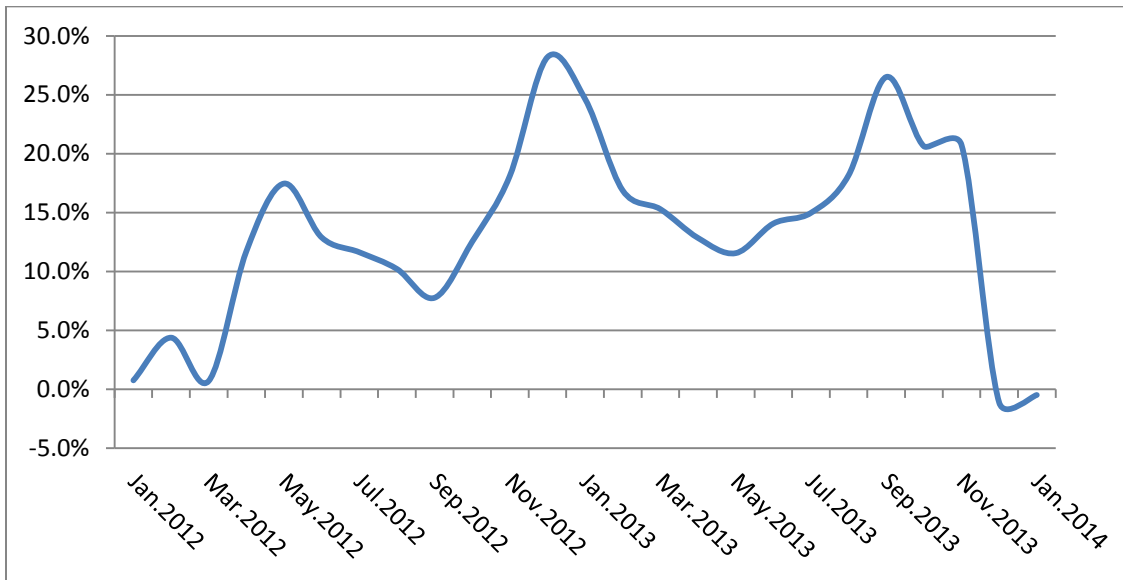


Source: IHS Economics, January 2014 U.S. forecast.

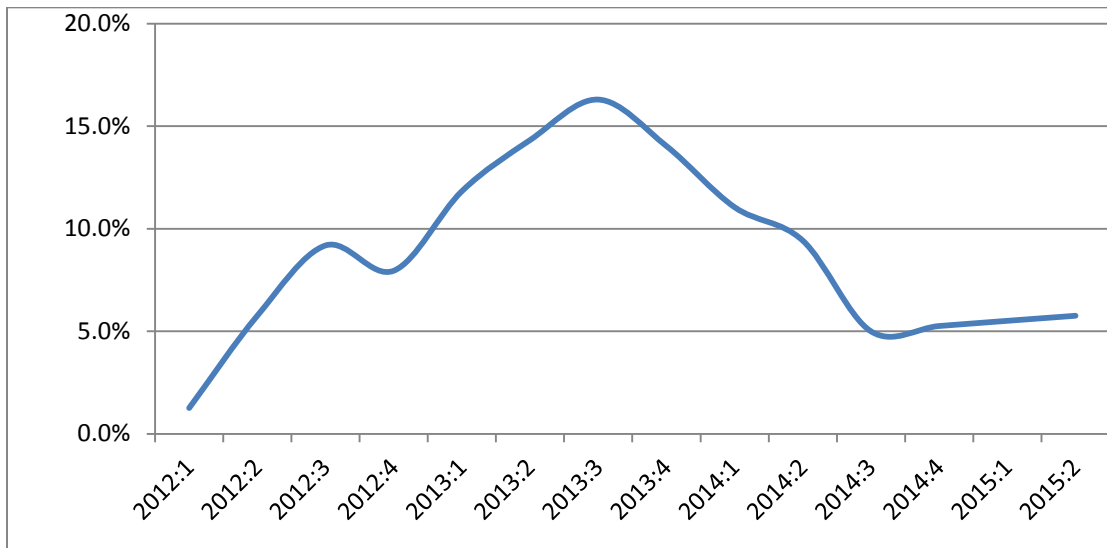
General Fund Revenues - Realty Transfer Tax

- Realty transfer tax revenues for the fiscal year have increased by 12% through January. However, the most recent three month trends have been negative.
- Housing sales are expected to grow according to IFO projections, but the rate of increase will decline.

Realty Transfer Tax – Three-Month Average Growth Rate



PA Housing Sales – Year Over Year Growth Rates



Source: IHS Economics, January 2014 and the Independent Fiscal Office.