INITIAL REVENUE ESTIMATE

FY 2021-22

May 2021

Independent Fiscal Office

Independent Fiscal Office

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INDEPENDENT FISCAL OFFICE

May 26, 2021

The Honorable Members of the Pennsylvania General Assembly:

The Independent Fiscal Office hereby submits its initial revenue estimate in accordance with Sections 604-B (a)(1) and 605-B (a) of the Administrative Code of 1929. This report provides revenue estimates for fiscal year (FY) 2020-21 and FY 2021-22. Pursuant to statute, the office will release a final estimate in June 2021.

This report contains estimates for unrestricted General Fund and Motor License Fund revenues that may be considered for appropriation in the General Appropriations Act. The report also provides detail on the revenue impact of increased federal funding related to the outbreak of COVID-19. 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 the office website after the final estimate is released.

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

Dr. Matthew J. Knittel
Director

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Economic Outlook

More than a year has passed since Pennsylvania reported its first confirmed case of coronavirus and first death due to COVID-19. Since that time, the state economy shed 1.1 million jobs and then recouped roughly three-fifths of the loss. The federal government enacted multiple substantial relief packages that will inject nearly $160 billion of federal revenues into the state economy over several years. As of May 20, 5.62 million state residents had received at least one dose of vaccine and the CDC issued guidance that fully vaccinated individuals need not wear masks in most indoor and outdoor settings. The economic forecast used for this estimate assumes that a new variant of COVID-19 does not emerge that would result in further mitigation efforts and business closures. It also assumes that no new federal monies flow to state residents and temporary unemployment compensation (UC) programs expire as scheduled in September.

Pennsylvania Economic Forecast

Table 1.1 displays a summary of the Pennsylvania economic forecast used for the previous January 2021 estimate (top portion) and the forecast used for this revenue estimate. The current forecast assumes that:

- Real GDP (real gross domestic product) increases by 3.6% (2021) and 2.4% (2022).
- Wages and Salaries paid to Pennsylvania residents increases by 6.7% (2021) and 4.3% (2022) (excludes compensation earned by self-employed and independent contractors).
- Payroll Employment expands by 100,000 (2021, average for full year) and 80,000 (2022) net jobs (excludes self-employed and independent contractors).
- The Philadelphia CPI-U (consumer price index) increases by 3.5% (2021) and 2.7% (2022).

Table 1.1
Pennsylvania Economic Forecasts

	Annual Growth Rate or Change			
January 2021 Estimate	**2019**	**2020**	**2021**	**2022**
Real GDP	2.4%	-4.1%	3.5%	2.8%
Wages-Salaries	4.3%	-1.2%	4.8%	4.4%
Net Payroll Jobs (000s)	54.0	-450.0	120.0	100.0
Philadelphia CPI-U	2.0%	0.9%	1.6%	2.1%
May 2021 Estimate	**2019**	**2020**	**2021**	**2022**
Real GDP	2.4%	-4.4%	3.6%	2.4%
Wages-Salaries	4.3%	-0.1%	6.7%	4.3%
Net Payroll Jobs (000s)	56.0	-438.0	100.0	80.0
Philadelphia CPI-U	2.0%	0.9%	3.5%	2.7%

Note: Payroll jobs exclude self-employed and independent contractors.

Source: U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics. All forecasts by IFO.

The forecast assumes continued recovery from the significant contraction in calendar year (CY) 2020. For the current year and next, the forecast projects higher inflation due to (1) domestic and international supply chain issues and (2) federal monies injected into the national and state economies that have created temporary materials and labor shortages in certain sectors of the economy. For some former workers, there remains a reluctance to rejoin the labor force due to disincentives and ongoing federal UC payments which can exceed lost weekly income by a considerable amount.[1,2] The temporary labor shortage also results from elevated demand attributable to the federal government injecting large amounts of borrowed funds (i.e., debt financed) into the national economy through various programs. When those programs and extra weekly payments expire, it is likely that some or much of the temporary labor and materials shortage will resolve.

The forecast also includes these specific assumptions:

- Consumers largely revert to prior spending patterns. However, it is recognized that the pandemic accelerated long-term shifts in some consumer behaviors such as more online shopping and engaging in more at-home entertainment options (e.g., streaming services, at-home gyms, food delivery services).
- Businesses largely revert to prior hiring and production operations, but many have streamlined operations and implemented more liberal telework policies. They have also permanently raised wages for certain lower-wage workers. As discussed later in this section, the forecast projects that the average employment level in CY 2022 will be substantially lower than CY 2019.
- All schools and colleges fully reopen in the fall. Childcare is available for workers who need those services.
- Due to telework policies, Motor License Fund revenues are permanently reduced by the pandemic.

Table 1.2 contains the latest quarterly data for the state economy. The real GDP and personal income data are published with a lag and the latest data are for 2020 Q4. All other data for CY 2021 are preliminary or are estimates by IFO based on recent tax data. The data show the following trends:

- State personal income expanded rapidly in 2020 Q2 and Q3 due to economic impact payments and extra UC payments of $600 or $300 per week.

[1] Regarding the inability to work due to lack of childcare, a recent study found that "while school closures and ongoing childcare challenges have substantially burdened parents and children alike, they do not appear to be a meaningful driver of the slow employment recovery. This means that the factors responsible for the slow employment recovery and depressed labor supply are issues that are not exclusively related to the struggles of working parents, such as the continued concern about the threat of getting Covid-19 at work or expanded unemployment insurance benefits and eligibility." See "How Much Have Childcare Challenges Slowed the US Jobs Market Recovery" Furman et al., Peterson Institute for International Economics (May 17, 2021) at https://www.piie.com/blogs/realtime-economic-issues-watch/how-much-have-childcare-challenges-slowed-us-jobs-market.

[2] A recent study by the Federal Reserve Bank of San Francisco found "moderate disincentive effects of the $600 supplemental payments on job finding rates" and "small effects of the $300 weekly UI supplement available during 2021." However, this study only considers workers with previous traditional employment and does not consider the very large number of PUA recipients (roughly 500,000 in April for Pennsylvania) who may have been marginally attached to the labor force at the onset of the pandemic. Those individuals receive the largest net benefit from enhanced unemployment benefits. The study is based on a median worker that earns roughly $1,000 per week ($52,000 annually), but 60% of PUA recipients report annual incomes of less than $10,000. See "UI Generosity and Job Acceptance: Effects of the 2020 Cares Act" Petrosky-Nadeau and Valetta, Federal Reserve Bank of San Francisco (May 17, 2021) at https://www.frbsf.org/economic-research/files/wp2021-13.pdf.

- Wage and salary growth turned positive in 2020 Q4 and will expand by nearly 14% relative to 2020 Q2 during the height of mitigation efforts and mandated business closures.
- Inflation accelerated rapidly in April to 3.5%. The May 2021 Manufacturing Business Outlook Survey published by the Philadelphia Federal Reserve found that firms' median forecast of consumer inflation was 4.0% for the upcoming year.
- Preliminary data for April 2021 show that the unemployment rate continued to fall (seasonally unadjusted) and the labor force contraction moderated.

Table 1.2
Recent Pennsylvania Economic Growth Rates or Change

	2020	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2
Real GDP	-4.4%	-34.0%	35.5%	3.7%	--	--
Personal Income	7.0%	13.1%	9.0%	3.5%	--	--
Wages and Salaries	-0.1%	-6.6%	-2.0%	4.7%	2.0%	13.8%
Philadelphia CPI-U	0.9%	0.0%	0.4%	0.9%	1.0%	3.5%
Unemployment Rate (%)	9.1	14.3	10.2	6.6	7.7	6.1
Change Payroll Jobs (000s)	-463	-896	-517	-468	-426	-447
Change Labor Force (000s)	-109	-96	-160	-231	-216	-150

Note: Real GDP is quarterly annualized growth rate. All other rates are year over year. Wage growth for 2020 based on QCEW release on May 19 and will not match growth rates from the U.S. Bureau of Economic Analysis. Wage growth for 2021 based on adjusted withholding patterns through May 2021. Change in Payroll Jobs and Labor Force are annualized changes during quarter. Labor market data are not seasonally adjusted.

Source: U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics.

Federal Programs

In response to the COVID-19 pandemic, numerous federal programs have injected or will inject significant funds into the state economy. **Table 1.3** displays amounts for funds that have been received (CY 2020) and estimates of additional monies that will flow to Pennsylvania residents and businesses (CY 2021). Details regarding these programs are as follows:

- **Federal UC** payments include (1) Federal Pandemic Unemployment Compensation (FPUC) bonus payments, (2) federal Pandemic Unemployment Assistance (PUA) for self-employed, gig and other workers ineligible for regular UC and (3) other federal UC benefits including extended benefits, Lost Wage Assistance payments and the first week of unemployment for all affected workers. Federal UC programs, including PUA, will end in early September.
- The **American Rescue Plan (ARP) Act**, the most recent stimulus legislation, provides FPUC bonus payments of $300 per week through the first week in September. In CY 2020, FPUC payments were available for 16 weeks at $600 per week.
- **Regular UC** claims peaked at 1.1 million in April 2020 and fell to nearly 341,000 by the end of the calendar year. The IFO estimates continued claims will fall to 146,000 by the end of CY 2021. PUA claims peaked at 3.4 million (includes weeks claimed retroactively) in July 2020 but fell to nearly

500,000 in the final week of CY 2020. The IFO projects the level of PUA claims will decline to approximately 400,000 by the end of the program in early September.

- The first round of **economic impact payments (EIPs)** flowed to 6.6 million state residents and totals $11.1 billion, primarily received in CY 2020. Congress approved two separate rounds of payments (valued at $600 and $1,400 per individual) that transfer another $21.4 billion to state residents in CY 2021.
- The ARP made significant changes to the **Child Tax Credit (CTC)** for tax year (TY) 2021, including: increase in value from $2,000 to $3,000 ($3,600 for children under age six), removal of the minimum income threshold and the credit is now fully refundable (previously only $1,400 was refundable). The maximum credit is available to qualifying filers with incomes less than $75,000 (single) or $150,000 (couples). In total, the IFO estimates that this will increase the value of the tax credit by $3.5 billion.
- The CTC for TY 2021 is also partially advanceable. Beginning in July, the IRS will begin to advance up to 50% of the value in monthly installments. This could provide up to $3.3 billion to parents in Pennsylvania in the second half of CY 2021.
- Commonwealth firms and non-profits received $20.7 billion of **forgivable Paycheck Protection Program (PPP) loans** in CY 2020: $11.3 billion to pass-through businesses (sole proprietors, partnerships, S corporations), $7.6 billion to C corporations and $1.9 billion to non-profits. The IFO projects that another $10.1 billion in funds will be disbursed to in-state firms in CY 2021.
- The state received approval from the U.S. Department of Agriculture to issue emergency allotments for **Supplemental Nutrition Assistance Program (SNAP)** recipients. This emergency funding provides all SNAP households the maximum monthly benefit based on size of household. The amount for CY 2021 ($1.4 billion) represents projections for the entire calendar year.
- **Direct state support** reflects funds allocated directly to states for general and targeted programmatic needs. For CY 2020, $3.9 billion represents general state aid that was utilized in FY 2019-20 and FY 2020-21. The ARP awarded $7.3 billion in additional general aid that will begin to be distributed in CY 2021 and will be available to be spent through CY 2024. Additionally, projections include targeted funds for education ($7.5 billion), a wide range of health and human services programs ($3.4 billion) and transportation ($1.4 billion).
- **Direct local support** reflects funds allocated directly to local governments and includes $1.0 billion in general aid and $1.0 billion in transit agency support in CY 2020. The ARP allocated $6.2 billion for local general aid beginning in CY 2021 and available through CY 2024. Additionally, projections include targeted funds for public transit ($1.4 billion) and affordable housing and rental assistance programs ($792 million).
- **Other support** was authorized by the federal government for CY 2020 and CY 2021. These funds include support directly awarded to healthcare providers ($4.8 billion) and higher education institutions ($2.6 billion).

Table 1.3
Federal Programs Inject Significant Funds

	CY 2020	CY 2021	Total
Payments to Individuals			
Federal Pandemic Unemployment Comp (FPUC)	$16.19	$7.63	$23.82
Pandemic Unemployment Assistance (PUA)	7.05	2.98	10.02
LWA and UC Extensions	3.10	2.75	5.85
SNAP Benefits	0.92	1.36	2.28
Economic Impact Payments	11.14	21.38	32.52
Expanded Child Tax Credit Awards	--	3.47	3.47
Total	**38.40**	**39.57**	**77.97**
Other Federal Programs			
Paycheck Protection Program (PPP)	$20.74	$10.09	$30.83
Direct State Support	6.10	21.72	27.82
Direct Local Support	2.58	9.26	11.84
Other Support	5.41	2.88	8.29
Total	**34.83**	**43.95**	**78.78**

Note: Figures in dollar billions. Does not include values for state-funded Unemployment Compensation benefits attributable to the pandemic ($5.2 billion in 2020; $1.3 billion in 2021). State support does not include federal funds associated with the temporary increase in the Federal Medical Assistance Percentage (FMAP) used to reimburse states for Medicaid program costs (effective January 1, 2020 until the termination of the national public health emergency declaration).

Source: Calculations by the IFO based on data from various state and federal agencies.

Table 1.4 provides quarterly estimates for the annual amounts in Table 1.3 related to payments to individuals and PPP. The table shows that the quarters with the largest amount of funds occurred when the first EIP (2020 Q2) and second and third EIPs (2021 Q1) were received and PPP payments were disbursed. The quarterly pattern also reveals the significant slowdown in federal support that will occur later this year once the expanded federal unemployment benefits expire. However, the new monthly advance payments from changes to the CTC will occur in the third and fourth quarters.

Table 1.4
Federal Support by Quarter

	Quarter Received ($ billions)						
	2020.2	2020.3	2020.4	2021.1	2021.2	2021.3	2021.4
All Federal UC/LWA	$11.2	$11.9	$3.3	$5.8	$4.7	$2.9	$0.0
EIPs	10.9	0.1	0.0	18.2	3.1	0.0	0.0
Child Tax Credit	0.0	0.0	0.0	0.0	0.0	1.7	1.7
SNAP Expansion	0.3	0.3	0.3	0.4	0.4	0.4	0.3
PPP	20.4	0.3	0.0	8.0	2.1	0.0	0.0
Total	**42.8**	**12.6**	**3.6**	**32.4**	**10.3**	**4.9**	**2.0**

Note: PPP includes all disbursements to pass-through entities, non-profits and C corporations. Excludes aid to state and local governments, transit agencies and other entities.

Source: Calculations by the IFO based on data from various state and federal agencies.

Income and Spending

Table 1.5 displays the impact from the removal of federal support on Pennsylvania Cash Income. Cash Income includes all income received by state residents that can be spent or saved. It includes the following types of income: wages, interest, dividends, capital gains, rents, royalties, pensions, Social Security, IRA disbursements, business and self-employment and other miscellaneous income (e.g., government transfers).[3] For CY 2021, the forecast projects that Cash Income will expand by 4.1% due to strong wage growth, a rebound of business income and the two EIPs that occurred in 2021 Q1. For CY 2022, the forecast projects a contraction of Cash Income entirely due to the end of federal programs. Consumer response to the expiration of federal programs will be a key factor that determines economic growth next year. Data show that many consumers have a more solid financial profile because they used EIPs to reduce credit card debt. Due to low interest rates, a record number of homeowners also refinanced mortgages and reduced their monthly payments, which should also provide support for consumer spending.

[3] For a description of Cash Income, see "Official Revenue Estimate Methodology," IFO (July 2020).

Table 1.5
Cash Income Contraction in CY 2022

	Amounts ($ billions)			Growth Rate		
	2020	2021	2022	2020	2021	2022
Wage Income	$364.3	$388.7	$405.5	-0.1%	6.7%	4.3%
All UC Programs	33.5	16.7	2.0	--	-50.3	--
EIPs + Child Tax Credit	11.1	24.9	--	--	124.3	--
PPP Forgiven Loans	13.1	7.1	--	--	-45.9	--
Social Security	50.6	52.5	54.5	4.0	3.7	3.9
Pensions-IRAs	66.7	69.1	71.9	4.3	3.6	4.1
All Other	152.3	161.1	170.1	3.0	5.8	5.6
Cash Income	**691.6**	**720.0**	**704.1**	**10.3**	**4.1**	**-2.2**

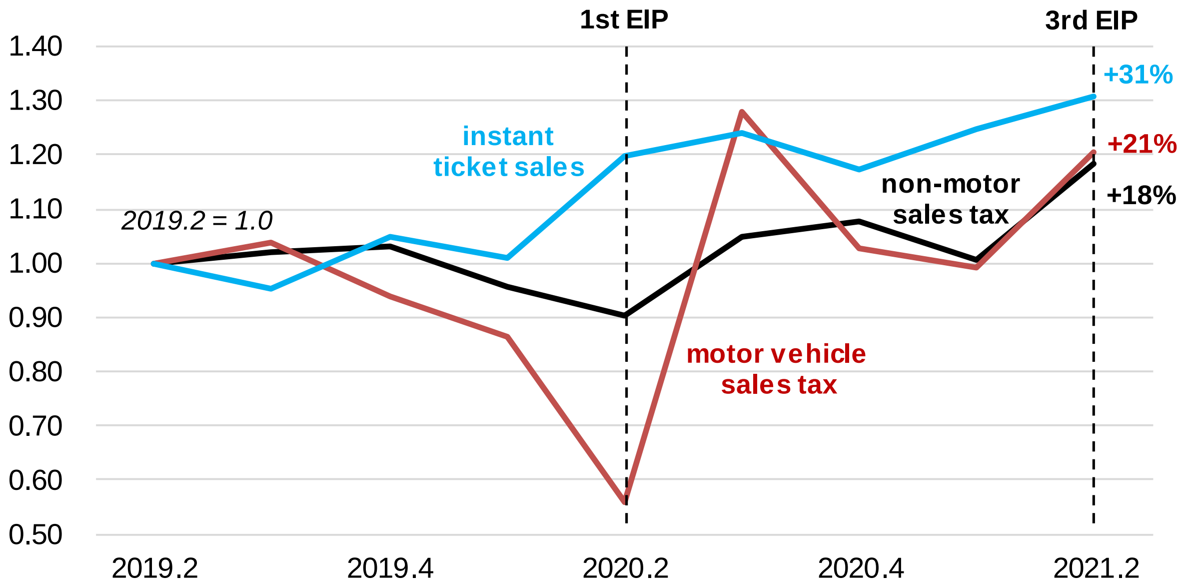
Note: All Other includes business income and capital income. Wage income includes the U.S. Bureau of Economic Analysis' Resident Adjustment. PPP loans are counted as personal income in the National Income and Product Accounts and are included as income above. Only amounts to pass-through and non-profit businesses are included.

Source: IFO based on various federal and state websites.

The most immediate and noticeable impact of federal support is on consumer purchases. **Figure 1.1** displays the cumulative increase from 2019 Q2 for non-motor and motor vehicle sales and use tax (SUT) and instant ticket purchases from the Lottery. For 2020 Q2, the data show the dramatic increase in Lottery sales in response to the first round of EIPs, but a reduction for SUT collections because many businesses were closed (e.g., restaurants and car dealerships). In 2020 Q3, car sales rebounded strongly, and to a lesser extent, taxable non-car sales. For 2020 Q4 and 2021 Q1, the three series moderated or contracted as the impact of the first EIP faded. However, the third EIP, by far the largest, had a very notable impact on SUT and instant ticket sales in 2021 Q2. Relative to 2019 Q2, instant ticket sales increased by 31% and SUT collections by 18% to 21%.[4] These series are clearly motivated by EIPs, and the forecast assumes a reversion to historical patterns once the impact fades. Survey data suggest that largely occurs within a few months.

[4] Data for June 2021 estimated based on revenues for April and May 2021.

Figure 1.1
Economic Impact Payments (EIPs) Drive Consumption



Note: Percentages indicate cumulative growth rate from 2019 Q2 to 2021 Q2.

Payroll Employment

In April 2020, Pennsylvania payroll employment immediately contracted by 1.1 million jobs relative to April 2019 due to mitigation efforts and mandated business closures. (See **Table 1.6**.) By October 2020, the job loss figure was reduced to 455,000 relative to the prior year. For April 2021, the IFO computes the job loss at 447,000 jobs relative to an adjusted 2020 level. That adjusted level reflects job loss compared to a "no-pandemic" scenario for April 2020 based on historical and seasonal employment patterns. (Note: These data exclude self-employed and independent contractors.) For specific sectors:

- Only the professional and technical service (e.g., legal, engineering) sector reported roughly the same number of jobs in April 2021 as would have been expected under a no-pandemic scenario for April 2020.
- The arts-entertainment (e.g., movie theatres, sports events, bowling alleys) and accommodations-food service sectors recorded the largest relative contractions.
- Three sectors comprise nearly half of the total job loss: accommodation-food service, administration-waste management (e.g., temporary workers and building maintenance services) and healthcare-social assistance.

For its five-year outlook report released in January 2021, the IFO had projected that payroll employment would need six years to surpass the pre-pandemic peak in CY 2019. New data released since that time would not cause any adjustment to that general timeframe.

Table 1.6
Three Snapshots of Payroll Employment

	YOY Number Change (000s)			YOY Percent Change		
	Actual Apr 20	Actual Oct 20	Adjusted[1] Apr 21	Actual Apr 20	Actual Oct 20	Adjusted[1] Apr 21
Total Payroll Employment	**-1,099**	**-455**	**-447**	**-18.1%**	**-7.4%**	**-7.3%**
Construction	-98	-16	-11	-37.9	-5.9	-4.2
Manufacturing	-85	-36	-29	-14.7	-6.3	-5.1
Retail and Wholesale Trade	-172	-42	-30	-21.0	-5.1	-3.7
Transportation and Warehouse	-27	-5	-5	-9.0	-1.5	-1.7
Financial and Real Estate	-9	-9	-9	-2.7	-2.7	-2.6
Professional and Technical	-19	-7	-1	-5.3	-2.0	-0.3
Admin and Waste Management	-68	-50	-47	-21.4	-15.0	-14.9
Education (excludes local SD)	-37	-27	-21	-14.4	-10.6	-8.3
Healthcare-Social Assistance	-109	-39	-60	-10.3	-3.6	-5.6
Arts-Entertainment	-56	-32	-29	-59.5	-32.3	-30.8
Accommodation-Food Service	-276	-110	-110	-57.7	-23.0	-22.7
Other Services	-95	-34	-34	-36.5	-12.9	-12.8
All Government	-25	-31	-37	-3.4	-4.3	-5.1
All Other	-23	-18	-23	-9.3	-7.4	-9.0

Note: Data are not seasonally adjusted. Figures for April 2021 are preliminary. YOY is year-over-year.

1 Data for April 2021 comparison compares to April 2020 under a no-pandemic scenario and includes seasonal workers who would have been hired.

Source: U.S. Bureau of Labor Statistics, Current Employment Statistics and State and Area Employment.

Inflation

The only published inflation metric applicable to the state is the Philadelphia metro area consumer price index for all urban consumers (CPI-U). **Table 1.7** displays the latest year-over-year growth of the All Items CPI-U and the various individual sub-indices that comprise the main index. The bottom of the table displays two other series: All Items Less Energy (2.7% for April) and All Items Less Shelter (5.0%). The first excludes all energy-related components and comprises 94% of the total CPI-U index. Due to the volatility of energy prices, some analysts prefer this metric. The second excludes all shelter-related components and comprises 67% of the total CPI-U index. The main part of the shelter component is rent that is imputed to homeowners (owner's equivalent rent), which is based on survey data. For recent months, that portion of the index has increased by roughly 1.2% per annum on a year-over-year basis, despite the fact that the Federal Housing Finance Agency data show that Pennsylvania home values increased by 11.9% in 2021 Q1. Due to this imputation and disconnect, the All Items Less Shelter metric provides the best measure of inflation for goods and services purchased by consumers. However, for this revenue estimate, the forecast projects the headline All Items CPI-U metric, which generally understates inflation of consumer purchases.

Table 1.7
Philadelphia Consumer Price Index

	CPI-U Weight	Year-Over-Year Growth		
		Dec 20	Feb 21	Apr 21
All Items	**100.0%**	**1.1%**	**1.0%**	**3.5%**
Food and Beverage	14.8	4.2	1.2	0.5
Housing - Shelter	33.0	1.4	0.0	0.6
Rent of Primary Residence	5.5	1.7	1.3	1.1
Owner's Equivalent Rent	26.3	1.6	1.2	1.1
Lodging Away From Home	1.3	-4.8	-30.3	-10.3
Housing - Utilities	4.3	-1.8	-0.3	3.1
Housing - Furnishings	5.3	9.5	8.5	8.3
Apparel	3.0	4.9	-3.3	7.1
Transportation	14.4	-3.8	-0.4	13.0
Medical Care	8.7	0.8	4.0	4.4
Recreation	5.1	-1.3	-0.1	0.3
Education	8.2	-0.3	0.4	0.4
Other Goods	3.4	3.6	4.4	6.6
All Items Less Shelter	67.0	1.0	1.4	5.0
All Items Less Energy	94.0	1.4	0.8	2.7

Source: U.S. Bureau of Labor Statistics.

April CPI-U data reveal the following trends:

- Food and beverage inflation (0.5%) was subdued. That outcome is due to inflation in the prior year from higher demand and the onset of the COVID-19 pandemic.
- Inflation for home furnishings such as appliances and furniture (8.3%) remains elevated as many consumers used EIPs to purchase those items for their homes.
- Transportation inflation was very high (13.0%) due to price gains for new vehicles (8.7%) and used cars and trucks (20.7%). Gasoline prices, which comprises 2.6% of the total CPI-U index, increased 36.4% from the prior year.

Due to ongoing supply constraints, higher wages and continued federal programs that temporarily raise demand, the forecast projects elevated inflation for CY 2021 and a deceleration for next year. Preliminary wage data suggest that wage growth has accelerated as firms raise wages for certain workers and offer signing or retention bonuses. Much of those additional costs will be passed forward to consumers in the current environment.

Financial and Consumer Data

Table 1.8 concludes the section with data from national financial markets, Pennsylvania home values and per capita consumer debt. The data show that financial and asset markets have also been affected by COVID-19, significant federal transfers and inflationary pressures. Data through 2021 Q1 reveal the following year-over-year growth rates:

- The S&P 500 Index was up 26.9%. Through May 25, the index was up 37.9% from the prior year (not shown).
- Dividend payments were largely flat from the prior year. On March 25, 2021, the Federal Reserve announced that banks would be allowed to resume normal levels of dividend payouts and share repurchases as of June 30. Payouts had been restricted as a precaution during the pandemic.
- Pennsylvania existing home values increased by 11.9%, due to insufficient supply, pent-up demand and a continued exodus from urban areas.
- Per capita consumer credit card debt contracted by 14.3%. Multiple surveys found that many EIP recipients used those funds to pay down credit cards. Auto and student loan debt grew moderately.

Table 1.8
Financial and Consumer Data

		Year-Over-Year Growth Rates			
	2020	2020.2	2020.3	2020.4	2021.1
Financials					
S&P 500 Index	8.8%	0.3%	11.9%	12.7%	26.9%
S&P 500 Dividends	-0.4%	0.0%	-6.5%	-2.4%	-1.9%
PA Home Price Index	7.4%	4.7%	8.4%	11.0%	11.9%
PA Per Capita Consumer Debt					
Auto Loan	2.2%	-1.7%	1.9%	2.6%	2.5%
Credit Card	-6.9%	-8.2%	-8.9%	-11.6%	-14.3%
Primary Mortgage	2.3%	2.1%	0.2%	2.4%	4.5%
Home Equity Line of Credit	-10.2%	-10.7%	-11.9%	-10.2%	-3.8%
Student Loan	2.4%	3.3%	0.9%	1.5%	1.4%

Note: Primary Mortgage includes closed-end home equity loans.

Source: Wall Street Journal, Yardeni.com, Federal Housing Finance Agency and New York Federal Reserve.

There is general concern regarding possible asset bubbles in the stock and housing markets due to the large volume of borrowed federal monies that have been injected into the economy. For housing, there is also concern that many first-time homebuyers are being priced-out of the market due to the intense demand and limited supply of homes. Continued high demand, coupled with lead time to build and supply constraints for raw materials such as lumber, suggest these conditions will continue through the summer and into the fall.

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Initial Revenue Estimate

This section provides revised revenue estimates for FY 2020-21 and initial estimates for FY 2021-22 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. For the purpose of this initial revenue estimate, all projections are made on a "current law" basis and exclude any statutory changes or administrative actions proposed in the *2021-22 Executive Budget*.

The General Fund

The Independent Fiscal Office (IFO) released its official FY 2020-21 General Fund revenue estimate of $35.9 billion in June 2020 and a revised official estimate of $38.4 billion in January 2021.[5] Based on actual revenue collections through April 2021 and projections for the remainder of the fiscal year, the revised estimate for FY 2020-21 is $40.1 billion, $1.7 billion above the IFO's revised official estimate. The upward revision includes significant increases in all three major tax types. (See **Table 2.1**.) Most notably, the revisions to the FY 2020-21 forecast include:

- Corporate net income tax (CNIT) collections are expected to exceed the IFO's revised official estimate by $529 million. The revision is largely attributable to temporary federal tax relief provisions that increased TY 2020 profits and behavioral responses to a potential federal corporate tax rate increase in the near term.
- The updated sales and use tax (SUT) estimate is $382 million above the IFO's revised official estimate, with an increase in both non-motor ($262 million) and motor vehicle ($119 million) collections. The upward revision is directly related to increased spending associated with payments to individuals under the American Rescue Plan Act, which was not included in previous estimates.
- The updated personal income tax (PIT) estimate exceeds the IFO's revised official estimate by $449 million due largely to an improved outlook for wages (TYs 2020 and 2021), as well capital gains and net profits (TY 2020).
- Inheritance tax collections continue to outperform expectations, likely the result of a strong stock market and elevated housing values. As a result, the updated estimate exceeds the IFO's revised official estimate by $139 million. The estimate includes delayed payments from the prior fiscal year (approximately $68 million).

For FY 2021-22, the initial estimate is $38.0 billion, a reduction of $2.2 billion from the current fiscal year or an increase of $255 million (0.7%) after adjustments for COVID-related delayed tax due dates in 2020, an extra withholding due date in FY 2020-21 and one-time transfers. (See **Table 2.2**.)

[5] The IFO's revised official estimate released on January 21, 2021 reflected the most recent economic data available and updates for statutory changes that were enacted with the remainder of the FY 2020-21 state budget in November 2020.

Table 2.1
Adjustment to Revenue Estimate for FY 2020-21

	January 2021 Estimate		May 2021 Estimate		Dollar
	Amount	Growth	Amount	Growth	Change
Total General Fund	**$38,437**	**19.1%**	**$40,111**	**24.3%**	**$1,674**
Total Tax Revenue	**37,217**	**17.7**	**38,875**	**23.0**	**1,658**
Total Corporation Taxes	**5,621**	**16.2**	**6,202**	**28.2**	**581**
Corporate Net Income	3,775	33.5	4,304	52.2	529
Gross Receipts	1,002	-9.3	1,002	-9.3	0
Utility Property	38	1.0	40	6.0	2
Insurance Premiums	424	-10.4	443	-6.4	19
Financial Institutions	382	-2.8	413	5.1	31
Total Consumption Taxes	**13,829**	**12.8**	**14,240**	**16.2**	**411**
Sales and Use	12,327	13.9	12,709	17.5	382
Non-Motor	10,640	12.6	10,903	15.3	263
Motor	1,687	23.6	1,806	32.3	119
Cigarette	936	1.3	959	3.8	23
Other Tobacco Products	130	2.5	134	5.5	4
Malt Beverage	23	0.6	23	0.6	0
Liquor	412	12.7	414	13.3	2
Total Other Taxes	**17,768**	**22.4**	**18,433**	**27.0**	**665**
Personal Income	15,807	23.2	16,256	26.7	449
Withholding	10,837	2.8	10,870	3.1	33
Quarterly	2,289	49.7	2,555	67.1	266
Annual	2,681	251.1	2,831	270.7	150
Realty Transfer	585	17.5	650	30.5	65
Inheritance	1,196	10.6	1,335	23.4	139
Gaming	223	56.2	230	61.1	7
Minor and Repealed	-44	1.6	-37	15.6	7
Total Non-Tax Revenue	**1,220**	**83.5**	**1,236**	**85.9**	**16**
State Store Fund Transfers	185	0.0	185	0.0	0
Licenses and Fees	180	34.9	172	29.2	-8
Treasury	12	-60.8	10	-65.5	-2
Escheats	205	-5.8	229	5.7	24
Other Miscellaneous	570	n.a.	580	n.a.	10
Fines, Penalties & Interest	69	1.9	60	-12.3	-9

Note: Figures in dollar millions. Due to rounding, detail may not sum to total. Growth rates based on the unrounded amounts. The January 2021 estimate reflects the IFO's revised official estimate and includes statutory changes that were enacted with the remainder of the FY 2020-21 state budget in November 2020.

Table 2.2
General Fund Revenue Estimate for FY 2021-22

	Estimated 2020-21		Projected 2021-22	
	Amount	Growth	Amount	Growth
Total General Fund	**$40,111**	**24.3%**	**$37,960**	**-5.4%**
Total Tax Revenue	**38,875**	**23.0**	**37,261**	**-4.2**
Total Corporation Taxes	**6,202**	**28.2**	**5,687**	**-8.3**
Corporate Net Income	4,304	52.2	3,707	-13.9
Gross Receipts	1,002	-9.3	1,061	5.9
Utility Property	40	6.0	41	1.2
Insurance Premiums	443	-6.4	447	0.9
Financial Institutions	413	5.1	431	4.5
Total Consumption Taxes	**14,240**	**16.2**	**13,884**	**-2.5**
Sales and Use	12,709	17.5	12,438	-2.1
Non-Motor	10,903	15.3	10,789	-1.0
Motor	1,806	32.3	1,649	-8.7
Cigarette	959	3.8	870	-9.3
Other Tobacco Products	134	5.5	138	2.5
Malt Beverage	23	0.6	24	0.9
Liquor	414	13.3	415	0.0
Total Other Taxes	**18,433**	**27.0**	**17,690**	**-4.0**
Personal Income	16,256	26.7	15,540	-4.4
Withholding	10,870	3.1	11,445	5.3
Quarterly	2,555	67.1	2,308	-9.7
Annual	2,831	270.7	1,788	-36.8
Realty Transfer	650	30.5	660	1.5
Inheritance	1,335	23.4	1,290	-3.4
Gaming	230	61.1	243	5.6
Minor and Repealed	-37	15.6	-44	-16.8
Total Non-Tax Revenue	**1,236**	**85.9**	**699**	**-43.5**
State Store Fund Transfers	185	0.0	185	0.0
Licenses and Fees	172	29.2	155	-9.9
Treasury	10	-65.5	12	17.6
Escheats	229	5.7	233	1.6
Other Miscellaneous	580	n.a.	50	-91.3
Fines, Penalties & Interest	60	-12.3	63	5.7

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 2020-21 and FY 2021-22.

Corporate Net Income

The revised CNIT estimate for FY 2020-21 is $4.3 billion. The estimate reflects an increase of $529 million from the IFO's revised official estimate and is $1.5 billion (or +22.7% after adjusting for COVID-related delayed tax due dates) over the prior fiscal year. The revision is driven by three factors: (1) the impact of certain federal tax provisions enacted in response to COVID-19 which increased 2020 taxable profits, (2) additional federal stimulus not included in the original estimate and (3) firms' response to an anticipated federal corporate tax rate increase. Tax provisions that materially impact the FY 2020-21 CNIT forecast include:

- The extension of the due date for most TY 2019 final payments to August 14, 2020, which shifted an estimated $375 million in CNIT collections from FY 2019-20 to FY 2020-21.
- The ability to defer certain TY 2020 employer payroll taxes to December 2021 and December 2022. This provision reduces the amount of deductible expenses and increases taxable profits for TY 2020, as the deductions are delayed until paid in TY 2021 and TY 2022.

This forecast also includes a behavioral response to an anticipated federal corporate tax rate increase. In March 2021, the federal administration released details of its American Jobs Plan, which includes a proposal to raise the corporate tax rate from 21% to 28%. Researchers from the Joint Committee on Taxation found evidence of significant income and deduction shifting behavior (i.e., acceleration of deductions, delay of income recognition) in response to the 2017 Tax Cuts and Jobs Act (corporate tax rate reduction from 35% to 21%). It is likely that firms will respond with similar behavior, albeit in reverse, in anticipation of a potential federal tax rate increase.

For FY 2021-22, the preliminary estimate is $3.7 billion, a decline of 13.9% from FY 2020-21. If the final payment shift of $375 million to August 2020 is excluded, then the decline is 5.6%. The forecast assumes that profits increase, but the delay of employer payroll tax deduction and the income/deduction shifting cause revenues to fall.

Sales and Use

The revised SUT estimate for FY 2020-21 is $12.7 billion. This estimate reflects an increase of $1.9 billion (13.1% after adjusting for COVID-related due date shifts and one-time transfers) from the prior fiscal year and is $382 million above the IFO's revised official estimate. The upward revision correlates directly to increased spending associated with federal payments to individuals under the American Rescue Plan enacted in early March 2021. Those programs were not included in the IFO's revised official revenue estimate. As described in the prior section, the forecast assumes the expiration of all federal programs and that certain large taxable purchases (e.g., appliances, furniture, home gyms) were pulled forward in time due to the multiple EIPs.

Non-motor revenues are projected to increase by 10.4% (adjusted) from the prior fiscal year. E-commerce collections remain very strong due to the shift of consumer purchases to online platforms during the pandemic. The forecast assumes this trend is not reversed.

Motor vehicle revenues for FY 2020-21 are projected to grow by 32.3% from the prior fiscal year. In recent months, car sales have been very strong, and the average price of a new car increased by 8.7% from the prior year based on the April CPI-U. A shortage of new cars due to supply chain disruptions and a low inventory of used cars is causing all car prices to increase rapidly. Similar to the non-motor forecast, this forecast also assumes that some car purchases were pulled forward in time due to the injection of federal monies.

For FY 2021-22, the forecast projects that SUT revenues will decline by $271 million (-0.9% adjusted), and the growth of non-motor vehicle revenues (0.4% adjusted) will outpace motor vehicle revenues (-8.7%). Motor vehicle revenues decline due to the removal of federal monies, certain sales pulled forward in time and the large gain recorded last summer as sales were pushed out of FY 2019-20 because car dealerships were closed at the end of the fiscal year.

Personal Income

The revised PIT estimate for FY 2020-21 is $16.3 billion, which is $449 million higher than the IFO's revised official estimate, an increase of 5.4% over the prior fiscal year (after adjustments for revenue shifting from delayed tax due dates, one-time transfers and an extra withholding due date in FY 2020-21). Four factors impact the revised estimate: (1) an improved wage outlook, (2) increased non-withheld income for TY 2020 (primarily capital gains and net profits), (3) a change in Pennsylvania tax law that excludes forgivable PPP loans from PIT and (4) the deferral of certain TY 2020 employer payroll taxes. These factors add a net of $33 million to withholding and $415 million to non-withheld payments relative to the IFO's revised official estimate.

For FY 2021-22, the forecast projects $15.5 billion in PIT collections, an increase of roughly 3.4% (after accounting for payment shifts, extra due dates and one-time transfers). Withholding is expected to increase by 4.3% (adjusted) while, non-withheld revenues are projected to increase by 1.1% (adjusted).

Cigarette

The revised cigarette tax estimate for FY 2020-21 is $959 million, $23 million above the IFO's revised official estimate and an increase of $35 million from the prior fiscal year. The estimate includes delayed processing (approximately $40 million) from the prior fiscal year, as well as strong collections for the current year. For most years, cigarette revenues decline by 4% to 6% per annum but are flat for this fiscal year after controlling for pandemic-related delayed processing. The strength is likely attributable to an increase in stress-related smoking during the pandemic and increased opportunities to smoke for those working from home. For FY 2021-22, collections are projected to decline to $870 million (a reduction of 5.3% after adjusting for the delayed processing), as more employees return to work in an office setting. Collections for the fiscal year are reduced by $115 million for debt service related to the Tobacco Settlement Bonds.

Realty Transfer

The revised realty transfer tax estimate for FY 2020-21 is $650 million, an increase of $65 million from the IFO's revised official estimate and up 30.5% from the prior fiscal year. Some of the gain is due to sales pushed out of FY 2019-20 due to restrictions on home showings and open houses. As noted in the previous section, home values have risen significantly due to limited supply, pent-up demand and historically low mortgage rates. The initial realty transfer tax estimate for FY 2021-22 is $660 million, an increase of 1.5% over the prior year.

Other Revenue Sources

Other revenue sources that have a notable impact on General Fund revenue trends for FY 2020-21 and FY 2021-22 include:

- The revised gaming estimate for FY 2020-21 is $230 million, an increase of $87 million over the prior fiscal year due primarily to dramatic increases in sports wagering and iGaming. The forecast for FY 2021-22 is $243 million and reflects the opening of three additional category 4 casinos, as well as the scheduled decline in the table game tax rate from 14% to 12%.
- The revised licenses and fees estimate of $172 million is $8 million below the IFO's revised official estimate, largely due to the shifting of certain gaming license fees to next fiscal year. For FY 2021-22, licenses and fees are projected to total $155 million.
- The FY 2021-22 estimate assumes that $185 million will be available for transfer from the State Stores Fund to the General Fund.

The Motor License Fund

The Motor License Fund (MLF) includes various excise taxes levied on a per gallon basis and revenue from licenses and registration fees. Based on actual revenue collections through April 2021 and projections for the remainder of the fiscal year, the revised estimate for FY 2020-21 is $2.8 billion, an increase of 6.0% from the prior year and $17 million below the IFO's official estimate.[6] Collections were impacted by a roughly 10% reduction in gasoline consumption related to the pandemic (i.e., less travel and widespread remote work). Additionally, due date extensions for most license and fee renewals (from March, April and May to June 30, 2020) resulted in a shift of collections from the prior fiscal year to the current year (roughly $55 million).

The MLF is projected to increase $53 million (1.9%) for FY 2021-22 and is impacted by four factors:

- Increases for most fees levied under Title 75 (the Vehicle Code) are tied to the rate of inflation, with adjustments occurring in calendar years ending in an odd number. Therefore, the fee increases effective July 1, 2021 are determined based on the change in the CPI-U for the period February 1, 2019 and January 31, 2021, or 3.9211%.
- The oil company franchise tax (OFT) rate is calculated annually based on the average wholesale price (AWP) of gasoline and diesel fuel in the prior calendar year. Beginning with calendar year 2017 and thereafter, the minimum AWP is $2.99 per gallon. For the 12-month period ending September 30, 2020, the Pennsylvania Department of Revenue determined the actual AWP to be $1.48 per gallon. Therefore, the AWP used to calculate the 2021 OFT rate remains at the statutory minimum of $2.99 per gallon. (No increase.)
- The lingering effects of suppressed gasoline consumption related to COVID-19 and continued increases in motor vehicle fuel efficiency.
- The loss of the one-time shift of collections into FY 2020-21 ($55 million).

[6] The IFO's official revenue estimate for the MLF was released on June 22, 2020 and was not revised with the enactment of the remaining portion of the General Fund budget in November 2020.

Table 2.3
Motor License Fund Summary

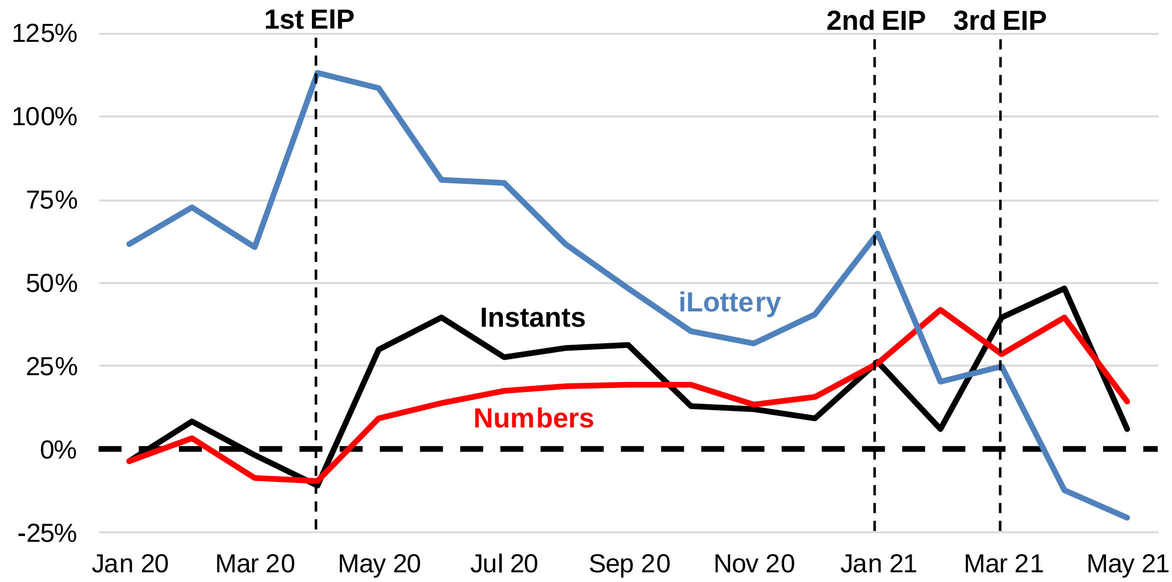
	Estimated 2020-21		Projected 2021-22	
	Amount	Growth	Amount	Growth
Total Motor License Fund	**$2,824**	**6.0%**	**$2,878**	**1.9%**
Liquid Fuels Taxes	**1,706**	**-0.1**	**1,780**	**4.3**
Oil Company Franchise	933	0.1	974	4.4
Act 89 OCFT - Liquid Fuels	490	-0.7	513	4.8
Act 89 OCFT - Fuels	142	-0.3	146	3.0
Other Liquid Fuels Taxes	142	0.1	147	3.6
Motor Licenses and Fees	**1,106**	**16.0**	**1,086**	**-1.8**
Vehicle Registration & Titling	836	11.9	810	-3.1
Registration Other States - IRP	157	1.6	164	3.9
Operator's Licenses	75	64.3	71	-6.0
Other Licenses and Fees	38	489.9	42	--
Other Motor Receipts	**12**	**n.a.**	**11**	**-2.6**
Vehicle Fines Clearing Acct	5	-140.4	2	-54.0
Treasury	5	-57.0	6	17.6
Transportation	1	-13.4	3	127.3
General Services	0	37.4	0	33.3

Note: Figures in dollar millions. Due to rounding, detail may not sum to total. Growth rates based on the unrounded amounts.

The Lottery Fund

Similar to other consumer purchases, Lottery sales have been impacted by the COVID-19 pandemic. **Figure 2.1** displays year-over-year growth rates for January 2020 through May 2021 (projected) for those games that were most impacted (Instants, Numbers and iLottery). While sales of most Lottery games declined as a result of business closures and other mitigation efforts in the early months of the pandemic, iLottery sales climbed dramatically due to the availability of online play. From May 2020 to May 2021 (includes preliminary data for April and May 2021), Instants, Numbers and iLottery all displayed very strong year-over-year growth. This outcome is likely tied to federal COVID relief payments to individuals, as spikes in growth rates directly correlate with the distribution of EIPs.

Figure 2.1
Sales Growth Rates by Lottery Game



Note: Year-over-year growth rates. Preliminary or estimated values for April through June 2021. EIP is economic impact payment.

Table 2.4 displays historical sales and the average annual growth rate by category of Lottery game for FY 2014-15 and FY 2018-19, as well as actual collections for FY 2019-20 and projected growth for FY 2020-21. After growth of 4.5% per annum for the four-year period prior to the pandemic, sales of Instants are projected to increase 19.7% for the current year. Numbers games are expected to grow 19.3% for the current year, after demonstrating a long-term annual decline (-0.9%) due to challenges of attracting new players and the demographics of existing players. Multistate Lotto games, which rely heavily on large jack-pots to drive sales, benefited from an increase in the number of jackpots in the current year (projected growth of 42.0%).

Table 2.4
Historical Lottery Sales by Category

	2014-15 Amount	2018-19 Amount	AAGR	2019-20 Amount	2019-20 Growth	2020-21 Amount	2020-21 Growth
Instant Tickets	$2,592	$3,093	4.5%	$3,306	6.9%	$3,959	19.7%
Numbers	597	575	-0.9	576	0.2	687	19.3
In-State Lotto	233	272	4.0	254	-6.6	264	4.0
Multistate Lotto	376	507	7.7	270	-46.8	383	42.0
Raffle and Other	18	57	34.1	64	12.3	66	3.0
Total	**3,815**	**4,503**	**4.2**	**4,469**	**-0.8**	**5,358**	**19.9**
Prize Ratio	0.63	0.65	--	0.66	--	0.66	--
iLottery							
Amount	$0	$381	--	$731	91.7%	$898	22.8%
Prize Ratio	--	0.87	--	0.87	--	0.87	--

Note: Figures in dollar millions. AAGR is average annual growth rate from FY 14-15 to FY 18-19. Instant Tickets includes Scratch Offs and Fast Play. Other includes Keno and Xpress Sports.

The bottom of the table shows the recent growth of iLottery sales. For FY 2019-20 and FY 2020-21, iLottery sales are projected to comprise a little over 14% of total Lottery sales. However, compared to traditional Lottery games, iLottery has a much smaller impact on net revenues due to the higher prize (payout) ratio. The average prize ratio is 0.66 for traditional games (i.e., 66 cents of prize payouts for every $1.00 in sales) compared to 0.87 for iLottery. Therefore, it takes nearly three times the amount of iLottery sales to generate the same impact on net Lottery collections compared to traditional games.[7]

The initial revenue estimate projects that Lottery Fund net revenues will increase by $81 million (4.2%) for FY 2020-21 and increase by $43 million (2.1%) for FY 2021-22. (See **Table 2.5**.) This result is driven in part by the presence of the gaming transfer in FY 2021-22 following no transfer in FY 2020-21.[8] Growth of iLottery is expected to be flat for FY 2021-22 after extremely strong growth in FY 2020-21 due to the registration of new players during the COVID-19 pandemic. Instant ticket sales, which includes Fast Play, are projected to grow by 19.7% for FY 2020-21 due to increased disposable income resulting from payments made directly to individuals under various federal COVID relief packages, but are projected to fall by $119 million (-3.0%) for FY 2021-22 as federal stimulus and extra unemployment benefits expire. Multistate Lotto sales increased 42.0% in FY 2020-21 compared to FY 2019-20, but that was primarily due to weak sales in FY 2019-20 resulting from a lack of large jackpots for Powerball and Mega Millions. For FY 2021-22, the projection reflects a moderate increase of $11 million (3.0%) in Multistate Lotto games.

[7] This simple example disregards commissions, bonuses and operational expenses.
[8] In response to the COVID-19 pandemic, Property Tax/Rent Rebate payments that would have been disbursed in FY 2020-21 were accelerated into FY 2019-20.

Table 2.5
Lottery Fund Summary

	Estimated 2020-21		Projected 2021-22	
	Amount	Growth	Amount	Growth
Total Lottery Fund	**$2,025**	**4.2%**	**$2,068**	**2.1%**
Gross Ticket Sales	6,256	20.3	6,095	-2.6
Field Paid Prizes & Commissions	-4,232	20.1	-4,142	-2.1
Miscellaneous Revenues	1	-99.8	115	n.a.
Detail				
Gross Ticket Sales	6,256	20.3	6,095	-2.6
Instant Tickets	3,959	19.7	3,840	-3.0
Multistate Lotto Games	383	42.0	394	3.0
In-State Lotto	264	4.0	272	3.0
Numbers Games	687	19.3	619	-10.0
iLottery	898	22.8	898	0.0
Raffle and Other	66	3.0	72	10.2
Miscellaneous Revenues	1	-99.8	115	n.a.
Gaming Fund Transfers	0	-100.0	115	n.a.
Other Miscellaneous Revenue	1	-76.8	1	0.0

Note: Figures in dollar millions. Due to rounding, detail may not sum to total. Growth rates based on the unrounded amounts. Instant Tickets includes Scratch Offs and Fast Play. Other includes Keno and Xpress Sports.

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. In response to the COVID-19 pandemic, Congress has enacted additional amounts of funding for state agencies that will affect federal funding levels.

The IFO reviewed Request for Appropriation of Federal Funds (RAFF) forms and reports provided by the Office of the Budget for base federal appropriations as well as for additional federal funds authorized in response to the COVID-19 pandemic.

The RAFF forms show $32.6 billion in requested federal appropriations of General Fund monies across all agencies for FY 2020-21 including COVID-19 executive authorizations for existing state programs. (See **Table 2.6**.) Non-COVID-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% of the General Fund federal spending authority requested by the Commonwealth in FY 2020-21. The Department of Human Services requested $26.8 billion, PDE $2.6 billion and Health $580 million.

The Department of Human Services is expected to receive $1.7 billion in COVID-19 federal funding in FY 2020-21 primarily related to Medical Assistance programs, which provide healthcare and support services to eligible individuals. The increased federal funding is largely due to the enactment of a temporary increase in the Federal Medical Assistance Percentage (FMAP) used to calculate federal reimbursements for Medicaid programs. The enhanced FMAP will be in effect until the termination of the national public health emergency declaration.

The administration projects that agencies will require $35.8 billion in base General Fund federal spending authority for FY 2021-22. This includes $2.4 billion in COVID-19 funding for Medical Assistance programs, primarily due to the enhanced FMAP.

Table 2.6
Federal Funds Summary

	2019-20	Available 2020-21		Projected 2021-22	
	Amount	Amount	Growth	Amount	Growth
Total Federal Funds	**$30,378**	**$32,578**	**7.2%**	**$35,797**	**9.9%**
Human Services[1]	24,777	26,759	8.0	30,340	13.4
Education	2,610	2,648	1.5	2,634	-0.5
Health	583	580	-0.5	574	-1.0
Labor & Industry	513	519	1.1	525	1.3
Drug & Alcohol[1]	263	369	40.4	303	-18.0
Transportation[1]	288	339	17.7	210	-38.0
DCED	241	264	9.8	276	4.5
Executive Offices	198	205	3.3	202	-1.3
Military & Veterans Affairs	187	203	8.3	212	4.7
Infrastructure Investment Authority	194	196	0.9	0	-100.0
DEP	135	136	1.1	138	1.2
Aging	126	105	-17.0	105	0.2
Agriculture	96	98	2.6	99	0.5
DCNR	37	41	10.5	49	21.6
State[1]	50	30	-38.6	18	-40.6
All Other	80	86	7.7	112	30.1

Note: Figures in dollar millions.

1 Federal funds for the departments of Human Services, Drug and Alcohol Programs, State and Transportation include COVID executive authorizations.

In addition to the funds detailed in Table 2.6, the state has been allocated $3.9 billion in federal Coronavirus Relief Funds (CRF) under the CARES Act to offset expenditures incurred by state and local agencies to address the COVID-19 public health emergency. Of this amount, $1.5 billion was used to offset General

Fund expenditures in FY 2020-21 for the Department of Criminal Justice ($1.3 billion), Pennsylvania State Police ($226 million), Department of Human Services ($30 million) and Department of Health ($14 million).

Under the recently enacted ARP Act, Pennsylvania has been allocated an additional $7.3 billion in general aid for eligible expenses incurred through CY 2024. Similar to the CARES Act, these federal funds will be available for a wide range of uses in response to the health and economic impacts of the COVID-19 pandemic, including support to households and businesses, replacing lost revenue and support for government operations affected by the pandemic. Funds cannot be used for tax cuts, debt service or deposits into pension funds or rainy day funds.

Funds for states will be distributed in one of two ways: (1) in a single deposit, if the most recent unemployment rate for the state has increased 2% or more from February 2020, or (2) in two, equal installments set one year apart if the state does not meet that standard. Pennsylvania's unemployment rate for February 2020 was 4.7% according to the Bureau of Labor Statistics (BLS).[9] The most recent report from BLS shows a preliminary April 2021 unemployment rate of 7.4%.[10]

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[9] See "North Dakota had the lowest unemployment rate in February 2020", The Economics Daily, U.S. Bureau of Labor Statistics (April 2020) at https://www.bls.gov.
[10] See "Unemployment Rates for States" at https://www.bls.gov.