

JUNE 2005



Monthly
REPORT
TO THE
PEOPLE
on the
Fiscal Status
of the
Commonwealth

From the
SENATE DEMOCRATIC
APPROPRIATIONS
COMMITTEE

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Charting the Commonwealth's Surplus

Tax collections were robust in May, which is not traditionally a big revenue month. In May, collections were \$70 million over the official estimate. That boosted the year-to-date collections to \$444 above the estimate. The surplus is 2% of total collections.

The influx of revenue from corporation taxes was very surprising. May is not a big corporation tax collection month, yet the overage of \$41 million was larger than the April overage. In June, the second quarterly estimated payments are due for the Corporate Net Income and the Capital Stock & Franchise taxes. Using the quarterly collections of December and March as a guide, it is safe to assume that \$20 to \$50 million will be added to the surplus in June.

Revenue Surplus thru end of May: \$444 million
Estimated Final Surplus: \$500 million
Governor's Estimate: \$290 million

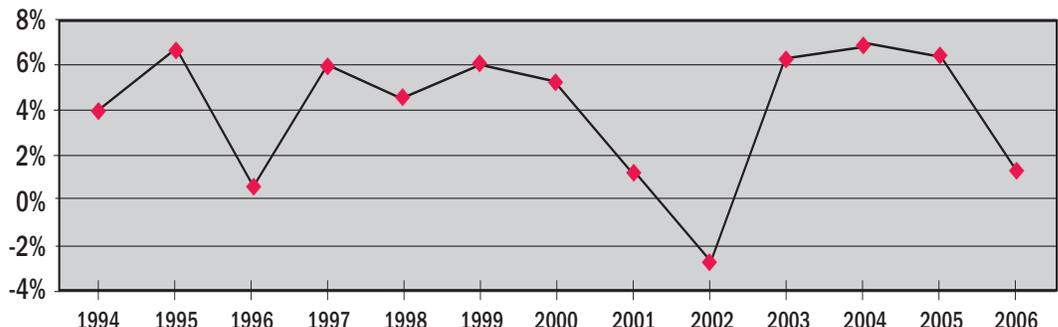
Personal Income Tax and Sales Tax collections were slightly above estimates at \$6 million and \$7 million respectively. Expect both of those taxes to do better in June. The missing profit money from the state store system appeared in May. This had been expected in February, and has now been

transferred to the General Fund. Cigarette tax collections were a better-than-usual \$5 million below estimate. For the year, however, cigarette tax collections remain \$52 million short.

This committee's original estimate of \$500 million will probably be obtained by the end of the fiscal year on June 30 after all. The final surplus will be within a range of \$470 – \$530 million, with \$500 million the most likely amount.

With the end of the fiscal year in sight, and this year's fiscal picture nearly determined, it is time to look at next year's estimate. The chart below shows the percentage growth of tax revenues compared to the previous year for the past 12 years (and the Governor's estimated growth for 2005-06.) Other than years when the commonwealth is in a recession, as it was in fiscal years 2000-01 and 2001-02, or when taxes are raised as they were in 2002-03 and 2003-04, tax receipts typically grow between 4% and 6%. The chart shows three exceptions to this rule. The increase in 2004-05 is really a tax increase exception. The PIT tax was raised to its current 3.07% level in December of 2003, so 2004-05 was the effect of a full fiscal year increase. 1994-95 is simply an aberration – the economy was strong and revenues flowed in.

PERCENTAGE GROWTH IN TAX REVENUES



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REPORT TO THE PEOPLE

The third exception is the sluggish growth in 1995-96, which looks fairly similar to the estimated growth for 2005-06. So is this upcoming revenue year just like 1995-96? Well not exactly, but close enough for caution.

Below is a table that compares the economic situation in 1995-96 with the expected economic situation for 2005-06. The 2005-06 figures are Global Insight's baseline forecast for the next fiscal year. Both figures are the percent change from the previous year.

While these numbers look fairly similar in three of the four categories, it is important to look at what the differences really mean. The lower unemployment rate means an extra 24,200 Pennsylvanians should be

working and all employees will be earning an extra \$902 million. (That would produce an extra \$27 million in income tax, not counting the multiplier effect). The expected collapse of expenditures on durable goods is ominous, if it is correct. The additional expected growth in GDP in 2005-06, higher than was received in 1995-96, translates into \$1.57 billion more growth statewide.

While the Governor's 2005-06 revenue estimate is conservative, it is in the ballpark. And these estimates are the preliminary ones contained in the budget. They are not the certified ones that will be unveiled at the end of June. Those new estimates will probably reflect the final 2004-05 revenue surplus.

ECONOMIC MEASURE	1995-96	2005-06
Nominal GDP	4.85%	5.2%
Total Personal Income	5.5%	5.7%
Consumer Expenditures on Durable Goods	7.66%	1.2%
PA Unemployment	5.73%	5.35%