MARCH 2004

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

According to the official estimates, the Commonwealth has a revenue collections deficit of $88 million as of the end of February. But that is not an accurate picture of where we stand today.

Estimates of the Senate Democrat Appropriations Committee peg the true current surplus at $25 million or more. By the end of the fiscal year in June, the revenue surplus should be as high as $300 million.

In the month of February, the Commonwealth collected $1.4 billion in tax revenues. For the year to date, revenue collections are $12.857 billion, or $88 million below the official estimate of $12.945 billion.

While it is reasonable for budget analysts to have different opinions about where the revenue picture will be at the end of the year, it is strange to have a disagreement on the size and nature of the current surplus/deficit.

This disagreement has occurred because the Department of Revenue has changed the schedule of how much tax revenues it expects to collect in each month. The revision occurred in mid-February, and was necessitated in part by the new budget agreement enacted near the end of December, almost midway through the current fiscal year.

By "front loading" the schedule of estimates, or placing more of the total annual revenue in the earlier months, the department can show a deficit throughout the first part of the year, even though the Commonwealth will end the fiscal year with a surplus, according to the Senate Democratic Appropriations Committee projections.

For example, the corporate net income tax (CNI) has a current surplus amount, under this new schedule, of $24 million. Under the previous schedule prepared in July of 2003, it would have a surplus of $109 million. Effectively, the administration has temporarily removed from the books $85 million of the current surplus. When the Department revised the estimates, it increased the total annual expected CNI collections by $20 million. Yet while assigning an even larger increased estimate to the first half of the year, it reduced the estimates for the big tax months of March, April and June by a total of $62 million.

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The chart below shows a month-by-month comparison of CNI estimates between the original distribution and the new distribution. Note that the new schedule of estimates, represented by the red bars, is altered to be higher in the first half of the year. The Revenue Department compensates by adjusting the new schedule to be lower than the original in the second half of the year.

This subtle manipulation occurs for other taxes as well. The scheduled estimates for the sales tax, the realty transfer tax and the inheritance tax have all been adjusted in this way. Suddenly a $25 million surplus is transformed into an $88 million deficit as of the end of February.

Gradually, however, the effect of front-loading will diminish as the end of the fiscal year approaches. The true picture will come to light in May and June. ■