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Pennsylvania General Fund Revenue Growth Has Slowed Dramatically

As Pennsylvania's government works to put together a budget for Fiscal Year 2016-17 (FY 16-17) an unwelcome and very worrisome slowdown in the growth of General Fund revenues has occurred. Plans to boost spending by $1.5 billion could face an even bigger than projected hurdle if the slowdown persists into the second half of 2016. The slowdown has been underway for some time but has become pronounced in the last several months. Fiscal Year to date total revenue gains for each month of 2016 have fallen well short of the increases posted for January through May in 2015. For January to May 2016, the average Fiscal Year to date rise was 1.4 percent with the May cumulative fiscal year to date a meager 0.6 percent. For the same period in 2015, the average increase was 7 percent and for May of 2015 it was 7.3 percent.

Growth in every major category of General Fund revenue, except the gross receipts tax revenue, has fallen below the increase in the cumulative revenue through May 2015 including corporate taxes, personal income taxes, inheritance taxes, and sales and uses taxes—although the drop off in the rate of increases of sales and uses taxes is not as dramatic as the other taxes.

The recent slowdown, particularly in April and May, has pushed the collections from several major revenue sources below the budget projection levels. Personal income tax revenue has taken the biggest plunge falling 4.3 percent below the budgeted number in April and 5.4 percent less than the May projection.

Granted, the recent period of substantially slower revenue gains does not necessarily mean that the trend will continue. But the latest two months of employment data clearly reflects a much less vibrant economy.

Both April and May saw month to month declines in seasonally adjusted private sector jobs. The high paying goods producing industries experienced jobs reductions in every month but one since May 2015. The mining component has been hard hit by the sharp decline in gas drilling activity. Meanwhile, manufacturing jobs in the first half of 2016 are running several thousand below the same period of 2015. And after significant gains between March 2014 and November 2015, construction employment has started to sag and in May 2016 fell by 3,000 compared to May 2015.

Private jobs have been bolstered somewhat by continuing gains in professional and technical services and education and health although not enough to prevent the declines in overall job counts in April and May. The leisure and hospitality sector has been a major driver of new jobs but posted losses in April and May. Meanwhile, financial services jobs have been flat for a year as has employment in the administrative and support subsector.

All told, the recent employment picture is not encouraging for growth in General Fund revenues.

In the Governor's latest budget proposal released in February of 2016, the forecasters put General Fund revenue for FY 2015-16 at $31,538,489,000, a 3.1 percent rise above the revenue for FY 2014-15. That projection was based on the latest actual numbers as well as a proposed retroactive tax rate increase, which was not enacted.

Note that as of December 2015, the General Fund revenue forecast for FY15-16 stood at $30,871,700,000. But owing to plans to get a retroactive personal income tax increase to January of 2016, the tax revenue projection was boosted by $613 million and the non-tax revenue by nearly $54 million for a total estimate boost of $667 million. Of course that tax increase was never approved. Thus, it now appears that not only will the revised budget estimate not be reached but absent an enormous jump in June collections the lower official December projection will not be reached either.

The Governor's February budget plan forecast a surplus of $31 million for FY15-16, following a surplus of $206 million in FY14-15. The Governor's projected surplus could be in serious danger given the shortfall of revenues. Moreover, there will be no money to transfer to the Budget Stabilization Fund that was projected to have a balance of $69 million.

This means that the spending plan just approved by both Legislative branches is not only underfunded by well over a billion dollars, but that shortfall will get even worse if the revenue weakness continues or deepens. Thus, there will not be enough money in the Stabilization Fund to make a dent in the projected gap between spending and revenue.

Nor do the proposed revenue measures appear likely to achieve the projected collections levels. For one thing they are not yet enacted, and most cannot be made retroactive, so yearly estimates will not be achieved in FY16-17. Then too, they appear to be overly optimistic (See *Policy Brief Volume 16, Number 27*).

Now with the jobs slowdown compounding the problem of weak revenue gains, this would be a good time to step back and look at where spending can be cut. In a $30 billion dollar spending plan, one percent reduction saves $300 million. Find some outsourcing opportunities and cut frivolous special interest spending, especially in highly questionable grants to businesses. Reining in the Commonwealth Financing Authority would be a great place to start. Then too, selling liquor stores remains a good revenue raising idea.

Jake Haulk, Ph.D., President

Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079 * Fax (412) 440-0085
E-mail: aipp@alleghenyinstitute.org