



Pennsylvania's general fund revenues improve while job growth lags

Summary: The state Legislature will be debating the fiscal 2020 budget soon. It is helpful to look at how general fund revenues, specifically the large tax revenue components, have fared thus far in fiscal 2019 and compare them to the last few fiscal years. This *Brief* also looks at Pennsylvania's performance in adding jobs and how it compares to the nation as a whole.

Pennsylvania's fiscal year runs from July 1 to June 30. Data for fiscal 2019 is available only through April or 10 months into the fiscal year. For these 10 months general fund revenues have reached \$29.16 billion. This amount is one-half of a percent higher than the first 10 months of the previous fiscal year. However, it was 2.9 percent higher than was anticipated.

The state was anticipating a drop in non-tax revenues and, thus, estimated lower total general fund revenues to be collected in fiscal 2019. This was due to a budget-expected drop in miscellaneous non-tax revenues as a result of the 2018 sale of revenue bonds of \$1.5 billion backed by future payments from the tobacco settlement and an additional \$300 million for a one-time lease of the farm show complex and various special fund transfers (*Independent Fiscal Office: Official Revenue Estimate of Fiscal Year 2018-2019*). Combined, it was a temporary one-year hike of about \$1.8 billion in non-tax revenue for fiscal 2018.

The largest recent annual bump to general fund revenues occurred from the 2017 fiscal year to the 2018 fiscal year when the amount collected through April rose from \$25.82 billion to \$29.03 billion—a jump of 12.4 percent. In three prior fiscal years, 2015, 2016 and 2017, collections barely changed, going from \$25.72 billion in fiscal 2015 to the above-mentioned \$25.82 billion—an increase of just 0.4 percent over these years.

Keep in mind that the one-time jump in miscellaneous non-tax revenues of about \$1.8 billion tends to skew the amount a bit and overstates the increase from fiscal 2017 to fiscal 2018 and understates the rise from fiscal 2018 to 2019.

The general fund revenue stream is comprised of tax revenues and non-tax revenues. Due to the uncertainty in the non-tax revenue stream, this *Brief* will focus on the tax revenues of which there are many taxes that generate general fund revenue such as corporate taxes, including corporate net income, consumption taxes, including the sales and use tax, and the category of “other taxes”, which includes the personal income tax.

The largest source of general fund revenue is the personal income tax. Through April of fiscal 2019, this tax produced \$11.93 billion. While the total was up 5.5 percent from the same time in fiscal 2018, it is 0.3 percent below projected year-to-date levels. The fiscal 2018 total of \$11.31 billion represented a 7.4 percent rise over fiscal 2017's value of \$10.53 billion. From fiscal 2015 through fiscal 2017, revenue rose from \$10.17 billion to \$10.53 billion—an increase of 3.5 percent over three years. Personal income collections picked up substantially after fiscal 2017.

The second largest category is the sales and use tax which has brought in \$9.19 billion through the first 10 months of the current fiscal year—an increase of 7.6 percent over the same time in fiscal 2018 and 3.1 percent higher than the projected levels, year-to-date.

An increase in sales and use tax collections points to a willingness of consumers to spend based on their perception of the economy. For example, in fiscal 2015 the 10-month collections were \$7.82 billion and had risen to \$8.19 billion through fiscal 2017—an increase of 4.7 percent or \$369.1 million. However, the one-year increase from fiscal 2017 to 2018 was \$352.6 million or 4.3 percent and then another \$645.4 million or 7.6 percent from fiscal 2018 to 2019. The two-year increase of nearly \$1 billion, or 12.2 percent, since fiscal 2017 shows that consumers are reacting to a strong economy as well as having more income to spend.

The final general fund revenue source examined is the corporate net income tax. This revenue source had the largest rise from the first 10 months of fiscal 2019 over the same time period in fiscal 2018, surging from \$2.05 billion to \$2.51 billion (22.4 percent). In fiscal 2015 the corporate income tax collections stood at \$2.26 billion over the first 10 months before falling to \$1.97 billion in fiscal 2017—a drop of 12.6 percent over those three fiscal years. The rebound in fiscal 2019 can be viewed as firms in Pennsylvania experiencing hefty profit gains reflecting the stronger U.S. economy.

Looking at the three major tax-revenue components, the April year-to-date combined increase of \$1.72 billion is more than offset by the reduction in the miscellaneous non-tax revenue decrease of \$1.8 billion. Still, in light of these tax revenue gains, fiscal 2019 can be viewed as a positive for Pennsylvania's general fund.

But do the tax revenue gains reflect corresponding employment growth?

In April 2019 the number of total nonfarm jobs (from the employer payroll survey) in Pennsylvania reached 6.062 million which is the fourth-highest monthly total since 2000 behind October (6.087 million), November (6.085 million) and December (6.075 million) of 2018. However, it represents only a 0.89 percent growth rate over the April 2018 reading (6.008 million). By contrast the growth at the national level was nearly double at 1.7 percent.

A big reason the national growth in total nonfarm jobs is so much better than the commonwealth's can be seen in the manufacturing sector's employee count. In April 2000 the number of manufacturing jobs in Pennsylvania was 862,100 before bottoming out at 557,200 in April 2010—the recession's low point. By April 2019 that number managed to reach only 564,100—growth of just 1.2 percent over nine years. More worrisome, the April 2019 level was 0.35 percent lower than the April 2018 count of 566,100.

On the other hand, manufacturing jobs growth nationally has been quite strong of late. In April 2000 there were 17.25 million manufacturing jobs before plunging to 11.43 million in April 2010. By April 2019 that number has risen to 12.78 million—11.9 percent above the trough in the recession of 2010 and 1.6 percent higher than April 2018.

A supersector where Pennsylvania has typically fared well, education and health services, can be broken into its two industry sectors—educational services (all colleges and private schools) and health care and social assistance.

Since 2000, jobs in the educational services have increased across Pennsylvania with only a couple of interruptions. Since 2010—the recession low point—education jobs rose 4.9 percent through April 2019. However, there have been two setbacks. There was a loss of 2,200 jobs from April 2012 to April 2013 (0.9 percent) and another loss of 4,500 jobs (4.7 percent) from April 2018 to April 2019. This compares unfavorably to the national growth which lifted educational services employment 20 percent since 2010—four times the state’s growth.

Meanwhile, health care and social assistance employment has shown strength, rising 18.2 percent from April 2010 to April 2019 and with 2.7 percent over the last year. Nationally the growth was a bit stronger. From April 2010 to 2019 the national growth in health care and social assistance jobs climbed 21.3 percent with a 2.7 percent rise over the last year, the same as the commonwealth.

Social assistance jobs have shown a dramatic rise. From April 2010 through April 2019 these jobs surged by 42.2 percent, significantly faster than the nation’s 32 percent. While growth in any job sector is welcome these are typically not high-paying jobs that are likely to prop up the general fund revenues for any state.

Leisure and hospitality had enjoyed solid gains since 2010 moving 16.8 percent through April 2019. Over the past year the sector added another 1.7 percent more jobs. However, despite the good employment gains during the past decade, it still trailed the national jobs increase of 28.2 percent. And its latest year-over-year gain was well behind the national rate of 2.7 percent.

And, of course, this is nothing new. Previous *Policy Briefs* have been underscoring for years how the state’s economy and employment have not kept pace with the nation. The only notable exception is with the recession years when the state’s economy bested the national largely because the state was not in the midst of the housing and real estate boom that was underway in many other states. A boom that collapsed when the subprime mortgage bubble burst leading to a serious national downturn.

The recent strong growth to tax revenues, corporate net income, personal income and sales and use taxes, shows that the Pennsylvania economy has picked up steam. However, it is growth that is likely the result of a faster paced national economy. Pennsylvania is still bogged down by anti-business policies and regulations that keep it from reaching its potential.

Frank Gamrat, Ph.D., Executive Director

Hannah Bowser, Research Assistant

*Policy Briefs may be reprinted as long as proper attribution is given.
For more information about this and other topics, please visit our website:
www.alleghenyinstitute.org*

| |
|---|
| <p>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</p> |
|---|