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Pennsylvania revenues surge in the current fiscal year

Summary: When Gov. Wolf released his budget for the upcoming fiscal year (2022-23), it was filled with a wish list of spending increases in many areas, especially education. He noted that for the current fiscal year (2021-22), the commonwealth will end with a $3 billion budget surplus and during his tenure, the rainy-day fund has gone from $231,000 to $2.865 billion. His total general fund budget proposal comes in at $43.71 billion, up from this fiscal year's general fund budget of $38.54 billion (13.4 percent).

This proposed spending spree is being fueled in large part by an increase to general fund revenues.

When the 2020 pandemic struck, the prevailing wisdom was that general fund revenues would take an enormous hit. This was true for the lockdown months—mid-March through June—as much of the economy faltered. But since then, the revenues coming into Pennsylvania's general fund have been quite robust, thanks in part to the federal government pouring stimulus money into the national and state economies.

Total general fund revenues

Pennsylvania's fiscal year runs from July 1 of one year through June 30 of the next. The beginning of the pandemic coincided with the final months of fiscal year 2019-20. That year, total general fund revenues came in at $32.28 billion, 7.4 percent lower than the previous fiscal year. This was in large part due to the lockdown months of mid-March, April, May and June. All four months had collections below the same month a year earlier. April revenue was especially hard hit—down 50 percent—in large part due to the personal income tax deadline being moved to July.

But thanks to the shifting that deadline, July 2020's collections were 76 percent higher than July 2019. For fiscal 2020-21, total general fund collections were $40.39 billion, or 25 percent higher than fiscal 2019-20, largely owing to the personal tax deadline postponement.

Thus far in the current fiscal year, 2021-22, general fund revenues are once again outpacing the collections from a year earlier. Revenue data are available only from July 2021 through January 2022. During these first seven months of the current fiscal year, the $26.15 billion in revenue raised is 23.4 percent ahead of the $21.18 billion for the first seven months last fiscal year. And it is by far the highest total of the last decade.

A contributing factor is money from the American Rescue Plan Act, which gave the commonwealth $3.84 billion in November through the State and Local Fiscal Recovery Funds (14.7 percent of the first seven months revenue). One of the purposes of this money is to replace lost public-sector revenue. The only prohibitions are that the money cannot be spent on debt service, or to replenish rainy day funds or to pay off any settlements or judgements. Under the act, the money must be used for costs incurred on or after March 3, 2021, be obligated by Dec. 31, 2024, and spent by Dec. 31, 2026.

Note that even without the rescue plan money, the commonwealth was still ahead of previous years. The $22.31 billion collected, excluding the plan money, is still 5 percent higher than the $21.8 billion raised in same months during the last fiscal year—July 2020 through January 2021.

The three main categories of the general fund are the personal net income tax, the sales and use tax and the corporate net income tax. The driver of the increase this year is the sales and use tax.

Sales and use tax revenues

For fiscal 2020-21, the $12.83 billion in sales and use tax revenues collected were 18.7 percent higher than the previous fiscal year. Fiscal 2019-20's collections, which included the lockdown months of mid-March through June, finished with $10.8 billion which was, in light of the large employment reductions, surprisingly only 2.5 percent lower than fiscal 2018-19. During the previous five fiscal years, fiscal 2012-13 through 2017-18, sales and use tax revenue growth ranged from 2.14 percent to 3.98 percent.

For the first seven months of fiscal 2021-22, the sales and use tax collections have been very strong, coming in at $8.31 billion, 11.4 percent higher than during the first seven months of fiscal 2020-21. With a monthly average of $1.2 billion, it is on pace to exceed $14.2 billion—11 percent higher than last fiscal year.

While sales and use tax collections have been quite strong over the last few years, this year's collections are likely being fueled by high inflation. According to the Bureau of Labor Statistics, over the 12 months from January 2021 to January 2022, the Consumer Price Index rose 7.5 percent. Since sales and use taxes are a percentage of the retail price, as those prices rise, so do tax revenues.

Personal income tax revenues

The personal income tax is the largest general fund revenue. Prior to taking a dip of nearly 9 percent in fiscal 2019-20 over the previous year, personal income tax collections had been robust with growth of 5.2 and 5.8 percent, respectively, over the two previous fiscal years. Keep in mind that in fiscal 2019-20 the deadline to file personal income taxes was moved to July 2020 and, thus, into the next fiscal year (2020-21).

Likewise, the jump in fiscal 2020-21 to $16.28 billion lifted the revenue 26.9 percent above the $12.84 billion collected in fiscal 2019-2020. The figure is bit misleading because of that postponement. July 2020 collections of $2.31 billion were above normal by about $1.5 billion compared to the average from July 2012 to July 2019 ($835 million). For the current fiscal year (2021-22), the monthly average through the first seven months is $1.23 billion, which puts it on pace to reach $14.8 billion—9 percent lower than last fiscal year but the second-highest collection since fiscal 2012-13. Bear in mind, there has been a significant jobs recovery since late 2020.

Statewide labor statistics

Another factor has been the rise in wage levels as businesses struggle to hire workers and entice people back into the labor market. Statewide, the private sector's annual average hourly earnings in 2019 was $26.16—an increase of 1.6 percent over 2018. It then jumped 4.4 percent to $27.30 in 2020 and again 3.9 percent to $28.37 in 2021. From 2019 to 2021, the annual average hourly earnings increased by 8.5 percent. This obviously helps the commonwealth's personal income tax collections.

Bear in mind, however, that total private jobs statewide have yet to recover to 2019 levels, notwithstanding a partial rebound from the pandemic depressed level. In 2021, the annual monthly average number of total private jobs came in at 5.044 million, 5.9 percent lower than the 5.36 million counted in 2019. This is the lowest number—other than 2020's pandemic level—recorded since 2013's 5.02 million.

Conclusion

Flush with cash, the governor's initial budget proposal contains large spending increases for most categories, especially education. But this boost is more the result of federal government stimulus spending that spurred on inflation rates not seen since the early 1980s. It is certainly not due to any growth-enhancing policies out of Harrisburg. What happens when the Federal Reserve acts to slow inflation by drastically choking money growth and raising interest rates? When future collections fall as the economy contracts, will tax rates have to be raised or new levies created to make up the shortage?

Nothing is being done to address the terrible business climate in Pennsylvania—fealty to unions, stifling regulations and high taxes. These are things, that addressed properly, would engender real economic growth.

The spending increases being proposed do nothing more than raise the floor on which future budgets will be based, tying the hands of future governors and legislators—and emptying the pockets of Pennsylvanians.

We have seen this happen before. It is not a good thing for the state.

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