

MAY 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

Through the end of April, tax collections are \$373.9 million above the official estimate – an overage of 1.9%. April collections were very impressive, coming in \$230 million above the estimate.

The fiscal picture improved sharply last month. After two months of disappointing revenue collections and some concern about whether revenues would even hit the Governor's estimated surplus of \$290 million, it appears that collections are back on track. This committee's previous estimate of a \$500 million surplus probably is out of reach, but the final June 30th surplus should be in the \$420 to \$465 million range.

**Revenue Surplus
thru end of March:
\$373 million**
**Estimated Final Surplus:
\$438 million**
**Governor's Estimate :
\$290 million**

Personal Income tax collections were booming in April. Annual payments were \$113 million over the official estimate.

Corporate taxes were posted continuously throughout the month. It

had appeared collections would be below estimates earlier in the month, but the dollars kept coming in until a surplus of \$41 million was realized.

At the end of the fiscal year, if tax collections are \$438 million above the official estimates, it won't mean that the Commonwealth has all of that extra money to spend, invest or provide tax cuts. First, the Governor's 2005-06 budget, presented in February, proposes to utilize \$290 million of the surplus. That leaves \$148 million available. There are a number of items that were not included in the Governor's budget, but deserve serious consideration for funding in 2005-06.

In addition to the numerous and serious issues regarding the Governor's proposed Medicaid cuts, the following are a few other problems that should be addressed. This is not an exhaustive list, but instead is only intended to show that even with a revenue surplus, tough decisions are going to be part of the budget negotiations.

CONTINUED

REPORT TO THE PEOPLE

1. Additional money for all the state Row Offices and the Judiciary;
2. Potential arbitration decision for corrections officers;
3. Additional State Police troopers;
4. Problems related to the federal-ization of payments to medical schools.

Below is a chart that shows the taxes that have provided the current \$373.9 million surplus collected through the end of April. Clearly the personal income tax has provided the bulk of the surplus -- \$211 million, or 56% of the current overage. And 67% of

the income tax surplus is from non-withholding sources -- mainly from final 2004 payments submitted with April tax returns, but also partly from quarterly estimated payments for the current year.

Non-tax revenue is the second largest component of the surplus. Nearly the entire non-tax revenue surplus is from escheated demutualized insurance company receipts. All revenue from this source was supposed to be collected by January at the latest, yet it still seems to come in. \$41 million was received in April. We could say that this is the last of it, but time will tell.

