Week of May 30, 2016

**HEADLINES**

**IFO REPORT INDICATES MAY REVENUES DOWN FROM LAST YEAR**

This week, the Independent Fiscal Office (IFO) released its May monthly trends report showing revenues for the month were down year-to-date by an estimated $17 million, though still ringing in at $1.94 billion. However, yearly revenues are still up by six-tenths of a percent or $164 million, ringing in at a total of $27.84 billion. While tax revenue for the month increased year-to-date, there was a sharp decline in non-tax revenue sources led by a comparative drop in escheats collections due to a change in the law that allowed for abnormally high collections in May 2015. With the 2016-17 budget season upon us, May and June revenue collections remain crucial to determining a final budget number and the scope of the deficit.

**TEMPORARY MEDICAL MARIJUANA REGULATIONS ARE IN THE WORKS**

This week, the Pennsylvania Department of Health announced it has begun the implementation phase of setting up the legal use of medical marijuana in Pennsylvania. Act 16 of 2016, the legislation legalizing medical marijuana, was signed into law ten weeks ago and became effective just two weeks ago. According to Secretary Karen Murphy, the first of a series of temporary regulations will be out by mid-summer with full implementation to take between 18 and 24 months. The first in the series of temporary regulations will allow minors—those under the age of 18—to obtain medical marijuana from other states for legal use in Pennsylvania. Adults will have to wait until medical marijuana is available in Pennsylvania in order to legally obtain and use the product.

**NEW EDUCATION FUNDING FORMULA ON THE HORIZON**

With HB 1552 being signed by the Governor on June 2, 2016 as Act 35 of 2016, the Pennsylvania House Education Committee held a hearing to discuss a new Basic Education Funding formula, which would benefit schools burdened by Pennsylvania’s “hold harmless” provisions. Hold harmless provisions guarantee that a school district receives no fewer state dollars than it did the previous year, regardless of enrollment changes. As a result, districts with declining enrollment receive more than three times the state funding per student than growing districts. According to the Commonwealth Foundation, the average state revenue per student of the 20 fastest-shrinking districts in Pennsylvania is more than $9,000, while the average going to the 20 fastest-growing districts is just above $3,000 per year. To address this disparity, Representative Parker intends to introduce legislation that would ultimately follow the recommendations of the Basic Education Funding Commission but would give seventy-five percent of increased education funds to those schools hurt by the hold harmless provision. Absent addressing the issue, lawmakers fear that Pennsylvania residents will encounter higher property or income taxes to plug the education shortfalls. The hearing was intended to draw all interested parties to the table for an open dialogue on the issue even though the bill has not been formally introduced nor has a cosponsorship memorandum been disseminated at this time.

**NATURAL GAS PRODUCTION INCREASED IN FIRST QUARTER 2016**

A report issued by the Independent Fiscal Office (IFO) indicates natural gas production in Pennsylvania increased over last year, yet the number of new wells coming online has significantly decreased over the same period. According to the IFO’s report, natural gas production increased by a total of 12.7%, led by a 12.8% increase in horizontal well production. Vertical well production declined just shy of 10% over last year’s number, but had only a 1/10% impact on the overall production numbers. The timeliness and nature of these numbers is significant in terms of the June budget discussion. House and Senate Republicans continue to be opposed to most—if not all—broad-based tax increases, while House and Senate Democrats, along with the Wolf Administration, have been counting on a natural gas extraction tax to boost revenues. In his February budget address, Governor Wolf balanced his $32.7 billion budget proposal with $217.8 million from a 6.5% natural gas severance tax with an impact fee credit in FY 2016-2017. Republicans in both chambers have remained insistent that the implementation of a severance tax now would send an already struggling industry out of Pennsylvania and into more producer-friendly tax environments.

**WOLF ADMIN. PROPOSES NEW HEALTH HOMES TO COMBAT DRUG CRISIS**

# This week, the Wolf Administration held a press conference to discuss the heroin and opioid crisis plaguing the Commonwealth. Secretary of the Department of Human Services, Ted Dallas, shared that Governor Wolf has budgeted $34 million to combat the crisis with a goal of opening 50 health homes across the state in the next year. The new health homes will not only treat opioid addiction but will treat the entire person. According to the Department, an estimated $630 million a year in Medicaid funding goes toward combating the [heroin and opioid epidemic in Pennsylvania](http://search.pennlive.com/heroin%2Bepidemic/1/all/?date_range=all) but the funding resources have not made an immediate impact considering 4 out of 5 Medicaid recipients with substance abuse addictions do not enter treatment even after they overdose. Wolf wants to establish 50 new health homes across the Commonwealth over the next year to treat a minimum of 11,000 people with addictions by providing a more comprehensive, team-based form of treatment for addicts, most of which have a co-occurring behavioral health or physical issue or pain stemming from these issues that led the addict to start abusing opioids in the first place. Secretary Dallas is hopeful that this treatment approach, which has been tried in other places and proven successful, will make an immediate impact to combat the Commonwealth’s drug epidemic.

# PA HOUSE FINANCE COMMITTEE DISCUSSES HB1817

# The House Finance Committee held a public hearing on June 2, 2016 at 10:00a.m. at the PA Convention Center, 1101 Arch Street, Room 108 AB, Philadelphia to receive testimony on HB1817, introduced by Representative John Taylor. HB1871 would amend the Constitution of the Commonwealth of Pennsylvania to permit the City of Philadelphia to impose taxes on real estate used for business purposes at a tax rate that exceeds the tax rate applicable to other real estate to aid the finances of the City of Philadelphia. The Prime Sponsor and supporters of the bill maintain that in order to grow the number of jobs in Philadelphia, wage and business taxes must be reduced and shifted to a greater reliance on the real estate tax for businesses.

**PENNSYLVANIA GENERAL ASSEMBLY SESSION SCHEDULE:**

**2016 SENATE SESSION SCHEDULE**

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| **June** | 6, 7, 8, 13, 14, 15, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30 |

**2016 HOUSE SESSION SCHEDULE**

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| **June** | 6, 7, 8, 13, 14, 15, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30 |

**DEPARTMENT OF REVENUE UPDATES**

**NEW PILOT PROGRAM UNVEILED**

This week, the Pennsylvania Department of Revenue announced that it is launching a pilot program to intensify its examination of sales and use tax returns. The new Harrisburg-based unit will be charged with conducting remote examinations of business activities by comparing information reported to the state with other sources like the IRS, other state agencies, and third parties. According to the Department, if discrepancies are found, it will send letters asking for an explanation. Businesses that have not registered for a sales tax license could be asked to fill out a questionnaire to see if they should be collecting sales tax.

The state collected $9.5 billion in sales tax in fiscal 2015. It was the state's second-biggest source of tax revenue behind personal income tax.

**REMINDER ISSUED TO HOMEOWNERS USING HOME-SHARING SITES TO REGISTER, COLLECT AND REMIT THE HOTEL OCCUPANCY TAX**

Pennsylvania is already a tremendous summer travel destination and the state will host the U.S. Open Golf Tournament near Pittsburgh and the Democratic National Convention in Philadelphia this year. With many travelers using online home-sharing sites to book a place to stay, the Department of Revenue is reminding homeowners to report the income and register, collect and remit the state’s 6 percent hotel occupancy tax. Under state law, renting out sleeping accommodations for less than 30 days is a hotel rental and the state’s 6 percent hotel occupancy tax applies. To read the entire press release, visit <http://www.media.pa.gov/Pages/Revenue-Details.aspx?newsid=162>

**REVENUE DEPARTMENT RELEASE MAY 2016 COLLECTIONS**

This week, DOR reported that Pennsylvania collected $1.9 billion in General Fund revenue in May, which was $25.4 million, or 1.3% less than anticipated. Fiscal year-to-date General Fund collections total $27.8 billion, which is $97 million, or 0.3% above estimate.

* Sales tax receipts totaled $791.2 million for May, $9.1 million above estimate. Year-to-date sales tax collections total $8.9 billion, which is $15.5 million, or 0.2% more than anticipated.
* Personal income tax (PIT) revenue in May was $773.1 million, $43.9 million below estimate. This brings year-to-date PIT collections to $11.2 billion, which is $150.4 million, or 1.3% below estimate.
* Corporation tax revenue for May was $80.5 million was $20 million below estimate. Year-to-date corporation tax collections total $4.6 billion, which is $85.7 million, or 1.9% above estimate.
* Inheritance tax revenue for the month was $82.7 million, $6.8 million above estimate, bringing the year-to-date total to $852.3 million, which is $26.8 million, or 3.2% above estimate.
* Realty transfer tax revenue was $37.8 million for May, $1 million below estimate, bringing the fiscal-year total to $427.1 million, which is $600,000, or 0.1% more than anticipated.
* Other General Fund tax revenue, including cigarette, malt beverage, liquor and table games taxes, totaled $139.5 million for the month, $19.1 million above estimate and bringing the year-to-date total to $1.2 billion, which is $15.8 million, or 1.3% above estimate.
* Non-tax revenue totaled $39.7 million for the month, $4.5 million above estimate, bringing the year-to-date total to $614 million, which is $103.1 million, or 20.2% above estimate.
* The Motor License Fund received $253.9 million for the month, $4.2 million above estimate. Fiscal year-to-date collections for the fund – which include the commonly known gas and diesel taxes, as well as other license, fine and fee revenues – total $2.4 billion, which is $33.8 million, or 1.4% below estimate.

**IRRC UPDATES**

None