



2023-24 Mid-Year Briefing

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2023-24 Enacted Budget

- 2022-23 ended with an \$8.98 billion surplus, leading to \$898 million transfer to Rainy Day Fund per updated definition in Act 22 of 2023 and Act 34 of 2023
- 2023-24 enacted expenditures: \$44.9 billion
- \$526.1 million in federal enhanced FMAP, as phase-out concludes
- Significant investments in education, including \$567 million increase in BEF
- Fully funds actuarially required pension contributions
- Continues planned CNIT rate reductions
- Accelerates shift of State Police costs away from Motor License Fund to allow for more road and bridge projects



2023-24 Financial Statement

(dollars in thousands)

	2021-22 <u>Actual</u>	2022-23 <u>Actual</u>	2023-24 <u>Available</u>
Beginning Balance	\$ -	\$ 5,537,421	\$ 8,084,871
Adjustments to Beginning Balance	4,450	9,000	-
Revenue Actuals/Estimates	48,134,220	44,917,148	44,610,600
Federal Stimulus	2,478,622	2,161,223	526,069
Refunds	(1,420,000)	(1,489,400)	(1,495,000)
Total Revenue	49,197,292	51,135,392	51,726,540
Prior-Year Lapses	270,012	810,000	205,000
Funds Available	49,467,304	51,945,392	51,931,540
Enacted Expenditures	39,351,261	40,800,979	44,947,342
Estimated Supplemental Appropriations			(449,962)
Current-Year Lapse	-	-	(50,000)
Federal Stimulus	2,478,622	2,161,223	526,069
Total Expenditures	41,829,883	42,962,202	44,973,449
Preliminary Balance	7,637,421	8,983,190	6,958,091
Transfer to the Rainy Day Fund	(2,100,000)	(898,319)	(695,809)
Ending Balance	\$ 5,537,421	\$ 8,084,871	\$ 6,262,282
Cumulative Rainy Day Fund Balance <i>(includes interest income)</i>	\$ 4,968,521	\$ 6,026,939	\$ 7,054,230

Economic Outlook

U.S. GDP growth is expected to slow from 2.4% in 2023 to 1.7% through 2026

- Federal Reserve uncertain about further rate increases
- Inflation eases significantly, but remains higher than the 2.0% target in 2026
- PA employment falls through 2025 and unemployment rate reaches 5.2%, which is higher than U.S. unemployment
- Consumer spending declines modestly through 2025



U.S. Outlook	2024	2025	2026	Pennsylvania Outlook	2024	2025	2026
Real GDP	1.4%	1.4%	1.7%	Median Household Income (thous.)	77.5	79.8	82.0
Personal Income (% change)	4.9%	5.1%	4.5%	Personal Income (% change)	5.1%	4.9%	4.2%
10-Year Treasury Note	4.32%	3.63%	3.28%	Employment (% change)	-0.3%	-0.4%	0.1%
Consumer Price Index	2.7%	2.0%	2.5%	Age 20-64 Population Change (thous.)	-39	-30	-22
Unemployment Rate	4.3%	4.7%	4.6%	Unemployment Rate	4.5%	5.2%	5.2%

All variables are annual averages. Percentages represent growth rates, except for the unemployment rate and the 10-year Treasury Note.

Source: Connect by S&P Global (IHS Markit), November 2023

2023-24 General Fund Collections through November

	<u>Estimated</u>	<u>Actual</u>	<u>\$ Difference</u>	<u>% Difference</u>
Tax Revenue:				
Corporation Taxes	\$ 1,678.7	\$ 1,812.5	\$ 133.8	8.0%
Consumption Taxes	6,733.2	6,580.3	(152.9)	-2.3%
Sales & Use - Non-Motor	6,127.1	6,001.8	(125.3)	-2.0%
All Other	606.1	578.5	(27.6)	-4.5%
Other Taxes	7,309.0	7,254.3	(54.7)	-0.7%
PIT Withholding	5,254.5	5,233.8	(20.7)	-0.4%
PIT Non-Withholding	1,104.9	1,035.6	(69.3)	-6.3%
All Other	949.6	984.9	35.3	3.7%
Non-Tax Revenue:	425.5	498.2	72.7	17.2%
TOTAL	\$ 16,146.4	\$ 16,145.4	\$ (1.1)	0.0%

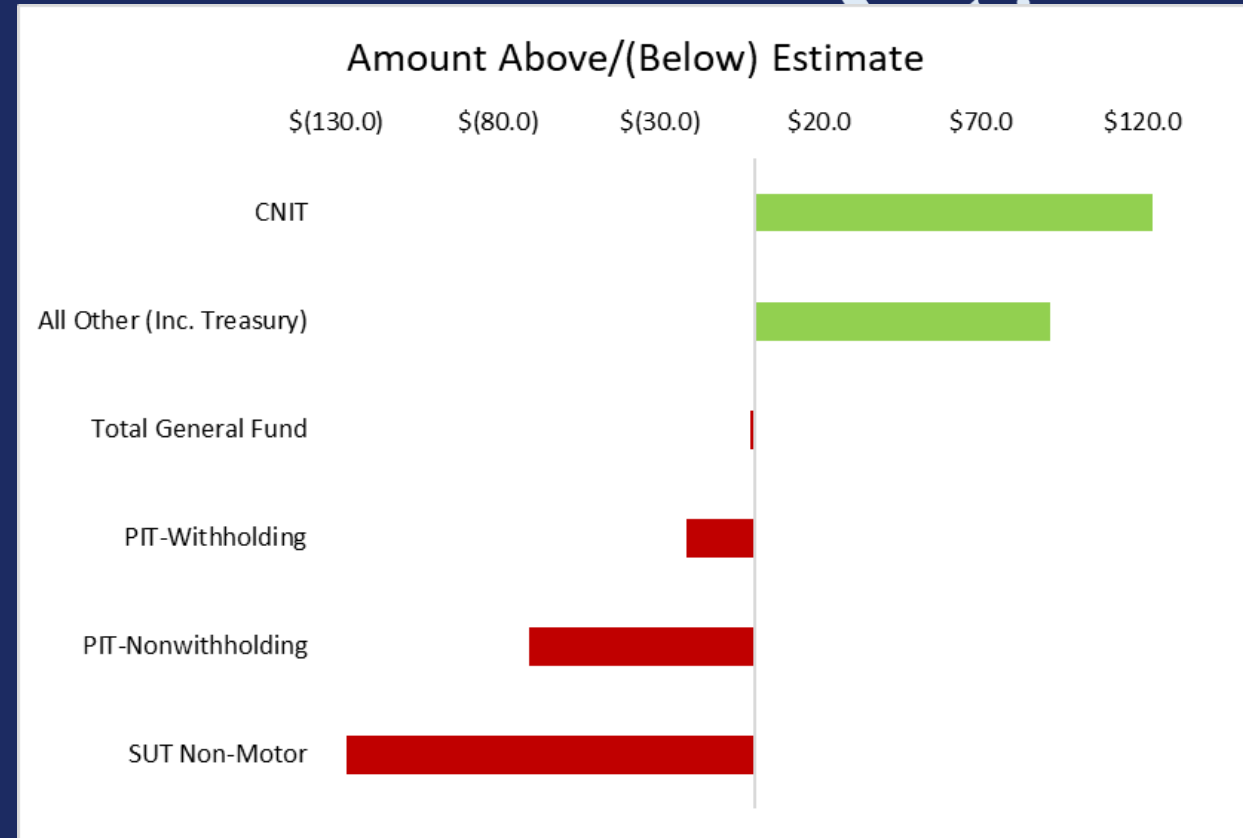
Dollar amounts in millions.

2023-24 General Fund Collections through November



- General Fund collections are on target at \$1.1 million, or 0.0% below estimate
- Although in total the General Fund comes out even, some tax types are ahead while others fall behind estimate:

- Corporate Net Income Tax – \$123.2 million above estimate due to strong 2022 payments. 2023 payments have not been as strong.
- Sales and Use Tax - \$125.3 million below estimate due to weaker consumption of appliances, furniture, and electronics.
- Nontax – Treasury interest of \$321.3 million is \$85.2 million above estimate.





Improved Credit Ratings

- In September 2023, both rating agencies Moody's and S&P affirmed Pennsylvania's long-term rating on the Commonwealth's General Obligation bonds and various other debt issued by the Commonwealth, Aa3 and A+ respectively and revised its outlook to "Positive" from "Stable"
 - Moody's assessed that core rainy day reserves will remain near current levels "due to sound budget management and continued steady revenue growth."
 - S&P measured PA credit by its broad and diverse economic base, which has mainly recovered from the pandemic-related declines. At the same time, the commonwealth has improved its financial position and demonstrated an ability to build reserves over multiple years, while also making progress in attaining structural budgetary balance
- In November 2023, Fitch Ratings upgraded Pennsylvania's credit rating to 'AA' from 'AA-' citing record reserve buildup
 - Fitch's assessment was based on state's "improved operating performance, as well as a low long-term liability burden and broad flexibility to manage spending pressures, which offset modest baseline revenue growth and a historically contentious decision-making environment."
 - Highest bond rating in over a decade

Bond Issuance Results

- The Commonwealth successfully priced \$1.355 billion of New Money General Obligation Bonds, and a Refunding in an issuance amount of \$753.615 million, which paid to refinance approximately \$845 million of outstanding bonds.
- The refunding of prior year debt will realize significant debt service savings for Commonwealth taxpayers over the life of the bonds. Savings figures include:
 - \$99.7 million of actual/gross debt service savings
 - \$80.7 million of net present value (NPV) debt service savings
 - NPV savings equal to 9.547% of refunded par
- Bond yields on the New Money issuance priced at an average of 0.114% spread over the high-grade 5% AAA tax-exempt municipal index, and bond yields on the Refunding issuance priced at an average of 0.153% over the same 5% AAA index, an improvement as compared to the most recent issuance by the Commonwealth in 2022, when the average spread was 0.306% over the high-grade 5% AAA index.
- The improved pricing performance was due in part to the improved Commonwealth Bond Rating by Fitch (upgrade from AA- to AA) and improved Ratings Outlooks from both Moody's and S&P (changed from stable to positive) achieved since September 2023.
- The estimated monetary impact of the improved ratings was \$6 to \$12 million in savings for Commonwealth taxpayers.
- The Commonwealth utilized a multi-tranche approach to the debt issuances, selling the bonds across four separate bid groups, allowing for improved participation and competition amongst bidders and investors. Across the four tranches, the Commonwealth received a total of 29 bids, comprising 8 different bidding entities.

Collective Bargaining Agreements

Agreements/Understandings ratified and/or implemented (over 39,000 employees):

- AFSCME
- SEIU Local 668
- UFCW
- SEIU Healthcare PA
- ISSU
- CIVEA
- OPEIU
- PLEA
- PDA
- PUC Attorneys
- UGSOA
- PSEA - Hiram G. Andrews Center

Agreements/Understandings outstanding (roughly 2,000 employees):

- SEIU UC Referees
- ALES
- FOSCEP
- FOP Lodge #85 (Capitol Police)
- FOP Lodge #92 (new union representing G4 bargaining unit)

Agreements expiring June 30, 2024 (over 14,000 employees):

- PSTA
- PSCOA
- PSRA
- FOP Lodge #114 – Conservation Police Officers Fish and Boat
- FOP Lodge #114 – Conservation Police Officers Game



2024-25 Budget Pressures

- Expiration of COVID federal funds – eFMAP, ARPA, ESSER
 - Impact to Commonwealth, counties, districts, municipalities
- Outstanding BEFC Report recommendations – January 11
- Implementation of collective bargaining agreements
- Workforce challenges
 - Human Services
 - Infrastructure Implementation
 - Public Safety – State Police and Corrections
- Functions that rely on fixed revenue sources
- Long-term sustainability
 - Commonwealth's budget
 - Pennsylvanians who rely on Commonwealth programs
- Finding common ground in divided government

Top Fund Balances are Strong

- Compared to prior year:
 - General Fund: +\$1.6 billion (+15%),
 - Motor License Fund: +\$400 million (+19%)
 - Lottery Fund: +\$40 million (+5%)
- Lottery Fund sees steady gains, but future balance is sensitive to slowing sales
- Property Tax Relief Fund cash balance nearly doubles from the prior year
- Capital Funds received +\$200 million in November (STIP), will receive +\$1.3 billion in December (GO bond proceeds)



Top Fund Balances by Fund

Cash Balances by Fund as of Nov 30th

Fund	Cash Balance (\$ millions)	Change from Prior Year (\$ millions)	Percent Change
General	\$12,493	\$1,601	15%
Lottery	\$866	\$40	5%
Motor License	\$2,474	\$402	19%
Oil and Gas Lease	\$184	\$82	80%
Capital Funds*	\$279	-\$568	-67%
Budget Stabilization Reserve	\$6,117	\$1,119	22%
Keystone Rec., Park, & Consvr.	\$262	\$10	4%
Property Tax Relief	\$742	\$365	97%

* cash balance will increase to roughly \$1.4 billion following bond issuance and repayment of STIP.



Questions?