



GOVERNOR WOLF

SCHOOLS THAT TEACH • JOBS THAT PAY • GOVERNMENT THAT WORKS

2022-23 MID-YEAR BUDGET BRIEFING

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December 2022





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2022-23 FINANCIAL STATEMENT

(dollars in thousands)

| | 2020-21 | 2021-22 | 2022-23 |
|---------------------------------------|-------------------|---------------------|---------------------|
| | <u>Actual</u> | <u>Actual</u> | <u>Estimated</u> |
| Beginning Balance | \$ (2,734,070) | \$ - | \$ 5,537,421 |
| Adjustments to Beginning Balance | 18,795 | 4,450 | 4,000 |
| Revenue Actuals/Estimates | 40,392,018 | 48,134,220 | 43,752,900 |
| Federal Stimulus | 3,184,711 | 2,463,921 | 1,870,759 |
| Refunds | (1,262,000) | (1,420,000) | (1,280,800) |
| Total Revenue | 39,599,454 | 49,182,591 | 49,884,280 |
| | | | |
| Prior-Year Lapses | 220,000 | 270,012 | 325,543 |
| Funds Available | 39,819,454 | 49,452,603 | 50,209,823 |
| | | | |
| Enacted Expenditures | 34,013,227 | 39,351,261 | 42,769,617 |
| Estimated Supplemental Appropriations | | | (1,302,077) |
| Federal Stimulus | 3,184,711 | 2,463,921 | 1,870,759 |
| Total Expenditures | 37,197,938 | 41,815,182 | 43,338,299 |
| | | | |
| Preliminary Balance | 2,621,516 | 7,637,421 | 6,871,524 |
| Transfer to the Rainy Day Fund | (2,621,516) | (2,100,000) | - |
| Ending Balance | \$ - | \$ 5,537,421 | \$ 6,871,524 |

| | | | |
|--|--------------|--------------|--------------|
| Cumulative Rainy Day Fund Balance | \$ 2,865,078 | \$ 4,968,521 | \$ 5,014,849 |
| <i>(includes interest income)</i> | | | |

2022-23 ENACTED BUDGET

- 2021-22 ended with a \$7.6B surplus, enabling a \$2.1B transfer to the Rainy Day Fund
- \$42.8B in 2022-23 state General Fund spend
- Includes nearly \$1.3B in federal enhanced FMAP
- Increases education funding by more than \$1B at all levels
- Reduces CNIT to 8.99% in 2023, with a path to 4.99%

FEDERAL AID UPDATE

- All \$7.3B State and Local Fiscal Recovery Funds (SLFRF) appropriated to date
- Impacted agencies working with federal partners to maximize Infrastructure Investment and Job Act (IIJA) funding for highway, broadband, and other critical infrastructure projects
- Expecting additional quarter of eFMAP due to anticipated extension of Public Health Emergency

2022-23 GENERAL FUND TAX REVENUE COLLECTIONS THROUGH NOVEMBER

| | <u>Estimated</u> | <u>Actual</u> | <u>\$ Difference</u> | <u>% Difference</u> |
|-------------------------|--------------------|--------------------|----------------------|---------------------|
| Tax Revenue: | | | | |
| Corporation Taxes | \$ 1,517.8 | \$ 1,730.2 | \$ 212.4 | 14.0% |
| Consumption Taxes | 6,476.3 | 6,577.2 | 100.9 | 1.6% |
| Sales & Use - Non-Motor | 5,242.2 | 5,363.2 | 121.0 | 2.3% |
| All Other | 1,234.1 | 1,214.0 | (20.1) | -1.6% |
| Other Taxes | 7,253.7 | 7,058.9 | (194.8) | -2.7% |
| PIT Withholding | 5,021.4 | 4,827.7 | (193.7) | -3.9% |
| PIT Non-Withholding | 1,193.4 | 1,209.3 | 15.9 | 1.3% |
| All Other | 1,038.9 | 1,021.9 | (17.0) | -1.6% |
| Non-Tax Revenue: | 226.5 | 291.2 | 64.7 | 28.6% |
| TOTAL | \$ 15,474.3 | \$ 15,657.5 | \$ 183.2 | 1.2% |

Note: The majority of the PIT Withholding shortfall is attributable to revenue that was deposited a day later than originally anticipated. Those tax collections in December will be higher than originally forecasted.

Dollar amounts in millions.



ECONOMIC OUTLOOK

After GDP decline in 2020 and rebound in 2021 and 2022, both U.S. and PA economic growth slows to near zero in 2023 with stronger growth in 2024

- Mild recession projected in Q1 of 2023 with recovery beginning Q3 of 2023
- Inflation eases significantly by 2024
- Consumer spending grows modestly in 2023 and 2024
- PA unemployment rate rises through 2024, remains above U.S. rate
- Includes impact of IIJA and Inflation Reduction Act

| U.S. Outlook | 2023 | 2024 | 2025 |
|----------------------------|-------|-------|-------|
| Real GDP | 0.3% | 1.8% | 2.0% |
| Personal Income (% change) | 4.5% | 4.6% | 4.8% |
| 10-Year Treasury Note | 3.59% | 3.35% | 3.22% |
| Consumer Price Index | 4.0% | 2.3% | 2.2% |
| Unemployment Rate | 4.6% | 5.0% | 4.6% |

| Pennsylvania Outlook | 2023 | 2024 | 2025 |
|--------------------------------------|------|-------|------|
| Median Household Income (thous.) | 71.4 | 74.8 | 77.0 |
| Personal Income (% change) | 5.0% | 4.8% | 4.6% |
| Employment (% change) | 0.8% | -0.2% | 0.4% |
| Age 20-64 Population Change (thous.) | -32 | -29 | -26 |
| Unemployment Rate | 5.3% | 5.7% | 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), December 2022



2023-24 BUDGET OUTLOOK

- Shifting predictions for future economic conditions
- Unknown potential for additional federal funding, Public Health Emergency extension, and Federal Reserve action
- Maintain state match for federal infrastructure funding
- Increased costs related to serving seniors and those with disabilities
- Long-term replacement of increased federal funding
- Ensure a long-term balanced budget