Week of December 12, 2016

**HEADLINES**

**Mid-year budget briefing**

Budget Secretary Randy Albright Wednesday held the annual mid-year budget briefing, offering a retrospective on the current fiscal year and looking ahead to what challenges will confront lawmakers in crafting the spending plan for the coming fiscal year. Sec. Albright pointed out the $31.5 billion budget for FY 2016-2017 is likely to come in $603.7 million short due to a combination of lower-than-anticipated revenue collections and a likely to-be-required $182 million supplemental appropriation to augment spending the Department of Human Services. Last month, the Independent Fiscal Office said the department would likely need a supplemental appropriation of around $400 million, but Sec. Albright said internal moves by the administration have cut that in half. Further complicating the deficit number is that it assumes $100 million from gaming expansion revenue, something the legislature failed to agree on in the last half of the year before adjourning for the session. However, Sec. Albright said, a recent meeting between Gov. Tom Wolf and legislative leaders from all four caucuses presented a renewed desire on behalf of legislative players to push some form of gaming expansion through in the early part of the 2017-2018 legislative term. The current fiscal year’s budget woes will only add to the already difficult situation that will be faced in budgeting for FY 2017-2018.  House Majority Leader Dave Reed (R-Indiana) doubled down on previous statements made about rethinking the structure of government as budgeting moves forward by proposing mergers of various state departments that provide overlapping and similar services. Particularly noted was merging the Department of Health and the Department of Human Services. Sec. Albright Wednesday expressed some skepticism about the feasibility of mergers, especially given the legislature failed to pass a merger of the Department of Corrections and the Board of Probation and Parole. Senate Republicans Tuesday responded to the mid-year budget briefing, saying the administration's numbers were more optimistic than what they've been seeing. All the negative news aside, Sec. Albright noted there are some positive national trends that nod in favor of an overall economic turnaround that could spell brighter days for Pennsylvania budgeting. Gov. Wolf is expected to give his annual budget address on February 7, 2017, at which time more details about the administration’s proposal for a budget path forward will be released and the true run-up to the enactment of a spending plan for FY 2017-2018 will begin.

**Analysis | Tax reformers say timing is finally right**

Property tax reform is like a phoenix in Pennsylvania. From the ashes, it rises. Again and again. Reformers are hopeful that in the coming months the issue will loom large at the Capitol. If it isn’t a hot topic in 2017, it will be hotter in 2018, said David Baldinger, who leads the Pennsylvania Taxpayers Cyber Coalition, the online hub that coordinates the lobbying of dozens of activist groups. Governor Wolf previously proposed a watered-down version of tax reform. His plan would have increased sales tax but only replaced a portion of the property tax now collected for schools. On Friday, Wolf spokesman Jeff Sheridan said the governor could be on board. Baldinger’s group wants greater increases in sales and income taxes to completely eliminate school property taxes. Their plan increases sales tax from 6 to 7 percent, and boosts personal income tax from 3.07 to 4.01 percent. Working age homeowners and retirees would benefit, according to a 2012 analysis by the state’s Independent Fiscal Office. The average working homeowner would see a 7 percent tax cut, while retired homeowners would see a 38 percent tax savings. Sen. John Gordner, R-Columbia, sees two red flags, he said. One is the legislation gets rid of property taxes for businesses, along with homeowners. Wal-Mart won’t pay property taxes, for example, but its customers will pay more in sales taxes. The other concern is the plan forces the state to lean too heavily on revenue that fluctuates with the economy.

**Soda tax falls flat in parts of Philadelphia airport**

With two-thirds of Philadelphia International Airport technically located in Delaware County, terminals within that designation will not be subjected to the city's controversial soda tax. The Philadelphia Inquirer reports Mayor Jim Kenney signed into law a 1.5-cent-per-ounce tax on sugary and diet beverages purchased within city limits in June. The tax, which amounts to 18 cents on a 12-ounce can of soda, does not apply in the three Pennsylvania counties surrounding Philadelphia. Because Terminals A East and A West reside in Tinicum Township, beverages sold there would not be open to the tax. City spokeswoman Lauren Hitt says officials don't expect this to cause confusion because retailers are well aware of what side of the county line they fall because they must similarly comply with other Philadelphia taxes.

**Still Time to Save on Pennsylvania Taxes with a PA 529 College Savings Account**

Pennsylvania Treasurer Timothy Reese reminds Pennsylvanians there is still time to reduce 2016 state taxes by saving for higher education with the Pennsylvania 529 College Saving Program. Open or contribute to a PA 529 account by December 31 to receive the advantages of a state income tax deduction and federal gift tax exclusion. Pennsylvania taxpayers can deduct PA 529 contributions from their Pennsylvania taxable income up to $14,000 per beneficiary, per year. Married couples filing jointly can deduct up to $28,000 per beneficiary if each spouse has taxable income of at least $14,000.

**House Republican leaders hold pre-session meeting**

The newly-minted House Republican leadership team was spotted in the Capitol Tuesday where they were holding a pre-session planning meeting. While the House does not formally return to session until January 3, 2017, when members will be sworn-in to office, caucus spokesperson Steve Miskin told reporters that Tuesday’s meeting among the leadership team was to start the process of committee formation and discuss ideas for the coming session. Though not a publicly stated discussion item, the Independent Fiscal Office recently reported that the Commonwealth is facing a projected deficit of $500 million in the current fiscal year and $1.7 billion for the coming budget year. Asked how, given the current leadership team’s previously stated reluctance to seek broad-based taxes to support a spend number, the caucus plans to move forward with covering the current and future deficits, Miskin said one area currently being considered is a systematic review of program expenditures and a recognition that just because one program or line-item has been funded a certain way in the past does not mean it should be funded at that level going forward without justification.

**Occupancy Tax to Support Tourism**

Representative Karen Boback introduced co-sponsorship memorandum for legislation which would dedicate a portion of the 6 percent state hotel occupancy tax to support tourism marketing, museums and the arts. This legislation would dedicate the revenue from 1 percentage point of the 6 percent state tax on hotel stays to bring more tourists to Pennsylvania. Sixty percent of the revenue would go to promote and market Pennsylvania to out-of-state visitors, with the remaining 40 percent earmarked to fund established state grant programs for the many local museums and arts and cultural organization that tourists come to see.

**Pennsylvania gas taxes scheduled to rise 8 cents in January**

Motorists in Pennsylvania will be hit with the third and final step in the gradual gas tax increases that are being phased in as part of a 2013 state law that's supposed to raise billions to improve bridges, highways and other transportation modes. The Jan. 1 increase will be about 8 cents per gallon. The increase will leave motorists paying about 76 cents per gallon in state and federal taxes. Pennsylvania already imposes the nation's highest gas tax. The law that was passed under Republican Gov. Tom Corbett also imposed a range of higher fees on motorists.

**Potential Legislation for a constitutional amendment**

Senator Anthony Williams introduced co-sponsorship memorandum for legislation to introduce a constitutional amendment regarding property taxes. This amendment would permit an exception to Article VIII to allow a local taxing authority to create a dual-tiered property tax system that distinguishes between residential and commercial real estate, while allowing for a proportional decrease in other taxes.

**PENNSYLVANIA GENERAL ASSEMBLY SESSION SCHEDULE:**

**2017 SENATE SESSION SCHEDULE**

**January**3, 23, 24, 25, 30, 31

**February**1, 6, 7, 8

**March**20, 21, 22, 27, 28, 29

**April**17, 18, 19, 24, 25, 26

**May**8, 9, 10, 22, 23, 24

**June**5, 6, 7, 12, 13, 14, 19, 20, 21, 22, 26, 27, 28, 29, 30

**2017 HOUSE SESSION SCHEDULE**

**January**3, 23, 24, 25

**February**6, 7, 8

**March**13, 14, 15, 20, 21, 22

**April**3, 4, 5, 18, 19, 24, 25, 26

**May**8, 9, 10, 22, 23, 24

**June**5, 6, 7, 12, 13, 14, 19, 20, 21, 22, 26, 27, 28, 29, 30

**DEPARTMENT OF REVENUE UPDATE**

**Property Tax/Rent Rebate Claim Deadline is Dec. 31**

Older adults and people with disabilities have until December 31 to apply for rebates on property tax or rent paid in 2015 from Pennsylvania’s Property Tax/Rent Rebate program, the Department of Revenue said Thursday. The maximum standard rebate is $650, but supplemental rebates for qualifying homeowners can boost rebates to $975. The rebate program benefits eligible Pennsylvanians age 65 and older; widows and widowers age 50 and older; and people with disabilities age 18 and older. The income limits are $35,000 a year for homeowners and $15,000 annually for renters and half of Social Security income is excluded. So far this year, more than 572,000 households have applied for rebates. As of early December, rebates totaling $260.7 million have been sent to more than 547,000 homeowners and renters. Last year, more than 556,000 households received more than $265 million in rebates.

**IRRC UPDATES**

None