

Week of November 14, 2016

**HEADLINES**

**Independent Fiscal Office Releases Long-Term Economic and Budget Outlook**

Director Matthew Knittel has announced the release of the Independent Fiscal Office’s long-term economic and budget outlook. The report, entitled Pennsylvania’s Economic & Budget Outlook: Fiscal Years 2016-17 to 2021-22, will be available for download on the office website (www.ifo.state.pa.us). The report evaluates the demographic, economic, revenue and expenditure trends that will affect the Commonwealth’s fiscal condition through fiscal year (FY) 2021-22. Updated revenue estimates suggest policymakers could face a budget imbalance of more than $500 million in the current fiscal year. The projected imbalance expands to $1.7 billion in FY 2017-18 and reaches $3.0 billion by FY 2021-22 based on current fiscal policies. “While recently enacted revenue enhancements and expenditure policies had a meaningful impact on the FY 2016-17 budget, the impact diminishes over time; therefore, the long-term fiscal outlook is largely unchanged from last year.” Knittel said. The report finds that multiple factors will affect the Commonwealth’s fiscal condition through FY 2021-22. Funding shortfalls for the Department Human Services could require supplemental appropriations of $388 million in FY 2016-17. These potential supplemental expenditures, which have implications for multiple fiscal years, are in addition to the fiscal imbalances identified in the report. The recent budget package produced revenues and savings of nearly $1.1 billion in the current year, but the net impact declines to $41 million by FY 2021-22 as one-time revenues expire and loan repayments and funding shifts take effect. The growth rate for pension contributions moderates after FY 2017-18. While expenditures remain at historically high levels, the double-digit annual growth rates are projected to abate. Pennsylvania’s fiscal outlook is constrained by its demographics. A projected contraction of the working age population (ages 20-64) moderates economic growth. An increase in the 65+ cohort (14.7 percent through 2020) will (1) restrain tax revenues due to the changing income and spending patterns associated with an aging populace and (2) increase healthcare and other expenditures associated with the long-term care of the elderly. The Independent Fiscal Office provides revenue projections for use in the state budget process along with impartial analysis of fiscal, economic and budgetary issues.

**Administration Draws another $600 Million from PA Treasury Line of Credit**

The Pennsylvania Treasury announced that the administration drew an additional $600 million against the $2.5 billion line of credit that Treasury extended to the commonwealth in August. The funds were needed to prevent the state’s General Fund from running out of money. The state has now borrowed $2.2 billion against the credit line, after the previous $400 million draw in August and $1.2 billion in September. The line of credit has $300 million remaining.  “No family or business can expect to continually borrow money just to pay the bills and the state is no different,” Pennsylvania Treasurer Timothy Reese said. “Just yesterday the state’s Independent Fiscal Office once again reported that Pennsylvania faces a long-term structural deficit, and it is clear that the situation will only get worse if nothing is done.”The $2.5 billion line of credit has an interest rate of 0.75 percent on the money borrowed against it. The state is required to pay back the loan to Treasury by June 30, 2017. [Click here](http://www.patreasury.gov/media/archive/2016/08-16-Credit-Line.html) to read a news release from August 16 that contains details about the line of credit and additional materials on the state’s historical borrowing and its impact.

**Gross Receipts Tax Filing for Managed Care Organizations**

Gross receipts tax is imposed on Medicaid Managed Care Organizations (MMCO) that conduct business in Pennsylvania. The tax applies to the sum of payments pursuant to a Medicaid Managed Care Agreement with the Pennsylvania Department of Human Services (DHS) through its medical assistance program as reported on the GRT MMCO Revenue Report. If an organization is considered the assignee, they must file the RCT-113B and include the total payments from the GRT MMCO Revenue Reports for the assignee and each assignor. Act 84 of 2016 eliminated the filing requirement. Taxpayers must file their final 2016 return by March 15, 2017, or extend to May 15, 2017. That return will include their 2016 receipts that the DHS provides to them via certificate in early 2017. The final return and payment is due by March 15, 2017. No estimated prepayments are required in 2017.

**Senate decides against sine die votes**

The state Senate early Wednesday appeared to be prepared to go against recent precedent and consider four bills during a post-election, lame-duck voting session. That ultimately did not happen. For nearly a decade, the chamber has eschewed what had been a normal operating procedure for both chambers of the General Assembly: sine die sessions during which the chamber’s membership, unfettered by the concern of winning reelection – including some who wouldn’t be returning to the chamber in the coming legislative session, having failed to win reelection – would vote on legislation. One of the bills, House Bill 2375, that, in the end, will die when the current session is finished on Nov. 30 sought to authorize the Department of Labor and Industry to transfer $57.5 million from the state’s Unemployment Compensation (UC) Fund during the next year for the continued improvement and operation of the Commonwealth’s 40-year-old legacy unemployment compensation benefits system. Reacting to HB2375 not getting to his desk, Gov. Tom Wolf, who earlier this month urged the Senate to approve the legislation, said in a statement issued early Wednesday evening: “The Senate’s inaction on HB2375 is incredibly disappointing and frustrating for so many Pennsylvanians.”

**House and Senate Leadership election results**

In the House Republican Caucus, there were three changes in leadership. Rep. Stan Saylor (R-York) took the highest profile open leadership spot by being elected as House Appropriations Majority Chairman on the first ballot. Rep. Marcy Toepel (R-Montgomery) was elected to take over as Republican Caucus Chairman after the spot was left open by the retirement of Rep. Sandy Major (R-Susquehanna). The only incumbent House Republican leader to lose their position was Rep. Brian Ellis (R-Butler), who lost his position as House Republican Caucus Administrator to Rep. Kurt Masser (R-Northumberland). House Democrats also elected its caucus leadership Tuesday, sticking with the same slate of leaders as last session. Senate Republicans and Democrats re-elected their leaders Wednesday for the 2017-18 legislative session, retaining the current teams to serve in their respective roles.

**Governor Wolf Signs Bill Allowing Distributors to Sell Six-Packs**

Governor Wolf signed HB 1196 which will allow six-packs to be sold at beer distributors to further “free the six-pack” and improve customer convenience. “Pennsylvanians have waited decades to bring their beer and liquor systems into the 21st century,” said Governor Tom Wolf. “I’m proud today to sign this bill, supported by Republicans and Democrats alike, to ensure that the commonwealth is more inviting for customers and businesses.” In May, following Governor’s Wolf’s request, the Pennsylvania Liquor Control Board approved licenses allowing gas stations to sell beer. These approvals freed the six-pack for certain gas stations with appropriate accommodations that can now to sell six-packs of beer.

**PENNSYLVANIA GENERAL ASSEMBLY SESSION SCHEDULE:**

**2017 SENATE SESSION SCHEDULE**

TBD

**2017 HOUSE SESSION SCHEDULE**

TBD

**DEPARTMENT OF REVENUE UPDATE**

**None**

**IRRC UPDATES**

None