

JUNE 2004



Monthly
REPORT
TO THE
PEOPLE
on the
Fiscal Status
of the
Commonwealth

From the
SENATE DEMOCRATIC
APPROPRIATIONS
COMMITTEE

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Charting the Commonwealth's Surplus

Tax collections continue to come in comfortably ahead of official estimates for the 2003-04 fiscal year. The state collected \$88 million more than the official estimate in May. For the year, \$456 million more has come into the treasury than was officially estimated. Because of the way estimates were recertified when the budget passed in December, the actual surplus is \$462 million. See Box:

May is not an important collection month. There are not a significant number of corporations paying estimated or final taxes in May. The amount of final Personal Income Tax (PIT) receipts expected in May is much less than in past years. Still, the month saw \$88 million added to the burgeoning surplus.

Nearly \$20 million of the excess came from corporation taxes. Another \$15 million was from regular (non-motor vehicle) sales tax collections. Inheritance tax collections were also \$15 million above the estimate. PIT collections were a modest \$8 million higher than estimates. Nearly all of the PIT overage was from taxpayer withholding. The only tax that was under estimate was the cigarette tax, which came in \$13 million below. As was the case last month, licenses, fees and miscellaneous income showed a significant surplus. Insurance company unclaimed property was primarily responsible for the \$36 million overage. Last month's Report claimed that insurance

Official Surplus:
\$456 Million

Real Surplus:
\$462 Million

Appropriations Estimate
of June 30 Surplus:
\$470 Million

company unclaimed property escheats would be a one-time infusion of cash — apparently it was not. It is not expected to add to June's surplus, but that remains to be seen.

For the 2004-05 fiscal year, the Governor has estimated revenues to be \$23.3 billion, which would be an increase of \$641 million, or 2.7% growth from the current fiscal year. This committee believes that estimate is too low by about \$600 million. The Governor's estimate was made in the December/January period and it was prudent at that time. The economy has finally shaken off its fits and spurts and now seems to be growing rather robustly. It would not

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be a surprise to see a higher revenue estimate when the Governor certifies the number at the end of June.

Even if the Governor doesn't substantially increase the revenue estimate, it is important to remember that a \$600 million difference on a \$23 billion budget is only 2.65%, so it is not indicative of any subterfuge. A difference in assumptions and risk levels accounts for the disparity between the two estimates.

Below is a chart showing the

growth of tax receipts for this fiscal year compared to the 2002-03 fiscal year. While there is growth in most of the taxes, it is interesting to see that the scale is so small. Half of the growth in the PIT is due to the rate increase that occurred in December. One number that stands out as disconcerting from a revenue standpoint is the cigarette tax. The amounts are virtually the same, yet the tax rate was raised in December by 35 cents a pack. ■

Growth of Annual Tax Revenues Thru May 2003 vs. May 2004

