pennsylvania
DEPARTMENT OF REVENUE

2011 - 2012 Estimate Documentation

Bureau of Research

March 22, 2011

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GENERAL FUND REVENUE ESTIMATES*

$ millions

Revenue Sources	2010-11 Revised	2011-12 Budget	2012-13 Estimate	2013-14 Estimate	2014-15 Estimate	2015-16 Estimate
TOTAL - GENERAL FUND	**26,790.1**	**27,945.1**	**29,127.3**	**29,811.2**	**30,450.3**	**31,200.6**
TOTAL - TAX REVENUE	**25,755.7**	**26,967.4**	**28,297.7**	**29,049.5**	**29,711.3**	**30,459.9**
TOTAL - Corporation Taxes	**4,602.0**	**4,844.2**	**4,876.7**	**4,656.4**	**4,338.7**	**4,305.8**
Corporate Net Income	1,853.9	2,031.4	2,293.1	2,235.8	2,105.9	2,099.7
Capital Stock & Franchise	822.5	755.9	478.2	212.9	64.0	35.3
Selective Business Total	1,925.6	2,056.9	2,105.4	2,207.7	2,168.8	2,170.8
Utility Gross Receipts	1,220.3	1,336.2	1,366.6	1,450.5	1,401.8	1,393.3
Utility Property	42.4	46.5	47.6	50.0	52.5	54.6
Insurance Premiums	423.7	432.5	446.6	462.9	474.2	488.2
Financial Institutions	224.2	225.8	227.8	226.6	221.6	215.0
Other	15.0	15.9	16.8	17.7	18.7	19.7
TOTAL - Consumption Taxes	**9,895.4**	**10,079.8**	**10,613.1**	**10,967.8**	**11,288.9**	**11,591.4**
Sales and Use	8,503.8	8,659.0	9,176.2	9,514.0	9,817.4	10,101.7
Cigarette	1,081.6	1,081.6	1,082.7	1,083.8	1,084.9	1,086.0
Malt Beverage	26.0	26.0	26.0	26.0	26.0	26.0
Liquor	284.0	313.2	328.2	344.0	360.6	377.7
TOTAL - Other Taxes	**11,258.3**	**12,043.4**	**12,807.9**	**13,425.3**	**14,083.7**	**14,562.7**
Personal Income	10,133.5	10,812.0	11,491.2	11,867.6	12,401.4	12,780.3
Realty Transfer	285.7	334.0	391.0	433.0	460.8	490.4
Inheritance	765.0	800.7	839.9	1,040.6	1,137.4	1,207.9
Table Games	65.4	88.0	77.1	75.4	75.4	75.4
Minor and Repealed	8.7	8.7	8.7	8.7	8.7	8.7
TOTAL - NONTAX REVENUE	**1,034.4**	**977.7**	**829.6**	**761.7**	**739.0**	**740.7**
Liquor Store Profits	105.0	80.0	80.0	80.0	80.0	80.0
Licenses, Fees & Miscellaneous Total	910.3	540.0	395.7	331.6	312.7	315.7
Licenses and Fees	135.7	124.5	124.5	124.5	124.5	124.5
Miscellaneous	774.6	415.5	271.2	207.1	188.2	191.2
Fines, Penalties & Interest Total	19.1	19.1	19.1	19.1	19.1	19.1
F, P & I On Taxes	17.0	17.0	17.0	17.0	17.0	17.0
F, P & I Other	2.1	2.1	2.1	2.1	2.1	2.1
Tobacco Master Settlement Agreement	0.0	338.6	334.8	331.0	327.2	325.9

* Individual accounts may not sum to totals due to rounding.

GENERAL FUND REVENUE ESTIMATES

Annual Percent Changes *

Revenue Sources	2010-11 Revised	2011-12 Budget	2012-13 Estimate	2013-14 Estimate	2014-15 Estimate	2015-16 Estimate
TOTAL - GENERAL FUND	**-3.1%**	**4.3%**	**4.2%**	**2.3%**	**2.1%**	**2.5%**
TOTAL - TAX REVENUE	**3.4%**	**4.7%**	**4.9%**	**2.7%**	**2.3%**	**2.5%**
TOTAL - Corporation Taxes	**0.5%**	**5.3%**	**0.7%**	**-4.5%**	**-6.8%**	**-0.8%**
Corporate Net Income	3.5%	9.6%	12.9%	-2.5%	-5.8%	-0.3%
Capital Stock & Franchise	8.1%	-8.1%	-36.7%	-55.5%	-69.9%	-44.8%
Selective Business Total	-4.9%	6.8%	2.4%	4.9%	-1.8%	0.1%
Utility Gross Receipts	-5.2%	9.5%	2.3%	6.1%	-3.4%	-0.6%
Utility Property	7.2%	9.7%	2.4%	5.0%	5.0%	4.0%
Insurance Premiums	-7.8%	2.1%	3.3%	3.6%	2.4%	3.0%
Financial Institutions	0.6%	0.7%	0.9%	-0.5%	-2.2%	-3.0%
Other	-7.2%	6.0%	5.7%	5.4%	5.6%	5.3%
TOTAL - Consumption Taxes	**6.4%**	**1.9%**	**5.3%**	**3.3%**	**2.9%**	**2.7%**
Sales and Use	5.9%	1.8%	6.0%	3.7%	3.2%	2.9%
Cigarette	10.8%	0.0%	0.1%	0.1%	0.1%	0.1%
Malt Beverage	-2.2%	0.0%	0.0%	0.0%	0.0%	0.0%
Liquor	4.8%	10.3%	4.8%	4.8%	4.8%	4.7%
TOTAL – Other Taxes	**2.1%**	**7.0%**	**6.3%**	**4.8%**	**4.9%**	**3.4%**
Personal Income	1.7%	6.7%	6.3%	3.3%	4.5%	3.1%
Realty Transfer	-3.5%	16.9%	17.1%	10.7%	6.4%	6.4%
Inheritance	1.5%	4.7%	4.9%	23.9%	9.3%	6.2%
Table Games	NA	34.6%	-12.4%	-2.2%	0.0%	0.0%
Minor and Repealed	-6.9%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL - NONTAX REVENUE	**-62.2%**	**-5.5%**	**-15.1%**	**-8.2%**	**-3.0%**	**0.2%**
Liquor Store Profits	0.0%	-23.8%	0.0%	0.0%	0.0%	0.0%
Licenses, Fees & Miscellaneous Total	-65.1%	-40.7%	-26.7%	-16.2%	-5.7%	1.0%
Licenses and Fees	-52.2%	-8.3%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	-66.7%	-46.4%	-34.7%	-23.6%	-9.1%	1.6%
Fines, Penalties & Interest Total	-28.0%	0.0%	0.0%	0.0%	0.0%	0.0%
F, P & I On Taxes	-29.2%	0.0%	0.0%	0.0%	0.0%	0.0%
F, P & I Other	-16.9%	0.0%	0.0%	0.0%	0.0%	0.0%
Tobacco Master Settlement Agreement	NA	NA	-1.1%	-1.1%	-1.1%	-0.4%

* Figures reflect changes in unrounded receipts.

MOTOR LICENSE FUND REVENUE ESTIMATES*

$ millions

Revenue Sources	2010-11 Revised	2011-12 Budget	2012-13 Estimate	2013-14 Estimate	2014-15 Estimate	2015-16 Estimate
TOTAL - MOTOR LICENSE FUND	**2,510.0**	**2,410.9**	**2,445.6**	**2,468.0**	**2,484.8**	**2,504.9**
TOTAL - LIQUID FUELS TAXES	**1,226.3**	**1,232.5**	**1,239.8**	**1,248.4**	**1,258.3**	**1,269.4**
Liquid Fuels	580.7	583.6	587.1	591.2	595.9	601.3
Fuels	149.4	150.1	151.0	152.1	153.3	154.7
Motor Carriers / IFTA	40.0	40.2	40.4	40.6	40.8	41.0
Alternative Fuels	0.6	0.6	0.6	0.6	0.6	0.6
Oil Company Franchise	455.7	458.0	460.7	464.0	467.7	471.9
TOTAL - LICENSES & FEES	**875.7**	**894.3**	**917.9**	**927.5**	**929.6**	**933.0**
Special Hauling Permits	20.7	21.1	21.7	22.2	22.8	23.4
International Registration Plan (IRP)	80.4	81.0	81.5	82.1	82.6	83.2
Operators' Licenses	60.8	62.6	62.6	61.8	62.1	63.8
Vehicle Registration & Titling	683.6	700.3	723.6	733.8	735.3	736.6
Other Fees - Bureau of Motor Vehicles	30.2	29.3	28.5	27.6	26.8	26.0
TOTAL - OTHER MOTOR	**408.0**	**284.1**	**287.8**	**292.1**	**296.9**	**302.5**
Revenue/Gross Receipts Tax	0.0	0.0	0.0	0.0	0.0	.0.0
Vehicle Code Fines/Clearing Account	29.9	36.7	36.7	36.7	36.7	36.7
Miscellaneous - Treasury	155.0	24.0	27.5	31.5	36.2	41.4
Miscellaneous - Transportation	22.0	22.3	22.5	22.7	22.9	23.2
Miscellaneous - General Services	1.1	1.1	1.1	1.2	1.1	1.2
Miscellaneous - Revenue	0.0	0.0	0.0	0.0	0.0	0.0
Turnpike Payments	200.0	200.0	200.0	200.0	200.0	200.0

* Individual accounts may not sum to totals due to rounding.

MOTOR LICENSE FUND REVENUE ESTIMATES

Annual Percent Changes *

Revenue Sources	2010-11 Revised	2011-12 Budget	2012-13 Estimate	2013-14 Estimate	2014-15 Estimate	2015-16 Estimate
TOTAL - MOTOR LICENSE FUND	**-5.0%**	**-3.9%**	**1.4%**	**0.9%**	**0.7%**	**0.8%**
TOTAL - LIQUID FUELS TAXES	**3.6%**	**0.5%**	**0.6%**	**0.7%**	**0.8%**	**0.9%**
Liquid Fuels	5.8%	0.5%	0.6%	0.7%	0.8%	0.9%
Fuels	2.8%	0.5%	0.6%	0.7%	0.8%	0.8%
Motor Carriers / IFTA	-2.7%	0.5%	0.5%	0.5%	0.5%	0.5%
Alternative Fuels	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Oil Company Franchise	1.7%	0.5%	0.6%	0.7%	0.8%	0.9%
TOTAL - LICENSES & FEES	**2.1%**	**2.1%**	**2.6%**	**1.0%**	**0.2%**	**0.4%**
Special Hauling Permits	12.5%	1.9%	2.8%	2.3%	2.7%	2.6%
International Registration Plan (IRP)	-0.1%	0.7%	0.6%	0.7%	0.6%	0.7%
Operators' Licenses	0.5%	3.0%	0.0%	-1.3%	0.5%	2.7%
Vehicle Registration & Titling	2.3%	2.4%	3.3%	1.4%	0.2%	0.2%
Other Fees - Bureau of Motor Vehicles	0.3%	-3.0%	-2.7%	-3.2%	-2.9%	-3.0%
TOTAL - OTHER MOTOR RECEIPTS	**-31.9%**	**-30.4%**	**1.3%**	**1.5%**	**1.6%**	**1.9%**
Revenue/Gross Receipts Tax	NA	NA	NA	NA	NA	NA
Vehicle Code Fines/Clearing Account	0.0%	22.7%	0.0%	0.0%	0.0%	0.0%
Miscellaneous - Treasury	277.1%	-84.5%	14.6%	14.5%	14.9%	14.4%
Miscellaneous - Transportation	-20.0%	1.4%	0.9%	0.9%	0.9%	1.3%
Miscellaneous - General Services	22.2%	0.0%	0.0%	9.1%	-8.3%	9.1%
Miscellaneous - Revenue	0.0%	NA	NA	NA	NA	NA
Turnpike Payments	-60.0%	0.0%	0.0%	0.0%	0.0%	0.0%

* Figures reflect changes in unrounded receipts.

Tax revenues are affected by legislative and judicial modifications on both the national and state levels. The following is a list of recently enacted significant changes in state law that may affect unrestricted General Fund and Motor License Fund revenues.

ACT #46 of July 6, 2010 made the following changes:

To the Educational Improvement Tax Credit:

- For fiscal year 2010-11, the cap will be $60 million.

To the Enhanced Revenue Collection Account:

- Revenues collected and the amount of refunds avoided as a result of expanded tax return review and tax collection activities shall be collected into the account.

ACT #1 of January 7, 2010 made the following changes:

To Table Game Taxes and Assessments:

- Table Game Tax – Established a 12 percent table game tax imposed on gross table game revenue; however, for 2 years following commencement of table game operations at a facility, the rate is 14 percent. The funds from these taxes are deposited to the General Fund until such time as, on the last day of the fiscal year, the balance in the Budget Stabilization Reserve Fund is certified by the Secretary of the Budget to exceed $750,000,000. Thereafter, the funds from this tax are deposited to the Property Tax Relief Fund.
- Local Share Assessment – Established a 2 percent local share assessment imposed on gross table game revenue. These funds are deposited to the State Gaming Fund. Quarterly, the Department of Revenue distributes the local share assessment to counties and municipalities hosting a licensed facility authorized to conduct table games. The exact distribution and uses are prescribed by the Act and are based upon the classification of the county and municipality in which the facility resides.

To Non-Tax Revenues:

- Licenses, Fees & Miscellaneous – Established various fees related to table games, including a table games certificate fee and supplier and manufacturer license fees. The table games certificate fee for Category 1 and 2 facilities is a one-time fee of $16,500,000 if paid on or before June 1, 2010, or $24,750,000 if paid after June 1, 2010. The table games certificate fee for Category 3 facilities is a one-time fee of $7,500,000 if paid on or before June 1, 2010, or $11,250,000 if paid after June 1, 2010. However, the certificate fee for any Category 1 or 3 facility that holds a slot machine license issued after June 1, 2010, is $16,500,000 or $7,500,000, respectively.
- Transfers – Amounts from the Pennsylvania Race Horse Development Fund will be transferred to the General Fund, beginning January 1, 2010, and continuing through fiscal year 2012-13. January 1, 2010, through the end of fiscal year 2009-10, funds from the Pennsylvania Race Horse Development Fund will be distributed as follows: 34 percent to General Fund and 66 percent to active and operating Category 1 licensees conducting live racing apportioned in accordance with a prescribed formula. In fiscal years 2010-11 through 2012-13, funds from the Pennsylvania Race Horse Development Fund will be distributed as follows: 17 percent to the General Fund and 83 percent to active and operating Category 1 licensees conducting live racing apportioned in accordance with a prescribed formula.

- Transfer – A one-time transfer will be made to the General Fund in fiscal year 2009-10 from amounts previously appropriated to the Pennsylvania Gaming Control Board.

ACT #10A of October 9, 2009 made the following changes:

To Non-Tax Revenues:

- Transfers – Amounts from the following sources will be transferred to the General Fund in 2009-10: Higher Education Assistance Fund; Keystone Recreation, Park and Conservation Fund; Dog Law Restricted Revenue Account; Oil & Gas Lease Fund.

ACT #48 of October 9, 2009 made the following changes:

To the Sales and Use Tax:

- Exclusion – The sale at retail of helicopters and similar rotorcraft are excluded from sales and use tax. In addition, repairs to and the sale of replacement parts for helicopters and similar rotorcraft are exempt from sales and use tax.
- Returns and Remittances – Sales tax licensees reporting a total tax liability of $25,000 or more for the third calendar quarter of the preceding year are required to report and remit payment to the department on a semi-monthly basis. For the period of the first day of the month through the 15th day of the month, the return and remittance are due on or before the 25th day of the month. For the period from the 16th day of the month to the last day of the month, the return and remittance are due on or before the 10th day of the following month. This change will be effective for reporting periods beginning after May 31, 2011.

To the Personal Income Tax:

- Check-offs – The sunset dates for the following check-offs on the Personal Income Tax return have been extended to Jan. 1, 2014: Wild Resource Conservation, Organ and Tissue Donation Awareness, and Military and Family Relief Assistance. The sunset dates for the check-offs for Breast and Cervical Cancer Research and Juvenile Diabetes Cure Research Funds have been extended indefinitely.
- Employer Withholding Reports and Remittances – An employer that can reasonably anticipate that its employer withholding will be $20,000 or more in a calendar year will be required to report and remit the tax on a semi-weekly schedule. This change requires the largest employers to submit withheld taxes to the department on a schedule similar to the one used by the IRS. This change is effective for periods beginning after May 31, 2010.

To the Corporate Net Income Tax:

- Sales Factor – For tax years beginning after December 31, 2008, the sales factor used in calculating the Corporate Net Income Tax will increase from 70 percent to 83 percent. The sales factor weight will be further increased from 83 percent to 90 percent for tax years beginning after December 31, 2009.
- Net Operating Loss – The cap on the net operating loss will increase to the greater of $3 million or 15 percent for tax years beginning after December 31, 2008, and $3 million or 20 percent for tax years beginning after December 31, 2009.

To the Capital Stock and Franchise Tax:

- The standard deduction used in calculating the Capital Stock and Franchise Tax will increase from $150,000 to $160,000 for tax years beginning after December 31, 2009.
- The tax rate has been set as 2.89 mills for tax years beginning in 2009 through 2011, and then declines by one mill per year until eliminated for tax years beginning after December 31, 2013.

To the Gross Receipts Tax:

- A tax of 59 mills is imposed upon each dollar of gross receipts received by Managed Care Organizations pursuant to a contract with the PA Department of Public Welfare.

To the Cigarette Tax:

- Increases the excise tax from $1.35 on a pack of twenty cigarettes (6.75 cents per stick) to $1.60 per pack (8 cents per stick). (Effective November 1, 2009)
- A floor tax will be due on inventories of previously-stamped cigarette packs for the difference of the tax. The floor tax return and payment is due January 29, 2010.
- Reduces the commission paid to cigarette stamping agents for services and expenses incurred in affixing cigarette stamps from 0.98 percent to 0.87 percent. (Effective November 1, 2009)
- Repeals the 18.52 percent transfer of proceeds from cigarette tax receipts to the Health Care Provider Retention Account. (Effective November 1, 2009)
- Little Cigars – The definition of cigarettes was expanded to include little cigars, weighing less than four pounds per thousand. Beginning November 1, 2009, little cigars in packages of 20 or 25 per pack are required to be tax stamped like cigarettes. Little cigars in packages other than 20 or 25, which are determined to be “unstampable”, become taxable at the same rate of 8 cents per stick on January 4, 2010.
- Retailers will be required to calculate a floor tax on “unstampable” little cigars in inventory on January 4, 2010. The floor tax return and payment will be due by January 29, 2010.
- Taxpayers who have not sold cigarettes prior to November 1, 2009, but sell little cigars, will be required to obtain a cigarette dealers license. Shippers are required to report to the department the weight, brand name, number per package and to whom the little cigars were shipped.

To the Research and Development Tax Credit:

- The current one-year holding period for the transfer or assignment of the R&D tax credit has been removed. For fiscal year 2009-10, the annual credit cap will be $20 million. For fiscal year 2010-11, the cap will be $18 million.

To the Educational Improvement Tax Credit:

- This credit language has been relocated from the Public School Code to the Tax Reform Code. The maximum annual household income to qualify will be $50,000 until July 1, 2011, and $60,000 thereafter. For fiscal year 2009-10, the annual credit cap will be $60 million. For fiscal year 2010-11, the cap will be $50 million.

To the Film Production Tax Credit:

- For fiscal year 2009-10, the annual cap will be $42 million. For fiscal year 2010-11, the cap will be $60 million.

To the Alternative Energy Production Tax Credit:

- For fiscal years 2009-10 and 2010-11, the annual credits available have been reduced to $0.

To the Other Tax Credits:

- For the following tax credits, the total amount available for award to eligible taxpayers will be 50 percent of the total amount otherwise available for award in fiscal year 2009-10, and 45 percent of the total amount otherwise available for award in fiscal year 2010-11. This applies to the Call Center Credit, Employment Incentive Payments, Job Creation Tax Credit, Neighborhood Assistance Tax Credit, Resource Enhancement and Protection Tax Credit, and the First Class Cities Economic Development District Credit.

ACT #50 of October 9, 2009 made the following changes:

To Non-Tax Revenues:

- Transfers – Amounts from the following sources will be transferred to the General Fund in 2009-10 and 2010-11: Health Care Cost Containment Council; Tobacco Settlement Fund; Tobacco Endowment Account for Long-Term Hope; Health Care Provider Retention Account; Medical Care Availability and Reduction of Error Fund; Budget Stabilization Reserve Fund.

ACT #79 of July 10, 2008 made the following changes:

To the Keystone Opportunity Zones:

- Expands the Keystone Opportunity Zone (KOZ) program. Under this legislation, KOZs that are set to expire within the next five to ten years will have the option of extending benefits for seven to ten years. Zones that expire in January of 2008 will be given until June 2009 to apply for the extension.
- The Department of Community and Economic Development (DCED) may designate up to 15 additional zones beginning on January 1, 2010. These newly designated zones must be sponsored by a political subdivision. Moreover, a political subdivision may be able to swap underutilized zones for new locations within the political subdivision. Applications must be received by DCED by December 31, 2008.
- Under this legislation, contractors, pursuant to a contract with a qualified business, landowner or lessee, may purchase, exempt from Sales and Use Tax, any tangible personal property or services for use in the zone by the qualified business.
- The formula for calculating the taxable income of a corporation is only based upon the payroll and property factors. The sales factor has been eliminated from the calculation.
- The bill further prohibits a person or business from knowingly employing an illegal alien. Those found to be in violation may be required to repay all tax benefits received for a two-year period while being located within the zone.

ACT #1 of the Special Session of July 9, 2008 made the following changes:

To the Alternative Energy Production Tax Credit:

- Taxpayers that develop or construct alternative energy production projects located within the Commonwealth, which have a useful life of at least four-years, may apply to the Department of Environmental Protection (DEP) for a credit beginning in September 2009. The amount of the credit may be up to 15% of the amount paid for the development and construction of alternative energy production project but may not exceed $1,000,000 per taxpayer. Unused portions of the credit may be carried forward for up to five taxable years from the year in which the credit is awarded. Credits may not be applied to previous tax years. Additionally taxpayers may, upon approval by the DEP, sell or assign an unused credit after one year from the date that the credit was approved. The total amount of credits that may be awarded annually is as follows:
  - $5 million for Fiscal Years 2008-09 through 2011-12;
  - $7 million in Fiscal Year 2012-13;
  - $10 million in Fiscal Years 2013-14 through 2014-15; and
  - $2 million in Fiscal Year 2015-16.

ACT #66 of July 9, 2008 made the following changes:

To the Volunteer Responder Retention and Recruitment Tax Credit:

- Qualified active volunteer ambulance, fire and rescue personnel are eligible for a credit of up to $100 to be used against their Pennsylvania Personal Income Tax liability. The credit is available for Tax Years beginning after December 31, 2007 and ending before January 1, 2009. Eligibility of volunteers for the credit will be determined based upon certification by their designated supervisor or chief under a point system approved by the State Fire Commissioner and State EMS Director. If the entire credit cannot be used against the volunteer's tax liability for the year in which it was awarded, it may be carried forward to succeeding tax years. The amount of credits awarded cannot exceed $4,500,000.

To the Personal Income Tax:

- Monies from the check-offs for breast and cervical cancer research will now be transferred to the Pennsylvania Breast Cancer Coalition, rather than the Department of Health.

ACT #61 of July 9, 2008 made the following changes:

***To the Educational Improvement Tax Credit*:**

- Makes Subchapter S corporations and other pass-through entities eligible for the Education Improvement Tax Credit (EITC) program, which allows business firms to receive tax credits for certain contributions made to non-profit, scholarship and education improvement organizations. Business firms applying for tax credits for a second year of a two-year commitment may apply beginning on May 15. Other business firms applying for tax credits may apply beginning on July 1. Pass through entities may apply beginning on July 7. The bill also increases the annual credit limit per taxpayer from $200,000 to $300,000 for scholarship and education improvement organizations, and increases the annual credit limit for contributions to pre-kindergarten scholarship organizations from $100,000 to $150,000.

ACT #42 of July 4, 2008 made the following changes:

To the Cigarette Fire Safety and Firefighter Protection Act:

- Beginning July 1, 2009, only self-extinguishing cigarettes that have been tested, certified and stamped may be sold in Pennsylvania. Cigarette manufacturers must submit certifications to the Department, with a $1,000 fee per brand, stating that the cigarettes offered have been tested pursuant to the standards set forth in the Act. The Department, the State Fire Commissioner and the Attorney General are charged with enforcing the Act. Manufacturers, wholesalers and stamping agents found in violation may be subject to a penalty not to exceed $10,000 per sale; $25,000 for subsequent offenses. Retailers found to be in violation may be subject to fines of up to $500; $5,000 for subsequent offenses.
- Certification fees collected will be deposited into the Cigarette Fire Safety and Firefighter Protection Act Enforcement Fund to support the processing, testing, enforcement and oversight duties under the Act. Monies received from penalties will be deposited into the Fire Prevention and Public Safety Fund to support fire safety and prevention programs administered by the State Fire Commissioner.

ACT #32 of July 2, 2008 made the following changes:

To the Local Earned Income and Net Profits Tax:

- Consolidates on a county-wide basis the collection of the local earned income and net profits taxes. Each tax collection district will have one appointed tax collector. The number of local collectors will be reduced from 560 to 69 beginning January 1, 2010. Municipalities are included in the tax collection district in which its school district is located. Local taxing districts may enter into an agreement with the Department for the exchange of information necessary for the administration and enforcement of local tax collection. Furthermore, the DCED, in consultation with the Department shall develop forms and regulations for local tax collection.

ACT #77 of December 18, 2007 made the following changes:

To the Hazardous Sites Cleanup Fund:

- Permits the State Treasurer to transfer $40 million of capital stock franchise tax revenue to the Hazardous Sites Cleanup Fund for fiscal years 2008-09 and beyond (Effective immediately).

ACT #55 of July 25, 2007 made the following changes:

To the Personal Income Tax:

- The check-off for breast and cervical cancer research will no longer have an expiration date. Extends the expiration date for wild resource conservation and organ and tissue donor awareness to December 31, 2009. (Effective immediately)

To the Bank Shares Tax:

- Permits banks involved in mergers or acquisitions to deduct goodwill from the book value of total equity capital generated as a result of combinations.
- Applicable to combinations occurring after June 30, 2001 and to the returns due on March 15, 2008.

To the Film Production Tax Credit:

- Establishes the Film Production Tax Credit for certain production expenses of the producers of feature films and certain television commercials or shows intended for a national audience. In order to qualify, 60% of total production expenses must be incurred in Pennsylvania and compensation paid to individuals or payments made to entities representing individuals for services provided in the film may not exceed $15 million. The tax credit is equal to 25% of qualified film production expenses and may be used against the PIT, CNIT, or CSFT. (Effective immediately)

To the Neighborhood Assistance Tax Credit:

- Extends the Neighborhood Assistance Tax Credit (NATC) to include pass-through entities.
- The credit may now be sold or assigned.
- Increase the amount of the NATC awarded to a taxpayers and private companies by 5%.
- The amount of credits awarded annually cannot exceed $500,000 (increased from $250,000) for contributions or investments for single projects.
- NATC provisions are effective immediately.

To the Resource Enhancement and Protection Tax Credit:

- Establishes the Resource Enhancement and Protection (REAP) tax credit for the cost of agricultural operations that enhance farm production and protect natural resources. Dependent on the type of project, a tax credit in the amount of 75% of the eligible project or 50% of the project costs may be awarded up to a maximum amount of $150,000 for each eligible applicant or project. This tax credit may be use against personal income tax, corporate net income tax, capital stock and franchise tax, bank shares tax, title insurance company premiums tax, insurance premiums tax, and mutual thrift institutions tax.
- REAP tax credit provisions effective October 23, 2007, except credits for legacy sediment which cannot be issued prior to July 1, 2008.
- The total amount of credits that can be awarded in a fiscal year is $10 million.

To the Sales and Use Tax:

- Includes the remanufacturing of locomotive parts in the manufacturing exemption. (Effective immediately)
- Repeals SUT exclusion for the production of commercial motion pictures effective October 1, 2007.
- Expands refund for bad debt to include private label credit cards from retailers. Applies to amounts deducted as bad debts on Federal income tax returns required to be filed after January 1, 2008.

Miscellaneous Provisions:

- Provides a nexus exemption for the customers of powered metallurgy parts manufacturers. Exemption is applicable to taxable years beginning after December 31, 2004, as well as taxable years as to which there is an appeal prior to the effective date of this act.

ACT #45 of July 20, 2007 made the following changes:

To the Education Improvement Tax Credit:

- Increases the annual cap on credits from $59 million to $75 million. This change increases the amount available for contributions to scholarship organizations from $8.7 million, and the amount available for contributions to educational improvement organizations from $4.3 million to $22.3 million. The total amount of credits available for kindergarten organizations will now be $8 million per year, an increase of $3 million. (Effective immediately)

ACT #44 of July 18, 2007 made the following changes:

To Operation of the Turnpike Commission:

- Turnpike Commission will enter into a 50-year lease agreement with PennDOT, requiring the Commission to make payments to PennDOT. In return, the Commission will be allowed to toll and operate Interstate-80.
- Authorizes the Commission, in consultation with PennDOT, to prepare a civil engineer's report, financial analysis, and application to US Department of Transportation for the conversion of Interstate 80 to a toll road pursuant to any Federal program for which it may be eligible. This action requires explicit approval from the General Assembly prior to conversion of Interstate 80 to a toll road.
- Moves up the date of increasing fares on the turnpike to 2009. Fares were originally slated to be increased by 25% in 2010. Fares will continue to increase at a rate of 3% annually after 2009.

To Transportation Funding:

- Replaces the current funding for transit agencies with a revenue neutral dedicated portion of the SUT, which is equal to 4.4% of collections.

To Local Taxation:

- Permits Allegheny County to levy a tax on liquor by the glass of up to 10% or a rental car tax of $2 a day to cover their local share of transportation funding.

ECONOMIC OUTLOOK

In constructing their tax revenue estimates, the Pennsylvania Department of Revenue and the Office of the Budget are assisted by economic forecasts provided by two main sources of forecast data: 1) IHS Global Insight, Inc., of Lexington, Massachusetts, and 2) Moody's Analytics, of West Chester, Pennsylvania. Both of these firms are private economic forecasting and consulting firms that provide forecast data to the commonwealth and other customers. Various projections from IHS Global Insight's national forecast, as well as a recent forecast produced by Moody's Economy.com, were used to develop the revenue estimates in this document for the budget year and other future fiscal years. Analyses and discussion in this section, as well as the revenue estimates used in the budget, are based on a combination of data from each source and further analysis from the Department of Revenue and the Office of the Budget.

Recent Trends and Current Conditions

By the fall of 2007, the United States economy was beginning to feel the first effects of the housing and financial crisis that was about to unfold. Housing construction and sales of new and existing homes began to slide precipitously. In 2008, new home construction saw its largest decline in fifty years, off 40.5 percent from 2007 levels. The declines in new home construction in 2007, 2008 and 2009 were the three largest declines since the government began keeping such records in 1959. Existing home sale prices fell in 2007 for the first time on record, then plunged another 12 percent in 2008 followed up by yet another 12 percent decline in 2009. New housing starts peaked at 1.7 million units annually in 2005; since then, new housing starts plunged to 442,000 new starts in 2009 – a decline of nearly 75 percent over the same period.

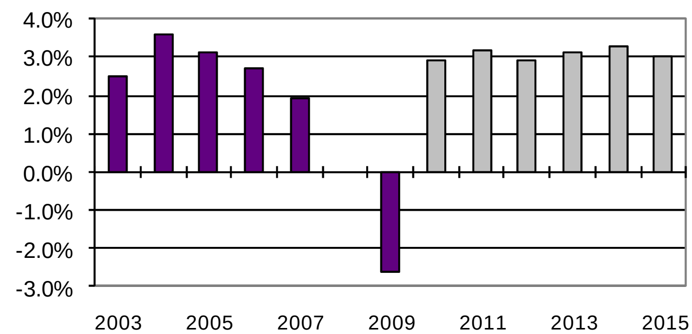
Problems related to housing construction, housing sales and housing finance spread to other areas of the economy, infecting the credit markets and ravaging Wall Street in late 2008 and early 2009. The availability of easy and cheap credit since 2001 had led to a housing boom, aggressive consumer spending and rising debt levels. Home values increased by double-digit rates seemingly every year and housing construction exploded. Historically low interest rates led to many mortgages that were approved for borrowers with less-than-perfect credit (also known as "subprime" mortgages), based on the assumption that home values would continue to rise. Subprime mortgages were peddled extensively in high-growth areas such as California, Arizona, Nevada, Florida and Texas. Invariably, the subprime mortgages were adjustable-rate mortgages, which were affordable to the borrowers only because of their low introductory rates. As interest rates rose and mortgages began to reset at higher rates, many homeowners could no longer afford to make their payments. Defaults and foreclosures began to accelerate in late 2006 and continued through 2010.

As the housing crisis deepened, it rippled through other areas of the economy. Formerly attractive asset-backed securities and mortgage-backed bonds began to lose value as the underlying cash flows from homeowners started to wane. Investment banks and the broader financial markets were hardest hit by the bursting of the housing bubble, as they were forced to write down more than $1.7 trillion dollars in losses -- primarily based on the crashing values of these asset-backed housing securities. In response to mounting losses associated with housing, financial institutions significantly tightened their lending standards and access to credit virtually dried up for all but the top consumer and business borrowers. Unprecedented losses by financial institutions resulted in the merger, bankruptcy or government bailout of such venerable Wall Street firms as Bear Stearns, Merrill Lynch, Lehman Brothers and Wachovia. Similarly, major mortgage firms such as Countrywide, Washington Mutual and IndyMac filed for bankruptcy. Insurance giant AIG and even the titans of the automotive world (General Motors and Chrysler) faced bankruptcy only to be rescued by the U.S. government.

Perhaps most important, housing finance giants Freddie Mac and Fannie Mae were placed in conservatorship by the U.S. government to prevent their collapse in September 2008. Combined, these two government-created firms had lent or underwritten more than $5.3 trillion of the estimated $12 trillion in U.S. mortgages – or roughly 45 percent of the mortgage market. These events, combined with the collapse of the Lehman Brothers investment bank on September 15, 2008 and the federal rescue of AIG Insurance two days later, sent the financial markets into a harrowing dive. By December 1, 2008, the National Bureau of Economic Research announced what was already painfully obvious – the U.S. economy had been in a recession since December 2007.

The U.S. economy, which had been slowing since 2004, officially entered recession in December 2007. Chart 1 displays actual growth in real gross domestic product (GDP) from 2003 to 2009 and projected growth for 2010-2015.

Chart 1
REAL GROSS DOMESTIC PRODUCT
Annual Growth



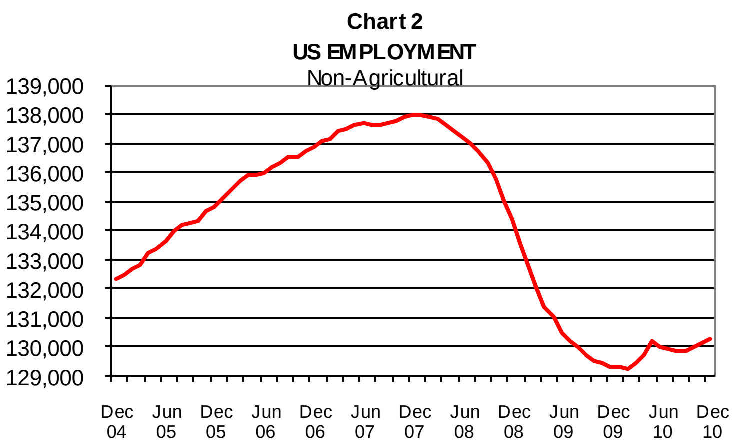
At 19 months, the most recent recession was the longest recession since the Great Depression, which lasted 43 months. It was also nearly double the 10-month length of the average postwar recession. Furthermore, the depth of the recession was much steeper than the two most recent recessions of 2001 and 1991, as peak-to-trough declines in real GDP exceeded those of the 1973-75 and 1980-82 recessions, when the peak-to-trough declines in real GDP were 3.1 percent and 2.6 percent, respectively. Furthermore, in the most recent recession the economic downturn was not confined to just the U.S. During 2009, the economic output of the entire world declined for the first time since the Great Depression.

The credit boom of the past decade masked a troubling trend: During that time, strong U.S. productivity growth coincided with declining real incomes for most Americans. The credit crisis likely dispelled the notion that the U.S. economy can expand while its manufacturing base dwindles. Before the most recent recession, the presumption had been that innovation and productivity gains would create wealth and new jobs. Between 2000 and 2010, growth in real GDP averaged 2.7 percent annually but, according to many calculations, U.S. consumers rang up nearly $3 trillion in excess borrowing and spending over the same period. Thus, the consumption that occurred over the past decade and that supported the economic expansion was made possible not by income growth but by consumer borrowing. Without this artificial boost to spending, real GDP would likely have been considerably lower.

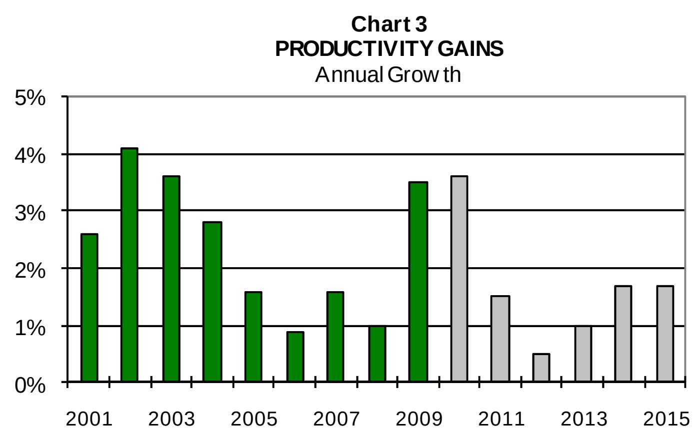
Similarly, the global economic boom was fueled by unsupported and out-of-control borrowing by consumers, businesses and nations. As such, the housing market was not the only sector of the global economy that was not in balance with its underlying fundamentals. Essentially, the entire economy was outspending its resources. Data from the federal Bureau of Labor Statistics supports this premise. Over the past 10 years, U.S. productivity has risen a total of 29.7 percent while real wages have grown only 2 percent. Real wages and salaries peaked in the U.S. in early 2003. Historically, real wages and productivity have gone up in tandem. Rampant borrowing and spending by consumers masked underlying problems in the economy. Excluding personal consumption, real economic growth averaged only 1.3 percent during the 10 years ending in 2007 –

the slowest rate since the 1950s. Therefore, if consumption had not been artificially inflated with excess borrowing, the economy would have appeared much weaker.

The recovery from the 2001 recession created nearly 7.2 million jobs. Chart 2 shows that there was significant growth in U.S. employment from 2004 to late 2007. After peaking in December 2007, employment levels began declining significantly. By the summer of 2008, job losses were occurring more frequently. Monthly claims for unemployment compensation were averaging 625,000 nationally from September 2008 through June 2009. All told, the U.S. economy lost nearly 7.5 million jobs during the most recent recession. These losses wiped out employment gains for the entire past decade. The growth in the U.S. unemployment rate accelerated significantly during 2009, rising from 7.4 percent in January 2009 to 10.1 percent by October 2009, before declining to 10.0 percent by December 2009.



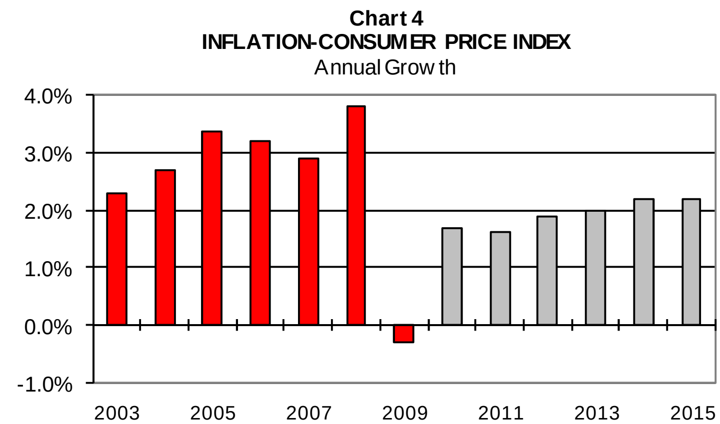
As the national economy entered recession in December 2007, businesses again were looking to gains in productivity to soften the impact. Chart 3 provides data on productivity gains from 2001 through 2009 and a forecast of productivity gains for 2010 through 2015. Gains in productivity achieved in 2005 through 2008 were well below the 3 percent to 4 percent annual gains seen during the last “jobless recovery” of the 2002-04 period. Once again, productivity gains were occurring at the expense of job creation, as productivity surged to 3.5 percent in 2009 and 3.6 percent in 2010.



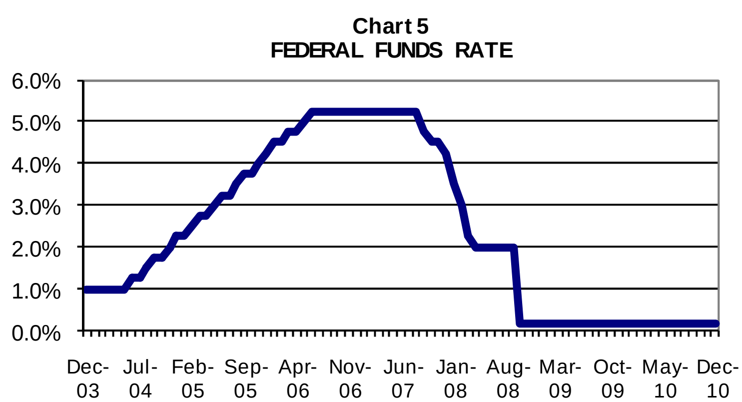
Rising energy prices in 2007 and early 2008 contributed greatly to the recent recession. Every postwar recession had been preceded by a spike in oil prices and the most recent recession was no different, as the price of a barrel of oil reached $150 by mid-2008. Led by surging energy costs, inflation peaked at 3.8 percent in 2008, as shown in Chart 4. The 2008 peak level of inflation was the highest rate since the 1991 recession, when it was 5.4 percent. Following the collapse of the credit and equity markets in the fall of 2008, consumption declined, wages were depressed and energy prices plunged 18 percent in 2009, resulting in an overall inflation rate of -0.3 percent in 2009.

A review of U.S. monetary period during this period shows the many actions the Federal Reserve Board (Fed) took to prevent a worse economic crisis. A slowing economy, lower job growth and a significant recession in the housing market had led the Fed to restart its interest rate cuts in an attempt to keep the broader U.S. economy out of recession during 2007. That year, the Fed lowered the federal funds rate by a full percentage point late in the year. The Fed started with a half-point reduction in the federal funds rate in September, followed by quarter-point reductions in October and December. Those reductions were combined with corresponding reductions in the discount rate – the rate the Federal Reserve charges to make direct loans to banks. Further, the Fed and the European Central Bank injected trillions of dollars and euros into the world financial markets to try to ease liquidity constraints and avoid a depression. By January 2008, the Fed dramatically lowered the federal funds rate by three-quarters of a point, in response to the deepening housing recession, the continued credit crunch and plunging global financial markets. The same day, the Fed also lowered the discount rate by a corresponding three-quarters of a point. The surprise rate cut was the first monetary policy action taken by the Federal Open Markets Committee between scheduled meetings since September 17, 2001. Chairman Ben Bernanke and the Federal Reserve continued to lower the federal funds rate throughout 2008, finally reaching “a target rate” of between 0.0 and 0.25 percent in December 2008, as shown in Chart 5.

Further, the Federal Reserve and other central banks throughout the world were busy injecting massive amounts of liquidity into the global financial system in an effort to avoid a depression, and the amount of fiscal stimulus was staggering. To date, the Fed and other U.S. agencies have lent, spent or guaranteed $8.2 trillion in emergency funds to stimulate the economy. The Fed dramatically expanded its balance sheet to inject more than $2.6 trillion in liquidity into the financial markets in order to stem the credit crisis. U.S. public debt has surged to $14.1 trillion through 2010, up $1.8 trillion from a year ago. Total U.S. public debt has nearly doubled since the start of the most recent recession, up from an average of $8.5 trillion in 2007.



Monetary policy efforts by the Federal Reserve were aimed at the financial markets generally and the mortgage industry in particular. Reductions to the federal funds rate, as shown in Chart 5, were extraordinary in scale and frequency. In December 2008 the Fed announced that it was dropping its target federal funds rate to a range of 0.0 to 0.25 percent – the lowest rate in the history of the Federal Reserve, which was founded in 1913. Additionally, the Fed also bought large volumes of “tainted mortgages” in an effort to stabilize the mortgage industry.



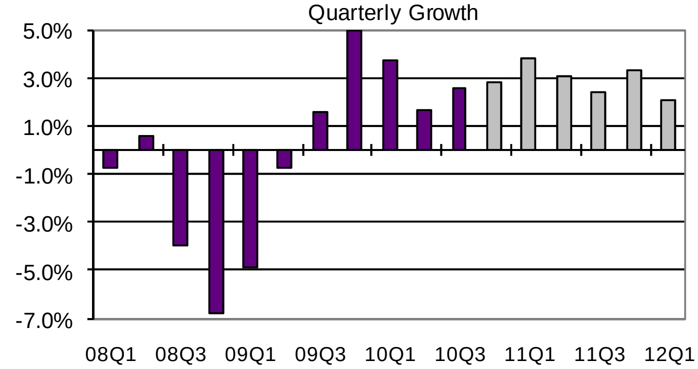
Previously, the Federal Reserve had concentrated on interest rate reductions as its main monetary policy tool. More recently, the Fed adopted a policy it calls “quantitative easing,” which pumped massive volumes of money into the financial system, nearly $3 trillion to date, affecting the rates of interest on virtually all credit instruments. The implied goal of the Fed was to provide cheaper credit to all parts of the economy, starting with housing. While the federal funds rate cannot go below zero, the Fed has virtually unlimited power to stimulate the economy with monetary policy by buying up mortgage-backed securities, Fannie Mae and Freddie

Mac corporate debt and other assets. Such actions have dramatically driven up the Fed's balance sheet, which currently stands at nearly $3 trillion, up from $900 billion in September 2008.

In addition to extensive monetary policy moves orchestrated by the Federal Reserve, the federal government was also aggressive in enacting new legislation to combat the recession. These actions began under President George W. Bush in 2008 and continued with the administration of President Barack Obama in 2009. With the U.S. economy in recession in early 2008, Congress enacted the Economic Stimulus Act of 2008. The act provided an estimated $152 billion in tax breaks and tax incentives for individuals and businesses. Additionally, the act attempted to assist the housing market by expanding the upper limit on home mortgages eligible for government insurance. Shortly after the stunning collapse of Lehman Brothers in September 2008, Congress enacted the Emergency Economic Stabilization Act of 2008, which created the Troubled Assets Relief Program or TARP. This program authorized the U.S. Treasury to purchase up to $700 billion in "troubled assets" – largely mortgage-backed securities – and to make direct investments into banks. Additional provisions of the act permitted the Federal Reserve to make higher interest payments to banks for deposits held in reserve. In response, banks immediately began to increase their reserves, from $10 billion in August 2008 to $880 billion by January 2009. Other programs enacted by Congress provided for mortgage and foreclosure assistance and an increase in federal insurance on bank deposits. In February 2009 Congress enacted the $787 billion American Recovery and Reinvestment Act to assist the economy. The act provides: $288 billion in tax relief ($237 billion for individuals and $51 billion for businesses); $144 billion in state and local government fiscal relief; $111 billion in enhanced infrastructure and science spending; $147.7 billion for health care benefits and programs; and $90 billion for enhanced education programs. Finally, in December 2010, the U.S. Congress passed legislation that President Obama signed into law to: 1) extend the Bush tax cuts for at least two more years; 2) enact a temporary, one-year 2 percent reduction in Social Security withholding taxes; 3) provide a further extension of unemployment benefits; and 4) provide an estate tax reduction, all in an attempt to further stimulate the economy.

Overall real GDP growth for 2009 was -2.6 percent for the year, as shown in Chart 1 earlier. The contraction of the U.S. economy during 2009, as measured by annual growth in real GDP, was the deepest since the Great Depression. Only eight other times since the Great Depression has annual real GDP growth been negative for a full year, and each such occurrence was associated with a recession. However, in seven of the eight instances, the annual contraction of real GDP was -0.5 percent or less. Only during the recession of 1982 did the annual loss in real GDP rival the -2.6 percent loss of 2009. In the depths of the 1982 recession, annual real GDP growth was -1.9 percent for 1982. An examination of real GDP on a quarterly basis, as shown in Chart 6, reveals that the depths of the most recent recession were reached in late 2008 and early 2009. Discounting the short-term effects of the 2008 tax rebates, the U.S. economy contracted in five of the six quarters between January 2008 and June 2009 (the term of the most recent recession). In particular, the economy experienced a 6.8 percent contraction in the fourth quarter of 2008 and a 4.9 percent contraction in the first quarter of 2009. This contraction of -6.8 percent during the fourth quarter of 2008 was the third-highest

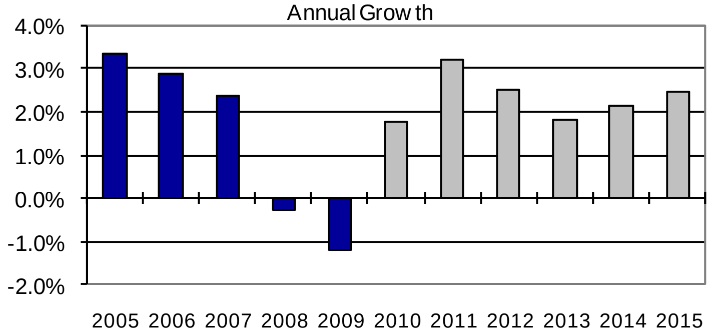
Chart 6
REAL GROSS DOMESTIC PRODUCT
Quarterly Growth



quarterly loss in the post-war era. The four continuous quarters of losses from September 2008 to June 2009 were the first time since the Great Depression that real GDP declined for four quarters.

Employment in the U.S. peaked in December 2007 just as the recession was beginning, as shown in Chart 3. After that, the number of lost jobs grew every month, reaching 820,000 in January 2009. During all of 2009, U.S. employers eliminated nearly 5.1 million jobs, cutting 3.9 million in the first six months of the year alone. These staggering job losses pushed the October 2009 unemployment figure to 10.1 percent, the highest figure since June 1983. As a result, the labor markets had not been so gloomy since the 1980-82 recession, when unemployment hit 10.8 percent. The loss of jobs was widespread throughout the economy but the manufacturing and construction sectors were hardest hit. During 2009, more than 1.5 million manufacturing jobs were lost and construction jobs were down nearly 1 million from 2008 levels. Slumping retail sales led to the loss of nearly 600,000 retail jobs since December 2008. The professional and business services sector lost nearly 1 million jobs in 2009. Employment in the financial services area fell by 400,000 jobs in 2009. In fact, the only major economic sector adding jobs in 2009 was health care, which added nearly 400,000 positions. During 2010, massive monthly job losses abated and the national economy managed to add a cumulative 900,000 jobs by the end of the year. However, job growth throughout 2010 was fitful as several early months of job creation were followed by months of net job losses. From March to May, 2010, the national economy generated an average of 300,000 new jobs per month. Fears of the European debt crises, rising energy costs and other factors conspired to weaken job creation during the second and third quarters of 2010. Four consecutive months of net job losses from June through September 2010 negatively impacted the economy. Job creation returned during the fourth quarter of 2010 as nearly 400,000 jobs were created nationally.

Chart 7
REAL PERSONAL CONSUMPTION EXPENDITURES
Annual Growth



Job losses, declines in household wealth and tighter credit were just a few of the factors adversely affecting consumer spending. Widely regarded as the main engine of the U.S. economy and accounting for fully two-thirds of GDP, consumer spending had been in a tailspin since the recession deepened in the summer of 2008. It is estimated that households had lost more than $14 trillion in net worth from the summer of 2007 through the end of 2009 due to falling home equity and stock prices. These stunning losses account for the large-scale retreat in consumer spending as shown in Chart 7, which shows the annual average growth in real personal consumption expenditures for the period 2005 through 2009, with forecasts for 2010 to 2015. With consumers no longer able to tap into growing equity in their homes and unemployment levels at 10 percent, consumer spending plunged in both 2008 and 2009. The 2009 decline was the largest since 1974. Furthermore, annual growth in real consumer expenditures had declined only twice before in the post-war period. Declines also occurred in 1974 and 1980, but in the post-war period there had never been two consecutive years of declines until 2008 and 2009.

The Forecast

In June 2009, the U.S. economy emerged from the longest and most severe economic recession since the Great Depression according to the National Bureau of Economic Research. During 2009, the economy contracted 2.6 percent – the largest such contraction in the post-war period. The economy contracted during five of the six quarters between January 1, 2008 and June 30, 2009, as shown in Chart 6. Moderate growth of 2.6 percent returned during the third quarter of 2010 and growth of 2.8 percent is estimated to have occurred during the fourth quarter of 2010. Stronger economic growth of 4.1 percent is forecast for the first quarter of 2011. Further, modest to healthy economic growth is forecast for the national economy through at least the second quarter of 2013, according to a combination of data from both IHS Global Insight and Moody's Economy.com economic forecasts.

Table 1

Forecast Change in
Key US Economic Indicators
Annual Percentage Growth*

Indicator	2009	2010p	2011p	2012p
Nominal GDP	-1.7	3.8	4.3	4.1
Real GDP	-2.6	2.9	3.2	2.9
Real Personal Consumption	-1.2	1.8	3.2	2.5
Corporate Profits (After Tax)	3.6	32.6	-23.6	4.9
Unemployment Rate (Rate)	9.3	9.7	9.3	8.7
CPI	-0.6	1.8	1.6	1.8
Federal Funds (Rate)	0.2	0.2	0.2	1.3

*Assumptions in this chart, as well as other assumptions, are incorporated in the 2011-12 fiscal year revenue estimates.

p=projected

Annual growth in real GDP is projected to have been 2.9 percent in 2010. A combination of data from both forecasting sources is highlighted in Table 1. This table presents actual data for 2009 and forecasts for the 2010-2012 periods for several national economic indicators. As noted, both real and nominal GDP contracted during 2009. Similarly, real personal consumption expenditures and inflation also contracted in 2009. The economy rebounded in 2010 and is projected to continue to expand through 2012 and beyond.

Declines in housing construction and housing finance led the economy into recession and, as the housing markets have likely bottomed out and begin to stabilize, the recovery is expected to continue to gain traction. Residential housing construction experienced annual declines of 23.2 percent and 38.4 percent in 2008 and 2009, respectively. The enactment of federal tax breaks for first-time homebuyers boosted activity during late 2009. The extension of these tax breaks into 2010 helped to boost activity during the first half of 2010 before a slowdown in the latter half of the year. For all of 2010, new housing starts grew 6.5 percent on an annual basis. Sales of existing homes rose in 2009 for the first time in four years, however, this growth was short-lived as sales of existing homes declined 5.7 percent in 2010. Median existing housing prices plunged nearly 12 percent in 2009 – the sharpest fall since the Great Depression. Overall median existing housing prices rose 0.1 percent in 2010 but are expected to fall again by 2.3 percent in 2011 before growing minimally in 2012 and 2013, at annual rates of 2.1 percent and 7.1 percent, respectively.

Declining wealth from home values and stock market losses in 2008 and 2009 had erased an estimated $14 trillion in household wealth since 2007, although 2010 stock market gains likely recouped about one-third of that loss. Nevertheless, the lingering effects of those losses, combined with declining real wages and persistently elevated unemployment, caused U.S. consumers to drastically reduce their spending during 2008 and 2009, as shown in Chart 7. Real consumer spending declined for two straight years through December 2009. During the post-war period, the nation has witnessed only two other years in which real consumer spending declined – 1974 and 1980 – and the decline in each of those years was precipitated by an energy crisis. While spending declined on an annual basis during 2009, the last two quarters of 2009 did provide positive growth as real consumer spending grew an estimated 2.9 percent and 1.7 percent, respectively.

Consumer spending began to gain traction during 2010, rising to an annual rate of 4.3 percent by the fourth quarter of 2010. Household purchases climbed at a rate of 4.4 percent during the last quarter of 2010, the largest increase in four years. The forecast for 2011 includes projected growth of 3.2 percent in real consumer expenditures. Beyond 2011, real consumer spending is expected to grow moderately, in the mid 2.0 percent range through 2015. These levels are well below the average annual growth in real consumer spending of 3.6 percent experienced from 1992-2007. It is expected that consumer spending will be constrained by chronically high unemployment, tight credit, diminished household wealth and potentially rising federal income tax rates in 2013.

Personal income growth experienced a similar annual decline in 2009, declining 1.9 percent. Despite elevated unemployment, growth in real personal income is expected to have returned in 2010, growing 1.3 percent annually. Stronger personal income growth is forecast from 2011 through 2015, as shown in Chart 10 below, as the economy continues to expand and as unemployment gradually eases.

The U.S. economy shed nearly 8.7 million jobs during 2008 and 2009. Nearly 5.1 million jobs were lost in 2009, with most of the losses occurring during the first two quarters. The U.S. unemployment rate peaked in October 2009 at 10.1 percent. Since that time, the unemployment rate has improved only minimally, remaining as high as 9.8 percent as late as November, 2010. Employment gains during December 2010 and January 2011 have reduced the unemployment rate to its current level of 9.0 percent. Despite the recent improvement in the unemployment rate, it has been 9 percent or higher since March 2009, the longest period of elevated joblessness since monthly records began in 1948.

Additionally, the unemployment rate provides only a partial snapshot of the tough U.S. labor market. The Bureau of Labor Statistics, the federal agency that tracks unemployment, conducts a monthly survey of households to determine the estimated level of unemployment in the U.S. To be counted as unemployed by the Bureau of Labor Statistics, one must be out of work but actively searching for work. Given the length of the most recent recession and the “jobless” recovery to date, approximately 2.5 million potential workers have given up on finding employment. This subset is termed “discouraged workers;” these workers are not even considered part of the labor force and thus are not counted as unemployed. If the unemployment rate included all 2.5 million discouraged workers, the unemployment rate would likely rise another 1.5 percent, from 9.0 to 10.5 percent in January 2011.

Further, consider that a significant portion of the U.S. labor force is counted as employed even though they are working only part-time because that is the only employment they can find. This portion of the labor force is called “labor underutilization” and currently numbers approximately 9 million persons. If these three categories the unemployed, the discouraged worker and the under-utilized worker are combined, the “unemployment” rate climbs to 17 percent – or approximately 26 million Americans.

Finally, the duration in which people remain unemployed is a significant issue impacting economic growth. Currently, more than 6 million people, or 41 percent, of the estimated 15 million unemployed Americans have been without a job for more than 27 weeks. In December 2007, when the most recent recession began, only 1.3 million were unemployed that long. An additional 1.3 million Americans have exhausted their maximum of 99 weeks of unemployment compensation and are receiving no government benefits but remain unemployed.

Economists agree that additional and sustainable gains in employment will be needed to ensure that U.S. consumers continue their recently elevated levels of spending. As during the previous recovery in 2003-2004, job growth will likely be minimal during the recovery. Unemployment rates are expected to remain elevated at 9.3 percent and 8.7 percent in 2011 and 2012, respectively. December 2007 saw peak employment at 138 million people and economists estimate that it will be at least until 2013 before that figure is reached again.

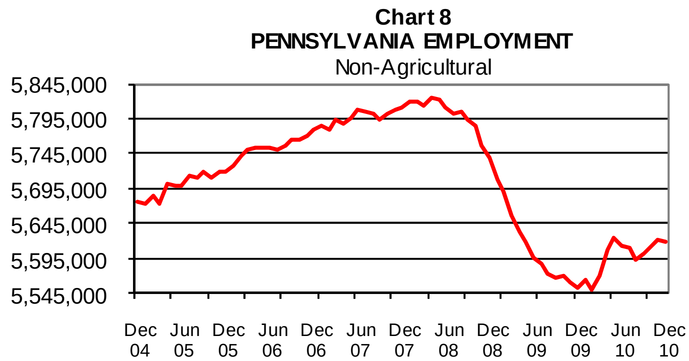
Current geo-political risks remain a significant risk to the economic forecast for growth in the near term. Political unrest has recently erupted in North Africa and has spread to the Middle East, toppling governments in Tunisia and Egypt and threatening to destabilize other countries such as Libya, Bahrain, Yemen, Algeria, Oman and Jordan. The unrest has caused a new shockwave in worldwide oil prices, pushing the benchmark for crude oil over $100 per barrel on concerns of supply disruptions. Oil prices have risen 7.4 percent since the start of 2011 and gasoline prices are up 10.7 percent. U.S. gasoline prices have been rising during the first quarter of 2011 and are at their highest levels since the last surge in oil prices in March 2008 – a surge that contributed greatly to the most recent recession. During January 2011, gasoline sales accounted for 10.3 percent of all retail sales in the U.S., marking their highest percentage of retail sales since October 2008. It is estimated that each 1 cent increase in the price of gasoline takes about $1 billion out of the pockets of consumers over the course of a year, leaving less money to spend on other goods and services. The biggest risk to the economy from climbing energy prices lies with consumers. Since consumer spending accounts for roughly 70 percent of real GDP, rising oil and gasoline prices could significantly moderate projected growth in consumer expenditures and real GDP in the near term.

Another risk to the short term forecast remains federal, state and local government spending. State and local government spending contracted at an annual pace of 2.4 percent during the fourth quarter of 2010. Continued governmental shortfalls indicate that additional cutbacks could be forthcoming. Recent changes in the makeup of the U.S. Congress raise the prospect of reduced levels of federal spending.

As noted previously, trillions of dollars were spent between 2007 and 2010 trying to keep the global economy from sinking into depression. Fears are now growing that the massive debt accumulated during the Great Recession will complicate any recovery for years to come. A consensus of economists believes that the Fed will not begin to raise interest rates until at least early 2012. At present, the recovery is too weak to risk raising interest rates, which could kill off any growth. The problem with raising interest rates in the current environment is knowing when to pull the trigger. Doing so too early would undermine the recovery and bring about a greater possibility of a double-dip recession. Waiting too long to raise interest rates could mean a flood of cheap money that could again fuel a new asset bubble. In addition, the Fed must begin to unwind more than a half-dozen lending and market-support programs currently in place, including its first “quantitative easing” program initiated in 2008. It also must drain more than a trillion dollars in excess reserves it has added to the system in the past few years. In response to slow progress on job creation, the Fed recently announced its plans to further bolster the recovery through another round of large-scale asset purchases. This latest program, announced in August 2010 and euphemistically termed “QEII” or “quantitative easing II,” involves an additional purchase of $600 billion in long-term U.S. Treasuries by the Fed. The goal of QEII is to spark a modest level of inflation to encourage business to begin to hire additional workers. This policy assumes that increased employment would then lead to increased consumption, and a self-sustaining economy recovery would follow.

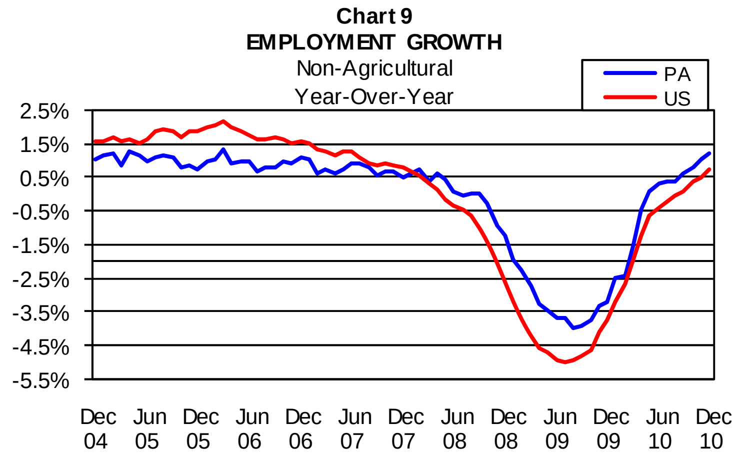
Pennsylvania Outlook

The commonwealth's economic performance is largely dependent upon job growth. Pennsylvania's labor market, specifically the non-agricultural sectors, experienced considerable growth from January 2004 through December 2007 as nearly 200,000 jobs were created within the commonwealth. Continued job creation, combined with somewhat slower growth in the overall labor force, produced a decline in Pennsylvania's unemployment rate, to a low of 3.8 percent in March 2007. As the U.S. and state economies entered into recession in late 2007, employment in the commonwealth peaked in January 2008 at 5.811 million non-agricultural jobs. During the most recent recession, which officially lasted from December 2007 until June 2009, Pennsylvania lost nearly 214,000 jobs. The loss of jobs in Pennsylvania started slowly in early 2008 and initially was measured in a few thousand per month, as shown in Chart 8. Beginning in the fall of 2008, job losses began to accelerate, with 26,000 jobs lost in November and 28,000 jobs lost in December 2008. This reduction in jobs was the largest 12-month drop since the 1991 recession. Heavy job losses continued during February through April 2009, as an average of 31,000 jobs were lost in the commonwealth monthly. However, Pennsylvania's 12-month job loss (as measured from August 2008 to October 2009) rate of -3.2 percent was still better than the national average of -3.9 percent. Nationally, Pennsylvania ranked 23rd best in terms of fewest job losses during the most recent recession – placing it just above the middle of the 50-state ranking.. In December 2009, the commonwealth's unemployment rate was 8.9 percent, its highest level since August 1984, while the national unemployment rate for December 2009 was 10 percent. Since that time, the commonwealth's unemployment rate has risen as high as 9.3 percent in July 2010 and the national unemployment rate has topped out at 10.1 percent in October 2010. Pennsylvania's unemployment rate has traditionally been equal to or below the national average following the diversification of the commonwealth economy in the 1980's and 1990's. The commonwealth's unemployment rate is forecast to drop below 9 percent in 2011 and below 8 percent in 2012.



Pennsylvania's fiscal year 2009 job losses were lower than the national average, and remained less steep than those of the surrounding states of New Jersey, Delaware and Ohio. Further, among the ten largest states, only Texas, New York and Pennsylvania lost jobs at rates lower than the national average. As job losses were more subdued in Pennsylvania in 2008 and 2009, the commonwealth moved up to 19th in the ranking of average annual state growth in employment (with the first being the best). During 2010, the commonwealth percent change in employment was good enough to move the state up to 13th nationally. Pennsylvania has traditionally been around 40th or below in this ranking, particularly during periods of strong job creation. The comparatively strong ranking, however, is somewhat deceptive: While the state does not generally produce as many new jobs when the economy is going strong, the commonwealth also does not suffer as much as the rest of the country as a whole during periods of economic contraction, as shown in Charts 9 and 10.

This pattern has been evident since the 1990s, following the significant diversification of the Pennsylvania economy in the previous 30 years. A reduced reliance upon manufacturing and mining employment has been part of this trend, along with the expansion of education and health care-related jobs in the commonwealth. Both of these sectors are less prone to recessions.



Employment in the commonwealth saw job losses across all sectors in 2009 except for the educational and health services sectors – which had job growth of 2.0 percent in 2009, and the government sector – which had job growth of 0.1 percent in 2009. The manufacturing and information technology sectors had the worst year-over-year rate of job losses in Pennsylvania in 2009, with manufacturing jobs down 10.3 percent and information technology jobs down 6.6 percent. The construction, natural resources and mining, financial services, and professional and business services sectors also saw significant job losses in 2009, with each sector experiencing year-over-year job losses in excess of 5.4 percent. Similar employment trends continued within the commonwealth during 2010 as most sectors saw declines in employment. The exceptions were the education and health services sector and the leisure and hospitality service sector which had gains of 1.1 percent and 2.3 percent respectively in 2010. The construction, manufacturing and financial services sectors experienced the largest year-over-year declines in employment during 2010: at -2.1 percent, -2.8 percent and -3.0 percent, respectively. The trade and transportation sector and information services also saw job losses during 2010.

As the national economic recovery gains strength, the annual growth in employment levels in Pennsylvania is forecast at 1.5 percent in 2011, while the U.S. employment growth is expected to be 1.3 percent in 2011. Slightly more robust job growth of 1.8 percent is forecast for the commonwealth in 2012. As the national economy gains further strength, the rate of job growth in Pennsylvania is expected to again lag behind the national average beginning in 2012. Total peak-to-trough job losses for the commonwealth during the most recent recession were an estimated 271,000 and the state unemployment rate peaked at 9.3 percent during July 2010. According to forecasts from IHS Global Insight, the commonwealth's unemployment rate is expected to decline to an average 8.1 percent during 2011. Employment levels in Pennsylvania are not expected to surpass the pre-recession peak of 5.811 million until mid-2012, according to current forecasts.

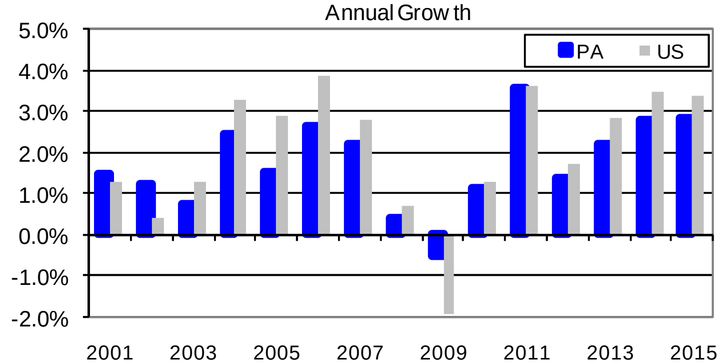
Housing construction bottomed out in Pennsylvania in 2009, down from a high of 45,000 new units in 2005 to just over 16,000 units in 2009. During 2010, new housing starts rebounded in the commonwealth, growing to nearly 20,000 – or a 21.2 percent increase from the prior year. Economic forecasts project that housing starts will continue to grow in 2011 at an annual growth rate of 14.7 percent, followed by more robust growth of 27.8 percent in 2012. The rate of sales of existing homes, which declined by 17.5 percent during 2008, slowed to an annual decline of 0.2 percent in 2009. Sales of existing homes weakened further during 2010, declining 7.7 percent from the prior year. Economic projections indicate a slow start to a sales rebound, with growth of 1.5 percent forecast in 2011, followed by stronger growth projected in 2012 through 2014.

Pennsylvania has weathered the bursting of the housing bubble better than most other states. The commonwealth ranks 29th in the country in loans in foreclosure and 40th in the nation in terms of new loan foreclosures initiated in 2010. Further, while home prices had been falling dramatically throughout the nation, home price appreciation in Pennsylvania has essentially stalled from 2007 to 2010. Home prices in the commonwealth are forecast to decline minimally in 2011 before home values begin to appreciate in 2012.

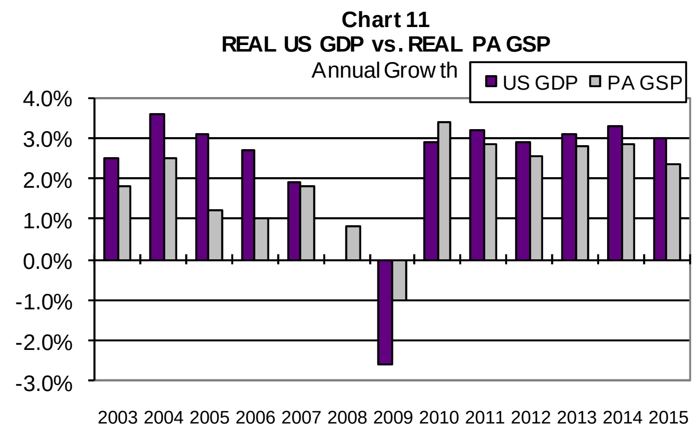
Pennsylvania-based energy and mining firms historically led the nation during much of the past two centuries before falling on hard times in the 1980s. Escalating oil and natural gas prices have contributed to increased exploration for new energy reserves. While mining activity has declined significantly within the commonwealth, the emergence of the Marcellus Shale natural gas reserves under much of Pennsylvania is leading to a resurgence in the industry. The Marcellus Shale natural gas field could be the second-largest natural gas field in the world and producers are spending billions in the commonwealth to increase production. Over 1,000 drilling permits have been granted in Pennsylvania in 2010, more than double the rate approved in 2008. Estimated job creation tied to the expanded natural gas industry is forecast to add upwards of 200,000 jobs and more than $18 billion in output to the state economy by the end of the decade. An illustration of this economic growth potential from Marcellus Shale is being played out in housing prices in the greater Williamsport area, which saw its housing price index grow 8.38 percent in 2010. This growth was second in the nation to only the Texas city of Laredo, which grew 9.52 percent in 2010.

The inverse relationship of the U.S. and the commonwealth growth in personal income re-emerged during the recent recession. Chart 10 plots actual and projected annual real personal income growth for Pennsylvania and the United States for the years 2001 through 2015. As shown, growth in Pennsylvania real personal income exceeded the national average during the 2001 recession and the subsequent "jobless-recovery" period through mid-2003. As the national economy gained traction in late 2003, personal income in the U.S. began to exceed the Pennsylvania average – although Pennsylvania's personal income growth remained strong and positive. As the most recent recession deepened, the rate of growth in real personal income plunged for the nation as a whole, as it did for the commonwealth. However, the decline in the rate of growth was less severe for Pennsylvania than for the rest of the nation. In fact, the commonwealth ranked 12th in the nation in terms of the percent change in personal income during 2008. For all of 2009, Pennsylvania's rate of growth in real personal income declined only one-quarter of the amount that it did in the nation as a whole – a drop of -0.5 percent for Pennsylvania versus -1.9 percent for the nation. During 2010, the commonwealth's growth in real personal income mirrored that of the nation at approximately 1.2 to 1.3 percent. Pennsylvania ranked 25th in the nation in terms of its rate of growth in personal income during 2010. This strong performance is partially the result of the diversification of the Pennsylvania economy and a stronger state labor market. The growth of less recession-prone industries such as health care, pharmaceuticals, education and government has also aided the commonwealth.

Chart 10
PA AND US REAL PERSONAL INCOME
Annual Growth



The short-term outlook for Pennsylvania is that its economy remains heavily dependent on the national economy. Economic growth in Pennsylvania has a high correlation with growth in the U.S. economy, as illustrated in Chart 11. As with trends in real personal income during expansionary periods, Pennsylvania's gross state product lags behind the rate of growth in U.S. gross domestic product. The greatest recent gap between the two rates of growth was in 2006. Since then, the commonwealth's rate of growth in gross state product has steadily gained on the rate of growth in U.S. gross domestic product. The commonwealth has actually outperformed the national economy during the three most recent years. During 2008, the commonwealth's economy grew at an annual rate of 0.8 percent while the national economy failed to grow at all, returning a growth rate for 2008 of 0.0 percent. Similarly, during 2009, the state economy again outperformed the national economy by recording a lower loss – -1.0 percent for the commonwealth versus -2.6 percent for the broader U.S. economy. Finally, during 2010 the commonwealth's economy expanded at a rate of 3.4 percent versus 2.9 percent for the nationally economy. As the economic recovery gains strength, the gap between the two rates of growth is expected to re-emerge beginning in 2011 and continuing through at least 2015. However, the commonwealth's economy is expected to expand generally at the same rate as the national economy, lagging behind by an average of 0.5 percent per year through 2015.



Reprinted from the 2011-12 Governor's Executive Budget, pp. A1.23-A1.34

Economic Indicators [1/]

Quarterly Comparisons

	2011.1	2011.2	2011.3	2011.4	2012.1	2012.2
Percent Change Versus Year Ago In						
Nominal GDP	4.4	4.5	4.2	4.4	3.8	3.9
Real GDP $05	3.0	3.3	3.3	3.2	2.7	2.7
GDP Price Index	1.4	1.1	0.8	1.2	1.1	1.2
Consumption	4.0	4.6	5.0	4.6	4.4	4.2
Business Investment	9.4	8.6	8.9	11.3	9.4	7.7
PA Wages & Salaries	5.1	4.9	5.3	5.2	5.1	4.9
3-Month T-Bill Rate	0.1	0.3	0.5	0.9	1.4	1.9
PA Unemployment Rate	8.9	8.6	8.4	8.2	8.0	7.8

Annual Comparisons

				Predicted June of 2010	
Percent Change In:	2010	2011	2012	2010	2011
Nominal GDP	3.8	4.3	4.1	4.4	4.3
Real GDP $05	2.9	3.2	2.9	3.4	2.8
GDP Price Index	0.9	1.1	1.2	1.0	1.5
Consumption	3.5	4.5	4.1	4.2	4.6
Business Investment	3.2	9.6	7.9	1.0	6.9
PA Wages & Salaries	2.3	5.1	4.8	2.4	4.9
3-Month T-Bill Rate	0.1	0.3	1.4	0.2	1.3
PA Unemployment Rate	8.9	8.1	7.5	8.8	7.7

[1/] Global Insight, US Macro Forecast, January 2011 Standard Scenario and June 2010 Standard Scenario.
PA Regional Forecast, January 2011 Standard Scenario and June 2010 Standard Scenario.

For the 2010-11 revised and 2011-12 budget estimates, three types of models were used: (1) econometric, (2) structural and (3) combined structural and econometric models. An econometric model assumes that tax revenues are a function of one or more economic factors. An example of such a model is the realty transfer tax model. Structural models forecast revenue based on the statutory requirements, on the timing of tax remittances, and on projected changes in aggregate liabilities. Projected changes in tax liabilities are estimated either from economic data or from historic patterns.

Econometric models are estimated using least squares regression. Regression analysis assumes a linear relationship where the dependent variable, y, equals the sum of the products of independent variables, x_n, and their respective coefficients, β_n, plus an error term, e:

$$y = \beta_0 + \beta_1 x_1 + ... + \beta_n x_n + e \, .$$

A regression equation, $y = \beta_0 + \beta_1 x_1 + ... + \beta_n x_n + e$, differs from the true equation by the error term, e. The method of least squares regression estimates values for the coefficients β_0, β_1, ..., β_n such that the sum of the squared error terms is minimized. Once a regression equation is determined, a projection of future estimates may be derived using forecasts of the independent variables.

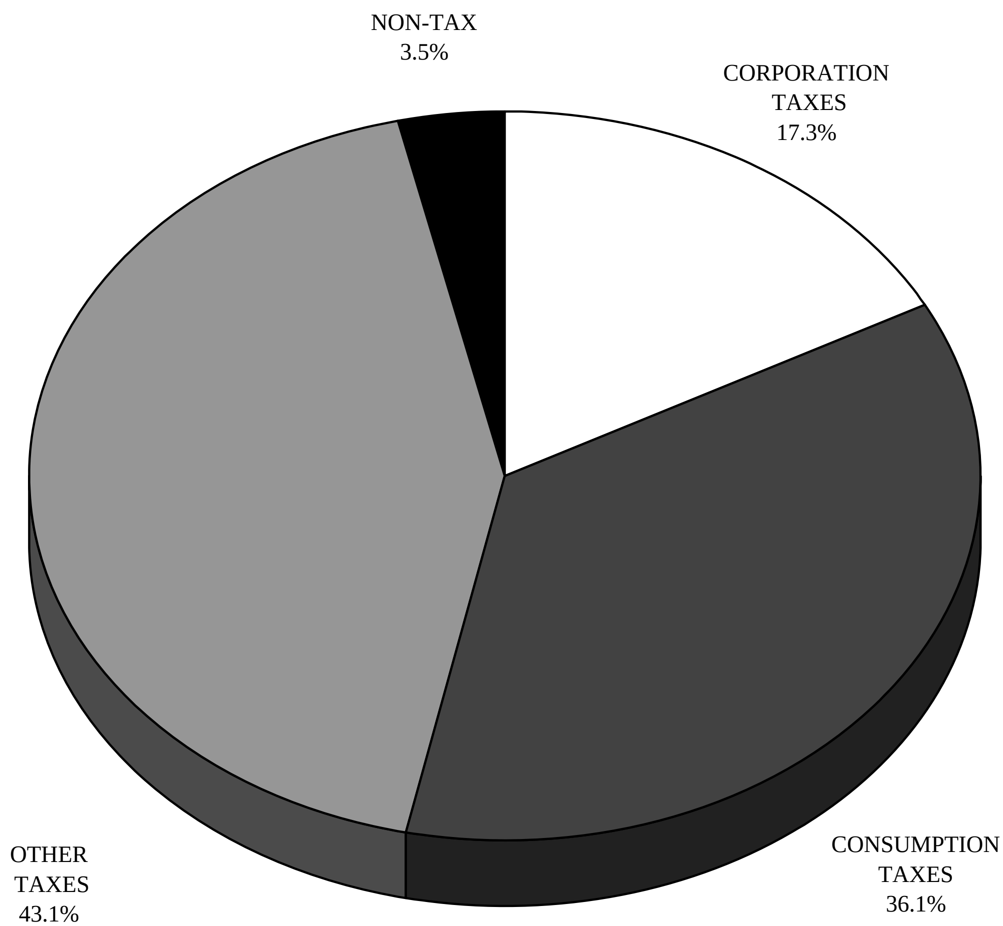
Certain econometric models need to be adjusted for a serial correlation bias. The autoregressive coefficient of the residual, ρ (rho), is used to adjust these forecasts. The corrected forecast equals:

$$\mathit{Forecast\ Value}_{n+t} + (e_n \times \rho^t),$$

where t equals the number of observations into the forecast period and n equals the last period of actual data. All models, for which a value of ρ is given, are adjusted to correct for a serial correlation bias.

GENERAL FUND REVENUE

Fiscal Year 2011-12



CAPITAL STOCK AND FRANCHISE TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2004-05	1,025.9	4.2%
2005-06	1,080.9	5.4%
2006-07	1,000.0	-7.5%
2007-08	1,019.9	2.0%
2008-09	787.7	-22.8%
2009-10	761.2	-3.4%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2010-11	822.5	8.1%
2011-12	755.9	-8.1%
2012-13	478.2	-36.7%
2013-14	212.9	-55.5%
2014-15	64.0	-69.9%
2015-16	35.3	-44.8%

MODEL: Econometric and Structural

EQUATION: *PAYMENTS = 2.2663 ZBAVE – 221.4392*

VARIABLES:

PAYMENTS - Annual CSFT payments. These amounts are rate adjusted to 12.75 mills.

ZBAVE - 5 year moving average of annual US corporate profits.

STATISTICS:

$\bar{R}^2$ = 0.890 DF = 12

F = 106.65 N = 14

COEFFICIENT T-STATS:

β_0 = 10.33 β_1 = -1.33

The estimates result from an econometric approach that uses tax year liabilities rate adjusted to 12.75 mills to predict annual capital stock and franchise tax. These standardized growth rates are then utilized in the structural cash flow model.

CAPITAL STOCK AND FRANCHISE TAX (Cont'd)

The cash flow model applies the growth rates from the econometric model to a tax year cash liability number (i.e., sum of cash payments in a tax year) with appropriate tax rates applied. The tax year cash liability numbers are transformed into a fiscal year cash flow with appropriate adjustments for tax base and apportionment changes affecting tax year 1995 and later.

Act 89-2002 suspended the CSFT transfers to the Hazardous Sites Cleanup Fund unless the Fund balance falls below $5 million. Act 77-2007 reinstated the transfers to the Hazardous Sites Cleanup Fund. Beginning in fiscal year 2008-09, the minimum of $40 million or all revenues collected under Article VI will be transferred.

Act 48-2009 set the CSFT rate at the following levels per tax year:

2009	2.89
2010	2.89
2011	2.89
2012	1.89
2013	0.89
2014	0.00

The Act also increased the standard deduction used in calculating the Capital Stock and Franchise Tax to $160,000.

In addition, Act 48 of 2009 created a tax amnesty program that increased collections in 2009-10.

Please refer to the Legislative Overview section for more details on other legislative changes affecting CSFT.

The Governor’s Executive Budget proposes the following changes to the tax credit programs for fiscal years 2011-12 and beyond:

Research and Development: the cap is increased from $40 to $55 million
Film Production: the cap is decreased from $75 to $60 million
Job Creation: the cap is decreased from $22.5 to $10.1 million

These changes are reflected in the above estimates.

CIGARETTE TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2004-05	784.4	-8.4%
2005-06	792.1	1.0%
2006-07	778.6	-1.7%
2007-08	784.0	0.7%
2008-09	754.2	-3.8%
2009-10	976.1	29.4%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2010-11	1,081.6	10.8%
2011-12	1,081.6	0.0%
2012-13	1,082.7	0.1%
2013-14	1,083.8	0.1%
2014-15	1,084.9	0.1%
2015-16	1,086.0	0.1%

MODEL: Structural

Act 48-2009 increased the cigarette tax rate to 8 cents per cigarette and included a floor tax due ninety days after the effective date of the Act. In addition, the definition of cigarette was expanded to include little cigars, weighing less than four pounds per thousand.

Beginning in fiscal year 2002-03, a fixed amount of $30,730,000 is transferred to CHIP and a fixed amount of $20,485,000 is transferred to ACEP each year via two equal semi-annual payments in January and July. Act 48-2009 repealed the 18.52 percent transfer of proceeds from cigarette tax receipts to the Health Care Provider Retention Account. In addition, Act 48 of 2009 created a tax amnesty program that increased collections in 2009-10.

CORPORATE NET INCOME TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2004-05	1,921.4	14.5%
2005-06	2,237.0	16.4%
2006-07	2,492.5	11.4%
2007-08	2,417.6	3.0%
2008-09	1,979.9	-18.1%
2009-10	1,791.0	-9.5%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2010-11	1,853.9	3.5%
2011-12	2,031.4	9.6%
2012-13	2,293.1	12.9%
2013-14	2,235.8	-2.5%
2014-15	2,105.9	-5.8%
2015-16	2,099.7	-0.3%

MODEL: Econometric and Structural

EQUATION: $\ln CNI = 0.9256 \ln PROFITS - 0.2252\ UTDUM + 1.4359$

VARIABLES:

CNI - Corporate net income tax receipts on a tax year basis for all corporations. These receipts have been adjusted to reflect an equally-weighted (33.3%) sales factor, no net operating loss provision, and a rate of 9.99%.

PROFITS - Annual US corporate profits.

UTDUM - Dummy variable that controls for the deregulation of utility companies.

STATISTICS:

$\bar{R}^2$	=	0.937	DF	=	16
F	=	134.71	N	=	19

COEFFICIENT T-STATS:

β_0	=	13.66	β_1	=	-4.26
β_2	=	3.26			

CORPORATE NET INCOME TAX (Cont'd)

The regression equation predicts tax year revenues for all corporations. These revenues are at a constant rate and are adjusted to exclude the impact of the changing treatment of net operating loss (NOL) carryforwards and the sales factor in the apportionment formula. Act 116-2006 increased the cap for net operating losses to the greater of 12.5% of taxable income or $3 million, and the sales factor used in the apportionment formula was changed to 70%. Act 48-2009 increased the cap for net operating losses to the great of 15% or $3 million, and the sales factor to 83% for tax year 2009. For tax years 2010 and beyond, Act 48-2009 increased the cap for net operating losses to the greater of 20% or $3 million, and the sales factor used in the apportionment formula to 90%. In addition, Act 48 of 2009 created a tax amnesty program that increased collections in 2009-10.

The UTDUM variable is incorporated for tax years following the deregulation of the utility industry. The addition of this variable controls for the deregulation and the subsequent restructuring of these companies. This variable is introduced into the econometric portion of the calculation for tax years 2001 and beyond.

A structural model is used to convert the tax year payments at constant rates to payments at rates, NOL provisions, and apportionment formulas applicable under current law. This model adjusts for any impact of federal tax law changes. The model then transforms tax year payments into fiscal year cash collections.

The Governor’s Executive Budget proposes the following changes to the tax credit programs for fiscal years 2011-12 and beyond:

Research and Development: the cap is increased from $40 to $55 million
Film Production: the cap is decreased from $75 to $60 million
Job Creation: the cap is decreased from $22.5 to $10.1 million

These changes are reflected in the above estimates.

FINANCIAL INSTITUTIONS TAXES

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2004-05	208.9	-4.0%
2005-06	204.7	-2.0%
2006-07	213.6	4.3%
2007-08	191.9	-10.2%
2008-09	198.5	3.4%
2009-10	222.8	12.2%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2010-11	224.2	0.6%
2011-12	225.8	0.7%
2012-13	227.8	0.9%
2013-14	226.6	-0.5%
2014-15	221.6	-2.2%
2015-16	215.0	-3.0%

EQUATION: *FIT = MTIT + BST*

VARIABLES:

FIT - Financial Institutions Tax

MTIT - Mutual Thrift Institutions Tax

BST - Bank and Trust Company Shares Tax and Title Insurance Company Shares Tax

MUTUAL THRIFT INSTITUTIONS TAX

MODEL: Structural

The mutual thrift institutions tax (MTIT) structural model estimates are flat during the projection period. MTIT collections are expected to remain flat for a number of reasons.

Little or no expansion is expected within the industry in the forecast period as the past trend in mergers and acquisitions has yielded to appeal litigation seeking to reduce or eliminate the tax liability of some taxpayers. Any successful appeals will decrease the MTIT base, thus no growth is projected over the forecast period.

Also, aggressive tax planning on the part of taxpayers is another reason for holding the forecasted MTIT flat. Shifting items between related companies or from one state to another can decrease the amount of tax due to Pennsylvania, thus reducing the MTIT collections.

Act 48-2009 created a tax amnesty program that increased collections in 2009-10.

FINANCIAL INSTITUTIONS TAX (Cont'd)

SHARES TAX

MODEL: Econometric

EQUATION: $BANKTAX = -\ 0.0378\ GDP + 0.0326\ SAV + 20.8495\ TIME + 280.0950$

VARIABLES:

BANKTAX	-	Fiscal year bank shares tax collections.
GDP	-	Gross domestic product, fiscal year level.
SAV	-	Gross savings, fiscal year level.
TIME	-	Time variable, increments of one.

STATISTICS:

$\bar{R}^2$	=	0.935	*DF*	=	16
F	=	92.273	*N*	=	20

COEFFICIENT T-STATS:

β_0	=	-6.97	β_1	=	3.98
β_2	=	7.87	β_3	=	10.31

The bank shares tax estimate results from an econometric approach using US gross domestic product and gross savings annual rates as well as a time variable to model the bank shares tax collections.

Act 48-2009 created a tax amnesty program that increased collections in 2009-10.

FINES, PENALTIES, AND INTEREST

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2004-05	32.0	-8.8%
2005-06	35.5	11.0%
2006-07	41.7	17.5%
2007-08	48.5	16.3%
2008-09	20.0	-58.8%
2009-10	26.5	32.5%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2010-11	19.1	-28.0%
2011-12	19.1	0.0%
2012-13	19.1	0.0%
2013-14	19.1	0.0%
2014-15	19.1	0.0%
2015-16	19.1	0.0%

These revenue estimates have two sources. Fines, penalties, and interest on taxes collected by the Department of Revenue have been estimated for the current fiscal year based on actual collections to date. The fines, penalties, and interest included here are those associated with corporation taxes. A small portion of other fines and penalties revenue is collected by several different departments. Each of these departments prepares estimates which are reviewed and totaled by the Department of Revenue.

GROSS RECEIPTS TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2004-05	1,125.9	11.2%
2005-06	1,151.0	2.2%
2006-07	1,293.3	12.4%
2007-08	1,348.9	4.3%
2008-09	1,376.8	2.1%
2009-10	1,286.7	-6.5%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2010-11	1,220.3	-5.2%
2011-12	1,336.2	9.5%
2012-13	1,366.6	2.3%
2013-14	1,450.5	6.1%
2014-15	1,401.8	-3.4%
2015-16	1,393.3	-0.6%

MODEL: Structural

These estimates are derived from a database of gross receipts tax history and liability predictions as well as economic data. The estimates are prepared on a sector-by-sector basis: electric, telephone and transportation. The telephone sector is then further broken down into collections from intrastate, interstate, and wireless telecommunications services. Total predicted liabilities are transformed to a fiscal year payment basis to obtain the receipts forecast.

Act 89-2002 provides for a gross receipts tax (GRT) surcharge if refunds for public utility realty tax (PURTA) appeals exceed $5 million in any fiscal year. The surcharge is calculated based on the amount of PURTA refunds during the prior fiscal year. These changes are effective January 1, 2003.

The following table shows the GRT surcharge by tax year:

2004	0.0 mills
2005	0.6 mills
2006	0.0 mills
2007	1.2 mills
2008	2.8 mills
2009	0.0 mills
2010	0.0 mills
2011	1.6 mills

Another factor having a significant impact on the GRT forecast is the fact that electric generation rate caps are expiring in 2010 and 2011 for the five largest electric distribution companies. The impact of the rate caps expiration is considered in the forecast.

Act 48-2009 created a tax amnesty program that increased collections in 2009-10.

INHERITANCE TAX

HISTORICAL DATA $ Millions			FORECASTED DATA $ Millions		
Year	**Receipts**	**Growth**	**Year**	**Receipts**	**Growth**
2004-05	716.1	-4.2%	2010-11	765.0	1.5%
2005-06	745.2	4.1%	2011-12	800.7	4.7%
2006-07	756.6	1.5%	2012-13	839.9	4.9%
2007-08	828.6	9.5%	2013-14	1,040.6	23.9%
2008-09	772.2	-6.8%	2014-15	1,137.4	9.3%
2009-10	753.8	-2.4%	2015-16	1,207.9	6.2%

MODEL: Econometric and Structural

EQUATION: $ASSETS = 0\ .7238\ GDP + 1.9289\ SP + 763.0275$

VARIABLES:

ASSETS - Assets subject to tax at the time of death.

GDP - Annual gross domestic product in current dollars.

SP - Annual Standard and Poor's Index of Common Stocks.

STATISTICS:

$\bar{R}^2$ = 0.989 DF = 16

F = 796.08 N = 19

COEFFICIENT T-STATS:

β_0 = 15.39 β_1 = 5.76

β_2 = 3.01

INHERITANCE TAX (Cont'd)

These estimates result from an econometric model that utilizes US gross domestic product and the Standard and Poor's Index to predict Pennsylvania taxable assets by year of death.

A structural model is used to distribute taxable assets by date of death. Those assets are then divided into transfer classes and distributed into the proper fiscal years. The appropriate tax rate is then applied to the taxable assets in order to estimate fiscal year cash payments.

The passage of the Federal Economic Growth and Tax Relief Reconciliation Act of 2001 eliminated the basis of the Pennsylvania estate tax by establishing a phase-out schedule for the federal credit for state death taxes. The Act phased-out the federal credit by 2005, thus eliminating Pennsylvania estate tax collections by 2007-08. The Act was set to expire in 2011, but passage of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extended the expiration to 2013. At this time, the federal credit for state death taxes will return along with the Pennsylvania estate tax. Estate tax collections are expected to be minimal in 2012-13 and increase more dramatically in 2013-14. Estate taxes are forecasted separately using the US gross domestic product. The phase-out of the federal credit and its eventual expiration are accounted for using a structural model based on historical cash flow.

Act 48-2009 created a tax amnesty program that increased collections in 2009-10.

INSURANCE PREMIUMS TAX

HISTORICAL DATA

$ Millions

Year	Receipts	Growth
2004-05	410.7	5.1%
2005-06	390.4	-4.9%
2006-07	412.5	5.7%
2007-08	418.2	1.4%
2008-09	431.5	3.2%
2009-10	459.5	6.5%

FORECASTED DATA

$ Millions

Year	Receipts	Growth
2010-11	423.7	-7.8%
2011-12	432.5	2.1%
2012-13	446.6	3.3%
2013-14	462.9	3.6%
2014-15	474.2	2.4%
2015-16	488.2	3.0%

MODEL: Econometric and Structural

EQUATION: *PAYMENTS = 0.8171 OTHERINC + 24.8892*

VARIABLES:

PAYMENTS - Total tax year insurance premiums tax receipts.

OTHERINC - Other labor income excluding health benefits.

STATISTICS:

$\bar{R}^2$ = 0.939 DF = 16

F = 260.98 N = 18

COEFFICIENT T-STATS:

β_0 = 16.15 β_1 = 1.40

The regression equation predicts tax year payments. A regression is also used to forecast tax liability by tax year. A structural model then transforms tax year payments and liabilities into regular and estimated payments that are distributed to the appropriate fiscal years.

In the summer of 2009, refunds were given to insurance companies by the Pennsylvania Life and Health Insurance Guarantee Association (PLHIGA) for prior assessments paid to PLHIGA. These assessments originally generated PLHIGA tax credits that offset insurance premiums tax (IPT) liabilities. The entities receiving a refund returned the credits generated by these assessments to the Commonwealth in the form of IPT collections, creating a spike in revenue during fiscal year 2009-10. In addition, Act 48 of 2009 created a tax amnesty program that increased collections in 2009-10.

LICENSES, FEES, AND MISCELLANEOUS

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2004-05	509.1	-26.9%
2005-06	368.6	-27.6%
2006-07	573.6	55.6%
2007-08	506.5	-11.7%
2008-09	90.2	-82.2%
2009-10	2,606.7	2789.9%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2010-11	910.3	-65.1%
2011-12	540.0	-40.7%
2012-13	395.7	-26.7%
2013-14	331.6	-16.2%
2014-15	312.7	-5.7%
2015-16	315.7	1.0%

This category consists mainly of revenues from the sale of licenses, the collection of fees from numerous sources, transfers from other funds, and interest earned on General Fund deposits.

Act 10A-2009 established that, in 2009-10, amounts from the following sources would be transferred to the General Fund: Higher Education Assistance Fund; Keystone Recreation, Park and Conservation Fund; Dog Law Restricted Revenue Account; Oil & Gas Lease Fund.

Act 48-2009 established that, in 2009-10, the residual balance in the Health Care Provider Retention Account would be transferred to the General Fund. In addition, Act 48 of 2009 created a tax amnesty program that increased collections in 2009-10.

Act 50-2009 established that, in 2009-10 and 2010-11, amounts from the following sources would be transferred to the General Fund: Health Care Cost Containment Council; Tobacco Settlement Fund; Tobacco Endowment for Long-Term Hope; Health Care Provider Retention Account; Medical Care Availability and Reduction of Error Fund; Budget Stabilization Reserve Fund.

Act 1-2010 established various fees related to table games, including a table games certificate fee and supplier and manufacturer license fees. In addition, it established transfers from the Pennsylvania Race Horse Development Fund and a one-time transfer from amounts previously appropriated to the Pennsylvania Gaming Control Board.

Estimates made by the collecting departments for other revenue items are reviewed and totaled by the Department of Revenue.

The Governor's Executive Budget proposes several changes to this area including transfers from the Pennsylvania Higher Education Assistance Agency, the absorption of the Tobacco Settlement Fund into the General Fund, and the continued transfer of moving violation surcharges.
These changes are reflected in the above estimates.

LIQUOR STORE PROFITS

HISTORICAL DATA

$ Millions

Year	Receipts	Growth
2004-05	54.9	9.8%
2005-06	80.0	45.7%
2006-07	150.0	87.5%
2007-08	80.0	-46.7%
2008-09	125.0	56.3%
2009-10	105.0	-16.0%

FORECASTED DATA

$ Millions

Year	Receipts	Growth
2010-11	105.0	0.0%
2011-12	80.0	-23.8%
2012-13	80.0	0.0%
2013-14	80.0	0.0%
2014-15	80.0	0.0%
2015-16	80.0	0.0%

These estimates have been received from the Liquor Control Board and the Office of the Budget.

LIQUOR TAX

HISTORICAL DATA

$ Millions

Year	Receipts	Growth
2004-05	212.5	8.9%
2005-06	223.0	5.0%
2006-07	239.5	7.4%
2007-08	251.2	4.9%
2008-09	266.5	6.1%
2009-10	271.0	1.7%

FORECASTED DATA

$ Millions

Year	Receipts	Growth
2010-11	284.0	4.8%
2011-12	313.2	10.3%
2012-13	328.2	4.8%
2013-14	344.0	4.8%
2014-15	360.6	4.8%
2015-16	377.7	4.7%

These estimates have been received from the Liquor Control Board (LCB) and were reviewed by the Department of Revenue. In January 2009, the LCB replaced their 13 accounting periods with monthly revenue collections.

MALT BEVERAGE TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2004-05	24.9	-5.0%
2005-06	26.2	5.0%
2006-07	25.2	-3.8%
2007-08	26.3	4.4%
2008-09	26.0	-1.1%
2009-10	26.6	2.3%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2010-11	26.0	-2.3%
2011-12	26.0	0.0%
2012-13	26.0	0.0%
2013-14	26.0	0.0%
2014-15	26.0	0.0%
2015-16	26.0	0.0%

MODEL: Structural

These estimates are based on current collection patterns.

MINOR AND REPEALED TAXES

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2004-05	3.6	-45.6%
2005-06	-17.4	-583.3%
2006-07	-15.5	10.9%
2007-08	111.6	820.0%
2008-09	12.8	-88.5%
2009-10	9.3	-27.3%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2010-11	8.7	-6.5%
2011-12	8.7	0.0%
2012-13	8.7	0.0%
2013-14	8.7	0.0%
2014-15	8.7	0.0%
2015-16	8.7	0.0%

Minor and repealed tax revenues are derived from the tax on legal documents, the spiritous and vinous liquors taxes, and excess vehicle rental tax collections.

Act 48-2009 created a tax amnesty program that increased collections in 2009-10.

OTHER SELECTIVE BUSINESS TAXES

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2004-05	17.1	-7.1%
2005-06	20.6	20.4%
2006-07	17.3	-16.0%
2007-08	16.6	-4.0%
2008-09	14.1	-15.1%
2009-10	16.2	14.9%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2010-11	15.0	-7.4%
2011-12	15.9	6.0%
2012-13	16.8	5.7%
2013-14	17.7	5.4%
2014-15	18.7	5.6%
2015-16	19.7	5.3%

This revenue source consists primarily of loans tax collections and undistributed monies in the corporation tax clearing account.

Act 48-2009 created a tax amnesty program that increased collections in 2009-10.

PERSONAL INCOME TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2004-05	8,746.8	13.1%
2005-06	9,524.1	8.9%
2006-07	10,261.6	7.7%
2007-08	10,907.7	6.3%
2008-09	10,198.6	-6.5%
2009-10	9,968.7	-2.3%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2010-11	10,133.5	1.7%
2011-12	10,812.0	6.7%
2012-13	11,491.2	6.3%
2013-14	11,867.6	3.3%
2014-15	12,401.4	4.5%
2015-16	12,780.3	3.1%

MODEL: Econometric and Structural

EQUATIONS:

A) $PIT = WITH + NONWITH$

B) $\ln QWITH = 0.9928 \ln PAWAGES + 0.0737\ Q1 - 0.0143\ Q3 - 4.8117$

C) $\ln EST = 0.8598 \ln PRID + 0.1134 \ln CAPGAIN$

D) $\ln ANNUALS = 0.8491 \ln USID + 0.2886 \ln CAPGAIN$

VARIABLES:

PIT - Fiscal year personal income tax receipts.

WITH - Fiscal year employer withholding receipts.

NONWITH - Fiscal year estimated and annual receipts.

QWITH - Cash quarterly personal income tax receipts from employer withholding payments rate adjusted to 3.07%.

EST - Tax year estimated personal income tax payments rate adjusted to 3.07%.

ANNUALS - Tax year annual personal income tax payments rate adjusted to 3.07%.

PERSONAL INCOME TAX (Cont'd)

PAWAGES	-	Quarterly Pennsylvania wages and salaries.
Q1	-	First quarter dummy.
Q3	-	Third quarter dummy.
PRID	-	Annual US proprietors income, interest, dividends, and rents.
CAPGAIN	-	Annual PA capital gains.
USID	-	Annual US interest and dividends.

STATISTICS (Equation B):

$\overline{R}^2$	=	0.990	DF	=	52
F	=	1865.9	N	=	56

COEFFICIENT T-STATS (Equation B):

β_0	=	73.54	β_1	=	15.19
β_2	=	-2.94	β_3	=	-29.0

STATISTICS (Equation C):

$\overline{R}^2$	=	0.951	DF	=	17
F	=	487.31	N	=	20
ρ	=	0.361			

COEFFICIENT T-STATS (Equation C):

β_0	=	78.22	β_1	=	3.15

PERSONAL INCOME TAX (Cont'd)

STATISTICS (Equation D):

$\bar{R}^2$	=	0.964	DF	=	17
F	=	654.3	N	=	20
ρ	=	0.633			

COEFFICIENT T-STATS (Equation D):

β_0	=	53.88	β_1	=	6.05

The personal income tax estimate is derived from forecasts of withholding, estimated, and annual payments adjusted to a constant rate. Estimated and annual payments are modeled separately.

QWITH is an econometric model that predicts employer withholding payments using PA wages and salaries. Dummy variables are used in the first and third quarters to reflect the seasonal nature of withholding.

EST is an econometric model that predicts estimated personal income tax payments on a tax year basis. US proprietors' income, interest, dividends, and rents (US PRID) and PA capital gains are used as independent variables. Tax year cash payment amounts are transformed into a fiscal year cash flow with aggregate adjustments for tax base changes.

ANNUALS is an econometric model that predicts tax year annual personal income payments using US interest, dividends, and PA capital gains. Tax year cash payment amounts are transformed into a fiscal year cash flow with aggregate adjustments for tax base changes.

Adjustments are made to account for tax law changes, including those made to the tax base and special poverty provisions (SP). In addition, the forecast is adjusted to reflect the Act 46-2003 increase in the personal income tax rate from 2.8% to 3.07% effective January 1, 2004.

Act 48-2009 accelerated the collections of employer withholding by creating a semiweekly withholding schedule for those employers who can reasonably be expected to withhold $20,000 or more in a calendar year. Please refer to the Legislative Overview section for more details on the legislative changes. In addition, Act 48 of 2009 created a tax amnesty program that increased collections in 2009-10.

Total personal income tax forecasts equal fiscal year withholding payments and fiscal year cash estimated and annual collections.

PERSONAL INCOME TAX (Cont'd)

The Governor's Executive Budget proposes the following changes to the tax credit programs for fiscal years 2011-12 and beyond:

Research and Development: the cap is increased from $40 to $55 million
Film Production: the cap is decreased from $75 to $60 million
Job Creation: the cap is decreased from $22.5 to $10.1 million

These changes are reflected in the above estimates.

PUBLIC UTILITY REALTY TAX

HISTORICAL DATA $ Millions			FORECASTED DATA $ Millions		
Year	**Receipts**	**Growth**	**Year**	**Receipts**	**Growth**
2004-05	41.2	-18.1%	2010-11	42.4	7.2%
2005-06	40.2	-2.4%	2011-12	46.5	9.7%
2006-07	47.5	18.2%	2012-13	47.6	2.4%
2007-08	44.7	-5.9%	2013-14	50.0	5.0%
2008-09	41.9	-6.3%	2014-15	52.5	5.0%
2009-10	39.5	-5.7%	2015-16	54.6	4.0%

MODEL: Structural

The public utility realty tax (PURTA) revenue estimates are derived from a database of utility realty tax liability history and predictions based on data from reports filed by public utility realty taxpayers, as well as those filed by local taxing authorities (LTAs). Total predicted liabilities were transformed into a fiscal year basis to obtain the receipts forecasts.

Act 48-2009 created a tax amnesty program that increased collections in 2009-10.

REALTY TRANSFER TAX

HISTORICAL DATA

$ Millions

Year	Receipts	Growth
2004-05	472.5	17.9%
2005-06	552.5	16.9%
2006-07	571.0	3.3%
2007-08	429.6	-24.8%
2008-09	294.5	-31.5%
2009-10	296.0	0.5%

FORECASTED DATA

$ Millions

Year	Receipts	Growth
2010-11	285.7	-3.5%
2011-12	334.0	16.9%
2012-13	391.0	17.1%
2013-14	433.0	10.7%
2014-15	460.8	6.4%
2015-16	490.4	6.4%

MODEL: Econometric

EQUATION: $\ln RTT = 1.4568 \ln MEDPRICE + 0.5948 \ln PASTSALE - 4.7575$

VARIABLES:

RTT - Fiscal year realty transfer tax receipts.

MEDPRICE - US median home price (average of new and existing units).

PASTSALE - Pennsylvania housing starts and sales.

STATISTICS:

$\bar{R}^2$ = 0.985 | DF = 25

F = 362.99 | N = 29

ρ = 0.426

COEFFICIENT T-STATS:

β_0 = 21.80 | β_1 = 5.28

β_2 = -7.84

REALTY TRANSFER TAX (Cont'd)

These estimates result from an econometric approach using US median home price (average of new and existing units) and Pennsylvania housing starts and sales to model the realty transfer tax collections.

Act 48-2009 created a tax amnesty program that increased collections in 2009-10.

SALES AND USE TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2004-05	8,000.0	3.5%
2005-06	8,334.2	4.2%
2006-07	8,590.8	3.1%
2007-08	8,496.5	-1.1%
2008-09	8,135.5	-4.3%
2009-10	8,029.2	-1.3%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2010-11	8,503.8	5.9%
2011-12	8,659.0	1.8%
2012-13	9,176.2	6.0%
2013-14	9,514.0	3.7%
2014-15	9,817.4	3.2%
2015-16	10,101.7	2.9%

MODEL: Econometric and Structural

EQUATIONS:

A) *ST = NON-MOTOR + MV*

B) *ln NMCASH = 0.6019 ln CEMOD + 0.2022 ln ADJFI + 0.1140 Q2 + 0.0959 Q3 + 0.1483 Q4 + 2.4042*

C) *ln MVCASH = 0.9224 ln CEAUTO – 6.2863 PAAGE-RATIO + 10.1192*

VARIABLES:

ST - Fiscal year sales and use tax receipts.

NON-MOTOR - Fiscal year non-motor vehicle sales and use tax receipts.

MV - Fiscal year motor vehicle sales and use tax receipts.

NMCASH - Quarterly non-motor vehicle sales and use tax receipts.

MVCASH - Fiscal year motor vehicle sales and use tax receipts.

CEMOD - US Consumer expenditures on durables, non-durables, and services.

ADJFI - US nonresidential fixed investment adjusted to exclude fixed investment in industrial and transportation equipment.

SALES AND USE TAX (Cont'd)

Q2	-	Second quarter dummy.
Q3	-	Third quarter dummy.
Q4	-	Fourth quarter dummy.
CEAUTO	-	US consumer expenditures on motor vehicles and parts.
PAAGE-RATIO	-	Ratio of Pennsylvanians aged 45-64 to the whole Pennsylvania population.

STATISTICS (Equation B):

$\bar{R}^2$	=	0.993	DF	=	37
F	=	1273.77	N	=	43

COEFFICIENT T-STATS (Equation B):

β_0	=	26.69	β_1	=	13.71
β_2	=	31.51	β_3	=	26.48
β_4	=	40.02	β_5	=	30.64

STATISTICS (Equation C):

$\bar{R}^2$	=	0.963	DF	=	32
F	=	447.78	N	=	35

COEFFICIENT T-STATS (Equation C):

β_0	=	26.04	β_1	=	-6.56
β_2	=	61.12			

SALES AND USE TAX (Cont'd)

NON-MOTOR is the result of a transformation of *NMCASH* which allows for the lag between the time of sale and the appropriate sales tax due date (usually one month). Equation B is an econometric model which predicts accrual sales and use tax estimates using consumption and nonresidential fixed investment. Adjustments are made to account for exemptions from the tax base and special fund transfers. Please refer to the Legislative Overview section for more details on these legislative changes. The resulting estimates are then converted to a cash basis forecast.

MV is an econometric model that predicts annual motor vehicle sales and use tax revenues using US consumer expenditures on autos and Pennsylvania's ratio of residents between 45 and 64 years old.

Total fiscal year sales and use tax forecasts equal cash non-motor vehicle forecasts plus cash motor vehicle forecasts.

Act 48-2009 requires licensees reporting a total tax liability of $25,000 or more for the third calendar quarter of the preceding year to report and remit payment to the department on a semi-monthly basis beginning in June 2011. In addition, Act 48 of 2009 created a tax amnesty program that increased collections in 2009-10.

TABLE GAME TAXES

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2004-05	NA	NA
2005-06	NA	NA
2006-07	NA	NA
2007-08	NA	NA
2008-09	NA	NA
2009-10	NA	NA

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2010-11	65.4	NA
2011-12	88.0	34.6%
2012-13	77.1	-12.4%
2013-14	75.4	-2.2%
2014-15	75.4	0.0%
2015-16	75.4	0.0%

MODEL: Structural

These estimates have been received from the Pennsylvania Gaming Control Board and the Office of the Budget and were reviewed by the Department of Revenue.

These estimates are derived from historical data from each of the slot machine license holders operating table games as well as Pennsylvania Gaming Control Board knowledge of anticipated table game expansion at existing or new facilities.

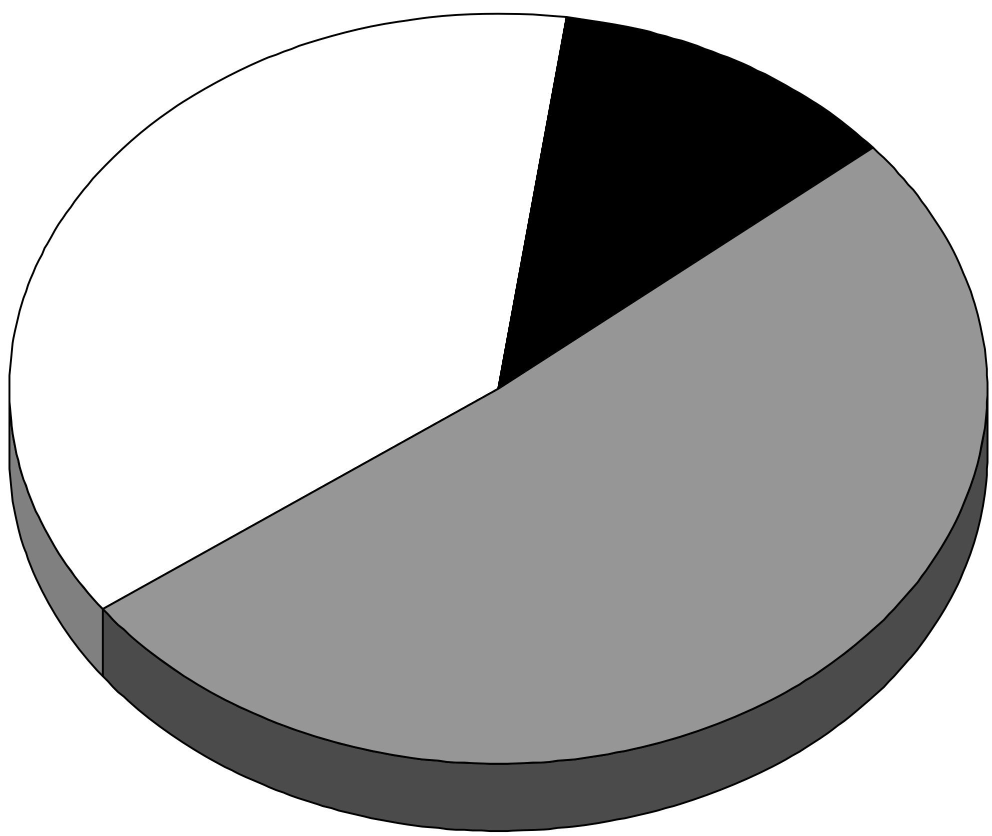
TOBACCO MASTER SETTLEMENT AGREEMENT

HISTORICAL DATA			FORECASTED DATA		
$ Millions			$ Millions		
Year	**Receipts**	**Growth**	**Year**	**Receipts**	**Growth**
2004-05	NA	NA	2010-11	NA	NA
2005-06	NA	NA	2011-12	338.6	NA
2006-07	NA	NA	2012-13	334.8	-1.1%
2007-08	NA	NA	2013-14	331.0	-1.1%
2008-09	NA	NA	2014-15	327.2	-1.1%
2009-10	NA	NA	2015-16	325.9	-0.4%

The Tobacco Settlement Fund is proposed to be absorbed within the General Fund, and revenues from the Master Settlement Agreement would accrue to the General Fund.

MOTOR LICENSE FUND REVENUE

Fiscal Year 2011-12



LIQUID FUELS TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2004-05	588.4	0.2%
2005-06	581.8	-1.1%
2006-07	589.2	1.3%
2007-08	591.7	0.4%
2008-09	520.5	-12.0%
2009-10	548.9	5.5%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2010-11	580.7	5.8%
2011-12	583.6	0.5%
2012-13	587.1	0.6%
2013-14	591.2	0.7%
2014-15	595.9	0.8%
2015-16	601.3	0.9%

MODEL: Structural

The liquid fuels portion of this tax is assessed at 12 cents per gallon on gasoline consumption. Eleven and one-half cents, minus discounts plus penalties and interest, are deposited in the Motor License Fund as unrestricted receipts. The forecasts reflect these unrestricted receipts.

The liquid fuels portion of the liquid fuels and fuels tax revenue is based on estimated gasoline consumption. All historical and forecasted tables are shown on a cash basis. Please note that Act 48 of 2009 created a tax amnesty program that increased collections in 2009-10.

The fiscal year 2010-11 estimate is based on year-to-date actual collections projected through the end of the fiscal year. Future fiscal year collections are predicated on the forecast for fuel prices and the current economic outlook.

FUELS TAX

HISTORICAL DATA ($ Millions)			FORECASTED DATA ($ Millions)		
Year	**Receipts**	**Growth**	**Year**	**Receipts**	**Growth**
2004-05	157.4	1.5%	2010-11	149.4	2.8%
2005-06	162.4	3.2%	2011-12	150.1	0.5%
2006-07	162.8	0.2%	2012-13	151.0	0.6%
2007-08	157.1	-3.5%	2013-14	152.1	0.7%
2008-09	149.6	-4.8%	2014-15	153.3	0.8%
2009-10	145.3	-2.9%	2015-16	154.7	0.9%

MODEL: Structural

The fuels portion of this tax is assessed at 12 cents per gallon on diesel fuel and other special fuels. Eleven and one-half cents are deposited in the Motor License Fund as unrestricted receipts. The forecasts reflect these unrestricted receipts.

The fuels portion of the liquid fuels and fuels tax revenue is based on estimated consumption for these fuels. All historical and forecasted tables are shown on a cash basis. Please note that Act 48 of 2009 created a tax amnesty program that increased collections in 2009-10.

The fiscal year 2010-11 estimate is based on year-to-date actual collections projected through the end of the fiscal year. Future fiscal year collections are predicated on the forecast for fuel prices and the current economic outlook.

ALTERNATIVE FUELS

HISTORICAL DATA $ Millions			FORECASTED DATA $ Millions		
Year	**Receipts**	**Growth**	**Year**	**Receipts**	**Growth**
2004-05	0.7	16.7%	2010-11	0.6	0.0%
2005-06	0.6	-14.3%	2011-12	0.6	0.0%
2006-07	0.2	-66.7%	2012-13	0.6	0.0%
2007-08	1.1	450.0%	2013-14	0.6	0.0%
2008-09	0.6	-45.5%	2014-15	0.6	0.0%
2009-10	0.6	0.0%	2015-16	0.6	0.0%

MODEL: Structural

Effective October 1, 1997, the alternative fuels tax is imposed on all fuels not taxed as liquid fuels or fuels and used to propel motor vehicles on the public highways. The tax on each gasoline gallon equivalent of alternative fuels equals the current total of the liquid fuels and fuels tax and the oil franchise tax applicable to one gallon of gasoline. The alternative fuels tax revenue is based on estimated alternative fuel collections.

MOTOR CARRIERS ROAD/IFTA TAXES

HISTORICAL DATA

$ Millions

Year	Receipts	Growth
2004-05	32.0	14.3%
2005-06	35.9	12.2%
2006-07	40.4	12.5%
2007-08	38.9	-3.7%
2008-09	39.7	2.1%
2009-10	41.1	3.5%

FORECASTED DATA

$ Millions

Year	Receipts	Growth
2010-11	40.0	-2.7%
2011-12	40.2	0.5%
2012-13	40.4	0.5%
2013-14	40.6	0.5%
2014-15	40.8	0.5%
2015-16	41.0	0.5%

MODEL: Structural

Motor carriers road tax (MCRT) revenues consist primarily of fuel taxes and decal fees. The fuel tax is collected at 12 cents per gallon plus an oil franchise tax component. The oil franchise tax rate is levied on a cents per gallon basis and is established at the beginning of each calendar year beginning in 1998. The oil franchise tax rate per gallon of fuel consumed in Pennsylvania for calendar year 2010 is 19.2 cents for liquid fuels and 26.1 cents for fuels. Tax-paid fuel purchases offset gross tax due. Also included in road tax are penalties and interest. International Fuel Tax Agreement (IFTA) historical data serves as the estimating base for this tax. Decal fees consist of receipts from the purchase of $5 annual identification markers. Please note that Act 48 of 2009 created a tax amnesty program that increased collections in 2009-10.

The fiscal year 2010-11 estimate is based on year-to-date actual collections projected through the end of the fiscal year. Historical data serves as the estimating base for this tax.

OIL COMPANY FRANCHISE TAX

HISTORICAL DATA $ Millions			FORECASTED DATA $ Millions		
Year	**Receipts**	**Growth**	**Year**	**Receipts**	**Growth**
2004-05	381.3	11.4%	2010-11	455.7	1.7%
2005-06	445.2	16.8%	2011-12	458.0	0.5%
2006-07	462.8	4.0%	2012-13	460.7	0.6%
2007-08	447.7	-3.3%	2013-14	464.0	0.7%
2008-09	452.8	1.1%	2014-15	467.7	0.8%
2009-10	448.0	-1.1%	2015-16	471.9	0.9%

MODEL: Structural

The oil company franchise tax (OFT) is levied on a cents per gallon basis effective October 1, 1997. The Department of Revenue is required to establish tax rates by each January 1st and these rates remain in effect for the entire calendar year. The calculated rates are based on the average wholesale price of fuel over the 12-month period ending the prior September 30. For calendar year 2010 the rates are 19.2 cents per gallon for liquid fuels and 26.1 cents per gallon for fuels. The OFT rate for future years is estimated based on the current economic outlook and the forecast for fuel prices.

The oil company franchise tax revenue is based on estimated liquid fuels and fuels consumption multiplied by the appropriate tax rate. All historical and forecasted tables are shown on a cash basis.

Revenues equal to fifty-seven mills of the tax are deposited as unrestricted revenue in the Motor License Fund. The remaining revenues are restricted and are not reflected in the revenue forecasts. Revenues accruing from this tax are directly proportional to the estimated taxable gallons of liquid fuels and fuels.

LICENSES & FEES

HISTORICAL DATA $ Millions			FORECASTED DATA $ Millions		
Year	**Receipts**	**Growth**	**Year**	**Receipts**	**Growth**
2004-05	876.9	4.0%	2010-11	875.7	2.1%
2005-06	877.8	0.1%	2011-12	894.3	2.1%
2006-07	870.0	-0.9%	2012-13	917.9	2.6%
2007-08	872.1	0.2%	2013-14	927.5	1.0%
2008-09	883.8	1.3%	2014-15	929.6	0.2%
2009-10	857.7	-3.0%	2015-16	933.0	0.4%

MODEL: Structural

Estimates were forecasted by the Department of Revenue in conjunction with the Department of Transportation.

The fluctuations in receipts in operators' licenses revenues are primarily caused by the four year renewal cycle. Historically, International Registration Plan (IRP) collections have been affected by new states joining this organization and delayed payments from states experiencing technical difficulties.

OTHER MOTOR RECEIPTS

HISTORICAL DATA

$ Millions

Year	Receipts	Growth
2004-05	120.1	-7.2%
2005-06	162.0	34.9%
2006-07	165.4	2.1%
2007-08	559.4	238.2%
2008-09	509.7	-8.9%
2009-10	599.5	17.6%

FORECASTED DATA

$ Millions

Year	Receipts	Growth
2010-11	408.0	-31.9%
2011-12	284.1	-30.4%
2012-13	287.8	1.3%
2013-14	292.1	1.5%
2014-15	296.9	1.6%
2015-16	302.5	1.9%

MODEL: Structural

Estimates were forecasted by the Department of Revenue in conjunction with the Department of Transportation.

These estimates include payments from the Pennsylvania Turnpike to the Motor License Fund as provided by Act 44 of 2007. The first payment was mandated for FY 2007-08 for $450 million. For FY 2008-09 and FY 2009-10, the payment was $500 million.

With the denial of Interstate 80 from becoming a toll road, Act 44 of 2007 specifies that starting in FY 2010-11 (and for the remainder of the lease) that the PA Turnpike contribution is $200 million a year.

Fiscal year 2011-12 through 2015-16 estimates include $6.75 million per fiscal year due to a Budget proposal. The increase reflects a proposed change requiring local governments without their own police force to pay for the Pennsylvania State Police to patrol and respond to emergencies.