Revenue Estimating Conference
Gross Receipts Tax/Communications Services Tax
November 30, 2020
Executive Summary

The Revenue Estimating Conference met on November 30, 2020, to adopt a new forecast for the Gross Receipts Tax and the State Sales Tax on Communications Services. For FY 2020-21, the projection for the Gross Receipts Tax (derived from the tax on electricity, gas and communications) was decreased $11.64 million from the prior forecast and for the State Sales Tax on Communications Services, the estimate was decreased $17.40 million from the previous estimate. Compared to the July 2020 conference results, the new forecast for the Gross Receipts Tax is lower in every year with the largest difference coming in the first year. The losses came solely from the communication services component of Gross Receipts, with utilities essentially matching the prior forecast. The changes in the Gross Receipts Tax feed directly into the dollars available for PECO appropriations. The highlights are detailed below.

	Gross Receipts Tax All Sources	Diff from Prior Forecast	Growth Rate Forecast		Communications Services Tax-State Tax Component*	Diff from Prior Forecast	Growth Rate Forecast
FY 20-21	1101.27	-11.64	-1.24%		569.80	-17.40	-4.04%
FY 21-22	1124.43	-11.07	2.10%		566.83	-16.92	-0.52%
FY 22-23	1141.43	-9.49	1.51%		569.34	-14.50	0.44%
FY 23-24	1153.81	-8.90	1.08%		573.24	-12.54	0.69%
FY 24-25	1166.23	-7.92	1.08%		578.44	-11.20	0.91%
FY 25-26	1179.06	-7.45	1.10%		584.68	-10.35	1.08%
FY 26-27	1192.05	-7.22	1.10%		591.27	-9.93	1.13%
FY 27-28	1204.85	-7.00	1.07%		598.21	-9.52	1.17%
FY 28-29	1217.37	-6.75	1.04%		605.43	-9.06	1.21%
FY 29-30	1229.61	-6.54	1.01%		612.92	-8.67	1.24%

***The CST State Tax Component Includes Direct-to-Home Satellite**

Gross Receipts Tax on Utilities: Fiscal years 2020-21 and 2021-22 stand out among the years included in the forecast horizon due to the recent and substantial movements in several relevant series and the expected subsequent recoveries. Residential price is expected to decrease by -0.89% in FY 2020-21 and recover by 1.92% in FY 2021-22. The percentage change will stay between 0.44% and 0.73% for the remainder of the forecast horizon. In contrast, residential consumption's growth rate in the first two years are almost the mirror image of residential price. It is expected to grow at 0.78% in FY 2020-21, decline -0.49% in FY 2021-22, and then return to growth rates ranging between and 0.11% and 0.78% going forward.

Commercial price and consumption are expected to decline by -1.11% and -0.99% in FY 2020-21 and grow at 1.06% and 6.25% in FY 2021-22. Afterward, commercial price growth is forecasted to slowly decline from 0.85% to 0.35% by FY 2029-30 while consumption growth similarly declines from 1.06% to 0.77% by FY 2029-30. Industrial price and consumption growth is forecasted to be 0.01% and -0.11% in FY 2020-21, then experience strong recoveries in FY 2021-22 with growth rates of 3.13% and 2.30% that reflect the recovery in the commercial variables. Beyond those years, annual price and consumption growth rates are estimated to average 0.86% and -0.07%, respectively, over the forecast horizon. The divergence between residential and commercial (or industrial) consumption in FY 2020-21 and FY 2021-22 is largely due to the imposition and then removal of remote-working and social distancing practices endemic to the Coronavirus outbreak.

Residential consumption of natural gas is expected to grow at 1.00% in FY 2020-21, then remain at approximately 0.25% thereafter. Commercial consumption is expected to decrease by -2.18% in FY 2020-21 and then rebound in the following year by 10.54%. For the remainder of the forecast horizon, its growth rate stays between 0.44% and 0.87%. After FY 2020-21, for which the residential and commercial prices are already set with growth rates of -0.09% and 2.10% respectively, residential price has a seesaw pattern—decreasing by -1.84% during the immediately following fiscal year, increasing by 0.94% for one year, and then declining again by -1.22% before beginning a period of sustained positive growth in FY 2024-25. Commercial price follows a similar pattern: decreasing by -0.88% in FY 2021-22, gaining by 1.08% in FY 2022-23 and declining again by -0.19% in FY 2023-24 before growing at an annual average of just under 1.00% over the rest of the forecast horizon.

State Communications Services Tax, Including Direct-to-Home Satellite Service (CST): The overall forecast relies on generating separate growth rates for the cable, wireless, landline, other services, and direct-to-home satellite tax bases.

The two primary positive drivers of growth in CST have typically been the Cable and Other categories. However, Cable has now experienced negative growth for two straight fiscal years with a substantial crash prior to the start of FY 2019-20 leading to a -9.95% growth rate for the year. The new forecast captures the idea that cord cutting will continue for a few more fiscal years (with growth rates of -3.39%, -1.84%, and -0.28%) before stabilizing with positive growth of around 1.34%. The second primary positive driver, Other, includes streaming entertainment and experienced another year of substantial growth due to new entrants to the market. The growth rate is expected to slowly decline from 9.06% in FY 2020-21 to 2.86% in FY 2029-30 as the rapid-growth phase of the industry ends.

The Wireless and Landline forecasts counter the positive growth historically seen in Cable and Other. Wireless has been declining in large part due to the unbundling of communication services tied to cellphone plans. The FY 2020-21 decline is expected to be -22.41% before slowly improving to -3.22% by FY 2029-30. Landline is declining due to its nature of being a dated technology primarily associated with a particular demographic group and smaller businesses. It is similarly expected to fall throughout the forecast horizon, with stronger near-term negative rates before ultimately stabilizing around a -2.20% annual decline. Satellite, or DHSS, experienced strong negative growth in the latest three years, but had strong positive growth in the several years before that, partially because of contracts for exclusive content that have since expired. The new forecast increases steadily from a -6.59% decline in FY 2020-21 until it reaches and maintains growth rates of just over 1.00% in the last five years of the forecast horizon.

Finally, the residential exemption is calculated based on the assumption that its level is a percentage of the sum of the levels of Cable, Wireless, Landline and Other. The percentage was equal to 13.74% in FY 2019-20, and is expected to slowly decline throughout the forecast horizon finishing at 12.34% in FY 2029-30.

Gross Receipts CST is derived from two different tax rates plus a portion of direct-to-home satellite collections. First, a tax rate of 2.37% is applied to the cable, wireless, landline and miscellaneous services tax bases. Second, an additional tax rate of 0.15% is applied to the same tax bases, excluding landlines in residential households. The dollars generated by both of these tax rates, plus 18% of total direct-to-home satellite collections, comprise total Gross Receipts CST collections. Sales CST Collections are generated by applying a tax rate of 4.92% against the cable, wireless, landline and miscellaneous services tax bases, coupled with 44.32% of total direct-to-home satellite collections. The landline tax base is reduced by the residential household telephone exemption for the Sales Tax CST calculation. Direct-to-home satellite service is taxed at an 11.44% rate. The tax revenue is then distributed between Gross Receipts CST, Sales CST, and local governments.

Local Communications Service Tax: The local CST forecast applies an average local CST tax rate of 5.21% to the four major bases (cable, wireless, landline and miscellaneous services). Like the CST forecasts for Gross Receipts and Sales, the local forecast is expected to decline because of the reduction in the wireless base.