

Revenue Estimating Conference
Gross Receipts Tax/Communications Services Tax
July 29, 2022
Executive Summary

The Revenue Estimating Conference met on July 29, 2022, to adopt a new forecast for the Gross Receipts Tax and the State Sales Tax on Communications Services. For FY 2021-22, Gross Receipts Tax collections (derived from the tax on electricity, gas and communications) came in \$61.4 million (5.4%) above the forecasted level. Collections from the separate State Sales Tax on Communications were \$15.3 million (2.7%) above the forecasted level. Compared to the January 2022 conference results, the new forecast for the Gross Receipts Tax has the largest upward adjustment occurring in the current fiscal year, accounting for the continued effect of the recent and substantial level shift in FY 2021-22. Minor downward adjustments for Gross Receipts Tax are expected in FY 2023-24 and FY 2024-25 before growth stabilizes at an annual average of 1.15% until FY 2031-32. The changes in the Gross Receipts Tax feed directly into the dollars available for PECO appropriations. The highlights for both Gross Receipts and the State Tax Component for Communications Services 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 22-23	1252.35	99.43	3.81%		608.69	25.25	4.29%
FY 23-24	1238.05	73.07	-1.14%		633.45	30.37	4.07%
FY 24-25	1234.69	58.86	-0.27%		656.58	38.32	3.65%
FY 25-26	1248.54	57.18	1.12%		674.07	40.87	2.66%
FY 26-27	1261.95	54.37	1.07%		690.10	42.34	2.38%
FY 27-28	1276.59	52.37	1.16%		704.69	40.93	2.11%
FY 28-29	1292.71	52.75	1.26%		720.36	42.26	2.22%
FY 29-30	1308.12	53.47	1.19%		735.30	44.14	2.07%
FY 30-31	1322.60	52.71	1.11%		749.62	43.96	1.95%
FY 31-32	1309.00	--	-1.03%		764.97	--	2.05%

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

Gross Receipts Tax on Utilities: Relative to the prior estimates, the residential, commercial, and industrial price series for electricity-based collections is increased in each year of the forecast. This action is buttressed by the National Economic Estimating Conference results which indicate that energy prices partially correct from the current heightened levels, but never return to the prior forecast. Reacting in part to the upward price pressure, consumption for the residential and commercial components for FY 2021-22 was lower than expected at the January conference. Beginning from its lower base, residential consumption is expected to adjust further downward in FY 2022-23, before resuming growth that averages about one-half of one percent per year. By the end of the forecast horizon, consumption is back to the previously expected level. While consumption growth resumes immediately for the commercial sector, it never fully recovers to the

previously expected level. In contrast, industrial consumption came in higher than expected in FY 2021-22 and stays higher in each subsequent year, even though a solid downward adjustment is expected this year. Relative to the prior forecast, the net effect of these adjustments increases the level of expected collections from both electricity at the 2.5% rate and commercial and industrial electricity at the 2.6% rate throughout the forecast horizon.

Relative to the prior forecast, projected natural gas prices are lower for the residential component in each year and higher for the commercial component through FY 2023-24 and then lower thereafter. Upward adjustments were made to the residential consumption forecast while downward adjustments were made to the commercial consumption forecast as demand responds to the shift in the respective price series. Compared to the prior forecast for gas fuels, the change in expected collections is mixed, with small gains and losses that are generally close to zero.

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 four consecutive years. The new forecast for Cable extends this declining trend out to FY 2024-25 before stabilizing at growth of slightly less than one percent per year in the latter part of the forecast. The second positive driver, Other, includes the increasingly popular streaming entertainment options, and shows eight years (six actuals and two forecasted) of double-digit growth due to new market entrants and continued content expansion. For FY 2022-23, the growth rate for Other is expected to come in 4.45 percentage points higher than previously estimated. While elevated growth is anticipated through FY 2023-24, growth begins to slow in FY 2024-25 as the rapid-growth phase of the industry starts to ebb—declining from 8.79% in that year to just under 3.00% in the last two years of the forecast.

Wireless and Landline forecasts counter the positive growth historically seen in Cable and Other. Collections from the Wireless category have been declining in large part due to the unbundling of communication services tied to cellphone plans. The expected decline in FY 2022-23 has been lessened from the previous forecast to -9.48% due to stronger than expected FY 2021-22 year-end collections. Overall, upward adjustments were made to the previous forecast. The four years following FY 2022-23 average an annual -6.82% decline before Wireless losses begin stabilizing in the range between -3.93% to -2.87%. In contrast, landline is declining due to dated technology that is primarily associated with a particular demographic group and smaller businesses. It is similarly expected to fall throughout the forecast, with a steeper than expected decline of -28.03% in FY 2021-22. For the most part, the annual growth rates were adjusted modestly downward from the previous forecast, with the largest decline expected to take place in the current fiscal year. Satellite, or DHSS, experienced strong negative growth over the last five years partially due to the expiring contracts for exclusive content. The new forecast extends the declining trend out to FY 2025-26 before introducing gradual growth that peaks at 1.09% in FY 2027-28 before slipping to 1.03% in the last year of the forecast horizon.

Finally, the residential exemption is calculated by using the assumption that its level is a percentage of the sum of the levels of Cable, Wireless, Landline and Other. The estimated percentage was 13.22% in FY 2021-22, and is expected to average a weaker 11.70% throughout the forecast period.

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 20.7% 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 Sales Tax CST. Direct-to-home satellite service is taxed at an 11.44% rate. The tax revenue is 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.