USES OF THE GROSS RECEIPTS TAX ON UTILITIES

The Gross Receipts Tax is the state revenue source used to fund the PECO program. This source is revenue is used to support the sale of bonds, which is the primary financing mechanism for the program.

Constitutional and statutory limitations restrict how much of this tax source can be used to finance the sale of bonds. Taxes not used for bonding are spent as cash.

Most of the tax collections (about 84%) are used to pay off the bonds which have already been sold. New debt is financed from the increases in the tax.

The amount of the tax that can support new debt each year is only a small portion of the collections, and can be quite variable. This variablility directly relates to the size of the bond sale, and hence, the amount of the appropriation. Small increases in tax collections yield small bond sales, and large increases in tax collections yield large bond sales.

In recent years, refinancing old PECO bonds at lower rates of interest have added significantly to the amount of new bond sales, by reducing the amount of the tax collections needed to pay for the old debt.