Revenue Estimating Conference
Gross Receipts Tax/Communications Services Tax
January 4, 2024
Executive Summary

The Revenue Estimating Conference met on January 4, 2024, to adopt a new forecast for the Gross Receipts Tax and the State Sales Tax on Communications Services. Through December 2023, Gross Receipts Tax collections from all components (derived from separate taxes on electricity, gas and communications) came in $9.6 million (-1.3%) below the forecasted level. Collections from the separate State Sales Tax on Communications were $10.5 million (-3.9%) below the forecasted level. Compared to the August 2023 conference results, the new forecast for the Gross Receipts Tax has only minor revisions over the entire 10-year horizon. Growth is slightly less in absolute value but largely consistent throughout. 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 23-24	1486.98	-3.76	8.15%		629.98	-7.40	2.48%
FY 24-25	1446.93	-3.48	-2.69%		654.54	-7.48	3.90%
FY 25-26	1347.48	-3.52	-6.87%		674.20	-8.07	3.00%
FY 26-27	1340.26	-4.23	-0.54%		689.33	-9.69	2.24%
FY 27-28	1353.49	-5.19	0.99%		700.88	-11.67	1.68%
FY 28-29	1356.62	-6.15	0.23%		713.80	-13.64	1.84%
FY 29-30	1356.46	-7.15	-0.01%		726.49	-15.70	1.78%
FY 30-31	1359.41	-8.15	0.22%		738.82	-17.83	1.70%
FY 31-32	1371.00	-9.18	0.85%		752.18	-20.01	1.81%
FY 32-33	1383.86	-10.22	0.94%		765.72	-22.23	1.80%

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

Gross Receipts Tax on Utilities: Since the August forecast performed well over the first six months of the year, the collections forecasts for electric and natural gas utilities were largely left unchanged. The residential, commercial, and industrial price series for electricity-based collections matched the previous forecast. This action is buttressed by the National Economic Estimating Conference results which had only modest changes in energy prices from the levels seen in the August forecast. Consumption levels for the commercial and industrial components were also unchanged while residential consumption levels were adjusted to offset revisions to the history. Growth posts annual averages of 0.21 percent and 0.85 percent for the residential and commercial sectors, respectively. Industrial consumption will experience an initial rise that levels off for the remainder of the forecast with average annual declines of only -0.03 percent.

For natural gas utilities, projected prices are also held constant relative to the last forecast. Upward adjustments were made to both residential and commercial consumption throughout the forecast horizon to compensate for the revised history. Stable growth is anticipated at an annual average of 0.65 percent and 0.74 percent for the respective residential and commercial consumption components.

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 five consecutive years. The new Cable forecast has a stronger decline than the previous forecast in the short term. The longer term forecast has flipped from slow growth in the previous forecast to slow decline. The second positive driver, Other, includes the increasingly popular streaming entertainment options, and shows eight years (seven actuals and one forecasted) of double-digit growth due to new market entrants and continued content expansion. For FY 2022-23, the growth rate for Other came in lower than previously estimated (17.37% relative to 20.01%), but was still robust. While elevated growth is anticipated again this year, growth begins to slow in FY 2024-25 as the rapid-growth phase of the industry starts to ebb—declining from 9.36% growth in that year to just under 3.00% in the last three years of the forecast.

Historically, the Wireless and Landline forecasts counter the positive growth 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; however, FY 2022-23 showed unexpected growth. The adopted forecast for Wireless continues the positive growth for another two years, before resuming a steady decline that averages nearly -3.0% per year. In contrast, Landline is declining due to dated technology that is primarily associated with a particular demographic group and smaller businesses. Annual declines in the double-digits began in FY 2016-17 and continued through FY 2022-23. Beginning this year, the downward spiral continues but drops into the single digits, with an annual average of about -2.2% beginning in FY 2025-26. Satellite, or DHSS, experienced strong negative growth over the last six years partially due to the expiring contracts for exclusive content. The general shape of the previous forecast for DHSS was weakened slightly, maintaining the declining trend out to FY 2025-26 followed by slow growth peaking at 1.10% in FY 2028-29. Growth is then expected to slip to 1.08% in the last years of the forecast horizon.

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. As part of the calculation, 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 5.23% to the four major bases (cable, wireless, landline and miscellaneous services). Like the

CST forecasts for Gross Receipts and Sales, the local forecast has little expected growth because of the reduction in the wireless base.