Pennsylvania Facing 'Underlying Structural Imbalance,' According to Fiscal Office Report

By Todd DeFeo, The Center Square

An "underlying structural imbalance" in Pennsylvania's budget could have long-lasting ramifications for the state, particularly as its population continues to age, a new report suggests.

The state could see a budget "imbalance" of $409 million in the current fiscal year, a shortcoming that could increase to more than $1.3 billion in the 2022-23 fiscal year. It is projected to remain at more than $1 billion in 2024-25.

The findings are part of a five-year economic and budget outlook from the Independent Fiscal Office (IFO). The report evaluates the demographic, economic, revenue and expenditure trends affecting the commonwealth's fiscal condition over the next five years.

"The growth rate differential represents the implied structural imbalance over the previous five fiscal years," Director Matthew Knittel said in a news release. "Although annual state budgets were brought into balance using temporary one-time measures, the underlying structural imbalance remains and is carried forward into future years."

Between the 2014-15 and the 2019-20 fiscal years, expenditures increased at a rate of four percent per year. That level of growth is higher than the average revenue growth of 3.3 percent per year.

The IFO report predicts that between the 2019-20 and the 2024-25 fiscal years, general fund revenues will increase at an average rate of 3.2 percent per year. That rate could rise to 3.4 percent per year if a new sales and use tax transfer that starts in the 2022-23 fiscal year is excluded. Expenditures are also increasing. For the 2020-21 fiscal year, spending is projected to increase by 4.8 percent.

"I think some of the most damaging things that have been done in terms of the public's trust in lawmakers and of the legislative process have been done in the name of short-term adequacy and at the expense of long-term adequacy," said Matt Gardner, a senior fellow at the Institute on Taxation and Economic Policy.

"When you say you're going to balance the budget by hiking the cigarette tax, and you know that's not going to raise enough money in year five, it's hard to come back to your constituents in year five, and they say, 'Well, you already fixed this. Why are you back here again?' It breeds a real distrust in the system."

Pennsylvania's total population is projected to remain relatively flat over the next few years. However, its working-age population (between the ages of 20 and 64) is expected to contract by 154,000 between 2015 and 2020 (0.4 percent per year) and a further 204,000 between 2020 and 2025 (0.6 percent per year).

Meanwhile, the retiree-aged population (between the ages of 65 and 79) is projected to expand by 276,000 (3.3 percent per year) between 2015 and 2020. It is expected to further grow by an additional 254,000 (or 2.6 percent per year) between 2020 and 2025.

The IFO report indicates that real per capita tax levels must increase to keep pace with an older age bracket's anticipated increase in demand for services, including healthcare, to compensate for this shift.

In an analysis, Katherine Loughead, a policy analyst with the Center for State Tax Policy at the Tax Foundation, found Pennsylvania's tax code has multiple barriers to tax competitiveness. The obstacles include high corporate income taxes, which are among the highest in the country; uncompetitive treatment of net operating losses (NOL); and a haphazard application of property taxes across the commonwealth.

"Tax codes should raise revenue to fund government services in a manner that's as simple, transparent, neutral and stable as possible, and in a way that leads to greater, not less, economic opportunity and growth," Loughead said.