

REPORT CALLS PENNSYLVANIA A TAXPAYER 'SINKHOLE'

By Lauren Jessop, The Center Square

An organization that ranks the fiscal health of all states said Pennsylvania scored a D after records showed the government lacked enough money to pay the bills in 2022.

The recently released 14th annual *Financial State of the States* report by Truth in Accounting found even though Pennsylvania's financial condition improved last year, it still needed \$51.3 billion to pay its bills.

Based upon the state's audited financial report for fiscal year 2022, Pennsylvania had a taxpayer burden of \$11,300 — the amount every taxpayer would have to contribute to get the state out of debt.

"Like many states," a press release provided to The Center Square said, "Pennsylvania's economic condition improved due to federal funding for COVID relief and increased tax collections attributed to taxpayers' pent-up tourism and purchasing demands. However, unfunded pensions and other employee retirement obligations continued to plague the state."

They note that even though Pennsylvania's financial report was for the fiscal year



ending June 30, 2022, the State Employees Retirement System's liability was measured for the year ended Dec. 31, 2021.

In that fiscal year, the report says, the liability decreased because the system's investments experienced an unrealized gain of 17.2 percent, a \$5.7 billion increase. The calculated amount of the state's unfunded retiree health promises also declined because of an increase in the discount rates used to calculate the current value of benefits to be paid in the future.

"However, these positive economic factors did not change the fact that Pennsylvania needed more than \$51 billion to pay its outstanding bills, including unfunded retirement obligations," they added.

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TAXPAYER 'SINKHOLE'

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The report — a project done in partnership with the University of Denver's School of Accountancy — says the majority of states' debt comes from retirement plans, such as pension and retiree health care benefits. They found, on average, the 50 states had only set aside 71 cents for every dollar of promised benefits to fund pensions, and 11 cents for every dollar to fund retiree health care promises.

Every state except Vermont has a balanced budget requirement, which means states should not carry any debt. However, they found that 28 states could not pay all their bills.

Truth in Accounting, or TIA, takes the money a state needs to pay bills and divides it by the estimated number of taxpayers. The resulting number is a "taxpayer burden." Conversely, a "taxpayer surplus" is the amount of money left over after a state's bills are paid, divided by the estimated number of taxpayers in the state.

States are split into two groups — "sunshine states," which had enough funds to pay their bills, and "sinkhole states," which did not.

Pennsylvania falls into the latter category and is ranked 36th.

States are graded according to the amount of taxpayer burden or surplus they have. "As" and "Bs" are given to governments that have met their balanced budget requirements and have a taxpayer surplus. A passing grade of "C" is for those who come close to meeting their balanced budget requirement and have a small taxpayer burden. And "Ds" and "Fs" apply to governments without balanced budgets and have significant taxpayer burdens.

The top five sunshine states are Alaska, with a surplus of \$80,000, followed by North Dakota, Wyoming, Utah, and Tennessee.

The bottom five sinkholes include 46th-ranked Hawaii, followed by Massachusetts, Illinois, Connecticut, and New Jersey — which has a taxpayer burden of \$53,600.

"We are happy to see state debt decreasing but states should not count on temporary federal funding and increased tax collections to fix their long-term problems," says Sheila Weinberg, founder & CEO of Truth in Accounting. "Elected officials need to include the true costs of government in their budget calculations, including accruing retirement benefits so that they can make real progress towards a healthier financial future."