IFO: PENNSYLVANIA TO HIT BUDGET DEFICIT NEXT YEAR

By Anthony Hennen, The Center Square

After a budget deal passed in the Capitol, a Pennsylvania state agency warns that the surplus will be depleted next year.

The $47.6 billion budget, slightly less than Gov. Josh Shapiro's $48.3 billion proposal that Republicans called "a budget of unicorns and rainbows," will increase spending by $2.7 billion, including more than $1 billion for education.

But the Independent Fiscal Office is warning that the general fund surplus – which stood at $6.6 billion in 2023-24 – will vanish by 2025-26 and the state will be left with a $1.6 Billion deficit.

The state's rainy-day fund, however, will grow from $7 billion to $7.7 billion in the same time period.

The fundamental problem is that the state's spending outpaces its tax revenues. In 2023-24, the IFO expects net revenues to be $43.5 billion, but spending to be $45 billion. By 2025-26, revenues are estimated to be $44.7 billion – and $49.5 billion of expenditures.

Though net revenues are expected to grow by 1.2 percent and 1.6 percent, respectively, the IFO expects spending to grow by 5.9 percent and 4 percent.

Nor is the change solely due to spending increases – it's also a result of tax policy reforms like the corporate tax rate cut. The IFO also noted that the cost of government workers will increase due to new wage contracts that include health care and pension costs. Almost 20 percent of spending from the general fund goes to personnel costs.

A minor silver lining is if the governor's budget estimates are more accurate. The IFO revenue estimate is $320 million lower than the governor's; if tax payments do better than the IFO expects, then the deficit would be reduced. For the last fiscal year, the IFO's estimate was off by $273 million (0.6 percent) than actual revenues.

The analysis, though, isn't the first time the IFO has warned of Pennsylvania's worsening fiscal outlook. In 2023, the agency noted that the commonwealth's aging population could push it into a $4 billion deficit by 2028. A shrinking labor force means that fewer workers will be relied upon to fund an increase in state spending unless tax policy or government spending changes.