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Independent Fiscal Office Releases Long-Term Economic and Budget Outlook

(Harrisburg) - - Director Matthew Knittel has announced the release of the Independent Fiscal Office's long-term economic and budget outlook. The report, entitled *Pennsylvania's Economic & Budget Outlook: Fiscal Years 2016-17 to 2021-22*, will be available for download on the office website (www.ifo.state.pa.us).

The report evaluates the demographic, economic, revenue and expenditure trends that will affect the Commonwealth's fiscal condition through fiscal year (FY) 2021-22. Updated revenue estimates suggest policymakers could face a budget imbalance of more than \$500 million in the current fiscal year. The projected imbalance expands to \$1.7 billion in FY 2017-18 and reaches \$3.0 billion by FY 2021-22 based on current fiscal policies.

"While recently enacted revenue enhancements and expenditure policies had a meaningful impact on the FY 2016-17 budget, the impact diminishes over time; therefore, the long-term fiscal outlook is largely unchanged from last year." Knittel said.

The report finds that multiple factors will affect the Commonwealth's fiscal condition through FY 2021-22.

- Funding shortfalls for the Department Human Services could require supplemental appropriations of \$388 million in FY 2016-17. These potential supplemental expenditures, which have implications for multiple fiscal years, are in addition to the fiscal imbalances identified in the report.
- The recent budget package produced revenues and savings of nearly \$1.1 billion in the current year, but the net impact declines to \$41 million by FY 2021-22 as one-time revenues expire and loan repayments and funding shifts take effect.
- The growth rate for pension contributions moderates after FY 2017-18. While expenditures remain at historically high levels, the double-digit annual growth rates are projected to abate.
- Pennsylvania's fiscal outlook is constrained by its demographics. A projected contraction of the working age population (ages 20-64) moderates economic growth. An increase in the 65+ cohort (14.7 percent through 2020) will (1) restrain tax revenues due to the changing income and spending patterns associated with an aging populace and (2) increase healthcare and other expenditures associated with the long-term care of the elderly.

The Independent Fiscal Office provides revenue projections for use in the state budget process along with impartial analysis of fiscal, economic and budgetary issues.

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