

FOR IMMEDIATE RELEASE

November 15, 2018

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 *Economic & Budget Outlook: Fiscal Years 2018-19 to 2023-24*, is 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) 2023-24. Updated revenue and expenditure estimates suggest policymakers could face a potential budget imbalance of up to \$1.71 billion in the upcoming fiscal year. The potential imbalance falls to \$1.58 billion in FY 2023-24 based on current policies. A new sales and use tax transfer to the Public Transportation Trust Fund beginning in FY 2022-23 reduces revenue by approximately \$500 million annually and contributes to the shortfall in the final two years of the forecast. The imbalance is described as "potential" because policymakers have various tools to control expenditures on a temporary or permanent basis.

"Expenditures are expected to increase by \$2.70 billion in FY 2019-20, which is roughly \$1.70 billion more than the projected increase in net revenues. The factors driving the unusually large growth in expenditures in the budget year are associated with more than \$1.0 billion in one-time funding sources used to balance the FY 2018-19 budget, as well as FY 2019-20 increases in state costs associated with health and human service programs," Knittel said.

The following factors affect projections of the Commonwealth's fiscal condition in the forecast period:

- The projections include mandatory (also referred to as the cost-to-carry) and non-mandatory expenditures. The potential FY 2019-20 imbalance is estimated at \$1.48 billion if the financial statement incorporated only mandatory expenditures.
- Over the last four years of the forecast (FY 2020-21 through 2023-24), three factors drive lower growth in expenditures: (1) SERS and PSERS employer contribution rates stabilize, (2) a contraction of the school age population restrains the growth of Pre-K-12 expenditures and (3) the aging of the Commonwealth's workforce (high wage employees retire and are replaced with less experienced, lower wage staff).
- This report does not assume that a recession occurs over the five-year budget window. Therefore, the economic forecast represents a "best case" scenario. However, the report includes a cautionary note on the economic and revenue implications of a recession. A recent survey of economists by the Wall Street Journal indicates that most economists believe that a recession is more likely than not to occur over the next three years.

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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