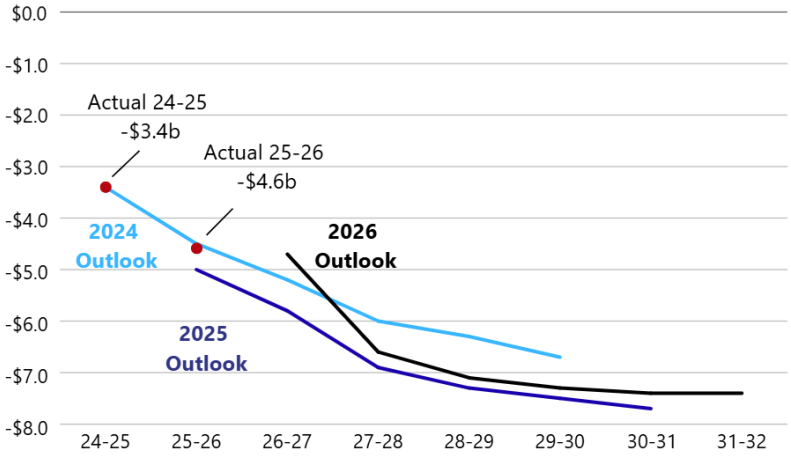
Same Deficit Outlook for New Budget Year

Independent Fiscal Office | Fiscal Outlook | November 2026

Each November, the IFO publishes a five-year fiscal outlook for the Commonwealth. This year's full outlook will be released November 12, and due to the use of temporary measures and savings to balance recent budgets, little has changed from the prior two outlooks (see graph). Reviewing the last three outlooks:

- The **November 2024 Outlook** accurately projected the structural deficit for the contemporaneous (24-25) and subsequent (25-26) fiscal years. The **November 2025 Outlook** was off by $0.4 billion for FY 25-26.
- The **November 2026 Outlook** shows improvement from last year's outlook as revenues outperform expectations due to strong stock market gains, robust business investment and consumer spending. However, revenue gains are partially offset by higher refunds and spending, including a +$218 million spending adjustment for FY 26-27 estimated by the Budget Office in its annual Fall Update.

Structural Deficits: Actuals and IFO Forecasts



Note: Billions of dollars.

Per statute, this year's fiscal outlook includes three performance recommendations for the Executive Budget to "secure greater efficiency and economy."[1] A summary follows with more detail provided in the full outlook:

1 Maintain the Rainy Day Fund (RDF) for Unanticipated Emergencies

For recently proposed budgets, Pennsylvania was the only state to use its entire RDF to bring the long-term budget into balance. Consistent with other states, the outlook recommends limited use of the RDF to partly assist in balancing the budget in the budget year only and maintain most funds for emergencies that "cannot be addressed through the normal budget process."[2]

2 Use a Current Services Baseline for Mandatory Spending

A current services baseline includes both inflationary and demographic adjustments to maintain the real value of per capita services. The U.S. Congressional Budget Office and many states use a current services baseline, and the Pew Charitable Trusts notes that method generates more realistic spending forecasts. This recommendation applies particularly to Department of Human Services (DHS) forecasts, which comprise 41% of General Fund spending. Recently proposed budgets have assumed DHS long-term growth of 1.0% to 1.5% per annum, while actual growth rates have ranged from 6% to 13%. If policymakers must enact permanent, broad-based revenue or spending changes, they must have a realistic assessment of future budget challenges to do that effectively.

3 Provide Alternatives to Speculative Revenue Estimates to Close Structural Budget Gaps

Recent Executive Budgets have proposed new revenue sources such as the regulation of skill games ($2.0 billion per annum) and combined reporting ($1.1 billion) to close budget gaps. Those revenue estimates are subject to significant uncertainty due to lack of data (skill games), ambiguity over groups that will be taxed (combined reporting) and industry response (recreational marijuana license fees). Due to the magnitude of structural deficits and depletion of the General Fund surplus, the outlook recommends that the budget also include estimates of the income or sales tax rate increase needed to close budget gaps. Those new revenues can be enacted quickly and are known with a high degree of certainty. The full fiscal outlook includes a simulation of those tax increases (and a spending sequester) for illustrative purposes.

1 See: Section 604-B (b)(2) of the Administrative Code.

2 See: 72. P.S. § 1703-A.