NOVEMBER 2024

PENNSYLVANIA

ECONOMIC AND BUDGET OUTLOOK

FISCAL YEARS 2024-25 TO 2029-30

IFO Independent Fiscal Office

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INDEPENDENT FISCAL OFFICE

November 14, 2024

The Honorable Members of the Pennsylvania General Assembly:

Section 604-B (a)(2) of the Administrative Code of 1929 specifies that the Independent Fiscal Office (IFO) shall "provide an assessment of the state's current fiscal condition and a projection of what the fiscal condition will be during the next five years. The assessment shall take into account the state of the economy, demographics, revenues and expenditures." In fulfillment of that obligation, the IFO submits this report to the residents of the Commonwealth and members of the General Assembly. In accordance with the mission of the office, this report does not make any policy recommendations.

The data and projections presented in this report are from various sources. Economic projections for Pennsylvania are from the IFO, while projections for the U.S. are from S&P Global. Demographic projections in this report are from the IFO based on data from the vintage 2020 and 2023 Population Estimates by the U.S. Census Bureau. Various other Census products, data from the U.S. Centers for Disease Control and Prevention and data from the Pennsylvania Department of Health were also used. Historical revenue and expenditure data are from the Governor's Executive Budget, the state accounting system and various departmental reports. All revenue and expenditure projections are from the IFO. Other data sources are noted in the relevant sections of this report.

The office would like to thank all of the individuals, agencies and organizations that assisted in the production of this report. Questions and comments can be submitted to contact@ifo.state.pa.us.

Sincerely,

Matthew J. Knittel
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Executive Summary

This report examines the factors that will impact the Commonwealth's fiscal condition through fiscal year (FY) 2029-30 under current laws and policies. For FY 2024-25, the report finds an operating deficit of $3.4 billion (roughly $335 million higher than the official budget approved in June). Through October, revenues have slightly outperformed the IFO's June 2024 forecast, but strong refunds (up $288 million from the prior year) more than offset those revenue gains.

From FY 2024-25, the deficit expands to $6.7 billion by FY 2029-30 as projected expenditure growth (3.4% per annum) outpaces revenue growth (2.2% per annum). The modest revenue growth is attributable to the on-going corporate tax rate reduction, a projected national profits slowdown and a contraction in Treasury earnings (i.e., interest earned on the General Fund surplus). Excluding corporate net income tax and Treasury earnings, General Fund revenues expand at roughly the same rate as expenditures. During the forecast period, the deficit expands by $3.2 billion, and $2.0 billion could be attributed to the revenue impact of policy relative to the FY 2024-25 base year. (See Fiscal Outlook section for more detail.)

The report assumes that the national and state economies expand at rates consistent with long-term trends observed prior to the Covid pandemic, inflation reverts to 2.0% and a recession does not occur. Due to the high degree of uncertainty regarding future federal fiscal policy, the report also assumes that there is no change to federal tax or spending policies. However, due to the expiration of the Tax Cuts and Jobs Act at the end of 2025 and unsustainable federal deficits, some combination of federal spending cuts and/or tax increases is probable, which would have negative implications for the forecast.

General Fund Financial Statement

Fiscal Year	24-25	25-26	26-27	27-28	28-29	29-30
Fiscal Year Revenues	$45,894	$46,676	$47,685	$48,561	$49,779	$51,046
Less Refunds	-1,900	-1,560	-1,540	-1,570	-1,600	-1,640
Net Revenues	43,994	45,116	46,145	46,991	48,179	49,406
State Expenditures	-47,669	-49,783	-51,585	-53,160	-54,665	-56,261
Adjustment for Lapses[1]	250	200	200	200	200	200
Fiscal Year Deficit	**-3,425**	**-4,467**	**-5,240**	**-5,969**	**-6,286**	**-6,655**
Policy Impacts After Base Year	**0**	**-331**	**-693**	**-1,088**	**-1,509**	**-1,958**
CNIT Rate Reduction/NOL Cap	0	-269	-586	-963	-1,368	-1,814
New/Expanded Transfers	0	-7	-17	-27	-27	-27
New/Expanded Tax Credits	0	-55	-89	-97	-114	-116
General Fund Ending Balance[2]	2,950	0	0	0	0	0
Rainy Day Fund Ending Balance	7,191	6,149	932	0	0	0

Note: Millions of dollars.

1 For FY 24-25, excludes $95 million in reduced spending from the fall update.

2 Includes adjustments to beginning balance and the statutorily required transfer to the Rainy Day Fund.

Introduction

This report provides an overview of the demographic, economic, revenue and expenditure trends that will affect the Commonwealth's fiscal condition through fiscal year (FY) 2029-30. The report examines long-term trends to facilitate an assessment of current tax and spending policies. The projections are best viewed as potential outcomes from the application of neutral economic assumptions and the continuation of current policies and demographic trends. Actual revenues and expenditures could deviate significantly from the projections in this report due to the uncertainty of economic outcomes and unanticipated technical factors, such as changes to federal tax laws and matching funds.

The economic projections used by this report motivate most General Fund revenues through FY 2029-30. The projections do not represent a formal economic forecast, but rather a controlled simulation. The simulation provides a neutral baseline that policymakers can use to assess long-term fiscal sustainability. The simulation approach also ensures consistency across publication years because economic growth rates revert to long-term outcomes that reflect technical factors which change slowly over time (e.g., labor productivity, size of the state labor force). As a result, changes to long-term surplus/deficit projections from one publication year to the next will largely reflect policy choices (e.g., new tax credits) or exogenous factors outside the control of state officials (e.g., pandemic stimulus, interest rates, expiration of the federal Tax Cuts and Jobs Act).

This report designates FY 2024-25 as the base year. All revenue and expenditure projections use that year as a reference year and assume that the policy choices embedded therein do not change through FY 2029-30. The forecast assumes that expenditures grow in a manner sufficient to maintain the level of real services provided to service populations in the base year. Hence, most expenditure projections include an inflationary adjustment to compensate for rising prices.

This report projects expenditures supported by General, Lottery and Tobacco Settlement Funds. Certain disbursements from those funds support General Fund programs, and the projections allow policymakers to determine if the funds can maintain their current levels of support. Projections of non-General Fund revenues are included in the Appendix.

Demographic Outlook

Demographics are a critical factor that motivate long-term economic, revenue and expenditure trends. Demographic trends determine key populations such as the labor force that affects economic growth, elementary and secondary students who require educational services and older residents who may require long-term care. All population projections contained in this section are from the *Pennsylvania Demographic Outlook* (October 2024) report that is posted on the IFO website.[1]

Table 1.1
Pennsylvania Demographic Trends and Projections

Age	Number of Residents (000s)				Total Growth		
Cohort	2015	2020	2025	2030	2015-20	2020-25	2025-30
0-19	3,101	3,047	2,919	2,781	-1.7%	-4.2%	-4.7%
20-64	7,616	7,529	7,319	7,168	-1.1	-2.8	-2.1
65-79	1,559	1,840	2,099	2,198	18.0	14.1	4.7
80+	615	579	622	749	-5.8	7.4	20.3
Total	**12,891**	**12,995**	**12,960**	**12,895**	**0.8**	**-0.3**	**-0.5**

Note: Detail may not sum to total due to rounding.

Source: The 2015 data are estimates by the IFO based on the U.S. Census Bureau Vintage 2020 and 2023 Population Estimates. The 2020 data are from the U.S. Census Bureau Vintage 2023 Population Estimates. 2025 and 2030 are projections by the IFO using data from the U.S. Census Bureau and U.S. CDC.

Table 1.1 displays the state population change for four age cohorts over three time periods. Those periods are: 2015 to 2020 (historical), 2020 to 2025 (near-term) and 2025 to 2030 (long-term). While near-term projections should be similar to actual population estimates, long-term projections are less certain because birth, death and migration rates can vary significantly due to changing economic conditions, immigration policies, domestic migration incentives and health care.

Table 1.1 reveals the following trends:

- Total population grew 0.8% from 2015 to 2020 and is projected to decrease slightly in the near term (-0.3%) and during the long term (-0.5%).
- The school age cohort (age 0 to 19) declined 1.7% from 2015 to 2020 and is projected to decline 4.2% in the near term and then decline 4.7% during the long term.
- The working-age cohort (age 20 to 64) declined 1.1% from 2015 to 2020 and is projected to continue to contract by 2.8% in the near term and then decline by 2.1% during the long term. In 2025, this group includes mostly Generation X (born 1965 to 1980), Millennials (born 1981 to 1997) and a portion of Generation Z (born 1998 to 2015).
- The retiree cohort (age 65 to 79) increased 18.0% from 2015 to 2020 and is projected to expand 14.1% in the near term and then 4.7% during the long term. In 2025, this group includes most of the Baby Boomer Generation (born 1946 to 1964).

1 The Pennsylvania Demographic Outlook used data from the U.S. Census Bureau, U.S. Centers for Disease Control and Prevention (CDC) and Pennsylvania Department of Health (DOH).

- The advanced age cohort (age 80+) decreased 5.8% from 2015 to 2020 and is projected to expand 7.4% in the near term and then 20.3% during the long term. In 2025, this group mostly includes the Silent Generation (born 1926 to 1945) and a small number from the Greatest Generation (born 1905 to 1925).

Components of Population Change

Table 1.2 decomposes the change in state population from 2015 to 2030 to illustrate the factors that motivate low population growth rates. Two factors drive trends during the 15-year time period:

- The forecast projects that the number of births will decline while the number of deaths increases. From 2015 to 2020, births outnumbered deaths (organic growth) by 7,000. Deaths are projected to outnumber births by 90,000 from 2020 to 2025 and 126,000 from 2025 to 2030.

- From 2015 to 2020, estimated net migration was 98,000. For 2020 to 2025, the projections assume a reduction to 55,000, which is based on preliminary Census state migration data for 2020 to 2023. For 2025 to 2030, net migration is projected to be 61,000 as it begins to revert towards pre-COVID rates. Census migration estimates do not reflect what the U.S. Congressional Budget Office (CBO) refers to as the recent "immigration surge," which the agency estimates is 8.7 million individuals nationwide for 2021 through 2026.[2] The undocumented surge likely results in a material (but unknown) undercount of the current state population.

Table 1.2
Components of Pennsylvania Population Change

	Time Period		
	2015-20	2020-25	2025-30
Start of Period	**12,891**	**12,995**	**12,960**
Natural Increase	**7**	**-90**	**-126**
Births	684	645	629
Deaths	-677	-735	-754
Net Migration	**98**	**55**	**61**
End of Period	**12,995**	**12,960**	**12,895**
Total Population Gain	**105**	**-35**	**-64**

Note: Thousands of residents. Detail may not sum to total due to rounding.

Source: The 2015 through 2019 data are from the U.S. Census Bureau Vintage 2020 Population Estimates and U.S. CDC with adjustments by the IFO. 2020 through 2023 data are from the U.S. Census Bureau Vintage 2023 Population Projections. 2023 through 2030 data are projections by the IFO using data from the U.S. Census Bureau and U.S. CDC. Calculations by the IFO.

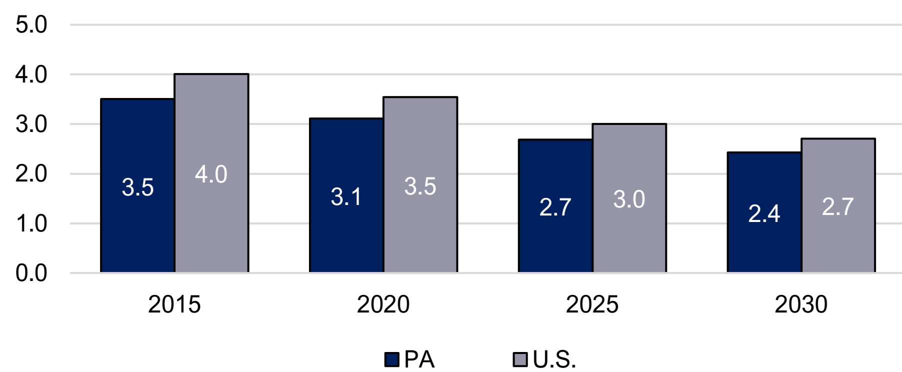
2 See: "Effects of the Immigration Surge on the Federal Budget and the Economy," CBO (July 2024) and "The Demographic Outlook: 2024 to 2054," CBO (January 2024). Figure A-4 in the second document compares CBO projections to the U.S. Census Bureau.

Dependency Ratios

Working-age residents remit the majority of state tax revenues that support dependents who attend school and advanced-age residents who require dedicated healthcare services. Demographers use two metrics known as dependency ratios to illustrate the relationships between these three groups. The two ratios are the working-age (age 20-64) to youth (age <20) and working-age to retiree (65+) populations. From 2015 to 2030, the working-age-to-youth ratio is projected to remain stable at roughly 2.5 for Pennsylvania and 2.3 to 2.4 for the U.S. (not shown in figure below). For Pennsylvania, this implies that there are approximately 2.5 working-age adults per youth.

Unlike the working-age-to-youth ratio, the working-age-to-retiree ratio is trending downward for both Pennsylvania and the U.S. **Figure 1.1** displays this ratio for Pennsylvania (blue) and the U.S. (gray) for 2015, 2020, 2025 (projected) and 2030 (projected). In 2015, there were 3.5 working-age residents per retiree in Pennsylvania and 4.0 for the U.S. Both ratios declined by 2020 (3.1 for Pennsylvania, 3.5 for the U.S.) and are projected to decline further through 2030 (2.4 for Pennsylvania, 2.7 for the U.S.). The downward trend directly corresponds to the retirement of Baby Boomers and the resulting contraction of the working-age population.

Figure 1.1
Pennsylvania and U.S. Working-Age (20-64) to Retiree (65+) Ratios



Source: Pennsylvania data for 2015 and 2020 are from U.S. Census Bureau various Population Estimates with adjustments by the IFO for 2015. Data for 2025 and 2030 are projections by the IFO. U.S. data are from the U.S. Census Bureau. International Database (last accessed on September 11, 2024).

Figure 1.1 illustrates the challenges that policymakers will encounter during the next decade. Over time, there will be relatively fewer working-age residents to support the needs of rapidly expanding retiree and advanced-age populations. Stated differently, the burden of support will fall on a smaller group of taxpayers. The contraction of the working-age cohort implies that real per capita tax levels for that age group must increase to keep pace with the anticipated increase in demand for healthcare and other services.

Revenue Outlook

The baseline economic forecast used for this report assumes that the Pennsylvania economy (1) adds enough jobs to maintain an unemployment rate that ranges from 4.0% to 5.0% (i.e., full employment), (2) the Federal Reserve achieves its long-term inflation target, (3) workers receive a moderate real pay increase that exceeds inflation and (4) a recession does not occur during the next five years. If these assumptions hold, then job gains or the number employed would expand by 0.5% to 1.0% per annum, inflation would average 2.0% per annum and average wage gains would exceed inflation by roughly 1.0%. Total wages and salaries paid to all payroll workers would then expand by the sum of those three factors, or 3.5% to 4.0% per annum. (See top of **Table 2.1**.) Wages and salaries paid is a key economic metric because it motivates most of the personal income tax base (75%) and broad taxes that rely on consumer spending, such as sales and corporate net income taxes. For FY 2023-24, those three revenue sources comprised 86% of General Fund tax revenues.

Table 2.1
Pennsylvania Economic Forecast and Recent Trends

Annual Forecast	2023	2024	2025	2026	2027	2028
Real GDP	2.5%	2.1%	1.4%	1.8%	1.9%	2.0%
Wages and Salaries	4.5%	4.3%	3.8%	4.1%	4.1%	4.1%
Philadelphia CPI-U	4.4%	3.4%	2.6%	2.2%	2.2%	2.2%
Payroll Jobs (000s)	102	70	37	46	47	47

	YOY Growth Rate or Change					
Recent Trends	2023.2	2023.3	2023.4	2024.1	2024.2	2024.3
Real GDP	2.2%	4.2%	3.3%	-0.5%	3.2%	--
Withholding Taxes	4.2%	4.4%	4.2%	4.7%	4.6%	4.4%
Philadelphia CPI-U	3.9%	3.9%	3.7%	3.4%	3.8%	3.4%
Unemployment Rate	3.3%	3.3%	3.4%	3.4%	3.4%	3.4%
Payroll Jobs (000s)	104	81	85	72	90	103
Employment (000s)	82	97	96	78	82	52

Note: All growth rates are year-over-year (YOY) except Real GDP. Data are seasonally adjusted. Jobs figures are YOY change. Payroll jobs exclude self-employed and independent contractors and counts a person with two jobs twice. Employment includes self-employed and independent contractors and multiple jobs holders are counted once.

Source: U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics. All forecasts by IFO.

Recent economic data show that most of the above criteria hold (labor market) or are trending in the right direction (inflation). For 2024 Q3, the year-over-year (YOY) growth rates were as follows: number of jobs (+103,000, 1.7%, preliminary); residents employed (+52,000, 0.8%); Philadelphia CPI-U (3.4%); average real wage (0.8%) and withholding tax revenues (4.4%). (See bottom of Table 2.1.) Overall, these data show that the state labor market remains tight, with an unemployment rate of 3.4%.

The monthly U.S. Bureau of Labor Statistics establishment survey identifies industries and sectors that drive payroll job gains. For the 115,600 annual job gains in 2024 Q3 (preliminary data, non-seasonally adjusted):

- Healthcare generated 39,800 jobs, specifically ambulatory care (22,700, includes physician offices, dentists, outpatient care), nursing homes (7,800) and hospitals (7,100).
- Social Assistance generated 21,100 jobs, and most were services provided to elderly-disabled and families (e.g., counseling).
- Food Service generated 15,100 jobs, notably full-service restaurants (9,600).
- The small Performing Arts-Spectator Sports subsector generated 9,900 jobs (+32% gain). It is unclear what factors motivate these job gains and whether they are permanent or transitory.
- Government generated 7,900 jobs, roughly half for local school districts.

Going forward from 2024, the economic forecast does not reflect any impact from changes to fiscal policy at the federal level. Specifically, the expiration of the federal Tax Cuts and Jobs Act at the end of calendar year (CY) 2025 and the rapidly growing federal debt imply that some combination of tax increase and spending cuts are likely in the near term. Due to the high level of uncertainty regarding the form of those policies, the forecast effectively assumes that current policy is extended. Due to that assumption, and the assumption that a recession does not occur, the forecast disregards many downside risks and should be viewed as optimistic.

Revenue Forecast

For FY 2024-25, the updated General Fund forecast of $45.89 billion reflects an increase of $125 million from the IFO's Official Revenue Estimate released in June 2024.[3] The update reflects:

- An adjustment for a large corporate net income tax (CNIT) estimated payment received in July that was likely delayed from June 2024.
- Strong demand for electricity for CY 2024 as reported in U.S. Energy Information Administration (EIA) data. This strength is expected to positively impact gross receipts tax (GRT) payments in the spring of 2025.
- An earlier-than-anticipated reduction in the federal funds rate that began to positively impact home sales and realty transfer tax (RTT) collections.
- Interest earnings ($38 million) associated with tobacco settlement funds that posted to the General Fund in August and were not included in the FY 2024-25 official estimate.
- A sale of state property ($28 million) that generated a one-time revenue gain in October (Other Miscellaneous).

3 See Official Revenue Estimate FY 2024-25 for more information.

Table 2.2
General Fund Revenues

Fiscal Year	24-25	25-26	26-27	27-28	28-29	29-30
Personal Income	$18,378	$19,259	$20,268	$20,985	$21,951	$22,937
Sales and Use	14,602	15,008	15,401	15,812	16,209	16,611
Corporate Income	5,426	5,038	4,605	4,316	4,062	3,827
All Other	7,488	7,371	7,410	7,448	7,557	7,672
Total Revenue	**45,894**	**46,676**	**47,685**	**48,561**	**49,779**	**51,046**

	Growth Rates					
Fiscal Year	24-25	25-26	26-27	27-28	28-29	29-30
Personal Income	2.9%	4.8%	5.2%	3.5%	4.6%	4.5%
Sales and Use	2.4	2.8	2.6	2.7	2.5	2.5
Corporate Income	-4.0	-7.1	-8.6	-6.3	-5.9	-5.8
All Other	-2.9	-1.6	0.5	0.5	1.5	1.5
Total Revenue	**0.9**	**1.7**	**2.2**	**1.8**	**2.5**	**2.5**

Note: Millions of dollars. All growth rates are year-over-year (YOY).

FY 2024-25 collections are expected to increase 0.9% to $45.89 billion. (See **Table 2.2**.) Revenues then increase at an average rate of 2.7% per annum for FY 2024-25 to FY 2029-30 (prior to impact of the CNIT rate reduction). Notable factors that affect the revenue forecast include:

- CNIT collections contract due to rate/base changes enacted with the FY 2022-23 and FY 2024-25 state budgets. These changes reduce CNIT collections by an estimated $915 million for FY 2024-25 and $2.73 billion by FY 2029-30.
- A "lock-in" effect created by homeowners who obtained historically low-rate mortgages during the past few years and were reluctant to sell begins to abate and RTT collections start to recover. Pent-up demand for purchases drives collections to increase by 10.7% per annum from FY 2023-24 through FY 2027-28.
- Treasury collections remain elevated at $635 million for FY 2024-25, but fall to $89 million by FY 2029-30, as the General Fund balance is depleted next fiscal year, and short-term interest rates revert to historical levels.
- The expansion of various tax credits since the release of the FY 2023-24 Five-Year Outlook (November 2023) reduces FY 2024-25 revenues by $263 million and FY 2029-30 revenues by $347 million.

The subsections that follow provide a summary for the three largest General Fund revenue sources and highlights for smaller revenue sources. Historical data for General Fund revenues can be found at the IFO website.

Personal Income Tax

For FY 2024-25, projected personal income tax (PIT) revenues of $18.38 billion are unchanged from the IFO's official estimate. After a 2.9% increase in FY 2024-25, PIT revenues are projected to grow at an average rate of 4.5% per annum through FY 2029-30. Withholding revenues expand at a slower rate (4.1%), while nonwithholding revenues increase at a faster pace (5.7%) due to business profits and capital gains.

The forecast includes strong growth (5.2%) in FY 2026-27 withholding due to the occurrence of 53 weekly due dates (Wednesdays) in that fiscal year. This strength is reversed in FY 2027-28 (3.0%), as the number of due dates returns to normal. The forecast does not include a PIT transfer to the Environmental Stewardship Fund after FY 2024-25.

Sales and Use Tax

For FY 2024-25, sales and use tax (SUT) collections are expected to increase by 2.4% from the prior fiscal year. Fiscal year non-motor vehicle SUT collections increased 1.0% through October, but growth has been decelerating since the first quarter of CY 2024. The quarterly growth rates (year-over-year) for CY 2024 are as follows: 4.5% (Q1), 2.4% (Q2), 1.6% (Q3). October collections were down 0.7% from the prior year.

Data from the U.S. Census Bureau show that total retail sales for January to August 2024 increased by 2.9%, a deceleration from the same period of the prior year (3.2%). Spending in CY 2024 has been bolstered by nonstore retailers (online shopping, +8.3% year-over-year), and has decelerated across most other sectors. Spending at food and drinking places, which enhanced collections in recent years, was up 5.4% through August, a significant deceleration from the same period in the prior year (12.4%). Preliminary data for September show that total retail sales increased just 1.7% from the prior year. The retail sales data and recent deceleration in quarterly non-motor vehicle collections suggest a slowdown in consumer spending.

For motor vehicle SUT, collections are constrained by (1) rising new vehicle inventories leading to lower sales prices, (2) used vehicle price deflation and (3) elevated interest rates. Fiscal year-to-date motor vehicle collections are down 1.3% compared to the same period in the prior year. According to J.D. Power, the industry continues to produce more vehicles than are sold, leading to rising inventories and declining transaction prices.[4]

For FY 2025-26 to FY 2029-30, the forecast projects that total SUT will expand at an average rate of 2.6% per annum. The forecast projects that non-motor vehicle SUT revenues will expand at a rate of 2.7% per annum and motor vehicles revenues will expand at an average rate of 1.7% per annum.

Corporate Net Income Tax

The forecast projects CNIT collections of $5.43 billion for FY 2024-25, a decrease of $225 million (-4.0%) from the prior fiscal year. For FY 2025-26, revenues contract by 7.1% and then decline at an average rate of 6.6% per annum through FY 2029-30. This pattern is due to (1) a projected corporate profits contraction and (2) policy changes enacted in 2022 and 2024.

4 J.D. Power Automotive Forecast, October 2024. See: https://www.jdpower.com/business/press-releases/jd-power-globaldata-automotive-forecast-october-2024.

For 2024, the preliminary ratio of U.S. domestic corporate profits (excludes profits of the Federal Reserve) to gross domestic product (GDP) is 11.6%, the highest ratio since 1950. The unusually high ratio is driven by resilient consumer demand and historically high profit margins. The U.S. domestic corporate profits forecast from S&P Global assumes that the domestic profits/GDP ratio falls to 10.9% for 2025 (2.0% profits contraction), 10.2% for 2026 (3.1% contraction) and 9.6% for 2027 (1.6% contraction). The taxable Pennsylvania corporate profits forecast used for this report follows that same general trajectory.

CNIT collections are also impacted by tax rate and base changes enacted with the FY 2022-23 (Act 53 of 2022) and FY 2024-25 (Act 56 of 2024) state budgets. Act 53 of 2022 (1) reduced the CNIT rate from 9.99% to 8.99% for tax years beginning after December 31, 2022, with additional reductions of 0.5% each tax year until the rate reaches 4.99% for tax year 2031 and (2) expanded the CNIT base by sourcing certain intangible property to where the benefit is received, and codifying Corporation Tax Bulletin 2019-04 related to nexus. Act 56 of 2024 raised the net operating loss deduction threshold from 40% of taxable profits for tax year 2024 to 80% for tax year 2028 in 10 percentage point annual increments starting with tax year 2025. Combined, the policy changes reduce CNIT revenues by $2.73 billion by FY 2029-30.

Other Revenue Highlights

Other notable trends that affect General Fund revenues (see **Table 2.3**) include the following:

- Tax law changes enacted with the FY 2023-24 and FY 2024-25 state budgets had a material impact on bank shares tax revenues, reducing collections by $73 million for FY 2024-25 and $93 million in FY 2029-30 (roughly 20%-25% of the FY 2023-24 tax base). Changes for both years were enacted after publication of the FY 2023-24 Five-Year Outlook.
- GRT revenues are projected to decrease by 9.4% for FY 2024-25, as taxpayers are expected to revert to typical payment patterns under which estimated payments made for the current tax year comprise a larger share of total payments. This revenue decline occurs despite strong growth in the electricity market for CY 2024, as data from the EIA show that Pennsylvania electricity demand for January to August was up 10% year-over-year. The forecast assumes that (1) electricity tax liabilities increase moderately due to steady demand growth in the region and (2) telecommunications tax liabilities decline by 10% per annum consistent with historical trends. Total GRT revenues are projected to increase by 1.2% per annum from FY 2025-26 through FY 2029-30.
- Cigarette tax revenues are reduced by $115 million annually for debt service related to the Tobacco Settlement Bonds. Base revenues (prior to transfers) are projected to decline 3.0% per annum over the long term.
- RTT revenues are expected to increase 14.3% for FY 2024-25, as mortgage rates begin to moderate, and homeowners no longer delay purchases to retain historically low-rate mortgages available over the past few years. Collections are expected to increase at a rate of 7.7% per annum from FY 2024-25 through FY 2029-30.
- The projection assumes that $185 million will be available annually for transfer from the State Stores Fund to the General Fund.

Table 2.3
Other General Fund Revenue Sources

Fiscal Year	24-25	25-26	26-27	27-28	28-29	29-30
Gross Receipts	$1,259	$1,268	$1,293	$1,301	$1,317	$1,331
Utility Property	44	44	44	44	44	44
Insurance Premiums	560	574	577	588	597	606
Financial Institutions	366	360	369	382	395	408
Cigarette	600	573	549	525	501	479
Other Tobacco	150	156	163	170	176	183
Malt Beverage	21	21	21	21	21	21
Liquor	465	481	498	515	533	552
Realty Transfer	607	691	763	797	836	880
Inheritance	1,693	1,730	1,765	1,807	1,870	1,945
Gaming	381	391	400	410	419	427
Minor and Repealed	-97	-103	-107	-110	-114	-118
Liquor Store Profits	185	185	185	185	185	185
Licenses, Fees & Misc.	1,186	928	819	743	704	655
Treasury	635	429	304	211	147	89
Fines, Penalties & Int.	68	70	71	72	73	74
Total Revenue	**7,488**	**7,371**	**7,410**	**7,448**	**7,557**	**7,672**
Growth Rate	-2.9%	-1.6%	0.5%	0.5%	1.5%	1.5%

Note: Millions of dollars.

Expenditure Outlook

Note: On October 30, 2024, the Office of the Budget released the annual fall update, which anticipates a $95 million net reduction to FY 2024-25 spending. The largest adjustments were to the Medical Assistance Capitation and Community HealthChoices line items and included notations that the estimates would be revised upward once negotiations for the managed care organization (MCO) rates for CY 2025 conclude. Due to the uncertainty of the adjustments included on this year's update and the relatively small net change to overall FY 2024-25 spending, the impact of the fall update is not included in this analysis.

Table 3.1
General Fund Expenditures by Category

Fiscal Year	24-25	25-26	26-27	27-28	28-29	29-30
Education (includes PHEAA)[1]	**$19,375**	**$19,865**	**$20,321**	**$20,755**	**$21,173**	**$21,598**
Pre-K to 12 Education	17,102	17,591	18,044	18,476	18,892	19,315
Higher Education[2]	2,175	2,175	2,175	2,175	2,175	2,175
Other	97	99	102	104	106	108
Human Services[1]	**18,173**	**19,432**	**20,487**	**21,318**	**22,154**	**23,000**
Medical Assistance	5,592	5,860	6,130	6,372	6,616	6,867
Long-Term Living	5,912	6,530	7,019	7,383	7,749	8,114
Intellectual Disability	2,971	3,120	3,314	3,441	3,570	3,702
Other	3,698	3,922	4,023	4,122	4,220	4,318
State Personnel[3]	5,986	6,162	6,319	6,528	6,672	6,840
All Other	4,135	4,324	4,459	4,561	4,665	4,822
Total Expenditures	**47,669**	**49,783**	**51,585**	**53,160**	**54,665**	**56,261**
Growth Rate	6.1%	4.4%	3.6%	3.1%	2.8%	2.9%
Support from Other Funds[4]	$886	$757	$757	$757	$757	$757

Note: Millions of dollars.

1 Excludes state personnel expenses.

2 Includes distributions to Community Colleges, State and State-Related Universities, Thaddeus Stevens College of Technology, Parent Pathways and PA Higher Education Assistance Agency (PHEAA).

3 Includes wages, salaries, bonuses, employer payroll taxes (Medicare and Social Security), and employer contributions to state employee pensions (SERS) and other benefits for retiree and current employees.

4 Includes projected available support to Human Services from the Lottery Fund and Tobacco Settlement Fund and a continued $250 million in Motor License Fund annual support to State Police. See the Appendix for more details on the Lottery Fund and Tobacco Settlement Fund.

For FY 2024-25, state General Fund appropriations are $47.67 billion, a $2.75 billion increase (6.1%) over FY 2023-24.[5] (See **Table 3.1** and **Table 3.2**.) Most of the growth is in Pre-K to 12 Education appropriations (excludes state personnel expenditures, +$1.27 billion, 8.0%), Intellectual Disability (ID, +$273 million, 10.1%) and state personnel (+$398 million, 7.1%).[6] Pre-K to 12 Education appropriations growth was driven by an

5 The text in this section uses the terms appropriation and expenditure interchangeably. However, the spending authority granted to an agency (i.e., the appropriation) need not equal actual expenditures for that year. Unused spending authority is reflected as a lapse that reduces budget shortfalls or increases budget surpluses.

6 This section is organized by the largest programs within selected agencies rather than by agency. Table A.2 in the Appendix provides agency-level projections for the 15 largest state General Fund agencies.

increase in the Ready to Learn Block Grant (+$526 million, +178.0%), two new appropriations for Cyber Charter Transition and Transfer to School Environmental Repairs Program ($100 million each) and Special Education appropriations (+$100 million, 7.2%). Growth in ID was largely due to a new initiative to provide services to more individuals on the waitlist and a one-time bump in weekly payments for FY 2024-25 (53 weekly payments instead of 52).

Table 3.2
General Fund Expenditure Growth Rates by Category

Fiscal Year	24-25	25-26	26-27	27-28	28-29	29-30	AAGR[1]
Education (includes PHEAA)	**7.7%**	**2.5%**	**2.3%**	**2.1%**	**2.0%**	**2.0%**	**2.2%**
Pre-K to 12 Education	8.0	2.9	2.6	2.4	2.3	2.2	2.5
Higher Education	5.8	0.0	0.0	0.0	0.0	0.0	0.0
Other	-1.4	2.3	2.2	2.2	2.2	2.2	2.2
Human Services	**4.7**	**6.9**	**5.4**	**4.1**	**3.9**	**3.8**	**4.8**
Medical Assistance	1.9	4.8	4.6	3.9	3.8	3.8	4.2
Long-Term Living	4.8	10.4	7.5	5.2	5.0	4.7	6.5
Intellectual Disability	10.1	5.0	6.2	3.8	3.7	3.7	4.5
Other	5.1	6.1	2.6	2.4	2.4	2.3	3.1
State Personnel	7.1	2.9	2.6	3.3	2.2	2.5	2.7
All Other	3.8	4.6	3.1	2.3	2.3	3.4	3.1
Total Expenditures	**6.1**	**4.4**	**3.6**	**3.1**	**2.8**	**2.9**	**3.4**
Selected Extrapolators							
Wages[2]	--	2.9	2.7	2.7	2.7	2.7	2.7
Pensions (SERS)[3]	--	-3.2	-0.4	1.9	-3.2	-2.2	-1.4
Retiree Healthcare[4]	--	4.6	1.8	5.4	5.1	5.1	4.4
Employee Healthcare[4]	--	2.9	3.0	3.0	3.0	3.0	3.0
Non-Personnel Expenses	--	2.3	2.2	2.2	2.2	2.2	2.2

Note: See footnotes in Table 3.1 for notes on each category.

1 AAGR is the average annual growth rate from FY 24-25 to FY 29-30.

2 Reflects an average employee turnover factor. Turnover factors vary by agency.

3 Reflects the percentage change in employer contributions as a share of payroll.

4 Separate extrapolators are used for Pennsylvania State Police troopers, Legislature and Judiciary (not shown).

Most projections beyond FY 2024-25 represent General Fund appropriations required to maintain the same level of service provided in the FY 2024-25 base year. Unless otherwise noted, the forecast assumes that FY 2024-25 expenditures supported by federal funds, other state funds or user fees (sometimes referred to as augmentations) continue to receive support from those sources. An exception occurs when it is unlikely that a funding source will be able to provide the same level of relative support in future years. The final line in Table 3.1 shows Support from Other Funds. These other state funds support line items within the Department of Human Services (DHS) and State Police. Funding sources that are unable to maintain the same level of support are described in the relevant subsections that follow and in the Other Funds subsection in the Appendix.

From FY 2024-25 to FY 2029-30, state General Fund expenditures are projected to increase 3.4% per annum over the five-year forecast period (18.0% over the five-year period). Trends over that period are driven by program expenditures for Long-Term Living (LTL) (+$2.20 billion, 6.5% per annum), Pre-K to 12 Education (+$2.21 billion, 2.5%), Medical Assistance (MA) (+$1.27 billion, 4.2%), and ID (+$731 million, 4.5%) and state personnel expenditures (+$854 million, 2.7%). These program areas plus personnel expenditures comprise nearly 80% of total General Fund expenditures.

Factors that motivate expenditure trends include: (1) service populations that expand or contract due to demographics (e.g., age 65+ population); (2) growth of employee wages, pensions, and employee and retiree healthcare; (3) inflation adjustments required to maintain purchasing power of funds appropriated in the base year for all future years and (4) changes in federal funding levels (e.g., federal matching rates for MA programs) that support various DHS program line items.

Methodology

Table 3.2 (previous page) displays growth rates based on expenditure category and the extrapolators used to project General Fund expenditures from the FY 2024-25 base year through FY 2029-30. When possible, base year expenditures by line-item were disaggregated into five categories: (1) wages (includes employee payroll taxes), (2) pensions, (3) employee health care and other benefits, (4) retiree health care and (5) other expenditures (e.g., grants and subsidies, non-personnel expenses). Those categories were forecast separately using relevant extrapolators displayed in Table 3.2 and other miscellaneous extrapolators (not shown) and recombined at the line-item appropriation level. A brief description of the extrapolation procedure for these five categories follows:

<u>Wages:</u> Two factors are used to extrapolate wages. The first factor is an agency-specific employee turnover rate based on data compiled by the Office of Administration (not shown). For most agencies, that factor is slightly negative (most between -2% and -1%) due to retirements and departures at the upper end of the pay scale that are replaced by less experienced, lower compensated employees and the brief transition period in which positions are unfilled. The second factor reflects a (1) cost-of-living increase and (2) general step increase. The forecast uses the latest American Federation of State, County and Municipal Employees (AFSCME) Council 13 and Service Employees International Union (SEIU) Local 668 collective bargaining agreements (CBAs) to forecast the inflation adjustment and step increases.[7] From FY 2025-26 to FY 2029-30, the inflation adjustment is 2.00% to 2.25% per annum and the step increase is 2.25% per annum.

<u>Pensions:</u> The State Employees' Retirement System (SERS) pension extrapolator represents the percentage change in total employer contributions as a share of projected payroll. The SERS extrapolator in Table 3.2 does not include the projected growth in payroll. Hence, the total growth in pension contributions equals the product of (1) the SERS pension extrapolator and (2) the wage growth rate.

<u>Health and other non-pension benefits:</u> The forecast assumes that payments for active employee health care increase at rates specified in the latest AFSCME Council 13 and SEIU Local 668 CBAs for FY 2025-26 and FY 2026-27 (3.0%) and continue at that rate beyond the contract period. Based on the administration's budget instructions to agencies, the retiree healthcare extrapolator assumes that the employer contribution rate increases by 4.6% for FY 2025-26 and then grows at a rate needed to keep the Retired Employees Health Program (REHP) administered by the Pennsylvania Employee Benefit Trust Fund (PEBTF) fully funded.

<u>Non-Personnel:</u> Non-personnel expenses include items such as computers, office supplies and utilities. The forecast assumes those expenditures grow at the same rate as the regional CPI-U. Non-personnel expenses also include grants or subsidies made to local units and institutions. Forecasts for grants and subsidies generally assume that the relevant service population expands or contracts with demographic projections and the average cost to provide services grows with inflation. An exception is Pre-K to 12 Education program expenditures (see subsection that follows).

The remainder of this section presents (1) historical (FY 2018-19 to FY 2024-25) and projected (FY 2024-25 to FY 2029-30) trends and (2) a brief narrative for certain expenditures displayed in Table 3.1.

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7 Most Commonwealth unionized positions are covered by the AFSCME or SEIU contracts. Employees not covered by those contacts typically receive similar pay increases and the forecast assumes that outcome.

Personnel

For FY 2024-25, state General Fund appropriations for personnel across all agencies are $5.99 billion, a $398 million increase (7.1%) over FY 2023-24. From FY 2018-19 to FY 2024-25, General Fund personnel expenditures expanded by 5.5% per annum. (See **Table 3.3**.) Historical growth includes additional Pennsylvania State Police (PSP) personnel expenditures that transitioned from the Motor License Fund (MLF) to the General Fund.[8] If PSP MLF personnel expenditures are included in both FY 2018-19 and FY 2024-25, then the adjusted average growth rate would be roughly 3.7% per annum. General Fund personnel expenditures are projected to increase to $6.84 billion (2.7% per annum) by FY 2029-30.[9] Detail for specific components is as follows:

- For FY 2024-25, state General Fund wages and employer payroll taxes comprised 59% of personnel expenditures. High rates of inflation motivated material negotiated wage increases for recently approved contracts effective in FY 2023-24. For this reason, wages and payroll taxes grew 5.5% per annum during the historical period. For the projection period, wages and employer payroll taxes are projected to grow 2.7% per annum as a function of general pay and step increases and estimated turnover rates.
- State Employee Retirement System (SERS) employer contributions grew 6.0% per annum for the historical period and are projected to grow 1.3% per annum for the projection period. This growth tracks with state workforce wages and the projected change in the employer contribution rate (provided by SERS). Employer contributions are expected to grow at a slower rate due to recent stock market gains and other actuarial trends.
- Other benefits include non-pension benefits paid by state agencies, such as health, life insurance, and other miscellaneous benefits for current and retired employees. Other benefits grew 4.8% per annum for the historical period and are projected to grow 4.1% per annum over the forecast period. Employer payments for active employee health care comprise more than half of other benefits.

Table 3.3
Personnel Expenditures

				Avg. Ann. Growth	
Fiscal Year	**18-19**	**24-25**	**29-30**	**19-25**	**25-30**
Wages-Payroll Taxes	$2,553	$3,529	$4,025	5.5%	2.7%
Pensions (SERS)	856	1,215	1,298	6.0	1.3
Other Benefits	940	1,243	1,517	4.8	4.1
Total	**4,349**	**5,986**	**6,840**	**5.5**	**2.7**

Note: Millions of dollars. Average annual growth for 19-25 is from FY 18-19 to FY 24-25 and 25-30 is from FY 24-25 to FY 29-30.

8 In FY 2018-19, $770 million of PSP appropriations were from the MLF and most of those appropriations were personnel costs. By FY 2024-25, MLF appropriations to PSP were reduced to $250 million, and roughly 82% were budgeted as personnel expenditures.

9 This growth assumes that the MLF appropriation to PSP is held flat at $250 million through FY 2029-30. The growth in MLF-supported expenditures that exceeds $250 million (roughly $39 million in personnel costs by FY 2029-30) is shifted to the General Fund. Excluding the estimated $39 million in FY 2029-30, the adjusted per annum growth rate is 2.6%.

Selected Education

For FY 2024-25, state General Fund appropriations (excludes personnel expenditures) for Pre-K to 12 Education are $17.10 billion, a $1.27 billion increase (8.0%) over FY 2023-24. From FY 2018-19 to FY 2024-25, General Fund Pre-K to 12 expenditures expanded by 5.7% per annum. (See **Table 3.4**.) These appropriations are projected to increase to $19.31 billion (2.5% per annum) by FY 2029-30.

Table 3.4
Selected Education Expenditures

Fiscal Year	18-19	24-25	29-30	Avg. Ann. Growth 19-25	Avg. Ann. Growth 25-30
Pre-K to 12	**$12,289**	**$17,102**	**$19,315**	**5.7%**	**2.5%**
Basic Education	6,095	8,157	9,108	5.0	2.2
PSERS[1]	2,488	3,089	3,675	3.7	3.5
Special Education	1,137	1,487	1,743	4.6	3.2
Pre-K Funds[2]	551	807	901	6.6	2.2
Other	2,018	3,562	3,888	9.9	1.8
Higher Education	**1,685**	**2,175**	**2,175**	**4.3**	**0.0**
State-Related[3]	581	610	610	0.8	0.0
PASSHE	468	621	621	4.8	0.0
PHEAA	323	573	573	10.1	0.0
Other	313	371	371	2.9	0.0

Note: Millions of dollars. Excludes state personnel costs. PASSHE is the Pennsylvania State System of Higher Education. PHEAA is the Pennsylvania Higher Education Assistance Agency.

1 State share of the school employees retirement employer contribution.

2 Includes Early Intervention, Head Start Supplemental Assistance and Pre-K Counts.

3 Includes The Pennsylvania State University, University of Pittsburgh, Temple University and Lincoln University.

The largest share of Pre-K to 12 Education expenditures is Basic Education. The Basic Education appropriation grew 5.0% per annum during the historical period and is assumed to grow with inflation (2.2% per annum) for the projection period. However, this line item is a discretionary appropriation that policymakers have typically increased at a rate that exceeds inflation.

The Pennsylvania School Employees Retirement System (PSERS) state contribution is the second largest appropriation within the Pre-K to 12 expenditure category. During the historical period, this line item increased 3.7% per annum and is expected to grow 3.5% per annum during the projection period. Projections are primarily based on estimated school employee wage growth, projected employer contribution rates (actuarily determined) and provisions within current statute. For FY 2024-25, the state funds 55.75% of total PSERS contributions and employers fund the remainder.

The third largest appropriation within the Pre-K to 12 category is state funds to school districts for special education. During the historical period, the Special Education appropriation grew 4.6% per annum. During the projection period, it is forecast to grow by 3.2% per annum, or the projected rate of inflation (2.2%) plus 1.0%, to cover an assumed continued expansion of the special education population. Unlike Basic Education, the number of pupils enrolled in Special Education programs has grown rapidly. From FY 2018-19 to FY 2023-24, Pennsylvania Department of Education (PDE) data show that the special education population increased by 39,206 (+13.2%) and now comprise roughly one-fifth of all students.[10]

Other Pre-K to 12 expenditures for FY 2024-25 increased $743 million (26.3%) over FY 2023-24 due to a $526 million increase in the Ready to Learn Block Grant and $200 million in new line items ($100 million for Cyber Charter Transition and $100 million for a Transfer to School Environmental Repairs Program). From FY 2018-19 to FY 2024-25, other Pre-K to 12 expenditures expanded by 9.9% per annum and are projected to increase to $3.89 billion (1.8% per annum) by FY 2029-30. Most lines are projected to grow with inflation. A notable exception is the Authority Rentals line item, which is projected to decline by $50 million over the forecast period.

Higher education includes state funds for the Pennsylvania State System of Higher Education (PASSHE), Pennsylvania Higher Education Assistance Agencies (PHEAA), four state-related universities, community colleges and other smaller line items. For FY 2024-25, state General Fund appropriations for higher education are $2.18 billion, $119 million (5.8%) over FY 2023-24. From FY 2018-19 to FY 2024-25, General Fund higher education expenditures expanded by 4.3% per annum. The forecast assumes these discretionary programs remain flat from FY 2024-25 through FY 2029-30, as the assumed rate of inflation (2.2% per annum) is offset by the projected contraction in Pennsylvania college students (-2.3%, rate of contraction over the last 10 years). However, despite declining enrollment, higher education expenditures are discretionary appropriations that policymakers have typically increased at a rate that exceeds inflation.

Medical Assistance (MA)

For FY 2024-25, state General Fund appropriations for MA are $5.59 billion, a $102 million increase (1.9%) over FY 2023-24. From FY 2018-19 to FY 2024-25, General Fund MA expenditures expanded by 3.4% per annum. (See **Table 3.5**.) These programs are projected to increase to $6.87 billion (4.2% per annum) by FY 2029-30. It should be noted that all projected expenditures reflect current policy.

Table 3.5
Medical Assistance Expenditures

				Avg. Ann. Growth	
Fiscal Year	**18-19**	**24-25**	**29-30**	**19-25**	**25-30**
MA-Capitation	$3,304	$3,607	$4,459	1.5%	4.3%
Medicare Payments[1]	755	1,083	1,317	6.2	4.0
MA-Fee for Service	343	649	762	11.2	3.3
Other	187	254	329	5.2	5.3
Total	**4,588**	**5,592**	**6,867**	**3.4**	**4.2**

Note: Millions of dollars. Excludes state personnel costs.

1 Payments for the Federal Government-Medicare Drug Program.

10 Pennsylvania Department of Education, Bureau of Special Education. Special Education Data Reporting.

Capitation comprises about two-thirds of MA expenditures in FY 2024-25 and is the primary driver of overall growth in the MA line item. During the historical period, MA capitation increased 1.5% per annum and is expected to grow 4.3% per annum during the projection period. Health care services for most MA recipients are provided through MCOs that utilize a per member, per month rate (capitation). The FY 2024-25 budget includes a placeholder 3.0% MCO rate increase effective January 1, 2025. To the extent that current negotiations between DHS and the MCOs result in a final rate increase that exceeds the placeholder rate, projected MA capitation expenditures will increase for FY 2024-25 and all future years. Each 1.0 percentage point increase in the MCO rate equates to roughly $140 million in additional state costs (full-year impact).

The second largest item within MA is the federal Medicare Drug Program. Individuals who are dually eligible for Medicare and Medicaid receive coverage for certain drugs under the MA prescription drug program in the event those drugs are not covered under the Medicare Part D plan. The Commonwealth remits payments monthly for this coverage. During the historical period, this line item increased 6.2% per annum and is expected to grow 4.0% per annum during the projection period.

The third largest item within MA is Fee-for-Service (FFS) which funds all services provided to MA recipients not covered under a managed care plan, including primary health care, preventive services and essential care in an inpatient and outpatient setting. During the historical period, the FFS appropriation grew 11.2% per annum and is projected to grow 3.3% per annum during the projection period.

Long-Term Living (LTL)

For FY 2024-25, state General Fund appropriations for LTL are $5.91 billion, a $270 million increase (4.8%) over FY 2023-24. From FY 2018-19 to FY 2024-25, LTL expenditures expanded by 13.4% per annum. (See **Table 3.6**.) The strong growth is primarily due to expansion of the Community HealthChoices (CHC) program, which is committed to providing opportunities for older Pennsylvanians and individuals with physical disabilities to remain in their homes. In FY 2018-19, 88,400 individuals were enrolled and required MA long-term services and supports (LTSS). By FY 2024-25, that figure increased to approximately 160,900 (+82%) and the forecast assumes further expansion to 176,000 (+9%) in FY 2029-30.

Table 3.6
Long-Term Living Expenditures

				Avg. Ann. Growth	
Fiscal Year	**18-19**	**24-25**	**29-30**	**19-25**	**25-30**
MA-CHC	$694	$5,555	$7,647	41.4%	6.6%
All Other	2,082	357	467	-25.5	5.5
Total	**2,776**	**5,912**	**8,114**	**13.4**	**6.5**
CHC Recipients (000s)[1]					
HCBS - Waiver	63.2	119.7	130.9	11.2%	1.8%
Institutional Care	25.2	41.3	45.1	8.6	1.8
Total	**88.4**	**160.9**	**176.0**	**10.5**	**1.8**
MA-CHC $/Recipient[2]	**--**	**$34,500**	**$43,400**	**--**	**4.7**

Note: Millions of dollars. MA-CHC is Medical Assistance-Community HealthChoices. HCBS is home and community based services.

1 Monthly average of recipients receiving services as published in the FY 24-25 Executive Budget. Projections grown by estimated growth in the age 65+ population by the IFO.

2 Actual dollars. FY 18-19 state MA-CHC $/Recipient is excluded because MA-CHC was still in the implementation stage.

CHC is a managed care program for older Pennsylvanians and adults aged 21 and older with physical disabilities. The program coordinates physical health and LTSS needs of participants to improve care coordination and health outcomes, with a focus on home and community-based settings. The appropriation in FY 2018-19 was $694 million. For FY 2024-25, the appropriation is $5.56 billion and is projected to increase to $7.65 billion in FY 2029-30.

A skilled nursing rate increase of 7.04% effective January 1, 2025, results in an increase in MA CHC costs of approximately $115 million (full-year impact). Total LTL expenditures are projected to increase to $8.11 billion (6.5% per annum growth) by FY 2029-30 due to statewide demographic trends, as the forecast projects that the older adult population will continue to expand rapidly.

Intellectual Disabilities (ID)

For FY 2024-25, state General Fund appropriations (excludes personnel expenditures) for ID are $2.97 billion, a $273 million increase (10.1%) over FY 2023-24. The strong growth rate in FY 2024-25 is primarily due to a shift from federal spending (e.g., enhanced federal medical assistance percentage (FMAP), home and community-based services under the American Rescue Plan Act of 2021, etc.) to state general funds. From FY 2018-19 to FY 2024-25, ID expenditures expanded by 8.5% per annum. (See **Table 3.7**.) The robust growth is primarily due to the ongoing effort to reduce waitlists for waiver programs (e.g., Consolidated, Person-Family Directed Services, Community Living). The community-based waiver programs are the largest component of ID expenditures and support individuals who prefer independent living in their homes and participation in their local community. For FY 2024-25, about 1,500 additional individuals with ID and/or autism in the emergency need category will receive services through waitlist initiatives that expanded funding for the Community Living Waiver and the Consolidated Waiver. During the historical period, the Community Waiver Program line item increased 9.2% per annum, and expenditures are projected to increase to $3.17 billion (4.5% per annum) by FY 2029-30.

Table 3.7
Intellectual Disabilities Expenditures

				Avg. Ann. Growth	
Fiscal Year	**18-19**	**24-25**	**29-30**	**19-25**	**25-30**
Community Waiver Program	$1,644	$2,552	$3,174	9.2%	4.5%
Community Base Program	149	160	202	1.4	4.8
All Other	183	258	325	7.2	4.7
Total	**1,976**	**2,971**	**3,702**	**8.5**	**4.5**
# Recipients (000s)[1]	57.3	66.8	75.9	3.1	2.6
$ Per Recipient[2]	**$34,500**	**$44,500**	**$48,800**	**5.2**	**1.9**

Note: Millions of dollars.

1 Number receiving services include those receiving Autism or ID services as published in the FY 24-25 Executive Budget. The FY 29-30 projection assumes 2.6% per annum growth in the service population.

2 Actual dollars.

All Other Expenditures

For FY 2024-25, state General Fund appropriations for all other expenditures (excludes previous subsections) are $7.93 billion, a $328 million increase (4.3%) over FY 2023-24. From FY 2018-19 to FY 2024-25, other expenditures expanded by $2.19 billion (5.5% per annum). (See **Table 3.8**.) These appropriations are projected to increase by $1.32 billion (3.1% per annum) by FY 2029-30.

Table 3.8
All Other Expenditures

Fiscal Year	18-19	24-25	29-30	Avg. Ann. Growth 19-25	Avg. Ann. Growth 25-30
DHS Other	$2,795	$3,698	$4,318	4.8%	3.1%
Treasury Debt Service	1,118	1,137	1,521	0.3	6.0
Corrections	594	818	913	5.5	2.2
DCED	128	460	536	23.8	3.1
Agriculture	126	227	253	10.2	2.2
Health	135	168	187	3.7	2.2
Executive Offices	89	276	236	20.8	-3.1
State Police	59	222	256	24.9	2.9
All Other	694	925	1,027	4.9	2.1
Total	**5,739**	**7,930**	**9,248**	**5.5**	**3.1**

Note: Millions of dollars. Excludes personnel. DHS Other excludes MA, LTL and ID programs. DCED is Department of Community and Economic Development.

Agencies that drove the strong expenditure growth during the historical period include:

- Department of Community and Economic Development (DCED): Due to large increases for certain line items such as Community and Economic Assistance (+$87 million from FY 2018-19 to FY 2024-25), Local Municipal Relief (+$40 million), Marketing to Attract Tourists (+$38 million) and Keystone Communities (+$29 million).
- State Police: Due to the transfer of MLF non-personnel appropriations to General Fund non-personnel appropriations (+$94 million).
- Executive Offices: Due to new programs not in operation during FY 2018-19 such as Transfer to Enterprise and Technology (+$65 million) and Violence Intervention and Prevention (+$57 million).
- Department of Agriculture: Due to programs that were not appropriated from the General Fund in FY 2018-19 such as Agriculture Preparedness and Response (+$34 million), Animal Health and Diagnostic Commission (+$11 million) and Agricultural Innovation Development (+$10 million).

For most agencies, projected growth during the forecast period largely trends with inflation (2.2% per annum). Some exceptions are as follows:

- DHS Other (3.1% per annum) is primarily the result of $129 million in prior year funds used in FY 2024-25 for County Child Welfare that must be replaced in FY 2025-26.
- Treasury debt service (6.0%) is a function of estimated new debt service at projected interest rates and current debt service at existing interest rates.
- For Executive Offices (-3.1%), the forecast assumes that the FY 2024-25 $65 million transfer to Enterprise and Technology is a one-time transfer.

Fiscal Outlook

Table 4.1 displays the fiscal year surplus or deficit for FY 2018-19 (pre-Covid) to FY 2023-24 to provide context for the FY 2024-25 base year deficit.[11] Those amounts are reduced for federal Covid monies received related to the enhanced FMAP and the Coronavirus Relief Fund (FY 2020-21) which temporarily reduced state General Fund spending, and $3.84 billion in State Fiscal Recovery Funds transferred to the General Fund (FY 2021-22).[12] The net amounts reflect the underlying surplus or deficit for the year. With that adjustment, the data show:

- A modest operating deficit for FY 2018-19 that increased significantly in FY 2019-20. However, $1.8 billion of revenues were shifted out of FY 2019-20 due to delayed remittance dates to provide tax relief. If the revenue shift is added back, then the adjusted deficit falls to $1.9 billion.
- A large adjusted surplus for FY 2020-21 ($2.4 billion) and FY 2021-22 ($1.7 billion) as General Fund tax revenues surged by 11.6% (removes shift) in FY 2020-21 and 16.5% in FY 2021-22. The revenue surge was a direct result of the estimated $135 billion of individual and business Covid stimulus monies received in CY 2020 and CY 2021.
- As tax revenue growth abated to 0.4% per annum (from FY 2021-22 to FY 2023-24), the adjusted surplus turned to a $1.1 billion deficit for FY 2023-24 and an estimated $3.4 billion for FY 2024-25.

Table 4.1
Historical Deficit and Surplus

Fiscal Year	18-19	19-20	20-21	21-22	22-23	23-24	24-25
Fiscal Year Surplus/Deficit[1]	-$346	-$2,764	$5,337	$7,633	$3,025	-$791	-$3,425
Less Net Federal Covid Monies[2]	--	964	2,949	5,925	1,741	266	--
Adjusted Fiscal Year Surplus/Deficit	**-346**	**-3,728**	**2,388**	**1,708**	**1,284**	**-1,057**	**-3,425**
Policy Impacts After Base Year	**0**	**-147**	**7**	**-226**	**-941**	**-1,663**	**-3,483**
Education/PHEAA Boost	0	0	0	0	0	0	-1,143
CNIT Rate Reduction	0	0	0	0	-110	-613	-915
New/Expanded Transfers	0	-68	-17	-16	-574	-507	-609
Motor License Fund Shift	0	-32	-64	-270	-270	-395	-520
New/Expanded Tax Credits	0	-47	-68	-124	-233	-391	-564
Gaming Expansion	0	0	156	184	245	243	267
General Fund Ending Balance	0	-2,734	0	5,537	8,085	6,632	2,950
Rainy Day Fund Ending Balance[3]	23	343	244	2,869	5,129	6,250	7,191

Note: Millions of dollars.

1 Fiscal Year Deficit for FY 18-19 excludes the impact of one-time revenue sources (1) from the MCO gross receipts tax ($352 million) and (2) pursuant to Master Settlement Agreement litigation ($344 million).

2 Net Federal Covid Monies includes funds related to enhanced FMAP, the Coronavirus Relief Fund (FY 20-21) and $3.84 billion in State Fiscal Recovery Funds transferred to the General Fund (FY 21-22). All amounts are reduced for the estimated impact of the extra state spending incurred from required higher Medicaid enrollments (i.e., continuous coverage). The adjustment roughly approximates the budget deficit/surplus in the absence of stimulus funds and it does not include all stimulus funds used by the state.

3 Includes transfers to the Budget Stabilization Reserve Fund and interest earnings.

11 The fiscal year deficit for FY 2018-19 excludes the impact of one-time revenues from (1) the managed care organization (MCO) gross receipts tax ($352 million) and (2) Master Settlement Agreement litigation ($344 million).

12 The federal Covid monies shown are reduced for the extra state spending incurred from required higher Medicaid enrollments (i.e., continuous coverage) due to the public health emergency.

The middle portion of Table 4.1 shows the General Fund impact of various policies since FY 2018-19. Amounts are not shown for the first year because any policy impact is included in the adjusted fiscal year deficit computation (-$346 million). Years after FY 2018-19 show the revenue change relative to that base year. These data show that the total deficit expansion ($3.1 billion) could be attributed to various policy decisions that were made or took effect since FY 2018-19 ($3.5 billion) such as the recent boost in education funding, CNIT rate reduction, the new transfer from motor vehicle sales tax to the Public Transportation Trust Fund (Act 89 of 2013), reduced reliance on the Motor License Fund for State Police funding and expanded tax credits.

The bottom portion of the table shows the General Fund and Rainy Day Fund ending balances. Both balances ramped up quickly due to substantial infusions of federal monies directly to the state and to individuals and businesses ($135 billion) through various relief programs such as economic impact payments ($34 billion), unemployment compensation ($49 billion, includes state monies) and forgiven Paycheck Protection Program (PPP) loans ($31 billion). By the end of FY 2024-25, the forecast projects a combined surplus for both funds of $10.1 billion.

Table 4.2 combines the revenue and expenditure projections from prior sections to identify any potential long-term structural imbalance over the forecast period.[13] Under current laws and policies, the structural deficit is projected to be $6.7 billion by the end of the forecast period (FY 2029-30). Increased demand for long-term care and phased-in policy changes explain most of the increase in the structural deficit over the five-year window. (See middle portion of table for policy impacts relative to the FY 2024-25 base year.) The FY 2024-25 projected General Fund ending balance plus Rainy Day Fund balance ($10.1 billion) is sufficient to offset projected budget deficits through FY 2026-27 if used for that purpose. Under current law, a distribution from the Rainy Day Fund upon the request of the Governor requires legislative approval (two-thirds majority) and can only be used for emergencies involving the health, safety or welfare of Commonwealth residents or economic downturns resulting in significant unanticipated revenue shortfalls that cannot be addressed through the regular budget process.

Table 4.2
General Fund Financial Statement

Fiscal Year	24-25	25-26	26-27	27-28	28-29	29-30
Fiscal Year Revenues	$45,894	$46,676	$47,685	$48,561	$49,779	$51,046
Less Refunds	-1,900	-1,560	-1,540	-1,570	-1,600	-1,640
Net Revenues	43,994	45,116	46,145	46,991	48,179	49,406
State Expenditures	-47,669	-49,783	-51,585	-53,160	-54,665	-56,261
Adjustment for Lapses[1]	250	200	200	200	200	200
Fiscal Year Deficit	**-3,425**	**-4,467**	**-5,240**	**-5,969**	**-6,286**	**-6,655**
Policy Impacts After Base Year	**0**	**-331**	**-693**	**-1,088**	**-1,509**	**-1,958**
CNIT Rate Reduction/NOL Cap	0	-269	-586	-963	-1,368	-1,814
New/Expanded Transfers	0	-7	-17	-27	-27	-27
New/Expanded Tax Credits	0	-55	-89	-97	-114	-116
General Fund Ending Balance[2]	2,950	0	0	0	0	0
Rainy Day Fund Ending Balance	7,191	6,149	932	0	0	0

Note: Millions of dollars.

1 For FY 24-25, excludes $95 million in reduced spending from the fall update.

2 Includes adjustments to beginning balance and the statutorily required transfer to the Rainy Day Fund.

13 A long-term structural imbalance is an imbalance that remains after unusual economic conditions or other factors (e.g., one-time revenue transfers) are no longer relevant or available.

From FY 2024-25 to FY 2029-30, average expenditure growth (3.4% per annum) significantly exceeds average revenue growth (2.2%). Notable factors that motivate these trends include:

- By FY 2029-30, revenues are reduced by $1.8 billion due to the net impact from CNIT rate reduction and higher net operating loss deduction threshold. This is in addition to the roughly $915 million of the rate reduction already built into the base year (FY 2024-25).
- Historically high levels of corporate profits that boosted revenues for TY 2022 and TY 2023 revert to levels more consistent with the size of the overall economy (i.e., GDP). Nearly all U.S. macroeconomic forecasts include a profits contraction or partial reversion over the next five years.
- Treasury collections fall from $635 million in FY 2024-25 to $89 million by FY 2029-30 as General Fund balances are used to fund projected operating deficits and short-term interest rates decline.
- DHS expenditures grow at an average rate of 5.0% per annum from FY 2024-25 to FY 2029-30, largely due to strong growth for Long-Term Living (7.4% per annum). Factors that affect DHS program costs over this time include (1) a significant increase in the number of Pennsylvanians age 80+ and (2) increased demand for MA long-term services and supports.

Table 4.3 compares the deficit projection from this outlook to the outlook published November 2023. Based on this comparison:

- The actual deficit for FY 2023-24 was close to projection. The amount was higher than anticipated due to an unusually high level of refunds.
- Projections of future deficits increase by $1.5 billion to $2.3 billion. The bottom portion of the table lists various factors not included in the prior outlook that drive higher deficits. The $1.0 billion boost to education spending is a partial response to the Commonwealth Court ruling in the Pennsylvania school funding case. PHEAA received a substantial increase (33%) to expand tuition support for Pennsylvania residents who attend institutions of higher education. The tax credit expansion reflects the increase in the educational and various other tax credits. Support from the Motor License Fund for State Police operations declined by $125 million and is assumed to remain at the FY 2024-25 level ($250 million). New or increased transfers that leave the General Fund include PHARE (-$40 million fully phased in) and Clean Streams (-$50 million per annum).
- The residual difference not explained by the factors itemized in Table 4.3 is attributable to various technical factors. Most of those factors are (1) funding increases across agencies not itemized in the table and (2) a permanent reduction in the level of tax overpayments (higher refunds), which reduces tax payments in the base year and is carried forward to all projection years.

Table 4.3
Deficit Projections: November 2023 vs November 2024

Fiscal Year	23-24	24-25	25-26	26-27	27-28	28-29
November 2023 Outlook	-$624	-$1,959	-$3,018	-$3,303	-$3,779	-$4,016
November 2024 Outlook	-791	-3,425	-4,467	-5,240	-5,969	-6,286
Difference	**-167**	**-1,466**	**-1,449**	**-1,937**	**-2,190**	**-2,270**
Policy Changes		**-1,572**	**-1,618**	**-1,707**	**-1,778**	**-1,850**
Education Boost		-1,000	-1,000	-1,000	-1,000	-1,000
PHEAA Increase		-143	-143	-143	-143	-143
Tax Credit Expansion		-241	-269	-298	-303	-317
CNIT NOL Threshold		0	-12	-61	-116	-175
Motor License Fund Transfer		-125	-125	-125	-125	-125
New/Expanded Transfers		-63	-70	-80	-90	-90

Note: Millions of dollars.

Appendix

Demographics

The table that follows is from an IFO report titled *Pennsylvania Demographic Outlook* (October 2024). That report used data from the U.S. Census Bureau and Centers for Disease Control and Prevention (CDC). However, all demographic projections are by the IFO.

Table A.1
Pennsylvania Population Projections 2020 to 2030

Age	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
0-4	697	685	675	666	657	648	645	641	638	636	634
5-9	738	736	732	726	717	707	693	683	672	663	655
10-14	788	779	766	754	747	743	741	736	731	722	711
15-19	824	842	840	843	825	821	817	806	793	785	781
20-24	796	810	805	804	832	839	835	838	835	817	813
25-29	838	824	805	791	780	775	778	788	805	831	838
30-34	872	878	878	873	861	844	827	810	794	783	778
35-39	822	831	838	848	862	872	877	877	872	859	843
40-44	757	774	788	801	810	817	826	833	842	856	867
45-49	767	736	723	724	733	747	764	778	791	799	807
50-54	839	834	818	799	775	749	719	708	709	718	732
55-59	921	895	869	843	821	807	803	791	772	749	724
60-64	918	918	907	894	884	870	847	825	801	780	767
65-69	790	805	820	835	844	848	851	844	833	824	811
70-74	631	661	659	672	691	711	728	744	759	767	771
75-79	420	426	467	488	514	540	569	569	582	598	616
80-84	279	282	291	308	320	327	334	368	386	406	426
85-89	182	179	177	179	181	182	185	191	202	209	213
90-94	89	87	84	83	83	82	81	80	81	81	81
95-99	26	26	26	26	27	26	25	24	23	22	22
100+	4	4	4	4	5	6	7	7	7	7	7
Total	**12,995**	**13,014**	**12,972**	**12,962**	**12,965**	**12,960**	**12,951**	**12,941**	**12,929**	**12,914**	**12,895**

Note: Thousands of residents.

Source: Data from 2020 to 2023 from U.S. Census Bureau 2023 Vintage Population Estimates. 2024 through 2030 are projections by the IFO using data from the U.S. Census and U.S. CDC.

Economics

The economic forecast used for this report follows the general methodology used by the U.S. Congressional Budget Office (CBO). The approach is a simplified "growth accounting" framework, where real economic output or Gross Domestic Product (GDP) is equal to the product of (1) growth in employment and (2) growth in average worker output, also known as labor productivity. For example, if the number of individuals employed grows by 1.0 percentage point and the average productivity of all workers grows by 0.5 percentage points, then real economic growth would equal (1.01) * (1.005) - 1.0, or 1.5%. Hence, an increase (decrease) in employment growth or labor productivity will translate into higher (lower) economic growth.

The state economic forecast is built upon four basic assumptions. They are as follows:

- Over several years, the Federal Reserve achieves its target inflation rate of 2.0%, as measured by the personal consumption expenditures price index. Based on historical trends, the more widely used consumer price index (CPI-U) would increase at a slightly faster pace, and the analysis assumes that rate is 2.2%.
- The Philadelphia CPI-U grows at the same rate as the U.S. CPI-U.
- Statewide labor productivity reverts to a historical average and is consistent with U.S. projections.
- The average worker's wage grows by inflation plus a 1.0% premium that is consistent with historical trends for the U.S. and Pennsylvania.

The economic forecast is somewhat different than forecasts typically issued by government entities or private firms. The forecast assumes that certain economic variables revert to historical rates of growth that are consistent with (1) forecasts for the U.S. economy and (2) demographic projections by the IFO. The main purpose of the forecast is to serve as a neutral benchmark against which policymakers can assess the sustainability of fiscal policies over a five-year time horizon. Therefore, the economic forecast employs a simple methodology and does not attempt to capture the many intricacies of the Pennsylvania economy that may ultimately drive economic growth.

The model first establishes the real growth rate of the Pennsylvania economy, which is a function of employment growth and labor productivity. Prior to 2020, the Pennsylvania economy generated an average of 50,000 net jobs per year. The forecast assumes a reduction in that trend (45,000 average gain) through 2030. This assumption yields an upward trend in the employment to population ratio, which is consistent with pre-COVID historical data. This trend is also consistent with the assumption of higher labor force participation rates. For 2019, the average worker produced $127,200 of real output or production. The forecast assumes that labor productivity reverts to a historical rate of growth of roughly 1.1% per annum. The employment and worker productivity forecasts yield real economic growth of roughly 1.9% per annum.

The forecast assumes that the regional inflation measure follows the level and trends of the national inflation forecast. The CBO forecast assumes that the national CPI-U will increase at an average rate of 2.2% per annum from 2025 to 2030, the same rate assumed by this forecast.

The final primary economic variable is total wages and salaries paid to workers. The Pennsylvania forecast assumes that wages for the average worker will increase by the rate of inflation, plus a modest premium so that the purchasing power of those wages increases over time. For this analysis, that premium is 1.0% per annum. The CBO forecast also includes a premium for U.S. workers, and the premium generally ranges from 1.5% to 2.0% per annum. The Pennsylvania premium is consistent with historical state trends.

Expenditures

Table A.2 displays expenditures by agency. Unlike the Expenditure Outlook section, this presentation includes relevant personnel costs within agency expenditures.

Table A.2
Expenditures by Agency

Fiscal Year	24-25	25-26	26-27	27-28	28-29	29-30
Human Services	$18,961	$20,506	$21,596	$22,468	$23,338	$24,220
Education	18,836	19,328	19,784	20,219	20,638	21,064
Corrections	3,154	3,220	3,294	3,384	3,451	3,524
Treasury	1,195	1,368	1,429	1,464	1,500	1,587
State Police	1,181	1,251	1,288	1,339	1,375	1,423
PHEAA	573	573	573	573	573	573
DCED	499	527	546	558	569	581
Legislature	477	489	502	516	528	541
Judiciary	436	446	457	471	482	493
Executive Office	359	301	308	315	322	330
Agriculture	261	267	274	280	286	293
Health	252	258	264	271	277	283
Environmental Protection	232	238	244	251	256	262
Military & Veterans Affairs	227	233	239	245	251	257
Revenue	222	227	233	239	245	250
All Others	804	818	838	861	881	902
Total	**47,669**	**50,051**	**51,866**	**53,456**	**54,974**	**56,584**
Growth Rate	6.1%	5.0%	3.6%	3.1%	2.8%	2.9%

Note: Millions of dollars. Includes state General Fund expenditures only. DCED stands for Department of Community and Economic Development. PHEAA stands for Pennsylvania Higher Education Assistance Agency.

Other Funds

In addition to the General Fund, the Commonwealth maintains numerous special funds dedicated to specific purposes. In general, this report does not track those funds. However, due to the interaction between two special funds and certain General Fund appropriations, this Appendix projects revenues and expenditures for the Lottery Fund and Tobacco Settlement Fund for FY 2024-25 to FY 2029-30. These forecasts inform the projection of General Fund appropriations found in the main body of the report. Unless otherwise noted, if special funds cannot sustain the same level of funding provided in prior years, the analysis assumes that future General Fund appropriations will increase to make up the difference.

Lottery Fund

Net Lottery revenue from FY 2024-25 to FY 2029-30 is projected to grow 1.4% per annum, while gross ticket sales are projected to increase at a rate of 2.3% per annum. Lottery sales are impacted by:

- Elevated interest rates that inflate advertised jackpots and drive sales, as well as an increase in the price of a Mega Millions ticket from $2 to $5 in April 2025.
- Increased availability of iLottery games which remain popular among some player segments.
- Stagnation of other Lottery games (in-state lottery, numbers, raffle, Keno and Xpress Sports).

The forecast projects that Lottery expenditures increase 0.8% per annum from FY 2024-25 to FY 2029-30. Most funds support programs that address the needs of Pennsylvania's growing older adult population. Details include:

- Appropriations to the Department of Aging are earmarked for general operations, PENNCARE, Pre-Admission Assessment, Caregiver Support, Alzheimer's Outreach, Pharmaceutical Assistance Fund, Grants to Senior Centers, and a new line item in FY 2024-25 of Aging Our Way, PA.
- DHS appropriations are primarily designated for MA Community HealthChoices (CHC).
- Over 70% of funds allocated to the Department of Revenue are used to pay prize monies and fund the Property Tax/Rent Rebate Program (PTRR). Due to an expansion of the PTRR Program and indexation to inflation, less Lottery monies are available for MA CHC.
- Department of Transportation funds are earmarked for the Older Pennsylvanians Shared Ride program and a transfer to the Public Transportation Trust Fund.

Table A.3
Lottery Fund Financial Statement

Fiscal Year	24-25	25-26	26-27	27-28	28-29	29-30
Beginning Balance	**$318**	--	--	--	--	--
Reserve from Prior Year	75	$75	$75	$75	$75	$75
Total	**393**	**--**	**--**	**--**	**--**	**--**
Gross Ticket Sales	5,548	5,668	5,792	5,932	6,077	6,227
Less Field Prizes & Comm.	-3,741	-3,843	-3,950	-4,060	-4,180	-4,304
Transfers, Earnings and Lapse	299	300	305	314	325	335
Net Revenue	**2,106**	**2,125**	**2,146**	**2,185**	**2,221**	**2,258**
Funds Available	**2,499**	**2,200**	**2,221**	**2,260**	**2,296**	**2,333**
Aging	500	511	527	533	539	540
Human Services	378	264	264	264	264	264
Revenue	1,171	1,197	1,224	1,253	1,304	1,332
Transportation	171	171	171	171	171	171
Total Expenditures	**2,220**	**2,143**	**2,185**	**2,221**	**2,278**	**2,307**
Current Year Reserve	-75	-75	-75	-75	-75	-75
Ending Balance	**204**	**-18**	**-39**	**-35**	**-57**	**-49**

Note: Millions of dollars. Beginning balance omitted for FY 25-26 and thereafter.

Tobacco Settlement Fund

The Tobacco Settlement Fund (TSF) receives monies paid to the Commonwealth under the Tobacco Master Settlement Agreement MSA), which ended litigation between certain tobacco companies and state attorneys general. Revenues received by the fund generally are used for health-related programs.

As permitted by Act 43 of 2017, the Commonwealth Financing Authority (CFA) issued 30-year bonds with a principal amount of $1.5 billion backed by proceeds from the MSA. Annual principal and interest payments totaling $115 million began in FY 2019-20 and funds necessary to make the payments are transferred to the CFA. The forecast assumes that $115 million will be transferred annually from the General Fund (cigarette tax revenues) to the TSF to offset the required debt service payments. As a result, the projections assume that the fund is held harmless for the debt service payments.

Revenue projections for the TSF are based on the schedule of annual payments to Pennsylvania included in the Master Settlement Agreement. The expenditure forecast reflects the following assumptions:

- Historical percentage allocations are utilized to project the Department of Health (Tobacco Use, Prevention and Cessation and the Health Research) and certain Department of Human Services (DHS, MA – Workers with Disabilities and Uncompensated Care) line items.
- The DHS Community HealthChoices (CHC) appropriation is $158 million in FY 2024-25 (includes a one-time $15 million increase from the fund balance) and $143 million in FY 2025-26 and beyond.

Table A.4
Tobacco Settlement Fund Financial Statement

Fiscal Year	24-25	25-26	26-27	27-28	28-29	29-30
Beginning Balance[1]	**$201**	**--**	**--**	**--**	**--**	**--**
Gross Settlements[2]	348	$343	$338	$334	$333	$333
Service	-115	-115	-115	-115	-115	-115
Transfer from Cigarette Tax	115	115	115	115	115	115
Total Revenues	**348**	**343**	**338**	**334**	**333**	**333**
Funds Available	**549**	**343**	**338**	**334**	**333**	**333**
Community & Economic Development	4	3	3	3	3	3
Health	192	60	60	60	60	60
Human Services[3]	315	270	270	270	270	270
Total Expenditures	**511**	**333**	**333**	**333**	**333**	**333**
Ending Balance	**38**	**--**	**--**	**--**	**--**	**--**

Note: Millions of dollars. Excludes federal funds.

1 Beginning balance omitted for FY 25-26 and thereafter.

2 Includes interest earnings on the fund balance.

3 FY 24-25 DHS appropriations include $15 million from the fund balance. Not all DHS funds are used to support General Fund spending.