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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 *Economic & Budget Outlook: Fiscal Years 2017-18 to 2022-23*, 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) 2022-23. Updated revenue and expenditure estimates suggest policymakers could face a potential budget imbalance of up to \$0.99 billion in the upcoming fiscal year. The potential imbalance expands to \$1.87 billion in FY 2019-20 and reaches \$2.19 billion by FY 2022-23 based on current policies. The imbalance is described as "potential" because policymakers have various tools to control expenditures on a temporary or permanent basis.

"While long-term fiscal pressures remain, the most recent forecast constitutes an improvement compared to previous projections. Actual and assumed savings, which are built into the baseline, reduce the potential imbalance by approximately \$1 billion annually by the end of the forecast," 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 2018-19 imbalance would be approximately -\$600 million if the financial statement incorporated only mandatory expenditures.
- The recent revenue package is expected to make approximately \$2.3 billion of new revenue available in FY 2017-18, which would be sufficient to maintain a positive ending balance for the current year. However, the budgetary impact largely is temporary as most of the proceeds are derived from borrowing (securitization) and one-time fund transfers.
- Enacted appropriations for FY 2017-18 were flat compared to prior-year spending. While there will be some "snap back" in FY 2018-19 expenditures based on temporary measures employed in the current year, the forecast incorporates savings based on recent cost containment efforts.
- 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 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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