COMMONWEALTH FOUNDATION | **FACT SHEET**

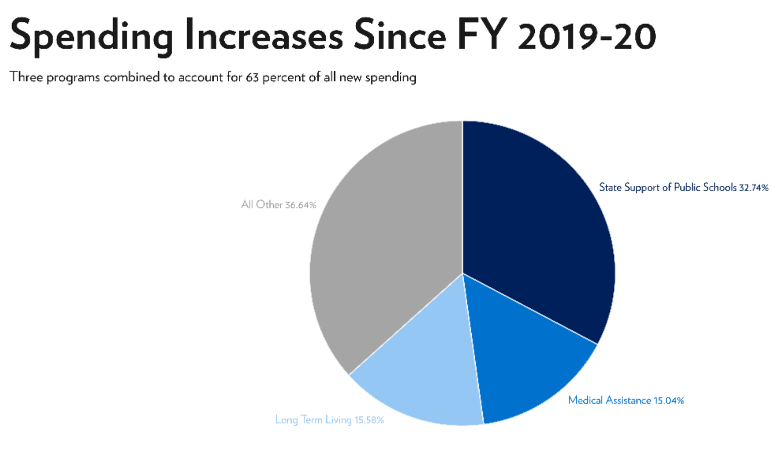
# Pennsylvania’s Looming Budget Challenges

## SUMMARY

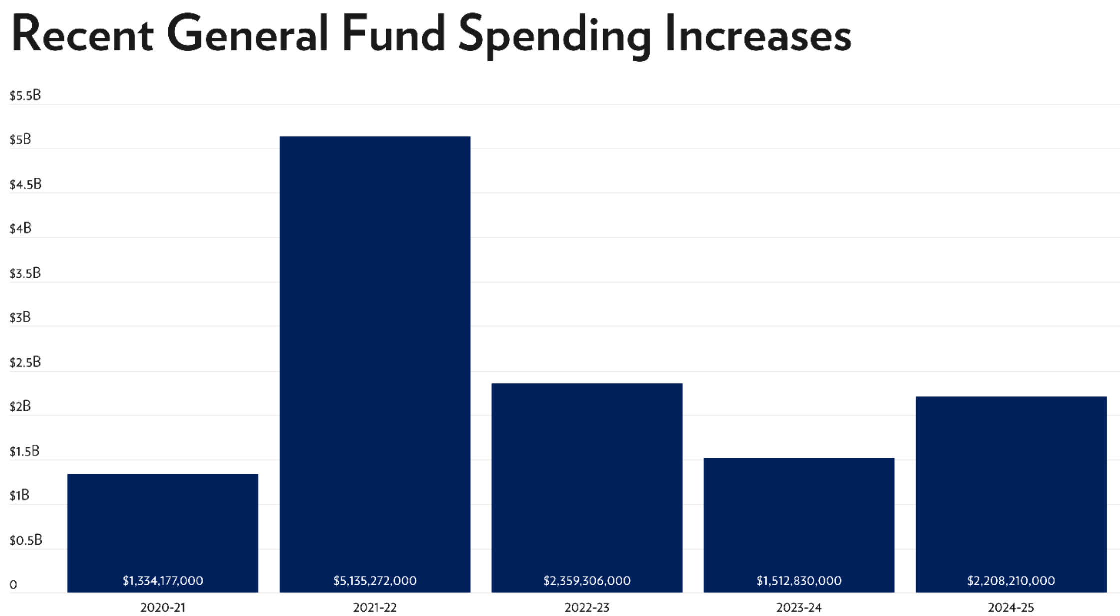

- Pennsylvania’s fiscal year (FY) 2024–25 state budget has created a $3.6 billion structural budget deficit. Without a major shift in direction, this deficit will persist and grow in future years.
- Irresponsible state spending created a structural budget deficit. For five consecutive years, the state government grew faster than the state economy.
- Using the Rainy Day Fund to balance the budget violates state law. Lawmakers should avoid one-time gimmicks like delayed payments or under-budgeting to “balance” the budget.
- Lawmakers must enact a truly balanced budget now before demographic changes make it more difficult to address the commonwealth’s fiscal challenges.


## THE STRUCTURAL DEFICIT

- Pennsylvania’s $47.6 billion FY 2024–25 budget has created a $3.6 billion deficit. With expenditures forecast to grow faster than revenue in the coming years, Pennsylvania faces an ongoing structural budget deficit.
- Pennsylvania’s budget deficit is the direct result of years of irresponsible state spending growth. Expenditures have consistently exceeded state revenues for the past five years. One-time federal funds from the COVID-19 pandemic allowed the commonwealth to temporarily plug budget gaps, boost the General Fund balance, and increase the Rainy Day Fund.
  - Since FY 2019–20, state expenditures have grown by over $12.5 billion while revenues have grown by only $9.47 billion. This expenditure growth has also outpaced key economic indicators.
  - Medical Assistance, Long-Term Living, and state support of public schools are top cost drivers, accounting for $7.9 billion, or 63 percent, of expenditure increases since FY 2019–20.



- The Taxpayer Protection Act (TPA) would limit state expenditure growth to the average rate of inflation and population growth or personal income growth, whichever is lower.
  - The TPA creates a fiscal guardrail and ensures that government spending grows at a sustainable rate, in line with what taxpayers can afford to pay.
  - If Pennsylvania had enacted the TPA in 2019 and kept spending at the TPA limit in each subsequent fiscal year, state spending in FY 2024–25 would have been $41 billion and the state would have the benefit of a $2.8 billion budget surplus.




## BUDGET GIMMICKS

- The Pennsylvania Constitution requires the governor to sign a balanced budget, where expenditures are less than or equal to revenues and general fund reserves.
  - In the past, lawmakers used gimmicks, such as intentional under-budgeting, delayed payments, and self-borrowing to create the illusion of a balanced budget.
  - Another one-time fix would be draining the Rainy Day Fund. Using the Rainy Day Fund to fill an expected budget deficit violates state law, which dictates that the money shall "be appropriated only when emergencies involving the health, safety or welfare of the residents of this Commonwealth or downturns in the economy resulting in significant unanticipated revenue shortfalls cannot be dealt with through the normal budget process."
- This structural deficit requires structural reform soon. Pennsylvania faces demographic challenges that simultaneously increase spending and shrink the tax base, compounding budget challenges.

## CONCLUSION

- Lawmakers must enact a truly balanced budget where ongoing spending is less than or equal to ongoing revenues. The budget must control spending growth by addressing cost drivers in human services while avoiding funding increases for mass transit agencies and corporate welfare.