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### **Assessing Pennsylvania's tax collections & economy**

**By Colin McNickle**

While there are signs that Pennsylvania's overall economy might be improving, the critical question is whether it's growing fast enough to cover some less-than-optimum actions by state government employed to close a series of budget shortfalls, say researchers at the Allegheny Institute for Public Policy.

"If the economy and jobs continue to improve, tax collections almost certainly will pick up as well," say Frank Gamrat, a senior research associate, and Jake Haulk, president of the Pittsburgh think tank.

But the commonwealth must overcome numerous hurdles of its own making, the scholars stress (in *Policy Brief Vol. 17, No. 45*).

"(T)he state continues to face the seemingly intractable problems of corralling spending growth and balancing the budget without relying on gimmicks and the poor practice of borrowing to fund current spending," Gamrat and Haulk say.

On paper at least, budget gaps for fiscal years 2016-17 and 2017-18 have been closed. That, through a combination of expanded gambling options and substantial borrowing against future tobacco settlement receipts.

"Obviously, these borrowed funds will have to be repaid out of future tax revenues that will need to rise even further to cover those payments as well as to meet the likely shortfall in the next budget unless spending is curbed significantly," Gamrat and Haulk note.

That budget, by the way, is due in a short three months. And it remains to be seen if gaming revenue projections will be met, considering that last year's gambling income fell short, the Ph.D. economists remind.

There has been some upturn in the pace of tax revenue flowing to the state. But, again, “will the gains be sustained? That is the question,” Gamrat and Haulk reiterate.

There *are* reasons to be optimistic. Job and income numbers as well as consumer confidence levels are moving higher, they detail.

After a slow start, corporate net income tax collections “were quite strong” from May through September, and stood 10.9 percent above the first quarter of fiscal 2016-17.

Through the first nine months of 2017, personal income tax collections have risen by 3 percent over the same 2016 period and are up a healthy 3.8 percent over year-ago results in the first fiscal quarter, Gamrat and Haulk say.

Sales and use taxes also have experienced gains in the respective nine-month and first-quarter periods, by 3.6 and 3.9 percent.

That said, none of those three metrics is an indicator of future performance, the researchers stress. But, “Given the enormous gains in (stock) share prices this year and the strengthening of home prices, consumer confidence has climbed ... nationally and almost certainly in Pennsylvania as well,” they say.

But Pennsylvania government could continue to be its own worst enemy.

“Given the missteps of the past two years, it will be absolutely necessary to hold spending in check until revenues can cover future spending and pay off the debt incurred to cover this year’s shortfall,” Gamrat and Haulk say.

“At some point, the commonwealth must shed its image as having a poor business climate if it wants to match national economic growth and have the wherewithal to deal with the legacy costs it faces.”

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