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Keystone State Facing More Budget Troubles

The last few months have seen warnings about a revenue shortfall in the current budget year that ends June 30 as well as a forecast $1.4 billion deficit for fiscal year 2014-15. Revenue has fallen short of the budgeted projections as a result of weaker than expected collections in every tax category and most fee categories.

Through May, fiscal year-to-date tax revenues were $605 million below the budget projection. Sales and use tax collections were under the forecast amount by $142.65 million; personal income tax revenue trailed its forecast by $293.16 million and corporate tax collections were below forecast by $115.88 million. These three large sources of revenue accounted for 91 percent of the total revenue shortfall relative to estimated collections. That is not to say the other category shortfalls were insignificant. Inheritance, realty transfer and the "other" taxes category all had collection shortfalls of more than $20 million.

Such widespread revenue shortfalls relative to projections almost certainly reflects the fact that the Commonwealth's economy and job growth have been weaker than the revenue forecast models had assumed. Indeed, there was a dramatic slowing in employment gains in the second half of 2013 and the lingering effect of the shortfall in jobs continues to impact income tax collections as well as sales tax collections. That means the forecasts of revenue for the next fiscal year will have to start from a lower base than was anticipated at the time of the Governor's budget announcement.

And, as a result, the Legislature and the Governor are once again caught up in the perennial battle of where to cut spending or how to raise taxes. Raising taxes should be off the table in light of the big jump in fuel taxes and the imposition of higher fees and fines last November in the transportation bill. But of course they are not with many legislators and candidates pushing the levy of a severance tax on gas extraction. Other taxes on items such as tobacco, etc., that always pop up in budget battles, are also in the mix.

Note too that Turnpike tolls will be rising 5 percent in January as the effort to fund mass transit takes another bite out of the highway users.

All the while, there are many in the Legislature who seem unwilling to face up to the elephant in the room and that is the pension bomb that explodes a little more each year driving up state expenses and school expenses dramatically.

School districts are raising taxes practically every year and even then many are having to cut programs in order to reduce costs. The state is then blamed for not providing enough education dollars when it is staring at its own nightmare of out of control pension funding growth. Of course the protectors of government employees insist that absolutely nothing can be done to arrest the growth of those expenditures because the state has a moral and constitutional obligation to make the promised funds available to the employees upon their retirement—even if that means taxing the state's economy into an ever worsening competitive position and weaker growth prospects.

This intransigence extends to being unwilling even to switch new employees to a partial defined contribution system. With opponents of pension reform not agreeable to the most basic and fair changes, the day is rapidly approaching when the schools and the state will have to begin making major cuts in benefits, or, failing that because of union negotiations, sizable eliminations of positions.

The Governor is absolutely right to demand some meaningful move toward sanity on the pension issue before he will consider tax increases. Tax hikes that provide a band aid cover for the next year will simply require another band aid next year and the year after that and so on. Each tax hike will work to undermine the state's growth potential and weaken the gains in the big tax revenue sources.

It is a supreme irony that with a revenue shortfall resulting from weaker than expected economic growth and slower job gains, even after the big hike in taxes in November and the ongoing Turnpike toll increases, there are so many people who think that more taxes are the answer.

The choice is abundantly clear. Unless the tax raisers are fairly sure the Federal government has a rabbit in its hat and is able to perform a magic trick that will rev up the lackluster national economy, it would behoove them to back away from the tax hike talk. It takes very little courage to raise taxes compared to the courage needed to solve the real problems facing Pennsylvania.

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