

THE MORNING CALL

Drop in population, employment and sales numbers adds to Pennsylvania budget woes

*By Steve Esack and Eugene Tauber
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To Pennsylvania's fiscal troubles comes news from Uncle Sam of another circle of despair.

The latest [U.S. Census](#)' annual population estimate shows Pennsylvania lost 7,700 residents in 2016.

So what's a one-year population loss of less than one-tenth of one percent have to do with the state's bleak finances?

While the population loss is small, it's an unexpected concern added onto Pennsylvania's woes that already include about \$60 billion in pension debt, an unfinished and debt-ridden \$31.6 billion budget, rising borrowing costs due to one of the nation's worst credit ratings, weak job growth and a Republican Legislature and Democratic governor who can't agree on how to fix any of it.

Think of population as a weight on the Treasury's fiscal scales.

More working-age adults with family-sustaining jobs means the state's tax revenues rise to cover government costs and debt. Fewer working-age adults with quality jobs means the opposite. So Census figures showing the population dropping makes the state's economic picture look even more troublesome should that trend continue.

"It's higher expenditure growth and lower tax growth," said Matthew Knittle, executive director of the Legislature's nonparti-

san Independent Fiscal Office, which issues quarterly budget reports.

The state can ill afford that. The budget, which the Legislature needs to complete when it returns Tuesday, is already projected to fall short by about 2 percent to 3.2 percent at the June 30 close of the fiscal year.

In November, Knittle's office reported the deficit could grow to \$1.7 billion by mid-2018 and keep growing through 2021-22. The state's cost for human services, corrections, education and debt expenses are outstripping projected average tax revenue growth by half a percent among workers, shoppers and businesses.

The fiscal office, however, assumed Pennsylvania's population would inch upward by less than one percent as it had the last five years. Instead, the reverse has happened.

Census tracks population change through births, deaths and foreign and domestic net migration. Records show Pennsylvania's overall birth and death rates are holding, the median age is rising, and the state is losing residents through net migration. Those moving out tend to be the age groups contributing taxes, while those who stay are the ones most likely to need government services, a Morning Call analysis shows.

"We are not losing retirees," said Rep. Stan Saylor, R-York, incoming chairman of the House Appropriations Committee. "We are losing working people."

Making matters worse, Pennsylvania is experiencing anemic job growth for remaining working-age adults.

In 2015, the state's job growth was led by the higher paying "professional and business" sector, the fiscal office report shows. But this year, the state's job market growth was fueled by lower paying service positions in health care and social services, and by leisure and hospitality.

Still, 2016's job growth across all employment sectors is down compared to other recent years, said Mark Price, a labor economist at the Harrisburg-based Keystone Research Center, which advocates for taxation that raises sufficient revenue for quality public services.

"The payroll data we have so far indicated that between June 2016 and this November nonfarm payrolls were up 12,000," Price said. The downward growth trend, tracked via federal records, occurred in mining, manufacturing, media, government, retail and service sectors, he said.

"So the jobs performance so far in the fiscal year has been the worst since 2012," Price said.

Pennsylvania's unemployment rate — a measure of jobless individuals actively seeking work — was 5.7 percent in November, or about 1 percentage point above the national average.

Those employment trends help explain why the state's revenue projections were 2.4 percent or \$262 million below expectations as of Nov. 30.

That included \$807.2 million in corporate taxes, which is 6.6 percent below estimate, according to the Department of Revenue. The state's \$4.5 billion in personal income tax collections from small businesses and workers was \$81.1 million, or 1.8 percent below estimate.

Health care systems tend to be the largest employers in a community, said Sen. Pat Browne, R-Lehigh, chairman of the Senate Appropriations Committee. But they do not generate the corporate taxes the state needs,

especially in economically challenged parts of western and northern Pennsylvania, he said.

"Employment as a percentage of the entire economic picture is not where it needs to be," Browne said.

Randy Albright, Gov. Tom Wolf's Budget secretary, said businesses may have been reluctant to make personnel and other investments in 2016 until the presidential election was over. There is hope for an economic rebound heading into 2017. "With the presidential election there was a wait-and-see attitude," Albright said.

Pennsylvania was among 45 states seeing weaker-than-expected tax collections in the first half of 2016, according to a Nov. 30 report by the Nelson A. [Rockefeller](#) Institute of Government at the State University of New York.

A slower sales tax growth can be tied to changing buying patterns and federal tax policy, Saylor said. As more people buy products online, he said, the state loses sales tax revenue because federal law prohibits states from imposing sales taxes on internet purchases. If people delay spending Christmas gift cards, Saylor said, the state's sales and use tax revenue, already nearly 2 percent below expectations, could drop another \$100 million in December.

This is the reality facing lawmakers when the Legislature returns to pass the final bills needed to expand the state's gaming industry to help balance (at least on paper) the state's budget.

Wolf is expected to fill the hole next year with ideas centered on cost savings and innovations, rather than higher income and sales taxes. The administration will not seek to push the burden of state government services onto municipalities, counties and school districts, Albright said.

"What we want to do it is look within and try to control costs," he said.

With a Legislature adverse to general tax hikes, that's about all that can be done. Most of the state's budget is wiped out by manda-

tory payments to rising pension, prison and health care costs while discretionary spending is a fraction of overall spending.

The state cannot tax its way out of its financial problems, Browne said. It's got to change the way it offers services without reducing care to its neediest residents.

"Our senior citizens levels are growing," Browne said.

And revenue is falling in an imbalance of money and people.

Pennsylvania's budget woes

- 12.78 million: 2016 Population, a 0.01 percent loss
- \$31.6 billion: Unfinished 2016-17 budget
- \$604 million-\$1 billion: Estimated state deficit
- One of the lowest credit ratings in the nation
- One-year population loss of 7,700