

The Pew Charitable Trusts' 2023 report "Tools for Sustainable State Budgeting" examines whether and how states are using long-term budget assessments and budget stress tests to measure and strengthen their fiscal outlooks.<sup>1</sup> This is one of 20 fact sheets describing the approaches of and opportunities to improve for each state that produces at least one of these analyses.<sup>2</sup>



# Pennsylvania: Tools for Sustainable State Budgeting

Long-term budget assessment:

Budget stress test:

**Report:** "Pennsylvania Economic & Budget Outlook"<sup>3</sup>

**Office:** Independent Fiscal Office

## Analyses

Each year, the Independent Fiscal Office (IFO) produces one of the most detailed long-term budget assessments of any state. The IFO "Economic & Budget Outlook" report is divided into five detailed sections.<sup>4</sup>

The first two sections discuss Pennsylvania's economic and demographic outlooks, showing, for example, that the state's working-age population is shrinking as a share of the overall population.<sup>5</sup> They also offer context for the next two, which discuss the outlook for revenue and spending—both overall and at a more granular level,

by revenue source and department.<sup>6</sup> The IFO's primary spending projections use a "current services baseline," accounting for factors such as inflation and demographic changes that help shape future demand for state services.<sup>7</sup> The report concludes with the state's overall fiscal outlook, a comparison of revenue and spending projections for the current budget year and five additional years. The edition published in November 2022 showed annual deficits plateauing around \$3 billion in the final three years of the forecast.<sup>8</sup>

The IFO's 2018 report examined how recession scenarios would reduce revenue, but more recent editions have not included this component.<sup>9</sup> Early in the COVID-19 pandemic, the IFO also analyzed how the duration of business closures would reduce revenue.<sup>10</sup> Neither of these analyses was a full budget stress test; they did not assess whether the state was prepared for the potential losses.

Separately, the governor's budget proposal includes five-year projections of revenue and spending that incorporate the effects of policies the governor is proposing.<sup>11</sup>

## **Policy impact**

Released each November, the "Outlook" report helps kick off the General Assembly's annual budget-writing process. The IFO's projections of structural deficits have helped draw lawmakers' attention to Pennsylvania's long-term fiscal challenges.<sup>12</sup>

## **Next steps**

Given the IFO's experience analyzing the effects of stress scenarios on revenue, the office is a logical candidate to begin producing regular budget stress tests. Pennsylvania deposited billions of dollars in its rainy day fund in 2021 and 2022, after the account had remained virtually empty for a decade.<sup>13</sup> A stress test could assess whether these savings are sufficient to prepare for plausible recession scenarios.

In the coming years, lawmakers will need to close the deficits identified in the "Outlook" report. The IFO could help those efforts by analyzing various policy options.

# Endnotes

- 1 The Pew Charitable Trusts, “Tools for Sustainable State Budgeting” (2023), <https://www.pewtrusts.org/en/research-and-analysis/reports/2023/11/tools-for-sustainable-state-budgeting>.
- 2 The Pew Charitable Trusts, “States’ Use of Sustainable Budgeting Tools” (2023), <https://www.pewtrusts.org/en/research-and-analysis/fact-sheets/2023/11/states-use-of-sustainable-budgeting-tools>.
- 3 Pennsylvania Independent Fiscal Office, “Pennsylvania Economic & Budget Outlook: Fiscal Years 2022-23 to 2027-28” (2022), [http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Five\\_Year\\_Outlook\\_2022.pdf](http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Five_Year_Outlook_2022.pdf).
- 4 Ibid.
- 5 Ibid., 5-15.
- 6 Ibid., 17-39.
- 7 Ibid., 29-30.
- 8 Ibid., 41-42.
- 9 Pennsylvania Independent Fiscal Office, “Economic and Budget Outlook: Fiscal Years 2018-19 to 2023-24” (2018), 22-24, [http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Five\\_Year\\_Outlook\\_2018.pdf](http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Five_Year_Outlook_2018.pdf).
- 10 Pennsylvania Independent Fiscal Office, “Projected Revenue Impact of COVID-19” (2020), <http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Revenue-Update-2020-04.pdf>.
- 11 Pennsylvania Office of the Budget, “Governor Josh Shapiro Executive Budget 2023-2024” (2023), Section C, <https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2023-24%20Budget%20Documents/Budget%20Book%202023-24%20Web%20Version.pdf>.
- 12 M. Knittel and B. Warburton (director; deputy director, Pennsylvania Independent Fiscal Office), interview with The Pew Charitable Trusts, Jan. 23, 2023.
- 13 The Pew Charitable Trusts, “Fiscal 50: State Trends and Analysis, Reserves and Balances,” updated March 16, 2023, <https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2014/fiscal-50#ind5>.

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**For more information, please visit: [pewtrusts.org/fiscaltools](https://pewtrusts.org/fiscaltools)**

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