

The Patriot-News, Harrisburg, PA, July 2, 2008

State revenues miss targets as economy sours: Decrease in consumer spending could mean continued shortfalls

By Sharon Smith

Pennsylvanians are spending less, driving less, not changing homes, cutting back on cigarettes and buying fewer cases of beer.

That's not necessarily bad. But the state government counts on the tax revenue associated with those activities to finance its operations, so state taxpayers might have reason to be concerned about any decline in that revenue.

June's general fund revenue collections, which came in \$135 million less than expected, might be a harbinger of what's to come. It is the second consecutive month that revenues have come in below expectations.

The state collected \$2.6 billion for the general fund in June, 4.9 percent less than expected. In May, the state collected \$1.8 billion in the general fund, or 7.2 percent less than anticipated.

If Pennsylvania's economy weakens more than expected, the state could find it has a shortfall. That's a situation other states are facing, forcing decisions on raising taxes or cutting services.

The governor's office acknowledges the state's economy is softening.

"Pennsylvania is not immune from the national recession, even though we are doing far better than most other states," said Chuck Ardo, Gov. Ed Rendell's spokesman. "I think the budget that was agreed to a couple of days ago recognizes the situation as it exists today."

Rendell and legislative leaders reached a basic agreement on a \$28.2 billion spending plan, but the

administration will not make public its revenue projections for the 2008-09 fiscal year until after the budget is signed. That could happen by the end of the week.

If the budget plan turns out to cost more money than Pennsylvania has, the governor's office "will make an evaluation at that time," Ardo said.

Matthew J. Brouillette, president of the conservative think-tank Commonwealth Foundation in Harrisburg, is worried that a tax increase might loom because the budget plan includes a 3.8 percent increase in spending.

For example, Pennsylvania did not immediately feel the downturn during the recession in 2001, but it did ultimately suffer its effects. Gov. Mark Schweiker froze spending in fiscal year 2001-02 due to the decline in revenues. That led Rendell to increase the state's personal income tax rate in 2003.

"This is exactly why they should be enacting a fiscally responsible budget," Brouillette said. "Particularly if we continue in the economic downturn we're already in."

The Rockefeller Institute of Government at the State University of New York released its quarterly report on state revenues Tuesday. It shows that during the first quarter of 2008, state tax revenues nationwide rose only 1.7 percent — the slowest growth rate since 2003.

Pennsylvania might not have suffered the revenue declines to the degree seen in other states, but the state's economy is showing signs of weakness, said Don Boyd, a senior fellow at the institute and co-author of the study.

For example, the Rockefeller report showed that Pennsylvania's sales tax collections were down 1 percent from what was reported the previous year. It's likely that Pennsylvania won't see

the full effects on revenue collections until residents file their personal income taxes, which will reflect losses in investment vehicles such as the stock market.

“The stock market hurts everybody,” Boyd said. “A bad stock market now has repercussions a year from now.”

Those shortfalls, if they materialize, would likely be reflected in Rendell’s 2009-10 budget proposal, Boyd said.

The state does have \$800 million in its Rainy Day Fund, which is meant to protect Pennsylvanians if the state falls short on money.

Erik Arneson, spokesman for the Senate Republicans, said the governor has reduced his 2008-09 revenue projection by about \$270 million.

“If there is a serious shortfall partway through the year, the governor has the ability to freeze some spending to account for that,” Arneson stated in an e-mail.

House Republican spokesman Steve Miskin said lawmakers agreed to a budget that calls for less spending than Rendell initially proposed.