Pennsylvania faces a $1 billion tax shortfall, setting stage for new budget cuts

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The State of Pennsylvania is set to collect $1 billion less in taxes this year than had been originally projected, setting the stage for even further cuts to social programs and education.

In April, the state collected $495 million less in tax revenue than the government had projected. Overall tax revenue is set to be $1 billion below earlier projections when the fiscal year ends June 30. April is the most important month for tax collection each year.

The drop in tax revenue is related to the ongoing economic downturn; the state's unemployment rate remains at six percent, a full two percentage points above its pre-recession low. Nearly 400,000 Pennsylvania residents are unemployed, over 100,000 more than before the start of the recession over six years ago. Many more are not counted because they have either given up looking for work or have been forced to take part-time or low-pay jobs.

The drop in tax revenue is also the result of tax breaks for the super-rich and corporations. The Corbett administration has continued the corporate tax cuts that were enacted by former Democratic Governor Ed Rendell. Corbett has also refused to raise taxes on the gas industry, which has made billions of dollars from the natural gas drilling technique known as hydraulic fracturing (fracking). In a direct giveaway to the financial sector, changes to the tax code for banks made last year have led to a 14 percent decline in tax receipts from the banking industry.

Wall Street has responded to the tax shortfall by demanding that the state make deep budget cuts. In particular, they are demanding that Pennsylvania cut pensions for its state employees and teachers.

Fitch Ratings, the bond-rating agency, has issued a negative outlook for Pennsylvania. Both Moody's and Standard and Poor's are expected to follow. The negative outlook and possible rating downgrade will make it more expensive for Pennsylvania to borrow money on the bond market.

Fitch cited the failure last year of Governor Corbett to push through "pension reform"— that is cuts to state workers' pensions—as contributing to the negative outlook. The bond rating company is demanding that such cuts be made. It added, however, that years of budget cuts may make it more difficult for Pennsylvania to make more cuts.

The fall in tax revenue will mean the state will end the year with over a half billion dollar deficit in its budget. New projections for the 2014-15 budget show that the state will have a $778 million deficit by the end of the year.

Corbett has not yet specified what programs will be cut to make up for the deficit, but he has insisted that he will not raise taxes. Since taking office in 2011, Corbett has cut funding to public education by over $1 billion as well as millions from libraries, museums, public transportation and health and human services.

In addition, the Pennsylvania Department of Public Welfare has denied hundreds of thousands of people food stamps, Medicaid and other services on bureaucratic grounds. A recent report shows that Pennsylvania now rejects 75 percent of all new requests for welfare.

In neighboring New Jersey, the budget shortfall has grown to over $807 million after the state posted a tax shortfall of nearly $600 million in April. All three bond rating companies have lowered New Jersey's bond rating, and Governor Chris Christie is said to be considering massive cuts to make up for the shortfall.

Kansas has also had its credit rating cut after reporting a massive fall in revenue. Last year, the State legislature and Governor enacted a large tax cut. The

State also has over $16 billion in unfunded pension liabilities.

North Carolina is expected to end its financial year with a $445 million, 2.1 percent budget deficit, leading to cuts in education and other services. In six other states—Delaware, Indiana, Kentucky, Oklahoma, Tennessee and West Virginia, revenues are also lower than expected.