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Total Cost of Pennsylvania State & Local Government: 2005-06 and Beyond

Grant R. Gulibon

On a per capita basis, Pennsylvania state and local government expenditures rose 98.2%, from $4,384 in FY 1991-92 to an estimated $8,690 in FY 2005-06.

Executive Summary

The total cost of state and local government in Pennsylvania reached an estimated $108.3 billion in FY 2005-06, and will likely exceed $130 billion by FY 2010-11 (by conservative projections). The current state and local government levels of spending represent an increase of 105%—more than double the concurrent estimated combined rates of inflation and population growth (47.4%)—from the FY 1991-92 level of $52.8 billion.

For every man, woman, and child in Pennsylvania, state and local government expenditures rose by 98.2%, from $4,384 in FY 1991-92 to an estimated $8,690 in FY 2005-06—a rate more than double the concurrent inflation rate of 44%. For FY 2005-06, the estimated per-capita cost of state government was $4,312, and the estimated per-capita cost of local government was $4,378.

During the first three years of the Rendell Administration (between FY 2002-03 and FY 2005-06), the cost of state government increased by an estimated $586 for every man, woman, and child in Pennsylvania, or $2,344 per family of four—a 15.7% increase. During the same time period, local government spending increased by an estimated $680 per capita, or $2,720 per family of four—an 18.4% increase.

If state and local government spending had been limited to the previous year's combined rate of inflation and population growth between FY 1991-92 and FY 2005-06, the amount each Pennsylvanian paid for state and local government today would be $2,400 less today ($6,290 per person, rather than the actual state and local government price tag of $8,690 per capita—$34,760 per family of four).

The rapid increases in state and local government spending demonstrate the need to constitutionally limit the annual growth in how government can spend each year. Without incorporating greater fiscal restraint in the budgeting process, government spending will continue to outpace citizens' ability to pay.

Introduction

The late 1990s were high growth years for Pennsylvania state and local government spending. A roaring national economy and a soaring stock market generated a flood of tax dollars that overfilled government coffers. Many analysts—particularly the Commonwealth Foundation—urged state and local leaders to rein in spending during these boom years, warning that when the economy inevitably slowed down, tax increases would be needed to finance new or expanded government programs.

Unfortunately for the commonwealth's taxpayers, those warnings were not heeded. Since the 2001-02 fiscal year, Pennsylvania state expenditure policy has taken an ominous turn, with substantial tax increases in June 2002 and December 2003, fueling what was an already rapid expansion of state government spending.

The following analysis updates and supersedes actual and estimated data presented in previous Policy Briefs from the Commonwealth Foundation concerning the cost of government in Pennsylvania. It examines state and local spending growth, on an overall and a per capita basis, for the period from FY 1991-92 to FY 2005-06 and compares it to the concurrent estimated growth of Pennsylvania's population and the inflation rate.[1] The data indicate that by any measure, Pennsylvania's state and local governments have increased spending at rates far exceeding the ability of citizens to pay.

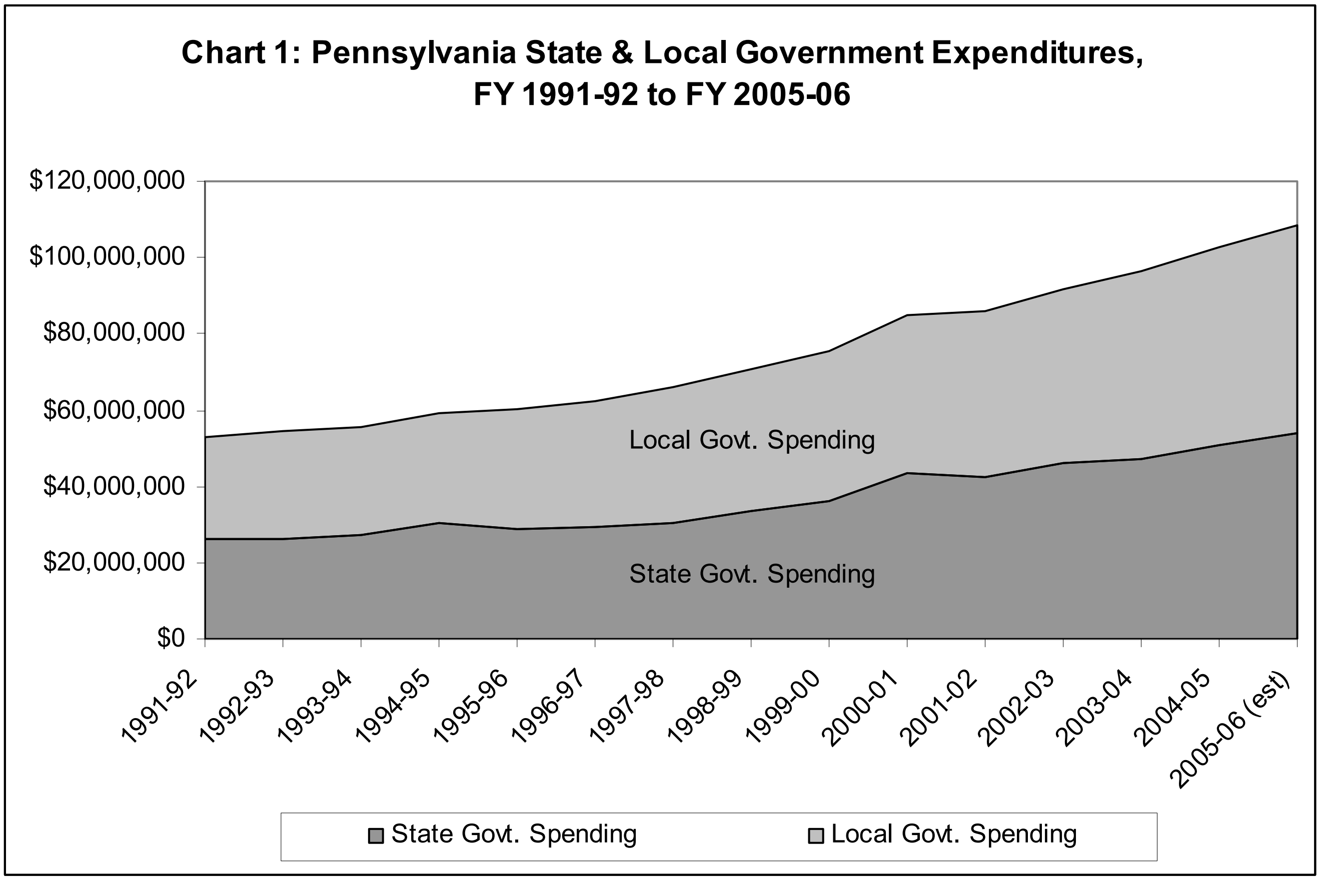
Using data from the enacted FY 2006-07 General Fund budget, estimated Pennsylvania spending from the FY 2006-07 Governor's Executive Budget, as well as estimates of local government spending based upon data reported by the Census Bureau, the following analysis estimates that the total cost of government in Pennsylvania reached $108.3 billion in FY 2005-06 (or $8,690 for every man, woman and child—$34,760 per family of four), and is projected to exceed $130 billion by the 2010-11 fiscal year (or $10,363 on a per capita basis—$41,452 per family of four).

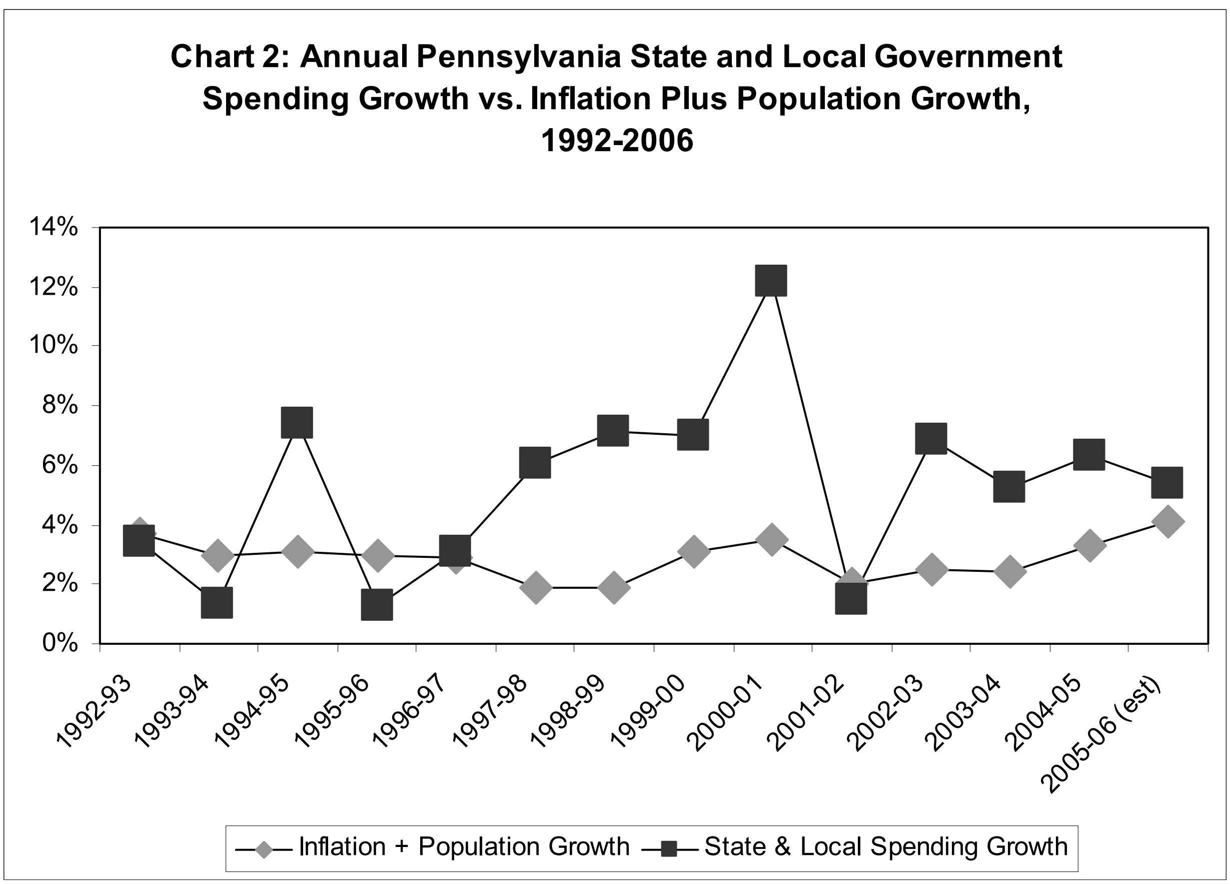
Total State and Local Expenditures: 1991-2006

An analysis of the actual state spending data available to date, as well as estimates of local government spending since FY 2003-04, shows that total Pennsylvania state and local government spending grew from $52.8 billion in FY 1991-92 (a year which included a massive $3 billion state tax increase from the prior year) to an estimated $108.3 billion in FY 2005-06—an increase of 105%. The increase from $52.8 billion (FY 1991-92) to $108.3 billion (FY 2005-06) was more than twice the concurrent 47.4% combined rate of population growth (3.4%) and inflation (44%).[2] (See Chart 1, following page.)

On a per capita basis, Pennsylvania state and local government expenditures rose 98.2%, from $4,384 in FY 1991-92 to an estimated $8,690 in FY 2005-06—more than double the concurrent inflation rate. (See Chart 3, page 4).

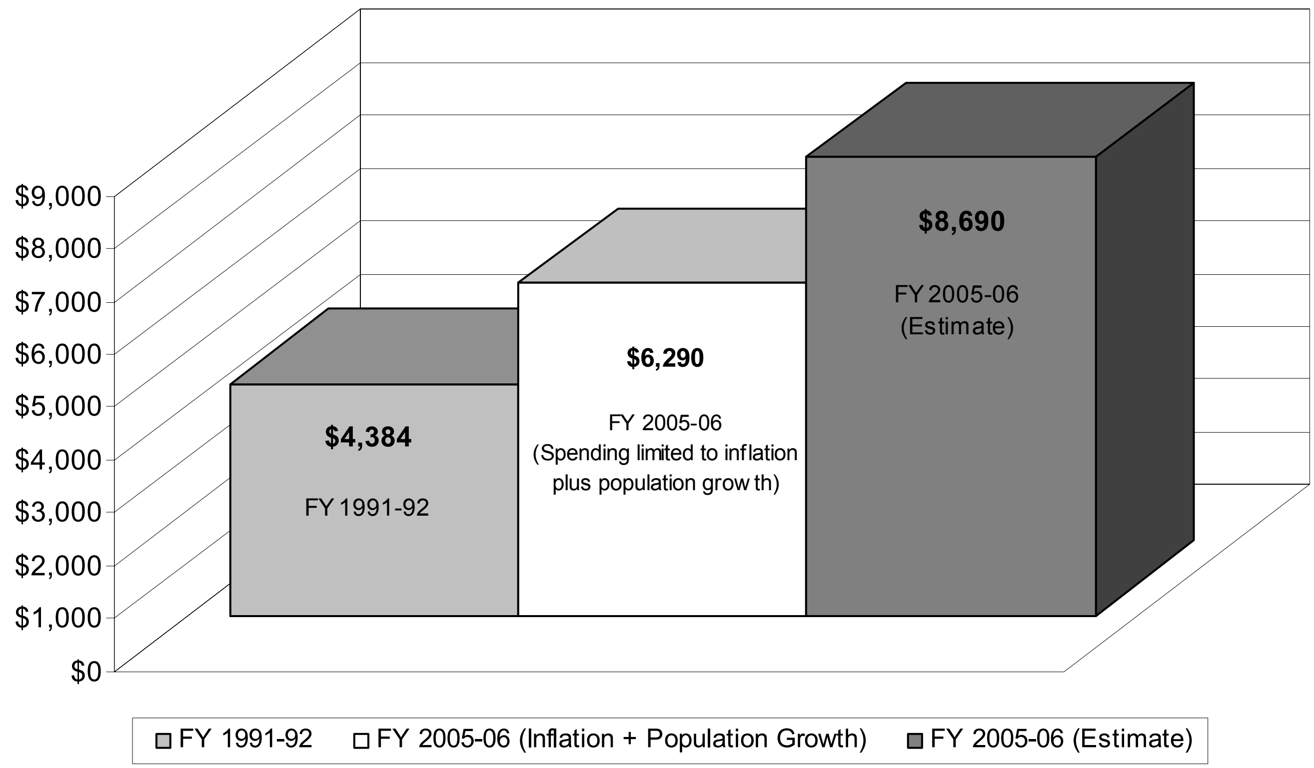
If state and local government spending had been limited to the previous year's combined rate of inflation and population growth between FY 1991-92 and FY 2005-06, the amount each Pennsylvanian paid for state and local government today would be $2,400 less ($6,290 for every man, woman and child rather than the estimated per capita price tag of $8,690).





Sources: United States Department of Commerce, Bureau of the Census; Department of Labor, Bureau of Labor Statistics; Commonwealth of Pennsylvania, Governor's Executive Budget; Commonwealth Foundation calculations

Chart 3: Pennsylvania State & Local Government Per Capita Expenditures: Actual vs. Projected at Inflation + Population Growth, 1991-2006

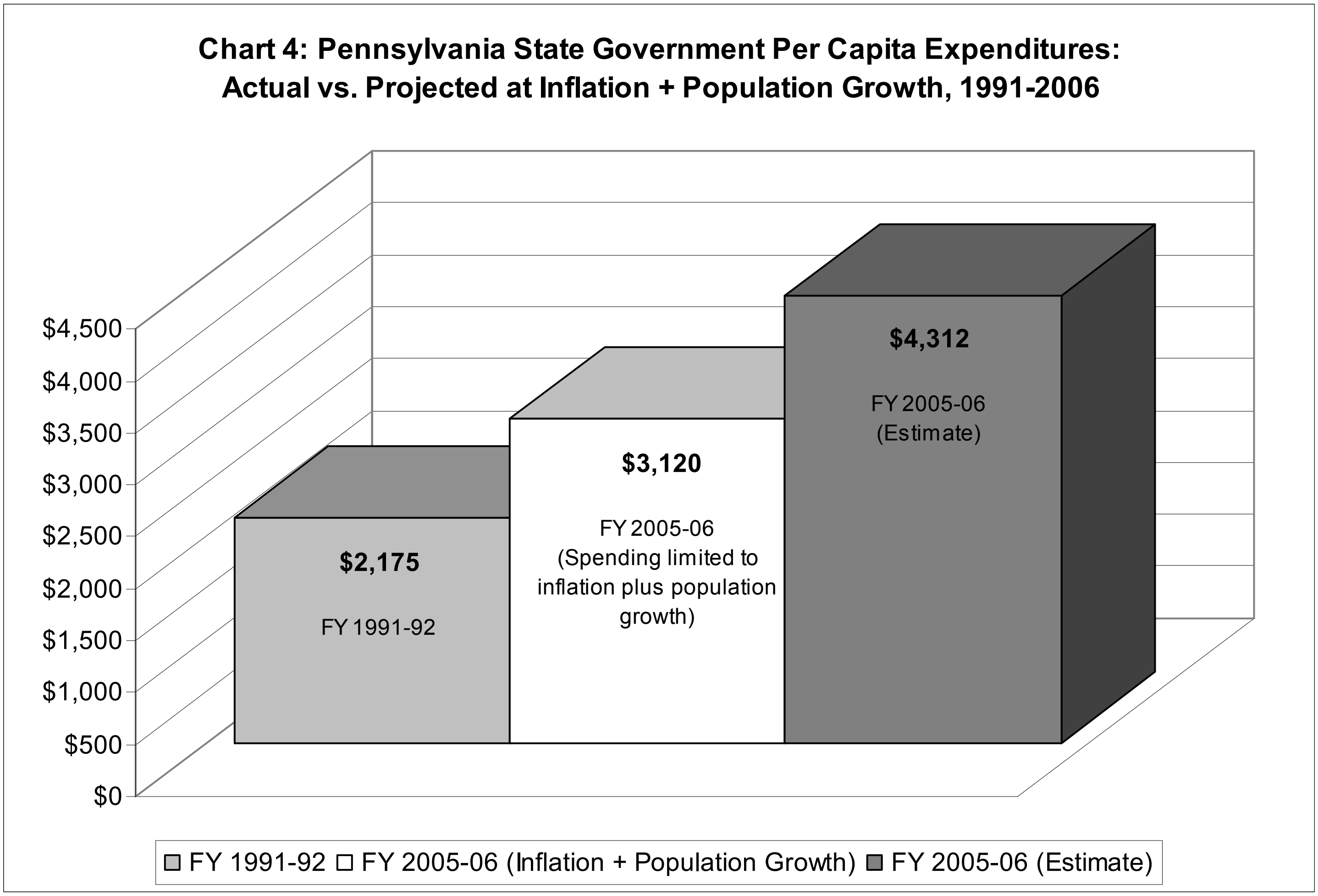


Sources: United States Department of Commerce, Bureau of the Census; Department of Labor, Bureau of Labor Statistics; Commonwealth of Pennsylvania, Governor's Executive Budget; Commonwealth Foundation calculations

State Government Expenditures: 1991-2006

Pennsylvania state government expenditures increased from $26.2 billion in FY 1991-92 to an estimated $53.7 billion in FY 2005-06, or 105%—an increase more than twice the concurrent combined 47.4% rate of inflation and population growth. On a per capita basis, state government expenditures nearly doubled, increasing from $2,175 in FY 1991-92 to an estimated $4,312 in FY 2005-06.

If state spending growth had been limited to the previous year's combined rates of inflation and population growth for each year of the period from FY 1991-92 to FY 2005-06, per capita state spending would be projected at $3,120 in FY 2005-06, or $1,192 *less* than the FY 2005-06 estimate. (See Chart 4, following page).



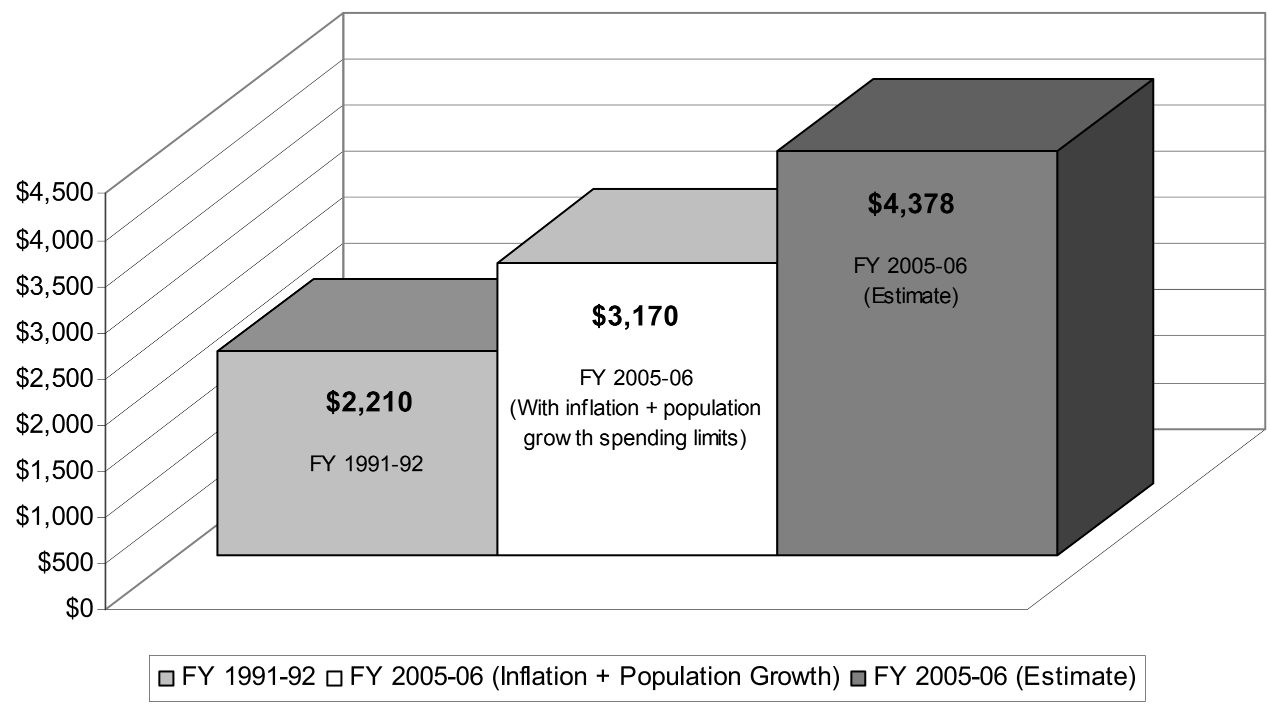
Sources: United States Department of Commerce, Bureau of the Census; Department of Labor, Bureau of Labor Statistics; Commonwealth of Pennsylvania, Governor's Executive Budget; Commonwealth Foundation calculations

Local Government Expenditures: 1991-2006

Pennsylvania local government expenditures jumped from $26.6 billion in 1991-92 to an estimated $54.6 billion in 2005-06, or 105%. Local government spending grew more than twice as fast as the concurrent combined 47.4% rate of population growth and inflation. On a per capita basis, the data are similar, with local per capita spending rising from $2,210 in 1991-92 to an estimated $4,378 in 2005-06—an increase of 98.1%.

If local spending growth had been limited to the previous year's combined rates of inflation and population growth for each year of the period from FY 1991-92 to FY 2005-06, per capita local spending would be projected at $3,170 in 2005-06, or $1,208 *less* than the 2005-06 estimated figure. (See Chart 5, following page.)

Chart 5: Pennsylvania Local Government Per Capita Expenditures: Actual vs. Projected at Inflation + Population Growth, 1991-2006

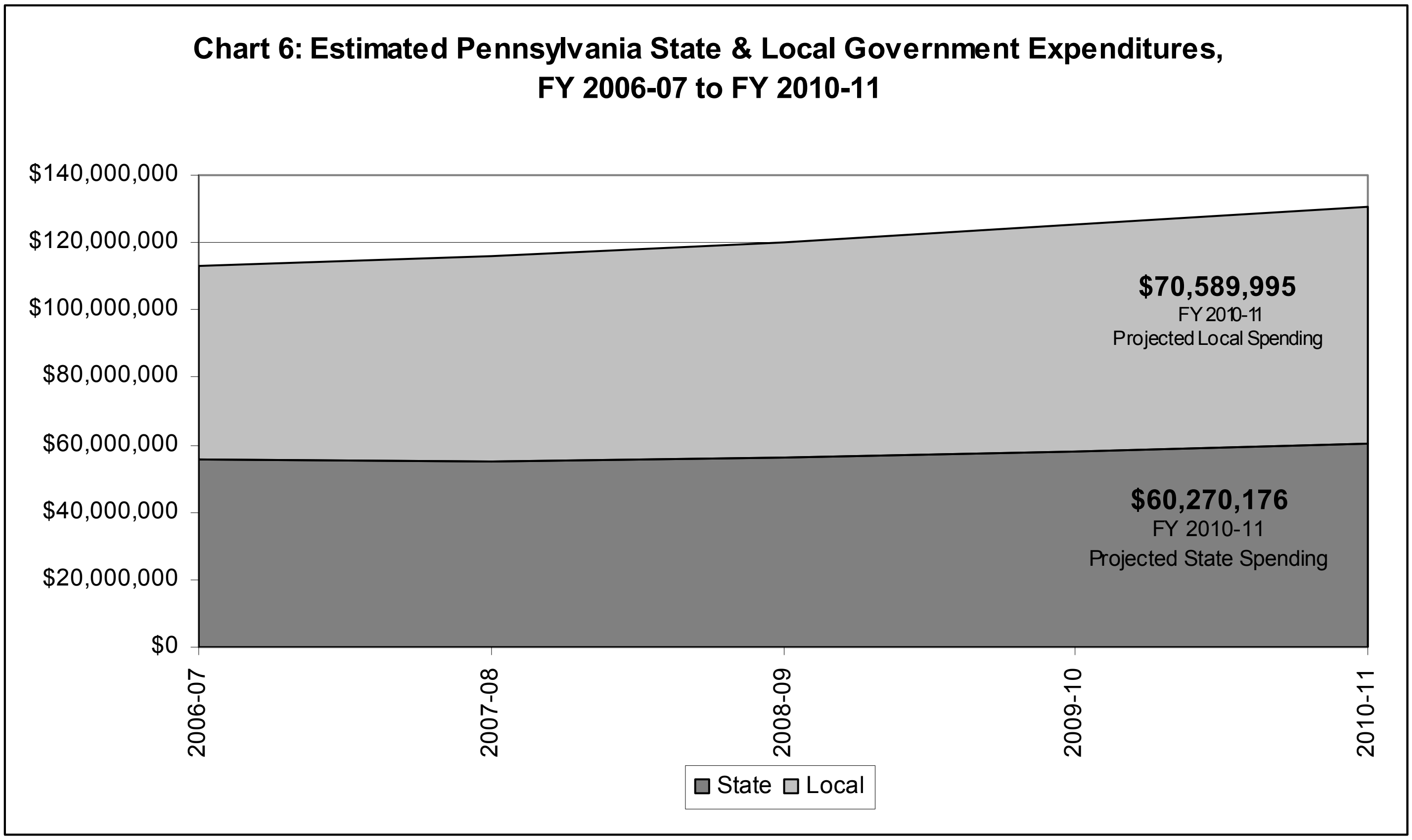


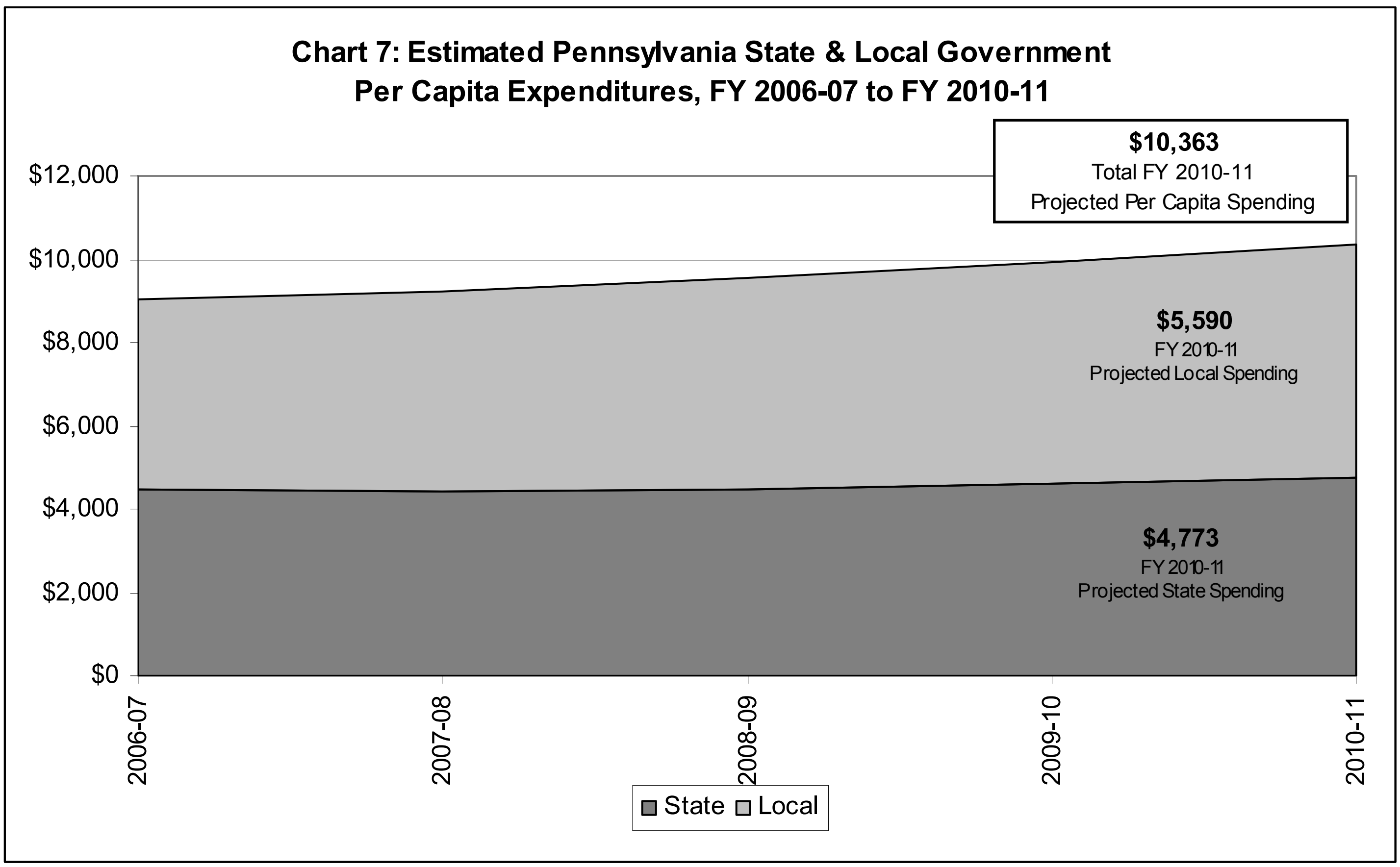
Sources: United States Department of Commerce, Bureau of the Census; Department of Labor, Bureau of Labor Statistics; Commonwealth of Pennsylvania, Governor's Executive Budget; Commonwealth Foundation calculations

Projecting the Total Cost of Government in Pennsylvania: 2006-2011

Given Pennsylvania's past profligate spending habits at both the state and local levels, can taxpayers expect relief anytime soon? To attempt to answer that question, it is possible to estimate spending growth over the remainder of the current decade, using a combination of actual state and local expenditure data from the Census Bureau and the Commonwealth of Pennsylvania, projections from the 2006-07 Governor's Executive Budget, and estimates derived from the Census Bureau's population and local government expenditure data. Under the scenario described above, it is estimated that in 2010-11, the total cost of government in Pennsylvania will exceed $130 billion, as illustrated in Chart 6 (following page).

On a per capita basis, assuming Pennsylvania population grows at the average annual 0.26% rate observed for the 14-year period from 1991 to 2005, state and local government will cost every man, woman and child in the Commonwealth $10,363 (or $41,453 per family of four) by 2011—up from $8,690 ($34,760) in 2005-06, representing an increase of 19.3% in just five years.





Sources: United States Department of Commerce, Bureau of the Census; Department of Labor, Bureau of Labor Statistics; Commonwealth of Pennsylvania, Governor's Executive Budget; Commonwealth Foundation calculations

Conclusion

Unfortunately for Pennsylvania taxpayers, the price tag they pay for state and local government continues to rise each year. The amount each Pennsylvanian will pay for state and local government is an estimated $4,306 higher today than it was in 1991-92—and $2,400 higher than it would be had annual spending increases had been limited to inflation and population growth since that time. Following major tax increases at the state level in both 2002 and 2003, and with the continued growth of local government spending, the bill for every man, woman and child in Pennsylvania is estimated to be $8,690 in FY 2005-06—or $34,760 per family of four.

The data illustrate why it is crucial for state officials to immediately adopt a "principles-based" approach to the budgeting process—one that seriously examines what state government does and how it does it, and eliminates "non-core" government functions and spends tax dollars more effectively on the programs that remain.

For the sake of Pennsylvania's future fiscal and economic stability, state lawmakers should enact a "Tax and Expenditure Limitation" amendment to the Pennsylvania Constitution—one that will control future spending by requiring voter approval of increases in state and local spending that exceed the combined rates of inflation and population growth (or any other measure of wage or income increases).

Endnotes

1. Actual data on state government spending through FY 2004-05, the amounts available for expenditure for FY 2005-06 (as of July 2006 for the FY 2005-06 General Fund budget and from the FY 2006-07 Governor's Executive Budget for state funds and other funds for both FY 2005-06 and FY 2006-07), the enacted FY 2006-07 General Fund budget, and the government-generated estimates for fiscal years through FY 2010-11 are used in this analysis. Complete data for local government spending for years beyond FY 2003-04 are not yet available, but are conservatively estimated using data from the preceding twelve-year period.

2. In this section and in those that follow, intergovernmental transfers are eliminated where necessary in order to avoid double-counting.

About the Author

Grant R. Gulibon is a Fellow with the Commonwealth Foundation.

About the Commonwealth Foundation

The Commonwealth Foundation is an independent, non-profit research and educational institute that develops and advances public policies based on the nation's founding principles of limited constitutional government, economic freedom, and personal responsibility for one's actions.