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Pennsylvania could be on the path to a ballooning, billion-dollar budget deficit, state officials said Tuesday, potentially reviving a recurring political showdown over new taxes or spending cuts.

A report released by the nonpartisan Independent Fiscal Office said the state was on track to fall more than \$500 million short of what it needs to make it through this fiscal year, and that the deficit could grow to \$1.7 billion in the next fiscal year if current policies remain in place. Among the reasons: an aging population, rising costs and a slowing revenue stream. "Things haven't changed too much over the last few years," fiscal office director Matthew Knittel said of the findings. "There is a long-term fundamental imbalance, and that's driven by many factors. ... But fundamentally, it's also the fact that our revenue sources, based on the tax base, they do not grow fast enough to meet the expenditure needs."

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The outlook drew mixed reactions in Harrisburg. Republican leaders in the Legislature acknowledged a challenge ahead but downplayed the notion of a looming crisis. "We will manage it responsibly," said House Speaker Mike Turzai, R-Marshall. A spokesman for Gov. Tom Wolf didn't quibble with the projections but noted the current fiscal year is young. It ends in June.

Still, spokesman Mark Nicastre said, the administration is concerned revenue collections have not been keeping pace with estimates. Mr. Wolf “has remained steadfast in his belief that Harrisburg has to make the difficult decisions to put its fiscal house in order, and he looks forward to working with the Legislature to do so.” The fiscal office’s projections are based on current state and federal policies, and assume there will not be a recession during the next five years.

Its report cited rising state costs for pensions, debt, corrections and human services programs. In this fiscal year alone, the Department of Human Services could require \$388 million more than has been budgeted, according to its projections. Mr. Nicastre said the governor’s office is working with the department to reduce costs.

But how the Democratic governor and Republican-controlled House and Senate will fill any budget gaps remains to be seen. Their seemingly annual battle over shortfalls led to a historic budget impasse two years ago, one that rippled to school districts and social service programs statewide. Contending the state needs long-term structural fixes, Mr. Wolf has advocated for broad-based hikes in the state sales or income taxes. In February, the governor said the state would need to raise at least one of those taxes to balance the budget.

The General Assembly has resisted those calls. And this year, legislators ultimately agreed to pay for the increase in this year’s spending plan through taxes on cigarettes and digital downloads and changes to laws on wine sales — along with a plan to change gambling law, which they have not yet done. Mr. Turzai and House Majority Leader Dave Reed, R-Indiana, said the chamber’s Republicans, who strengthened their majority in last week’s election, will focus first on bringing spending in line with incoming revenues.

After that, said Mr. Reed, there can be a discussion about new revenue, but he signaled strongly that there is little appetite to increase sales or income taxes. “We’ve been pretty clear with the administration in that regard,” he said. “I don’t think, given the results of the past election, that folks are all that interested in a multibillion tax increase.”

Asked what new sources of revenue House Republicans could accept, Mr. Reed talked about expanding gambling in the state and further privatizing the sale of wine and hard liquor. Mr. Turzai said leasing the wholesale operations of the state-run Liquor Control Board would bring in “significant revenue” for at least for the decade. “It’s one of the ideas on the table,” he said.

Senate Minority Leader Jay Costa, D-Forest Hills, said budget writers will need to look at spending cuts and also at the possibility of bringing in more revenue. “We’ve been saying all along that the revenue package that was put together was not going to cover what we needed to cover going forward,” he said. “We need to take a look at this crisis and figure out the best way — and a bipartisan way — to move forward to close that gap.” — *Pittsburgh Post-Gazette*

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Under Rep. Frank Dermody’s watch as Democratic state House leader, his caucus has lost 10 seats in the last three elections. That six-year losing streak, however, was not enough for Democratic lawmakers to push for change at the top of their dwindling caucus. Dermody, D-Allegheny, and most of his slate were unopposed Tuesday in internal elections, winning new two-year terms.

Senators pick their leaders Wednesday. Senate Democrats have been in the same losing position as their House counterparts. Of the seven House Democratic incumbent leadership posts, two were contested. Policy Committee Chairman Mike Sturla, D-Lancaster, had an opponent, Rep. Madeline Dean, D-Montgomery. Sturla defeated her handily. And Whip Mike Hanna, D-Clinton easily fended off a challenge from Rep. Curtis Thomas, D-Philadelphia.

Caucus spokesman Bill Patton blamed national trends and not Dermody and

Democratic leadership teams for the recent election losses. "I think the losses you see in the time frame are replicated in most of the 50 states," Patton said. "Pennsylvania House Democrats are fighting together as a unified caucus and remain focused on increasing our numbers and getting back in the majority as soon as possible."

That's easier said than done. The House Republican Caucus has developed a campaign wing that raises a lot more money from both internal and external sources, partly with the assistance of political action committees.

The House Republican Campaign Committee had \$11.8 million in the bank and spent about \$5.8 million as it picked up four seats and held onto to several vacancies, bringing its majority to 122. Some of those wins were aided by the coattail effect of GOP President-elect Donald Trump's win over Democrat Hillary Clinton.

Trump's win was historic, said House Speaker Mike Turzai, R-Allegheny. But he pointed out the GOP has been winning elections since 2010, meaning voters are attracted to the party's message of creating jobs and keeping government spending as low as possible while fighting against tax increases. The Republicans also do a better job of grooming young lawmakers for leadership posts. Fundraising and age differences show that Republicans, in general, are more organized than Democrats in how they manage their party, caucus and governmental operations, said G. Terry Madonna, Franklin & Marshall College pollster and political science professor. "Historically, Republicans just pay more attention to their caucus than Democrats," he said.

The Democratic slate re-elected Tuesday has been in office an average of 19 years. Turzai and the seven other GOP leaders picked Tuesday have been in office an average of 12 years. Three of the Republican leaders are new to their posts. –

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