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### Shapiro's proposed spending plan must be reined in

**Introduction:** Less than three months after signing Pennsylvania's long overdue 2025-26 budget into law, on Feb. 3, Gov. Josh Shapiro delivered his 2026-27 budget presentation to the General Assembly. This *Brief* analyzes some key spending and policy proposals included in the sprawling 777-page document.

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#### *General fund*

The general fund is the state's largest operating fund, separate from other restricted or federal funds, and will be the focus of this *Brief*. The fiscal year (FY) 2026-27 proposal anticipates general-fund revenues of \$48.3 billion – an increase of \$3 billion (6 percent) from the current budget – and is made up primarily of tax revenues. By source of revenue, the corporate net income tax (CNIT) would account for \$4.7 billion (10 percent), the personal income tax for \$20.9 billion (43 percent) and the sales and use tax for \$16 billion (33 percent) with the remainder (less refunds) coming from other tax and non-tax sources.

General-fund expenditures would climb to a staggering \$53.3 billion, 6 percent higher than the current budgeted level of \$50.1 billion. Because the state Constitution requires a balanced budget, the \$4.5 billion spending over revenue gap in the governor's recommendation will need to be filled by "specific additional sources of revenue sufficient to pay the deficiency." Last year, a \$3 billion gap was filled from money "sitting in the couch cushions of the bureaucracy" – according to the Senate majority leader – which included lapsed or untapped revenue from various special funds and other state accounts. The governor's recommendation for this budget calls for the \$4.5 billion to be taken from the state's \$7.8 billion rainy-day fund. Unfortunately, once new spending begins, it is seldom reduced and will likely derail future attempts to balance the budget.

The governor also claimed that the budget "doesn't require a broad-based tax increase today, tomorrow, or at any point in the next five years." This is likely based on the forecast of general-fund expenditures, which show only about a \$400 million increase in each of the next five years. Likewise, revenue growth is forecast to increase by \$3 billion

in the 2027-28 FY before slowing to about \$1.5 billion per year through FY 2030-2031. Part of the increase in later years is due to delayed implementation of new revenue sources discussed below.

However, assuming only \$400 million expenditure increases (less than 1 percent) per year is completely disingenuous, considering expenditures rose close to \$6 billion since the 2024-25 approved budget to this 2026-27 proposed budget. Even with the projected revenue and minimal spending increases, the rainy-day fund would still need to be entirely depleted to balance the 2029-30 budget due to the state's chronic deficit. In short, no broad-based tax increase is needed on paper. But this would require levels of austerity unprecedented in recent history.

### *Familiar revenue pitches*

The projected revenue also relies on two sources which have been pitched before but failed to materialize through the divided General Assembly: legalizing recreational marijuana and taxing and regulating skill games.

Legalizing adult-use cannabis is projected to bring in a total of \$729.4 million from a 20 percent excise tax, license and fee revenue and additional sales and use-tax collections. Given the one-time nature of much of the license and fee revenue, future collections would only total \$200 million annually, presumably leaving another \$500 million annually that would need to be accounted for even if the General Assembly passes legalization legislation.

A 52 percent tax on skill games with a limit of 40,000 machines statewide is expected to haul in \$765.9 million in new revenues, including licenses and fees. An alternative proposal that would establish a \$500-per-terminal monthly fee, a 50,000-machine limit and bring in about \$300 million annually has been floated in both chambers but neither bill has made it out of committee. Those against the 52 percent rate – close to the 54 percent rate on retail and internet slot machines – believe it will harm small businesses, bars, restaurants and social clubs, which rely on the income generated by skill games.

Mass-transit funding was also included in the budget proposal, in the form of a 1.75 percent shift (\$300 million) from general sales and use-tax dollars (beginning in the 2027-28 FY). As the Allegheny Institute recently reminded (in *Policy Brief Vol. 26, No. 5*), more state subsidies should not be considered for Pittsburgh Regional Transit until its outrageous costs are addressed.

### *Education and human services*

Total education spending would eclipse \$21.2 billion, roughly 40 percent of the \$53.3 billion general fund budget proposal. The proposed budget calls for another \$50 million to be distributed through the K-12 student-weighted funding formula, bringing the basic education subsidy total to \$8.3 billion (see *Policy Brief Vol. 25, No. 39*). Another \$565 million is slated for the adequacy investment – comprised of an “adequacy supplement”

and “tax equity supplement” – which was designed to address the 2023 court ruling that Pennsylvania’s system for K-12 public education funding is unconstitutional (see *Policy Brief Vol. 24, No. 8*).

Human services appropriations are set to total \$21.9 billion, also roughly 40 percent of the general fund total and a \$1.7 billion (8.6 percent) increase over the year prior. The general fund overview notes that medical inflation, diminishing federal support and an aging population have all contributed to significant cost increases. While the overview mentions cost containment and operational efficiency efforts, more ways to find savings must be explored. An aging population combined with negative net migration (more people leave the state for another than vice versa) will continue to put pressure on the budget. The commonwealth should look to adopt policies that promote economic growth and help attract jobs and young families to grow revenues and reduce rising human service expenditures.

### *Conclusion*

The governor’s first budget proposal for the 2023-24 fiscal year included a spending proposal of \$44.4 billion. Had that proposal been adopted, the \$53.3 billion the governor is asking for this year would have represented close to a 20 percent increase in the span of four years. Bringing the size and scope of Pennsylvania’s government in line with revenues is a necessary step for fiscal stability.

Continuing to refine the state’s permitting system and lowering the CNIT are both positive inclusions in the budget. However, far more could and should be done to help make the state more attractive for businesses and jobs – such as adopting Right-to-Work. At the same time, hiking the minimum wage, which is being proposed, would also be a [leap in the wrong direction](#).

Simply put, if Pennsylvania were growing and thriving as the governor claimed in his address, perhaps the commonwealth would not need to add more sin taxes to generate revenue. Likewise, if excessive spending were reined in, the commonwealth would not need to rely on significant revenue increases and/or raiding the rainy-day fund to keep pace.

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