

GOV. SHAPIRO PROPOSAL BUDGET OVERVIEW FY 2025-26



General Overview:

- Governor Shapiro's proposed FY 2025-26 budget of \$51.47 billion contains a \$3.57 billion spending increase, or 7.5% over the current year.
- The Governor estimates FY 2025-26 revenue collections from the current tax structure to grow by \$1.30 billion, or 2.8%.
- To balance Governor Shapiro's FY 2025-26 budget, he proposes to utilize the following revenue sources and modifications:
 - Fully spending the remaining \$2.89 billion of the General Fund surplus.
 - Raising a total of \$1.32 billion in revenue from new taxes and tax structure changes, of which \$293 million will provide an additional dedicated funding source for mass transit.
 - Transferring \$1.6 billion from the Rainy Day Fund.

Top Budget Issues:

- The proposed budget allocates \$17.96 billion for PreK-12 Education, an increase of \$804 million, or 4.7%. Proposed education spending provisions include:
 - A \$526 million increase to the Ready to Learn Block Grant, which administers the adequacy gap spending authorized with the current budget, bringing the total to \$1.35 billion in FY 2025-26.
 - A proposed \$75 million increase to Basic Education Funding for a total of \$8.23 billion.
- The budget proposal includes funding for the Pennsylvania State Police for four new cadet classes. Additionally, the budget proposes shifting State Police funding from the Motor License Fund (MLF) to the General Fund by \$50 million per year until completely removed from the MLF by FY 2029-30.
- State funds for DHS are proposed to increase by \$1.96 billion, or 10.2%. An increase in the blended FMAP rate for FY 2025-26 reduced the appropriated amount by \$419 million.
 - 82% of the increase is attributable to the Medical Assistance – Capitation and Medical Assistance – Community HealthChoices appropriations.
- Shapiro's proposal continues to call for economically damaging energy taxes, including his proposed Regional Greenhouse Gas Initiative (RGGI) successor, the Pennsylvania Climate Emissions Reduction Act (PACER) energy tax.
 - PACER directly taxes coal and natural gas power plants with an unfair carbon tax which would be passed along to consumers in the form of higher energy bills.
 - The threat of these energy taxes has already cost the state billions in revenues.
- This budget proposal includes raising the minimum wage to \$15 per hour for non-tipped workers and \$9 per hour for tipped workers. The assumed effective date is January 1, 2026.

Tax and Tax Credit Changes:

- The proposed budget makes a series of significant tax policy changes, including:
 - Implementing new “uniform filing” requirements while accelerating the scheduled Corporate Net Income Tax (CNIT) reduction by an additional 0.25% per year (from 0.50% to 0.75%), effective beginning with tax year 2026. This will accelerate the reduction to 4.99% by two years to tax year 2029.
 - Regulating and incorporating the operation of Skill Games into the current Video Gaming Terminal (VGT) tax of 52%.
 - Legalizing adult use cannabis, or recreational marijuana, with a tax rate equal to 20% of wholesale cost.
- The proposed budget makes significant changes to tax credit programs, including:
 - Eliminating the Waterfront Development, Video Game Development, Local Resource Manufacturing, and Manufacturing Tax Credit programs.
 - Modifying eligibility requirements for the current Pennsylvania Economic Development for a Growing Economy (PA EDGE) programs, which have been unused since it was enacted in 2022.
 - Modifying the Regional Clean Hydrogen Hubs Tax Credit by lowering the cap to \$49 million and allowing seven programs to receive up to \$7 million.
 - Creating a \$10 million annual tax credit known as “AdvancePA” to encourage employment-related economic development.
 - Creating the “Reliable Energy Investment Tax Credit” to incentivize investment in “reliable” energy with an annual cap of \$100 million per facility for a 3-year period.
- Shapiro’s plan increases the percentage of the Sales and Use Tax dedicated to Mass Transit by 1.75%, resulting in \$293 million in additional spending, for a total of \$2.58 billion in state assistance to Mass Transit under this proposal.

Concerns Moving Forward:

- The proposed budget will officially drain our budget surplus, projected to be \$2.89 billion, at the end of the current fiscal year.
- While it is estimated that the FY2024-25 budget will result in a transfer of \$322 million to the Rainy Day Fund, the Governor’s proposed FY2025-26 budget relies on the drawdown of \$1.6 billion in Rainy Day Fund monies.
 - The Rainy Day Fund currently has a balance of \$7.26 billion.
- Moving forward, the Governor balances his out years through FY 2029-30 with revenue estimates that are higher than those produced by the Independent Fiscal Office (IFO) and General Fund expenditure growth projections of a mere 1.2% annually.
- Governor Shapiro’s budget proposal does nothing to address the growing concerns of a looming fiscal cliff projected by many.

Next Steps:

- This budget represents a starting point for our budget process, and will be analyzed thoroughly during three weeks of House Appropriations Committee public hearings starting February 18. These hearings will enable House Republicans to question agency and department heads on spending plans to enable the development of a fiscally responsible plan that can be passed by June 30, 2025.