

GOVERNOR'S PROPOSED BUDGET

FY 2026-27

OVERVIEW



General Overview:

- Governor Shapiro's **FY 2026-27 proposed budget of \$53.26 billion increases spending by \$2.72 billion, or 5.4%, over the current fiscal year.**
- FY 2026-27 current tax structure revenues are estimated to grow by \$919 million, or 1.9%.
- **To balance his FY 2026-27 spending proposal, Governor Shapiro needs \$6.46 billion in new revenue.** To accomplish this, he proposed the following transfers and tax revenue modifications:
 - **Transferring \$4.58 billion out of the Rainy Day Fund** to the General Fund.
 - Enactment of new taxes and changes to the current tax structure and tax credits totaling **\$1.88 billion in new revenue, primarily by taxing skill games, recreational marijuana, and a minimum wage increase.**

Top Budget Issues:

- The proposed budget includes \$18.92 billion for PreK-12 Education, an increase of \$884 million, or 4.9%. Proposed education funding includes the following:
 - A \$565 million increase, or 40.8%, to the Ready to Learn Block Grant, which funds school districts using the adequacy gap provisions enacted with the current fiscal year budget, bringing the total appropriation to \$1.95 billion in FY 2026-27.
 - A proposed \$50 million increase, or 0.6%, to Basic Education Funding (BEF) for a total of \$8.31 billion.
 - A proposed \$50 million increase, or 3.3%, to Special Education Funding (SEF) for a total of \$1.58 billion.
- For State Police, the proposal contains funding for four new cadet classes (380 troopers).
- State funds for the Department of Human Services (DHS) are proposed to increase by \$1.36 billion, a 6.6% increase. An increase in the blended FMAP rate for FY 2026-27 reduced the state appropriation amount by \$570 million.
 - 79% of the increase is attributable to the Medical Assistance – Capitation and Medical Assistance – Community HealthChoices appropriations.
- 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, 2027.
- Creates a new special fund to be known as the "Federal Response Fund" and proposes a transfer of \$100 million out of the Rainy Day Fund to the Federal Response Fund.
 - The stated purpose of the fund is to "mitigate actions, or inactions, by the federal government that cause disruptions to critical services or create situations that threaten the health, safety, or welfare of Pennsylvanians."
- The governor proposes a Liquor Store Profit transfer to the General Fund of \$80.7 million, a \$100 million decrease from the current fiscal year.

Tax and Tax Credit Changes:

- Implements a uniform filing requirement for the Corporate Net Income Tax (CNIT). Unlike prior proposals, this year's proposal does not appear to include an accelerated phase-down of the CNIT rate to offset potential impacts on businesses.
- Expands the 52% Video Gaming Terminal (VGT) Tax to include "gaming machines that involve an element of skill," otherwise known as Skill Games.
- In legalizing adult use of cannabis, the proposal establishes a new tax of 20% on the wholesale price and further subjects cannabis to the state sales tax. The administration estimates tax revenues at \$69.8 million and initial license fee revenues at \$659.6 million.
- Reallocates tax credits within the Education Improvement Tax Credit (EITC) Program to provide an increased allocation for Educational Improvement Organizations (EIOs) without changing the overall amount of EITC tax credits available.
- Eliminates the Manufacturing Tax Credit, Local Resource Manufacturing Tax Credit, Video Game Development Tax Credit, and Waterfront Development Tax Credit.
- The proposal adds two new tax credit programs:
 - Innovate in PA 2.0 and the AdvancePA Tax Credit.
 - Neither of the proposed new programs would have a fiscal impact on FY 2026-27.
- The proposed budget continues the annual transfers of cigarette tax revenues and personal income tax revenues to the Tobacco Settlement Fund and Environmental Stewardship Fund, respectively, for debt service payments.
- Note: Shapiro's plan increases the percentage of the Sales and Use Tax dedicated to Mass Transit by 1.75% in FY 2027-28, resulting in a \$319.6 million future hit to the General Fund.

Concerns Moving Forward:

- The proposed budget will reduce the Rainy Day Fund balance, estimated to be \$7.82 billion at the end of FY 2025-26, to \$3.3 billion at the end of FY 2026-27, a reduction of nearly 60%.
- Moving forward, the governor balances his out-year budgets through FY 2030-31 using revenue estimates averaging 2.85% growth, with assumed spending growth of only 0.78%, indicating the Rainy Day Fund will continue to carry a balance into FY 2030-31.
 - This claim is entirely unrealistic, considering the average annual growth in Governor Shapiro's first three enacted budgets was 5.6%.
 - Instead of continuing to push this false narrative, the best way to maintain balance in the Rainy Day Fund is to allow full implementation of House Republican policies: unleashing our energy industry, funding student-centered education, and supporting government efficiency to grow our economy.

Next Steps:

- This budget proposal represents a starting point for the Commonwealth's budget process. The House Republican Appropriations Committee will conduct a thorough analysis of the budget during the upcoming three weeks of public budget hearings beginning on February 23rd. During these hearings, members of the committee will question each agency and department head about their spending plans and work to develop a fiscally responsible plan that can be enacted by June 30, 2026.

Gov. Shapiro Proposed General Fund Budget for FY 2026-27: \$53.26 Billion

Revenues vs. Spending

\$2.72 billion or 5.4% spending increase over FY 2025-26



Proposed Tax and Revenue Modifications

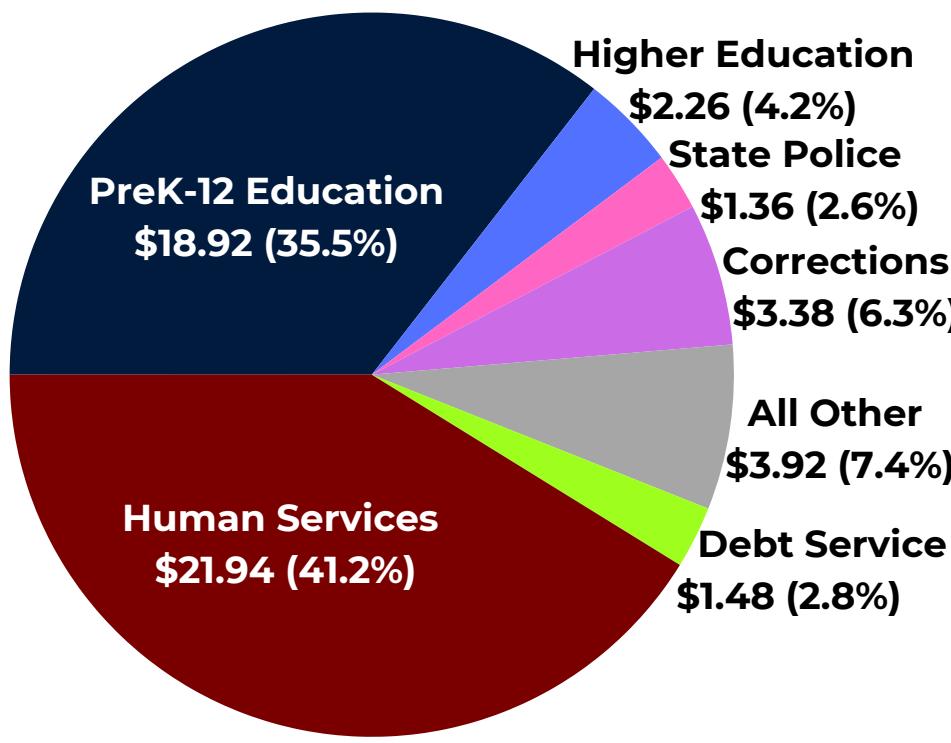
(amounts in millions)

CNIT Uniform Filing Requirements.....	\$328.4
Legalization of Adult Cannabis (taxes & fees).....	\$729.4
Regulation of Skill Games (taxes & fees).....	\$765.9
Increase in State Minimum Wage (SUT & PIT)....	\$53.5
Tax Credit Changes.....	\$2.9
Total Tax and Revenue Modifications:	\$1,880.1

NOTE: The governor calls for an additional \$319.6 million transfer to the Public Transportation Trust Fund and \$100 million in Special Fund Interest Transfers, starting in FY 2027-28.

Spending by Category

(amounts in billions)



PreK-12 Education Increases

 +\$884 million (+4.9%)
Basic Education Funding: \$8.31 billion (+\$50 million or 0.6%)
Special Education Funding: \$1.58 billion (+\$50 million or 3.3%)
Ready to Learn Block Grant: \$1.95 billion (+\$565 million or 40.8%)

Human Services Increases

 +\$1.36 billion (+6.6%)
Medical Assistance - Community HealthChoices: \$7.23 billion (+\$503 million or 7.5%)
Medical Assistance - Capitation: \$4.36 billion (+\$566 million or 14.9%)

General Fund Financial Statement

FY 2026-27 Governor's Budget Proposal

(amounts in thousands)

		2024-25 Actual	2025-26 Available	2026-27 Budget
1	BEGINNING BALANCE.....	\$6,632,089	\$4,155,630	\$628
2	Adjustment to Beginning Balance.....	\$74,000	59,250	-
3	Adjusted Beginning Balance.....	\$6,706,089	\$4,214,880	\$628
4	REVENUES:			
5	Base Revenue Estimate.....	\$46,087,400	\$47,787,600	\$49,068,400
6	Amount Over / (Under) Estimate.....	\$320,991	\$244,200	
6.1	Annual Debt Service Transfers			
6.2	Cigarette Tax - Transfer to Tobacco Settlement Fund.....			(\$115,300)
6.3	PIT - Transfer to Environmental Stewardship Fund.....			(\$1,900)
7	Actual / Estimated Revenues.....	\$46,408,391	2.1%	\$48,031,800
			3.5%	\$48,951,200
				1.9%
8	Revenue Modifications and Transfers:			
8.1	CNIT Reform: Uniform Filing Requirements.....			\$328,400
8.2	Legalization of Adult Use Cannabis (Taxes & Fees).....			\$729,400
8.3	Expansion of Video Gaming Terminal Tax (Taxes & Fees).....			\$765,900
8.4	Increase in State Minimum Wage (SUT & PIT).....			\$53,500
8.5	Changes to Tax Credit Programs.....			\$2,900
8.6	Transfer to the Public Transportation Trust Fund.....			\$0
8.7	Special Fund Interest Transfer.....			\$0
9	Total Revenue Modifications and Transfers.....	\$0	\$0	\$1,880,100
10	Subtotal Actual / Official Estimated Revenues.....	\$46,408,391	2.1%	\$48,031,800
			3.5%	\$50,831,300
				5.8%
11	Refund Reserve	(\$2,251,600)	(\$2,343,500)	(\$2,499,000)
12	Total Revenue	\$44,156,791	\$45,688,300	\$48,332,300
13	Prior-Year Lapses.....	\$1,115,600	\$640,000	\$350,000
14	Total Funds Available	\$51,978,480	-0.5%	\$50,543,180
			3.5%	\$48,682,928
				-3.7%
15	EXPENDITURES:			
16	Appropriations.....	\$47,674,974	\$50,152,265	\$53,262,046
17	Supplemental Appropriations.....	\$147,876	\$390,287	
18	Total Appropriations.....	\$47,822,850	5.2%	\$50,542,552
			5.7%	\$53,262,046
				5.4%
19	Less: Enhanced FMAP			
20	Total State Appropriations.....	\$47,822,850		\$50,542,552
21	Current Year Lapses.....			\$53,262,046
22	Total Expenditures.....	\$47,822,850	\$50,542,552	\$53,262,046
23	Preliminary Balance.....	\$4,155,630		\$628
24	Less: Transfer to Budget Stabilization Reserve Fund.....			(\$4,579,118)
24.1	Plus: Transfer from Budget Stabilization Fund.....			\$4,579,118
25	ENDING BALANCE.....	\$4,155,630	\$628	\$0

Notes on the Financial Statement

FY 2025-26 Enacted Budget Adjustments

Revenues:

- Beginning balance adjustment of \$59.25 million to reflect the lapsing of prior year funds pursuant to Act 45 of 2025, which provided for a transfer to the Enterprise and Technology Restricted Account.
- The General Fund revised revenue estimate of \$48.03 billion is \$244.2 million above the official estimate.
- Refund Reserve amount for the payment of tax refunds is increased by \$193 million to \$2.34 billion, reflecting actual refunds to date and the impact on tax refunds resulting from the enactment of the Working Pennsylvanians Tax Credit (Act 45 of 2025).
- Increases prior-year lapses by \$140 million to \$640 million.

Appropriations:

- Total appropriations of \$50.54 billion proposed for FY 2025-26:
 - \$50.09 billion appropriated pursuant to Act 1A of 2025.
 - \$390.287 million recommended in net supplemental appropriations.
 - Executive Authorization of \$59.25 million authorized by Act 45 of 2025 to fund the transfer to the Enterprise and Technology Restricted Account.

Projected General Fund ending balance of \$628,000 which is carried over as the beginning balance for FY2026-27.

FY 2026-27 Proposed Budget

Revenues:

- After annual adjustments of \$117.2 million for transfers to the Tobacco Settlement Fund and Environmental Stewardship Fund for debt service payments, General Fund current law revenues are estimated to generate \$48.95 billion, which is an increase of \$920 million, or 1.9%.
- \$1.88 billion in proposed new revenues (see Proposed Tax and Revenue Modifications).
- Liquor Store Profit transfer to the General Fund is proposed at \$80.7 million, a reduction of \$100 million.
- Refund Reserve of \$2.499 billion is an increase of \$155.5 million.
- Prior-Year lapses estimated to be \$350 million.
- Total Funds Available of \$48.68 billion.

Appropriations:

- Total proposed spending of \$53.26 billion represents an increase of \$2.72 billion, or 5.4%.

The Governor's proposal projects a deficit of \$4.579 billion for the General Fund ending balance in FY 2026-27. To meet the Constitutional requirement of a balanced budget, the Governor proposes a transfer of \$4.579 billion out of the Rainy Day Fund in FY 2026-27.

Rainy Day Fund Impacts

The Budget Stabilization Reserve Fund, commonly referred to as the Rainy Day Fund, is drawn down twice in the governor's budget proposal. The first transfer is \$4.58 billion, used to balance the governor's FY 2026-27 General Fund Spending Proposal (highlighted in **red**). The second transfer is \$100 million to the newly created Federal Response Fund (highlighted in **blue**).

The Federal Response Fund is a new fund that, according to budget materials, is intended to "mitigate actions, or inactions, by the federal government that cause disruptions to critical services or create situations that threaten the health, safety, or welfare of Pennsylvanians." As described below, the Rainy Day Fund, created by Act 91 of 2002, is legally limited to provide "financial assistance to minimize future revenue shortfalls and deficits and promote greater continuity and predictability in funding of vital government services." Removing funds from the Rainy Day Fund to another restricted account with such vague purposes does not meet the spirit of Act 91 of 2002.

Budget Stabilization Reserve Fund Summary

(from the governor's Budget Book)

This fund was created on July 15, 2002 by Act 91 of 2002 to replace the Tax Stabilization Reserve Fund. The fund provides financial assistance to minimize future revenue shortfalls and deficits, and promote greater continuity and predictability in the funding of vital government services. It minimizes the need to increase taxes to balance the budget of the Commonwealth during periods of economic distress. Act 91 provides revenue through an annual transfer of 25 percent of the General Fund fiscal year end surplus. If the ending balance would equal or exceed 6 percent of actual General Fund revenues for the fiscal year in which the surplus occurs, the General Fund transfer would be reduced to 10 percent.

This budget proposes to transfer \$100 million to the new Federal Response Fund.

Statement of Cash Receipts and Disbursements

<i>(amounts in thousands)</i>	2024-25 Actual	2025-26 Available	2026-27 Estimated
Cash Balance Beginning.....	\$6,374,068	\$7,473,124	\$7,819,203
Receipts:			
Transfer from General Fund.....	\$736,899	-	-
Investment Income.....	\$362,157	\$346,079	\$167,403
Total Receipts.....	\$1,099,056	\$346,079	\$167,403
Total Funds Available.....	\$7,473,124	\$7,819,203	\$7,986,606
Disbursements:			
Transfer to General Fund.....	-	-	\$4,579,118
Transfer to Federal Response Fund.....	-	-	\$100,000
Total Disbursements.....	-	-	(4,679,118)
Cash Balance, Ending.....	\$7,473,124	\$7,819,203	\$3,307,488