

Takeaways from the (Mostly) Finalized 2023–24 Pennsylvania State Budget

OVERVIEW

With the passage of Fiscal Code and School Code bills in December, work on the 2023–24 Pennsylvania state budget ended mostly done, six months late.

The budget is as “complete” as it’s going to get. However, a lot of “unfinished business”—as Gov. Josh Shapiro calls it—remains. This includes the Lifeline Scholarship Program, also known as the Pennsylvania Award for Student Success (PASS) in the agreement between the Senate and Shapiro, and about \$200 million in appropriations that will remain sequestered as the legislature never passed authorization language.

Here are some key facts about the (mostly) finished state budget, including how this impacts families, students, and businesses seeking greater opportunities and the overall competitiveness of Pennsylvania.

SIGNIFICANT STRUCTURAL DEFICIT REMAINS

- General Fund [appropriations](#), as signed by Shapiro, total \$45.5 billion¹—of which [\\$526 million](#) will be offset by one-time federal funds for Medicaid (FMAP),² leaving \$44.95 billion from state tax dollars.
- This represents a 5 percent increase in total appropriations from last year’s enacted budget.
- The budget spends **\$2.4 billion more** in ongoing expenses than estimated general fund revenue.
- The governor’s [Mid-Year Budget Briefing](#) estimates a decrease of \$450 million in “supplemental appropriations” and \$50 million in “lapsed funds”—cuts in part due to a lack of authorization language in the Fiscal Code.
 - Even after these reductions, the overspending requires **draining more than \$1.1 billion** from the commonwealth’s \$8 billion general fund balance but does not require tax hikes.
- The [Independent Fiscal Office](#) (IFO) projects larger deficits in future years, exceeding \$3 billion annually beginning in 2025–26 if the state continues its current spending trajectory.³

STRENGTHENED FISCAL RESERVES

- Despite this ongoing structural deficit, the commonwealth has improved its fiscal position.
- In November, the Pennsylvania Treasury [transferred \\$898 million](#) to the state’s Rainy Day Fund—despite an effort by the Shapiro administration [to undermine](#) this transfer. With the transfer, the Rainy Day Fund has enough reserves to—in the case of recession, disaster, or emergency—fund state government for 48 days.

- Pennsylvania has gone from among the worst in the nation in reserves—[ranking 49th](#), with only enough to run state government for a few hours, as recently as 2019—to slightly [better than the national average](#).
- Indeed, the increase in reserves was a major reason Fitch Ratings [upgraded Pennsylvania’s bond rating](#).⁴

EXPANDED EDUCATIONAL OPPORTUNITY

- Lawmakers passed, and the governor signed, a new [education code bill](#) (Act 33) that raises the caps on Pennsylvania’s Educational Improvement Tax Credit (EITC) and Opportunity Scholarship Tax Credit (OSTC) programs by a record \$150 million.⁵
- This represents the largest school choice increase in Pennsylvania history and—based on the number of additional scholarships from prior increases—enough of an increase to provide approximately 35,000 additional students with scholarships in 2024.
- The [EITC and OSTC provide scholarships](#) funded by Pennsylvania businesses, which in turn receive a tax credit. The breakdown of the funding increase is as follows:
 - A \$62 million increase for EITC K–12 scholarships.
 - A \$20 million increase for OSTC K–12 scholarships. OSTC scholarships are reserved for kids in the [bottom 15 percent of schools](#) based on standardized testing.
 - A \$48 million increase in funding for matching scholarships for students in [Economically Disadvantaged Schools](#), which the Pennsylvania Department of Education identifies as schools where [more than 51 percent of the students](#) currently receive EITC or OSTC scholarships of \$1,000 or more.
 - A \$10 million increase for Pre-K Scholarships.
 - A \$10 million increase for Educational Improvement Organizations that work in public schools.

Tax credit scholarship caps (K-12)

	Scholarships Awarded	Applications Denied	Average Scholarship	EITC	OSTC	EDS	Total
2016-17	48,977	52,857	\$1,885	\$75 million	\$50 million		\$125 million
2017-18	52,144	49,356	\$2,002	\$85 million	\$50 million		\$135 million
2018-19	60,387	42,918	\$2,113	\$110 million	\$50 million		\$160 million
2019-20	61,767	75,651	\$2,201	\$135 million	\$50 million	\$5 million	\$190 million
2020-21	62,507	76,031	\$2,534	\$135 million	\$50 million	\$5 million	\$190 million
2021-22	77,670	63,812	\$2,218	\$175 million	\$50 million	\$5 million	\$230 million
2022-23	N/A	N/A	N/A	\$263 million	\$65 million	\$12 million	\$340 million
2023-24	N/A	N/A	N/A	\$325 million	\$85 million	\$60 million	\$470 million

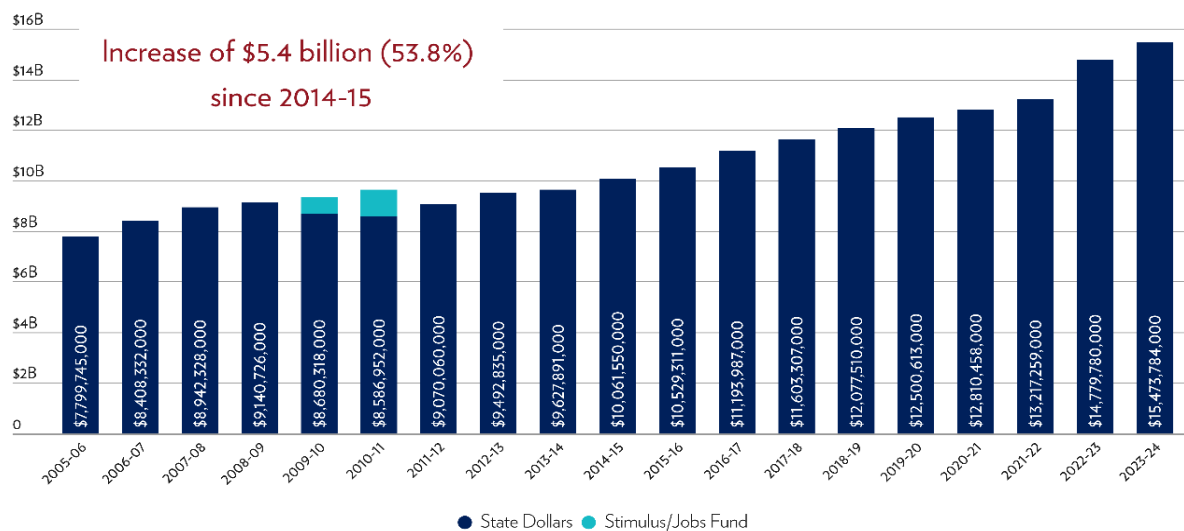
- In 2021–22, Pennsylvania scholarship organizations awarded more than 77,000 scholarships through the EITC and OSTC, including students in every single county in Pennsylvania, as shown on [this map](#).

- Still, there is demand for more. Each year the programs turn away scholarship applications. The waiting list was [more than 63,000 applications in 2021–22](#) (the latest available data).

RECORD PUBLIC SCHOOL SPENDING

- The General Appropriations Act ([House Bill 611](#)) includes the largest-ever increase for basic education for public schools, at \$567 million more than last year.
- As passed, the Pennsylvania state budget [increases state support of public schools](#) to nearly \$15.5 billion,⁶ with the \$566 million increase in 2021–22, the \$1.58 billion increase in 2022–23, and the \$690 million increase for 2023–24. State support of public schools has increased \$5.4 billion, or 53.8 percent, since 2014–15.

State Support of Public Schools



Source: PA Department of Education, Summary of State Appropriations for Education

- Total school district spending from all sources (local, state, and federal) increased to [\\$35.78 billion as of 2021–22](#) (before the last two state budget increases and distribution of most of the federal pandemic aid), an increase of \$8.2 billion from 2014–15.
- According to [National Center for Education Statistics data](#), Pennsylvania's spending of nearly \$21,000 per student was \$3,600 more than the national average.

“UNFINISHED BUSINESS” REMAINS

- While Shapiro [negotiated a deal](#) with the state Senate to include in the state budget \$100 million for [Lifeline Scholarships/PASS](#), the governor later line-item vetoed this appropriation to secure votes from House Democrats.
 - Shapiro continues to state that [he supports this program](#) and has [repeatedly](#) called Lifeline Scholarships/PASS “[unfinished business](#).”

- Relatedly, the appropriation bill included an additional \$100 million for “Level Up” funding for certain school districts, but this was not part of December’s school code. In the end, these funds were reallocated as a one-time transfer to a new fund and grant program for school facilities. Likewise, the legislature did not pass language to authorize the \$50 million for Whole Home Repairs included in the budget, so those funds will remain sequestered.

ECONOMIC COMPETITIVENESS UNADDRESSED

- While Shapiro campaigned on accelerating business tax cuts to make Pennsylvania “open for business,” Harrisburg has pushed off this agenda for another year. No tax code changes were in the state budget.
 - Shapiro’s campaign proposal to accelerate the reduction of the corporate net income tax (CNIT) rate, legislation to expand Net Operating Loss provisions, and Shapiro’s proposed elimination of taxes on cell phone usage all await action.
- Likewise, there was no legislative action taken on regulatory or permitting reform as part of the state budget. [Excessive regulations](#) are one of the major barriers to Pennsylvania job creators.
 - Indeed, Shapiro brags about reopening I-95 less than two weeks after a bridge collapsed, but this partial repair job was only due to the suspension of state regulations and rules resulting from a declared state of emergency. In the same manner, eliminating the red tape that hampers business development would [unleash the private sector](#).

CRIMINAL JUSTICE REFORMS CROSS THE GOAL LINE

- On the criminal justice front, [Probation Reform](#) (Act 44) and [Clean Slate 3.0](#) (Act 36) passed as part of the broader budget deal.
- Probation reform is smart on crime. The new law establishes automatic reviews for probationers in good standing to reduce the state’s unusually long probation sentences. Taxpayer savings estimated to be [\\$10 million annually](#) will allow the state to focus resources on probationers with a high risk of reoffending.⁷
- Clean Slate 3.0, like earlier Clean Slate laws, expands record sealing for Pennsylvanians with old convictions. Record sealing breaks down barriers to housing and employment. Individuals with third-degree felonies after ten years conviction free can petition the court for record clearing. It also reduces the record-sealing waiting period for misdemeanors from 10 to 5 years.⁸
- These reforms focus criminal justice resources where needed most while allowing ex-offenders with good records to become productive members of society.

FISCAL CHALLENGES LOOM LARGE

Population Loss, Outmigration, and Aging Population

- Demographic trends present a particular challenge for Pennsylvania’s fiscal and economic output. Pennsylvania’s population declined by 10,408 in 2023, [according to U.S. Census Bureau population estimates](#). One of the driving factors behind the state’s population decline is domestic outmigration,

as Pennsylvania saw 24,825 people, on net, left for a different state. This brain drain is part of a decades-long trend.

- Outmigration concentrates amongst the state’s working-age population. According to the IFO, Pennsylvania’s working-age population will fall 2.6 percent between 2020 and 2025 and an additional 1.7 percent between 2025 and 2030. As a result, the IFO projects the “dependency ratio” to decrease from 3.5 working adults per senior to 2.5 by 2030.⁹
 - This shift will have a drastic impact on the state budget. Fewer working-age adults will result in lower personal income tax collections, while the commonwealth doesn’t tax retirement income and offers tax relief for seniors.
- Pennsylvania needs significant policy changes—including controlling spending growth, adopting tax reform, cutting regulatory red tape, and expanded educational choice—to make the commonwealth more attractive to job creators, working-age adults, and families.

Medicaid Costs

- Demographic trends will also impact the demand for social services, especially taxpayer-funded health care. Among the top five drivers of General Fund spending identified by the IFO, [four of the programs are within Medicaid](#). Specifically, they project a 5.9 percent average annual growth rate for Long-Term Care, 4.2 percent for Intellectual Disability programs, and 3.6 percent for Medical Assistance.¹⁰ These increases far outpace the projected General Fund revenue average annual increase of 2.7 percent over the next five years.
- Medicaid’s rate of growth, driven by an enrollment [increase of 18.5 percent since 2019](#), is unsustainable and will require higher taxes or reforms that reduce the need for the program.
 - [Reforms that can help](#) Pennsylvanians move from taxpayer-funded health insurance to higher-quality private insurance include work and training requirements for Medicaid recipients without young children, improving program integrity such as eligibility reviews every six months, and reducing state restrictions that increase the cost of providing health insurance to workers, such as association health plans.

CONCLUSION

Lawmakers enter 2024, and the 2024–25 budget cycle, on better fiscal footing than in recent years. However, there remains a great deal of unfinished business and looming long-term challenges they must address: including Pennsylvania’s economic competitiveness, Medicaid costs, and demand for educational options.

¹ Pennsylvania Office of the Budget, “2023–24 Enacted Line Item Appropriations,” December 2023, <https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2023-24%20Budget%20Documents/2023-24%20Enacted%20Budget%20Line%20Item%20Appropriations.pdf>.

² Pennsylvania Office of the Governor, “2023–24 Mid-Year Briefing,” (Harrisburg, PA: Pennsylvania Office of the Budget, December 2023), 5, <https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2023-24%20Budget%20Documents/2023-24%20Mid-Year%20Briefing%20-%2012.20.2023.pdf>.

³ Matthew J. Knittel, “Pennsylvania Economic and Budget Outlook: Fiscal Years 2023–24 to 2028–29,” (Harrisburg, PA: Independent Fiscal Office, November 2023), 1, 35–37, http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Five_Year_Outlook_2023.pdf.

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- ⁴ Fitch Ratings, “Fitch Upgrades Pennsylvania’s IDR to ‘AA’; Rates \$2.1 Billion GOs ‘AA’; Outlook Stable.” November 27, 2023, <https://www.fitchratings.com/research/us-public-finance/fitch-upgrades-pennsylvania-idr-to-aa-rates-2-1-billion-gos-aa-outlook-stable-27-11-2023>.
- ⁵ Rep. Patrick J. Harkins, 2023 Act 33, P.L. 187 (House Bill 301), Pennsylvania General Assembly, Regular Session 2023–24, December 13, 2023, <https://www.legis.state.pa.us/cfdocs/legis/li/uconsCheck.cfm?yr=2023&sessInd=0&act=33>.
- ⁶ Pennsylvania Department of Education, “Education Budget: 2023–24 Enacted Summary of State Education Appropriations,” December 2023, <https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Education%20Budget/Pages/default.aspx>.
- ⁷ Sen Lisa Baker, 2023 Act 44 (Senate Bill 838), Pennsylvania General Assembly, Regular Session 2023–24, December 14, 2023, <https://www.legis.state.pa.us/cfdocs/billinfo/billinfo.cfm?sind=0&year=2023&body=S&type=B&bn=838>.
- ⁸ Rep, Jordan A. Harris, 2023 Act 36, P.L. 334 (House Bill 689), Pennsylvania General Assembly, Regular Session 2023–24, December 14, 2023, <https://www.legis.state.pa.us/cfdocs/legis/li/uconsCheck.cfm?yr=2023&sessInd=0&act=36>.
- ⁹ Knittel, “Pennsylvania Economic and Budget Outlook: Fiscal Years 2023–24 to 2028–29,” 5–7.
- ¹⁰ Knittel, “Pennsylvania Economic and Budget Outlook: Fiscal Years 2023–24 to 2028–29,” 30–32.