

Optimizing State Spending

How to Close the Structural Deficit Without Tax Hikes

SUMMARY

- Pennsylvania faces a \$3.6 billion structural budget deficit in Fiscal Year (FY) 2024–25. The Independent Fiscal Office (IFO) calculates Gov. Josh Shapiro’s FY 2025–26 budget [proposal](#) would increase the deficit to \$6 billion and deplete the Rainy Day Fund to cover ongoing overspending.
- Lawmakers must control spending growth to bring the budget closer to balance and protect Pennsylvania families from multi-billion dollar tax increases. This means optimizing state spending, prioritizing economic growth, and rejecting spending increases.
- Ending corporate welfare subsidies and using the savings to cut taxes could save the average Pennsylvania family of four \$508 annually or reduce the Corporate Net Income Tax by 2.65 percentage points.
- Pennsylvania has over one hundred “Other Special Funds,” many of which have significant cash balances. Reducing fund balances to a maximum of one year of expenditures and freezing fund balance increases would allow the state to draw an estimated \$2.89 billion.

CORPORATE WELFARE

- Shapiro’s FY 2025–26 budget proposal [plans \\$1.6 billion](#) in corporate welfare spending, a \$51 million hike over last year.
 - Shapiro’s proposal would eliminate five corporate welfare tax credit programs while adding new programs for two tax credits and four grants.
- These targeted corporate welfare programs are ineffective. An IFO [review](#) found that most tax credits return less than 25 cents per dollar invested. A \$2.6 billion tax credit package passed in 2022 [created](#) four never-used tax credit programs.
 - Additionally, the state [regularly awards](#) millions of dollars in tax credits to large multinational corporations such as Janssen, Vanguard, Merck, Google, Microsoft, Apple, Netflix, and Facebook/Meta.
- Grant and loan programs are also ineffective and suffer from bureaucratic roadblocks. For example, allocation benchmarks—set by the Pennsylvania Liquor Control Board—[stopped](#) reimbursements on approximately 20 percent of dollars awarded for a beer grant program.
 - Even when businesses receive state grants, there is no guarantee of success or return on investment. Recently, a lunar lander project that received \$4 million in state [funds](#) suffered a critical failure, [destroying](#) the lander.

- Low-tax, economically competitive states [attract](#) more businesses and residents. Cutting all corporate welfare spending and applying the cost savings toward rate reductions to the Corporate Net Income Tax (CNIT) and/or Personal Income Tax (PIT) is a more effective way to improve Pennsylvania’s economic competitiveness.
 - Cutting \$1.6 billion in corporate welfare spending could instantly reduce the CNIT by 2.35 percentage points. With this reduction, Pennsylvania’s CNIT rate would reach 6.14 percent, slightly better than the national [average](#).
 - Likewise, the cost savings could instantly reduce the PIT to 2.80 percent and save the average family of four \$508 annually.

SPECIAL FUNDS

The state budget includes over one hundred “[Other Special Funds](#).” From 2000 to 2024, these funds have grown by over 300 percent, compared to 140 percent growth in the General Fund. Additionally, many of these funds hold significant cash reserves. Lawmakers should evaluate the necessity of these shadow spending programs and utilize unreasonable cash balances toward balancing the budget.

- The Commonwealth Foundation identified 61 special revenue funds (excluding the Rainy Day Fund and federal holding funds) where FY 2024–25 unrestricted cash balances exceeded annual disbursements, and/or unrestricted cash balances were projected to grow in FY 2025–26.
- These 61 funds hold a combined \$5.7 billion in unrestricted cash balances. The state could draw an estimated \$2.89 billion by reducing excess special revenue fund balances to match one year of disbursements and freezing fund balance increases in FY 2025–26.
- Lawmakers should also evaluate the state’s enterprise funds and fiduciary funds to ensure these funds serve their intended purpose and have appropriate balances.
 - For example, the Liquid Fuels Tax Fund, Liquor License Fund, and State Stores Fund receive a set amount of annual receipts. These funds are required to make set disbursements to different departments and programs yet hold a combined \$214.9 million in cash balances.

OTHER WAYS TO OPTIMIZE THE BUDGET

- Lawmakers must reject unnecessary spending increases for education and mass transit, and focus funding on students and riders, not systems.
 - State support of public schools continues to increase despite [declining](#) enrollment, poor [return on investment](#), and [flush](#) reserves. Shapiro’s budget proposal adds \$824 million to public education funding. Private schools serving tax credit scholarship recipients educate students at an [average](#) annual tuition of \$5,598, a fraction of the nearly \$22,000 per student spent in public education. Across the country, school choice programs like the proposed [Lifeline Scholarship](#) program [generate](#) between \$1.80 and \$2.85 in cost savings per dollar spent.
 - Mass transit agencies received \$2.47 billion in state funding during FY 2024–25 and are already [overly reliant](#) on state funding compared to similar-sized agencies. These systems should increase fares and reevaluate services rather than receive more state funding.
- Lawmakers should adopt welfare reforms and privatize government-run businesses.

- Enacting work and community [requirements](#) for able-bodied adults on Medicaid and increasing the frequency of eligibility reviews to ensure the program serves only eligible Pennsylvanians.
- Privatizing liquor sales. Past [analysis](#) on liquor privatization has shown potential cost savings with the added benefit of lower prices and increased consumer choice.
- Lawmakers should take proactive steps to safeguard the state *and* taxpayers from future deficits.
 - Establishing the [Taxpayer Protection Act](#) to limit spending growth to the rate of inflation and population growth, ensuring that spending grows in line with taxpayers' ability to pay.
 - Closing a [loophole](#) that allows budgets with an inaccurate revenue estimate or without the governor's signature to become law.
 - Protecting Pennsylvania's Budgetary Stabilization Reserve Fund, or Rainy Day Fund, from illegal draws to balance the budget is [vital](#) to the state's fiscal health and stability. State law reserves its use as an essential one-time revenue source to compensate for emergencies or economic downturns.

Special Revenue Funds with Balance Exceeding 2024-25 Disbursements (thousands of dollars)

Fund	24-25 Available Balance	24-25 Receipts	24-25 Disbursements	24-25 Balance minus Disbursements
Acid Mine Drainage Abatement and Treatment Fund	\$196,296	\$152,465	\$17,056	\$179,240
Agricultural Conservation Easement Purchase Fund	\$60,579	\$41,967	\$44,106	\$16,473
Anthracite Emergency Bond Fund	\$551	\$50	\$273	\$278
Banking Trust Fund (Unrestricted)	\$64,375	\$40,222	\$34,372	\$30,003
Catastrophic Loss Benefits Continuation Fund	\$78,643	\$68,538	\$8,605	\$70,038
Cigarette Fire Safety and Firefighter Protection Act Fund	\$276	\$37	\$98	\$178
Coal Lands Improvement Fund	\$991	\$51	\$28	\$963
County Voting Apparatus Fund	\$9,244	\$918	\$8,428	\$816
Emergency Medical Services Operating Fund	\$22,806	\$18,422	\$19,413	\$3,393
Energy Development Fund	\$1,340	\$116	\$1,118	\$222
Fantasy Contest Fund	\$1,285	\$399	\$778	\$507
Game Fund	\$388,879	\$206,133	\$320,966	\$67,913
Robert P. Casey Memorial Organ Fund	\$1,888	\$1,006	\$1,361	\$527
Milk Marketing Fund	\$4,723	\$3,021	\$3,292	\$1,431
Mine Safety Fund	\$175	\$27	\$51	\$124
Monetary Penalty Endowments Trust Fund	\$35,237	\$1,630	\$7,213	\$28,024
Motor Vehicle Transaction Recovery Fund	\$2,437	\$147	\$20	\$2,417
Municipalities Financial Recovery Revolving Aid Fund	\$21,985	\$21,964	\$13,461	\$8,524
Non-Coal Surface Mining Conservation and Reclamation Fund	\$7,476	\$2,723	\$4,033	\$3,443
Patient Safety Trust Fund	\$13,089	\$8,676	\$9,644	\$3,445
Pennsylvania Health Insurance Exchange Fund	\$133,839	\$118,142	\$93,532	\$40,307
Pennsylvania Veterans Monuments and Memorial Trust Fund	\$120	\$21	\$116	\$4
PENNVEST Fund	\$312,227	\$93,654	\$135,116	\$177,111
Property Tax Relief Fund	\$1,776,212	\$1,386,595	\$1,138,700	\$637,512
Real Estate Recovery Fund	\$991	\$115	\$150	\$841
Remining Financial Assistance Fund	\$4,892	\$324	\$670	\$4,222
Self-Insurance Guaranty Fund	\$57,098	\$2,463	\$1,092	\$56,006
State Insurance Fund	\$5,007	\$3,066	\$3,300	\$1,707
Storage Tank Fund	\$23,080	\$19,559	\$17,588	\$5,492
Treasury Initiative Support Fund	\$13,762	\$2,500	\$1,700	\$12,062
Underground Storage Tank Indemnification Fund	\$437,212	\$54,889	\$64,834	\$372,378
Water Supply and Wastewater Treatment Fund	\$12,890	\$1,120	\$9,400	\$3,490
Wild Resources and Conservation Fund	\$323	\$94	\$283	\$40
Workers Compensation Security Fund	\$1,126,441	\$6,571	\$67,332	\$1,059,109
Total Savings				\$2,788,240

Source: Gov. Josh Shapiro, "Executive Budget, 2025-26," accessed February 5, 2025, <https://www.pa.gov/content/dam/copapwp-pagov/en/budget/documents/publications-and-reports/commonwealthbudget/2025-26-budget-documents/2025-26%20budget%20book.webversion.pdf>

Special Revenue Funds with 2025-26 Balance Exceeding 2024-25 Balance (thousands of dollars)

Special Revenue Funds	24-25 Available Balance	24-25 Receipts	24-25 Disbursements	25-26 Budget Balance	25-26 Balance minus 24-25 Balance
Administration Fund	\$29,941	\$331,279	\$329,809	\$30,845	\$904
Agricultural Conservation Easement Purchase Fund	\$60,579	\$41,967	\$44,106	\$60,909	\$330
Automobile Theft Prevention Trust Fund	\$71	\$8,534	\$8,501	\$72	\$1
Banking Trust Fund (Unrestricted)	\$64,375	\$40,222	\$34,372	\$70,247	\$5,872
Ben Franklin Technology Development Authority Fund (Unrestricted)	\$6,210	\$18,868	\$17,700	\$7,907	\$1,697
Capitol Restoration Trust Fund	\$518	\$26	\$-	\$535	\$17
Children's Trust Fund	\$1,429	\$1,615	\$1,562	\$1,622	\$193
Coal Lands Improvement Fund	\$991	\$51	\$28	\$1,008	\$17
Compulsive and Problem Gambling Treatment Fund (Unrestricted)	\$5,444	\$10,278	\$13,580	\$6,045	\$601
Conrad Weiser Memorial Park Trust Fund	\$91	\$5	\$-	\$94	\$3
Conservation District Fund	\$8,516	\$15,837	\$17,610	\$8,754	\$238
Hazardous Material Response Fund (Unrestricted)	\$471	\$1,321	\$903	\$676	\$205
Higher Education Assistance Fund	\$118,871	\$597,019	\$591,605	\$124,285	\$5,414
HOME Investment Trust Fund	\$151	\$4,563	\$4,564	\$251	\$100
Housing Affordability and Rehabilitation Enhancement Fund	\$9,560	\$77,193	\$75,041	\$9,849	\$289
Insurance Regulation and Oversight Fund	\$41,265	\$40,159	\$49,305	\$43,333	\$2,068
Marcellus Legacy Fund	\$2,089	\$75,864	\$81,287	\$2,152	\$63
Medical Care Availability and Reduction of Error Fund	\$55,337	\$280,002	\$362,194	\$104,409	\$49,072
Motor Vehicle Transaction Recovery Fund	\$2,437	\$147	\$20	\$2,516	\$79
Municipalities Financial Recovery Revolving Aid Fund	\$21,985	\$21,964	\$13,461	\$22,547	\$562
Non-Coal Surface Mining Conservation and Reclamation Fund	\$7,476	\$2,723	\$4,033	\$7,615	\$139
Nutrient Management Fund (Unrestricted)	\$14,977	\$11,823	\$21,625	\$18,804	\$3,827
Pennsylvania Health Insurance Exchange Fund	\$133,839	\$118,142	\$93,532	\$134,148	\$309
Pennsylvania Historical and Museum Commission Trust Fund	\$226	\$11	\$-	\$233	\$7
Pennsylvania Race Horse Development Fund	\$4,602	\$187,731	\$189,563	\$4,741	\$139
Pharmaceutical Assistance Fund (Unrestricted)	\$19,726	\$164,314	\$168,413	\$20,374	\$648
PlanCon Bond Projects Fund	\$138,520	\$6,792	\$-	\$142,703	\$4,183
Reinsurance Fund	\$2,967	\$145,098	\$144,898	\$3,057	\$90
Self-Insurance Guaranty Fund	\$57,098	\$2,463	\$1,092	\$59,460	\$2,362
State Gaming Fund	\$293,326	\$2,008,159	\$2,281,687	\$306,975	\$13,649
Tobacco Settlement Fund	\$15,143	\$533,240	\$696,752	\$15,600	\$457
Treasury Initiative Support Fund	\$13,762	\$2,500	\$1,700	\$14,562	\$800
Unconventional Gas Well Fund	\$15,016	\$174,071	\$186,943	\$15,469	\$453
Vocational Rehabilitation Fund	\$28,264	\$260,342	\$257,549	\$29,118	\$854
Workers Compensation Admin Fund (Unrestricted)	\$78,673	\$67,145	\$92,121	\$89,577	\$10,904
911 Fund	\$74,805	\$387,277	\$408,234	\$77,064	\$2,259
Total Savings					\$108,805

Source: Gov. Josh Shapiro, "Executive Budget, 2025-26," accessed February 5, 2025, <https://www.pa.gov/content/dam/copapwp-pagov/en/budget/documents/publications-and-reports/commonwealthbudget/2025-26-budget-documents/2025-26%20budget%20book.webversion.pdf>