

Deficit Watch: March 2025

Human services costs are the biggest driver of deficit growth.

BACKGROUND

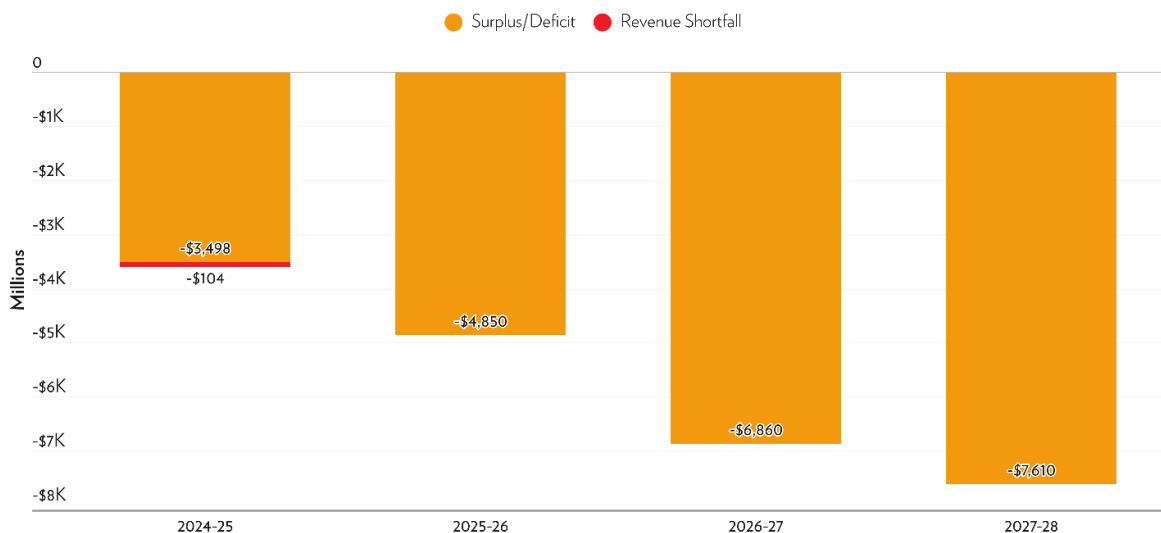
Pennsylvania faces serious fiscal challenges. The enacted 2024–25 General Fund budget created a \$3.6 billion structural deficit. Gov. Josh Shapiro’s 2025–26 budget proposal would increase the deficit to \$4.8 billion. Revenue collection data for this fiscal year shows that Pennsylvania’s budget deficit may be larger than expected.

REVENUE ESTIMATES AND COLLECTIONS

- In February 2025, Pennsylvania collected \$2.87 billion in revenue, \$44 million above the official revenue estimate. While February collections exceeded the estimate—revenue sums still lag for fiscal year (FY) 2024–25. In total, FY-to-date collections are \$104 million below estimated revenues.
- Shapiro’s 2025–26 budget proposal drastically overestimates the revenue impact of his revenue proposals. A [March briefing](#) by the Pennsylvania Independent Fiscal Office (IFO) calculates Shapiro’s revenue estimates for his marijuana, skill games, and combined reporting proposals exceed IFO estimates by \$4 billion over the next three fiscal years. If Shapiro’s proposals do not reach his hefty projections, the budget deficit will be even larger than previously expected.

Projected Budget Deficits

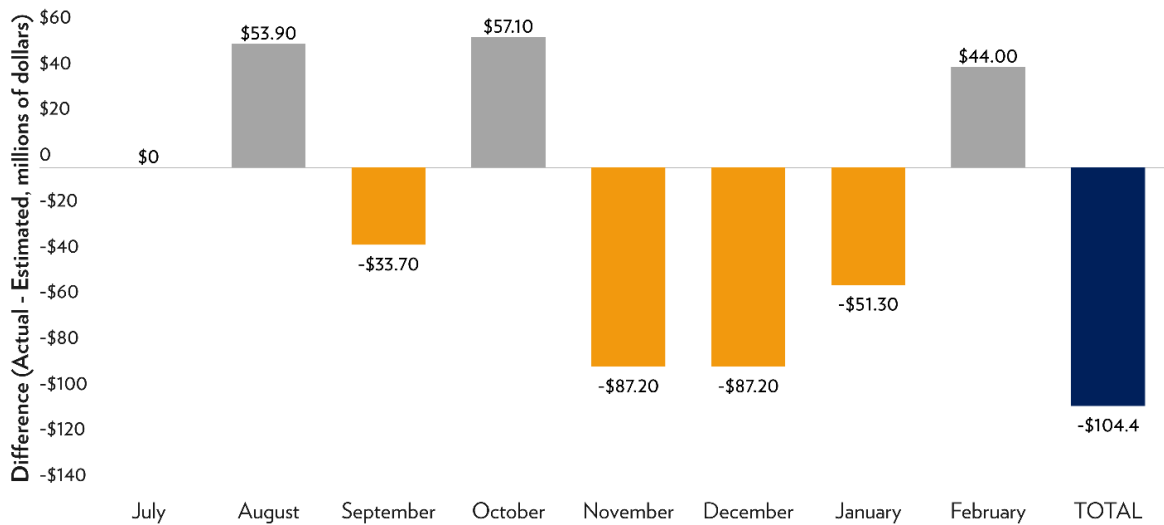
Pennsylvania is facing a budget deficit that will grow in future years.



Sources: Pennsylvania Independent Fiscal Office, “Long Term Budget Outlook Update” February 2025, http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/RB_2025_02_Long-Term_Budget_Outlook.pdf
 Governor Josh Shapiro, “Executive Budget, 2025-26.” February 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>

Note: FY 2025-2026 deficit projection is from the Governor’s Executive Budget, while FY 2026-27 and 2027-28 projections are from the IFO

Actual vs. Estimated Revenue Collections, FY 24-25

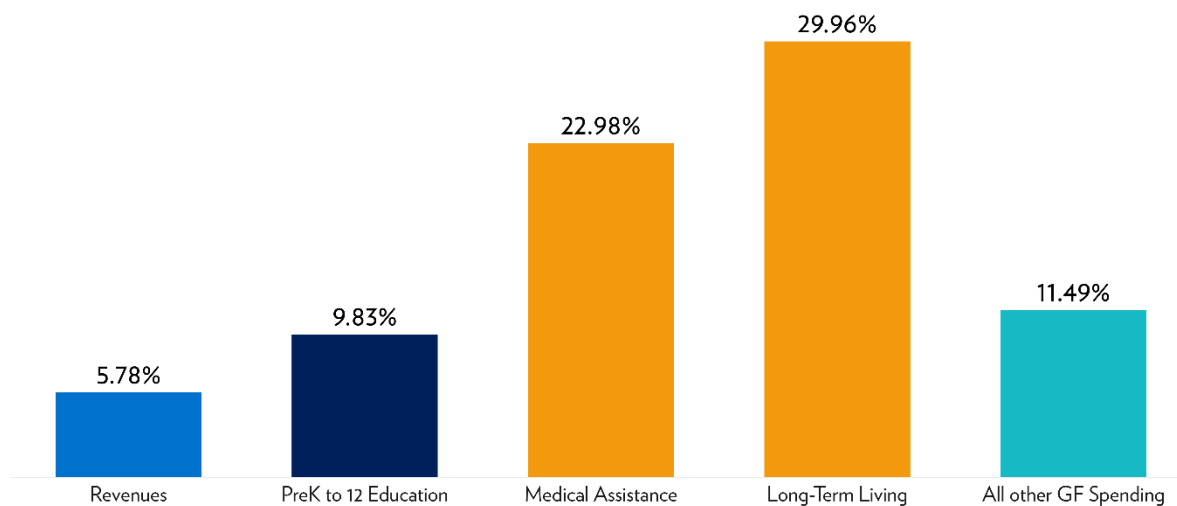


HUMAN SERVICES COSTS AND THE DEFICIT

- As Pennsylvania’s population ages, costs for human services programs serving the elderly face serious upsurges. The IFO projects costs for Pennsylvania’s Medicaid program to rise four times faster than revenues from now to FY 2027–28. At the same time, the IFO projects Long-Term Living costs to increase five times faster than revenues.

Projected General Fund Revenue & Spending Growth

Human Services programs are projected to expand at unsustainable rates from 2024-25 to 2027-28



Source: IFO Long Term Budget Outlook, February 2025, http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/RB_2025_02_Long-Term_Budget_Outlook.pdf

- While costs for vulnerable populations increase, Pennsylvania has over 830,000 healthy, able-bodied adults [enrolled](#) in Medicaid. This population costs state and federal taxpayers a combined \$6 billion annually, drawing resources from vulnerable populations.
- Entitlement programs, including Medicaid and Supplemental Nutrition Assistance Program (SNAP) suffer from large improper payment rates due to eligibility errors. In 2019, Pennsylvania [made](#) \$2.3 billion in improper payments, with eligibility errors accounting for \$1.8 billion.
 - Currently, Pennsylvania only verifies eligibility once per year, accepts eligibility information without additional verification, allows [continuous](#) eligibility, practices [ex parte renewal](#), and allows enrollment in SNAP based on eligibility for [other](#) welfare programs. These practices all contribute to improper payments.
- Additionally, the SNAP program has work or training requirements for adults without disabilities or dependents between the ages of 18 and 54. However, Pennsylvania [waives](#) these requirements in 59 counties and parts of six other counties. Pennsylvania’s waiver uses gerrymandering and extended lookback periods and ignores historical data to maximize the number of individuals exempt from work requirements.

SOLUTIONS

- Lawmakers should institute work requirements for healthy, able-bodied adults receiving Medicaid and SNAP benefits. Research shows work requirements help individuals become independent, with incomes [tripling](#) within two years of returning to work. These income gains more than offset the cost of lost benefits, putting individuals on the path toward self-sufficiency.
 - A January 2025 poll found that 84 percent of Pennsylvania voters [support](#) work requirements for able-bodied adults receiving assistance.
- Harrisburg should improve Pennsylvania’s process for verifying Medicaid and SNAP eligibility. Upping the frequency of eligibility checks to twice per year would decrease eligibility errors. A recent [poll](#) found that 86 percent of voters support increasing the frequency of eligibility verification.
 - Lawmakers should explore additional steps to reduce eligibility errors and improper payments. The state should require additional verification for every aspect of program eligibility and end harmful practices like *ex parte* renewals, continuous eligibility, and broad-based categorical eligibility. Reducing improper payments would increase resources available to vulnerable populations.
- As federal lawmakers [explore](#) program integrity reforms, Pennsylvania lawmakers should do the same. Requiring legislative approval for federal waivers, reducing Medicaid provider taxes, capping supplemental payments, increasing audits and fraud investigations, and improving oversight of costly optional benefits would all enhance program integrity in Pennsylvania.