



TO: Treasurer Stacy Garrity; House and Senate Leaders and Appropriations Chairs
CC: Budget Secretary Uri Monson; Interested Parties
FROM: Andrew J. Lewis, President and CEO
DATE: September 8, 2025
SUBJECT: Rainy Day Fund

I write to you on a matter of significant importance to the Commonwealth concerning our state budget, and one on which you are uniquely positioned to address. As you know, Governor Shapiro has proposed transferring \$1.6 billion from the Budget Stabilization Reserve Fund (colloquially known as the “Rainy Day Fund”) to balance the 2025-26 Pennsylvania General Fund Budget.

Raiding the Rainy Day Fund in this manner runs afoul of the law and sets a dangerous precedent for future state budgets. We respectfully ask that you safeguard the integrity of the Rainy Day Fund by blocking the Governor’s executive overreach in attempting to exhaust the Fund beyond its legislatively defined limits.

The Rainy Day Fund is a statutory creation, provided for in 72 P.S. § 1703-A(b) (commonly referred to as the “Fiscal Code”), in which the General Assembly limited the use of these funds to only two circumstances, when:

- (1) “emergencies involving the health, safety or welfare of Commonwealth residents... cannot be dealt with through the normal budget process”; or
- (2) “downturns in the economy result in significant unanticipated revenue shortfalls ... [that] cannot be dealt with through the normal budget process.”

In either circumstance, it is a prerequisite that the emergency or revenue shortfall cannot be remedied through the normal budget process. Further, the Fiscal Code outlines a required process for transfers occur from the Rainy Day Fund:

The General Assembly may then through approval of a separate appropriation bill by a vote of two-thirds of the members elected to the Senate and the House of Representatives appropriate money from the Budget Stabilization Reserve Fund to meet the needs identified in the Governor’s proposal.

Neither of the statutory contingencies exist today.

There has been no economic downturn that has caused the Commonwealth’s revenues to unexpectedly drop. The Commonwealth’s economic environment has been well known and understood for months. Inflation levels, jobless numbers, and projected Commonwealth revenues all have been predictable, and predicted, for some time. In fact, General Fund revenues exceeded the official forecast for the immediate preceding fiscal year.

Nor has there been any natural disaster or declared state of emergency that requires unexpected spending.

The Governor’s desired spending increases for transportation, public schools, human services, and other line items do not amount to emergencies endangering the health and welfare of Commonwealth citizens. Rather, these are merely the Governor’s policy preferences. The commonwealth’s structural deficit is self-inflicted by the Governor, who refuses to engage in the

commonwealthfoundation.org • 717.671.1901

223 State Street, Harrisburg, PA 17101

normal budget negotiating process—a process that is readily available and suitable to address the line items the Governor intends to finance with the Rainy Day Fund.

Your position gives you a distinct capacity to scrutinize the Governor's efforts to utilize these funds and require him to meet the statutory threshold to access them. Lawmakers have the full opportunity to uphold the law by enacting a budget that protects the Rainy Day Fund. Doing so would prevent the need for intervention by the Treasurer and safeguard the integrity of the Rainy Day Fund for its intended use in future emergencies.

The impact of allowing the Governor to unilaterally access these funds without following the requirements of the Fiscal Code will be longstanding.

If proposed new spending is used to justify draining the Rainy Day Fund this year, then legal restrictions around the Rainy Day Fund are effectively rendered moot, and any Governor may make use of the Rainy Day Fund for any purpose. It is worth noting here that Governor Shapiro's plan to raid the Rainy Day Fund is unprecedented—even during the COVID worldwide pandemic, there was no such action taken by Pennsylvania's then-governor.

Draining the Rainy Day Fund as part of a budget that—as proposed by Gov. Shapiro—spends several billion dollars more than projected revenue would require significant tax hikes as early as 2026. Furthermore, draining the Rainy Day Fund would expose Pennsylvania taxpayers to significant risk should a recession—causing a revenue shortfall—or a legitimate emergency occur, and the commonwealth lacks sufficient reserves to address it.

All three ratings agencies, Moody's Ratings; Fitch Ratings, and S&P Global have warned that reducing the Rainy Day Fund to balance the budget could result in a downgrade in Pennsylvania's bond rating. Such a downgrade would result in a significant increase in interest rates on bonds the commonwealth issues every year—imposing yet another long-term cost on the backs of taxpayers.

We urge you to scrutinize any appropriations in excess of available revenue that permits Governor Shapiro to transfer reserves from the Rainy Day Fund. His effort to raid the fund would be unlawful.

Further, we ask that should Governor Shapiro or budget secretary Uri Monson request a transfer from the budget stabilization reserve fund without following the legislative process defined in the Fiscal Code, you withhold any such transfer until the legality of such a transfer has been properly adjudicated.