

2025–26 Budget Analysis

Nathan Benefield, November 12, 2025

SUMMARY

Four months late, Gov. Josh Shapiro and state lawmakers agreed on a state budget deal. The agreement spends \$1.4 billion less than Shapiro’s reckless, extreme proposal, and uses excessive special fund balances and unspent department allocations to prevent tax hikes and preserve the Rainy Day Fund.

The agreement includes several wins for families and employers, including welfare reforms, expediting permits for business development, blocking energy taxes on working families, and expanding tax credit scholarships for low-income students.

Still, the agreement spends too much, expanding a structural deficit, relying on one-time sources, and threatening a tax increase in 2026 or 2027. The Commonwealth Foundation will focus energies over the next year to control spending growth, work with lawmakers to enact cost-saving measures and reforms, and prevent tax hikes on families.

KEY POINTS

- The 2025–26 budget increases state spending to \$50.09 billion, a 5.1 percent increase.
- Carries forward a \$5.1 billion structural deficit.
- Preserves the Rainy Day Fund and draws from “shadow budget” and lapsed funds.
- Maintains scheduled reduction in Corporate Net Income Tax rate.
- Withdraws from RGGI and blocks new energy taxes.
- Expands permitting reforms and adds transparency.
- Includes cuts for public cyber charter schools.
- Expands EITC—via Economically Disadvantaged Schools—by \$50 million.
- Includes some human services cost savings.

SPENDING INCREASE

The \$50.09 billion general fund budget represents a \$2.4 billion increase over last year’s enacted budget, an increase of 5.1 percent.

- This exceeds the [Taxpayer Protection Act](#) Index by \$490 million.
- This increase exceeds the forecast from the Independent Fiscal Office (IFO) for a net revenue increase of 0.9 percent.

- This spending hike occurs when Pennsylvania already has a \$3.5 billion structural deficit.
 - The budget also includes \$148 million in “supplemental appropriations”—additional spending added to and counted as the 2024–25 budget, after the fact.
- The spending is \$1.4 billion less than what [Shapiro proposed](#) in February.

Structural Deficit

The 2025–26 budget will increase Pennsylvania’s long-term structural deficit to \$5.1 billion.

- That is, it spends \$5.1 billion more than net revenue for 2025–26.
- The spending is paid for through:
 - Reducing the general fund balance by \$3.9 billion,
 - Using \$1.5 billion in lapsed funds (appropriations made to government agencies in prior years but never used), and
 - Transferring \$670 million from “shadow budget” excesses.
- While reclaiming excesses from lapsed appropriations and shadow budget slush funds are wins for taxpayers, these are one-time funding sources that won’t be available next year.
- This overspending would drain the general fund balance and require massive spending cuts or tax hikes on working families in 2026 and 2027 to cover the structural deficit.
 - If not addressed, this structural deficit will represent a tax hike of \$1,500 per family of four.

The 2026–27 budget fight—begins a mere three months from now—will be just as challenging for lawmakers.

Preserving the Rainy Day Fund

The budget deal does not dip into the Rainy Day Fund.

- Pennsylvania’s Budget Stabilization Reserve Fund, or Rainy Day Fund, is [legally restricted](#) for emergency situations, including natural disasters and recessions (significant decline in revenue).
- Shapiro had proposed [illegally draining](#) \$1.6 billion from the Rainy Day Fund to pay for his spending.
- Preserving the Rainy Day Fund protects taxpayers from the impact of recession, and maintains Pennsylvania’s bond rating, which lowers the taxpayer cost of borrowing.

MAKING PENNSYLVANIA MORE COMPETITIVE

Over the past 15 years, Pennsylvania has [lost](#) a net 315,716 residents to other states through migration. Pennsylvanians have been [moving](#) to low-tax, economically competitive states, such as Florida, Texas, and North Carolina, which have more competitive tax and regulatory environments.

Thankfully, the budget deal maintains planned tax reductions, prevents energy taxes, and improves the permitting process for business development.

Taxes

The budget continues the scheduled [reductions in the Corporate Net Income Tax](#), which will move Pennsylvania from the second-highest rate to the 13th-lowest in the country.

- The deal also rejects Shapiro’s proposal to extract higher taxes from businesses through combined reporting.

Energy

The budget deal includes language that directs the administration to rescind all regulations and cease participation in the Regional Greenhouse Gas Initiative (RGGI).

- RGGI represents an energy tax that would increase Pennsylvania’s electricity prices by [an estimated 30 percent](#).
 - Shapiro expressed concerns about the cost of RGGI during the campaign, noting it would increase energy costs for working families.
 - The Commonwealth Court had already struck down RGGI as an illegal tax—unilaterally entered into by former Gov. Tom Wolf without legislative approval—though the Shapiro administration was appealing this ruling, [citing](#) the need “to protect” executive authority “for this Administration and all future governors.”
- The threat of RGGI has also stifled energy development in Pennsylvania, with a dearth of new generation over the last five years due to the uncertainty and fears of RGGI.

Rescinding RGGI protects Pennsylvania families from energy cost increases while providing certainty to businesses, opening the door for investment in Pennsylvania, and unshackling energy production.

Permitting

Pennsylvanians need broad relief and a serious effort to review [over 164,000 regulatory restrictions](#). This budget deal provides some improvements in the commowealth’s business permitting process.

- Reducing Pennsylvania state regulations by 36 percent would increase the state’s gross domestic product by [\\$9.2 billion a year](#), approximately \$1,760 per household, and create 180,000 new Pennsylvania jobs.
- Shapiro has acknowledged problems with overregulation and permitting delays, but his efforts have thus far been weak.
 - His “[PAYback](#)” refund of permits hasn’t led to faster permitting, and his “Fast Track” only applies to large, politically selected projects.
 - Further, the administration delayed implementation of the new Streamlining Permits for Economic Expansion and Development ([SPEED](#)) program—which only applies to [6 percent](#) of Pennsylvania’s permits—by nearly a year.

Thankfully, this budget deal includes reforms advanced by the state Senate to expand expedited permitting across state government while providing greater transparency for businesses.

- Expanding the number of permits covered by SPEED.
- Businesses would be able to track permits through an online system.

- Permits that aren't processed would be automatically approved, allowing businesses to start these projects.

EDUCATION

Public School Spending Increase

The budget includes an \$849 million increase for state support of public schools, despite declining enrollment.

- The new budget will increase state support for public schools to \$17.7 billion.
 - That represents an increase of \$5.1 billion over just the last five years, or 68.4 percent.
 - Most of this increase will be through the ready-to-learn block grant, rather than the student-based fair funding formula.
 - This becomes baked into the future baseline, funding districts regardless of enrollment, favoring buildings and bureaucrats over kids.
 - This includes earmarked increases for [11 school districts](#) favored by House Democrats.
- Pennsylvania spent [more than \\$23,000 per student](#) on public schools in 2023–24, the seventh highest among states.
 - The increase in state funding (not including any local property tax increases) will increase funding to **\$26,000 per student**.
- Yet, this massive spending increase for public schools has not resulted in better performance. In fact, nearly [70 percent of eighth-grade students aren't proficient in math or reading](#), and average scores have declined regularly for the past decade.
 - Instead, school districts have used this massive funding increase to increase their reserves. As of the end of the last school year, school districts had [\\$7.4 billion in general fund reserves](#) and **\$13 billion in total reserves**.

Cyber Cuts

The budget changes the formula by which school districts make payments to cyber charter schools, which already receive about 25 percent less per student than school districts.

- The estimated impact of the cyber cuts is \$178 million to 14 cyber schools.
- In 2023–24, cyber charters received just over \$1.2 billion for 59,900 students. Cyber school enrollment grew to 65,000 in 2024–25.

Unfortunately, Shapiro has made cuts to cyber charter schools a priority in each of his three budget proposals, and House Democrats have made cutting cyber schools a demand, all to appease union leaders and special interest lobbyists.

- [House Bill \(HB\) 1500](#), passed earlier this year, [included](#) a five-year moratorium on any new public cyber school applications, caps on fund balances that don't apply to district schools, and proposed cuts of \$616 million to cyber schools.
- HB 1422, [passed in 2023](#) by the House, sought a \$456 million cut to cyber schools at that time.

- The cuts in the budget deal—while far less draconian than proposed by Shapiro and House Democrats—remain punitive and unjustified by any logical funding formula.
- It is difficult to see how cutting funding for cyber schools, and only cyber schools, is consistent with equity for all Pennsylvania students.

School Choice

The budget deal does *not* include [Lifeline Scholarships](#)—which Shapiro supported on the campaign trail—or any direct funding for low-income students to attend private school. It does include an increase in the cap for tax credit scholarships.

- The budget adds \$50 million more for [Economically Disadvantaged Schools](#) through the Educational Improvement Tax Credit (EITC) program.
 - Economically Disadvantaged Schools donations provide scholarships averaging \$1,800 per student to approximately 33,000 K–12 students, mostly low income, in 222 private schools, many of which are struggling to remain open.
- A \$50 million increase is estimated to serve an additional 10,000 students and increase average scholarship amounts to \$2,600 per student. This is still less than the need for students in the schools to get the full matching amount specified in the law.

MASS TRANSIT

The budget deal does not divert sales tax to mass transit programs.

- Shapiro had proposed taking [another \\$300 million](#) from state sales tax payments to fund mismanaged transit agencies.
- Mass transit agencies already receive more than \$2.47 billion from sales tax revenue and driver charges—charging drivers fees, fines, tolls, and taxes to fund the transit systems they avoid—even as ridership has declined by nearly one-third over the last six years.

HUMAN SERVICES REFORM

The budget includes a \$1.1 billion increase for Human Services, a 5.7 percent increase.

- For the past six years, total Medicaid spending has increased by 8 percent annually and is projected to rise by 9 percent next year.
- Pennsylvania’s IFO projects total Medicaid spending will reach [\\$54 billion](#) in fiscal year 2025–26, about one-third of general fund spending.

Considering that the commonwealth’s projected revenue will grow by only 1 percent next year, the long-term expense of Medicaid is unsustainable.

- Pennsylvania cannot afford not to address Medicaid. Pennsylvania’s most recent comprehensive audit revealed \$2.3 billion in improper payments.
- Earlier this year, the Pennsylvania Auditor General found incorrect payments in 12 percent of the audited cases.

The budget takes some steps toward protecting Medicaid and Supplemental Nutrition Assistance Program (SNAP) benefits and addressing [cost overruns](#).

- The deal requires monthly crosschecks of death records and quarterly crosschecks of wage records with Medicaid and SNAP enrollment.
- It also includes some savings by limiting medically unnecessary benefits, including GLP weight loss medication.
- There will be new SNAP reporting requirements, intended to reduce an excessive error rate.
- It does not codify six-month eligibility verification or work requirements for healthy adults on Medicaid.