

Governor Shapiro's Reckless 2026–27 Budget Proposal

OVERVIEW

Gov. Josh Shapiro's unaffordable budget worsens Pennsylvania's structural deficit. The governor **proposes nearly \$53.26 billion in general fund spending, a 6.3 percent increase over the 2025–26 enacted budget**. He spends \$6.8 billion more than expected revenues, calling for new taxes this year, requiring massive tax hikes on working families next year. Further, Shapiro continues to push his Lightning Plan—new taxes and mandates that would drive up Pennsylvanians' electric bills.

Lawmakers should reject Shapiro's unaffordable spending binge—just as they have in the past few years. Instead, legislators must work to constrain spending, protect working families from tax hikes, and advance policies to make Pennsylvania more competitive.

SHAPIRO INCREASES THE STRUCTURAL DEFICIT

- Shapiro's \$53.3 billion budget proposal, a 6.3 percent increase over last year's enacted budget, radically overspends projected revenues and exacerbates what is already a massive budget deficit.
 - While the current budget already represents a structural deficit of \$4.8 billion—Shapiro's plan balloons the structural deficit, even surpassing projections by the Independent Fiscal Office (IFO).
- The IFO projected the [structural deficit would increase](#) from \$4.8 billion to \$6 billion by the end of fiscal year 2026–27 and almost \$8 billion by 2031.
 - That is due entirely to excessive spending. The IFO projects \$5.3 billion in revenue growth over the next five years, but \$8.9 billion in spending growth over the same time.
 - Shapiro's proposal exceeds even that gloomy outlook, spending almost \$1 billion more than the IFO projected, and ballooning the structural deficit to \$6.8 billion.
 - Additionally, Shapiro's budget includes \$390 million in "supplemental appropriations"—meaning his administration overspent last year's budget and requires lawmakers to approve the overspending.
- Shapiro's spending increases greatly exceed the Taxpayer Protection Act (TPA) Index—representing inflation and state population growth—of 3.07 percent. Shapiro's unaffordable spending binge exceeds the TPA Index by \$1.63 billion.
 - If state spending growth had stayed within the TPA limit since 2019, general fund spending would be \$42 billion.

SHAPIRO'S OVERSPENDING DRAINS RESERVES AND MEANS HIGHER TAXES

- Shapiro's budget creates a massive \$6.8 billion structural deficit and completely exhausts the remaining general fund balance.
- Further, Shapiro proposes transferring \$4.6 billion from Pennsylvania's Budget Stabilization Reserve Fund, or Rainy Day Fund, to fuel deficit spending—in defiance of current state law.
 - [Pennsylvania 1929 Act 176, Article 17-A](#) states the Rainy Day Fund cannot be used for ongoing spending or new programs, but “only when emergencies ... or downturns in the economy resulting in significant unanticipated revenue shortfalls” occur. Moreover, the law requires a two-thirds vote to spend Rainy Day Funds.
 - The Rainy Day Fund protects taxpayers from future recessions. Rating agencies have warned that [draining the Fund will result in credit downgrades](#).
 - Just a few weeks ago, [Shapiro celebrated](#) taxpayer savings on new bond issues—which were the direct result of better credit ratings and maintaining reserves, in spite of his earlier proposals.
- The 2026–27 proposal would impose new taxes this year and will force extreme tax hikes on working families in 2027.
 - This reckless overspending includes multiple new taxes, including a significant increase in corporate taxes through mandatory unitary combined reporting, taxes on legalized marijuana, and taxes on skill games.
 - Shapiro estimates \$1.9 billion in additional revenue from these proposals in 2026–27. However, an IFO analysis of the governor's similar proposals last year projected only \$476 million in year-one revenue—a difference of nearly \$1.5 billion.
 - Even if all of Shapiro's proposed tax hikes were enacted, that still leaves a deficit of \$4.9 billion. Shapiro provides no answer for how to close this structural defect after exhausting all the state's reserves.
- Shapiro's proposal would require unaffordable tax hikes on working families in 2027.
 - The cost to cover Shapiro's taxes and deficit equals a tax hike of nearly \$2,100 per family of four.

SHAPIRO'S LIGHTNING PLAN EQUALS HIGHER ENERGY COSTS

- The budget proposal rehashes [Shapiro's plan](#) to tax energy, the Pennsylvania Climate Emissions Reduction Act (PACER), or a state-specific Regional Greenhouse Gas Initiative (RGGI) cap-and-trade program by a different name. Likewise, his Pennsylvania Reliable Energy Sustainability Standard (PRESS) mandate would drive up costs and result in less reliable energy, resulting in blackouts and shortages.
 - Shapiro's “Lightning” plan would increase energy costs, reduce production, and subsidize special interest groups and political donors.
 - Combined, PRESS and PACER would result in a [\\$157.2 billion increase](#) in Pennsylvania electricity costs over the next decade, and more than double residential electricity costs.

- If Shapiro is serious about protecting consumers from high energy prices, he should champion policies prioritizing affordability and reliability. This includes prioritizing reliable generation over unreliable weather-based sources.
- The governor should work with state lawmakers to place energy-source-neutral reliability standards into law, alongside streamlining permitting, especially state-level approvals for energy projects, particularly reliable coal, natural gas, hydro, and nuclear.

SHAPIRO FAILS TO DELIVER EDUCATIONAL OPTIONS

- Shapiro’s proposal adds another \$923 million (a 5.2 percent increase) to state support of public schools, to \$18.7 billion—on top of the \$5.1 billion in increases over just the past five years.
 - This, at a time, when public school enrollment is in decline.
- Pennsylvania spent **more than \$23,000 per student** on public schools in 2023–24, the eleventh highest among states.
 - 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**.
- Shapiro should deliver on his campaign promise to provide more educational options to families, so that, in his own words, “every student, no matter their zip code, has access to high-quality and safe schools.”
- Shapiro and lawmakers should offer a Lifeline for students assigned to low-achieving schools. About 200,000 children attend persistently low-achieving schools.
- Instead, Shapiro proposes reducing educational choice.
 - Shapiro wants to reduce the amount available through education tax credits for scholarship organizations, despite the fact that current caps turned away nearly 70,000 scholarship applicants last year.
 - After cuts to per-student funding for public cyber schools, in each of the last two budgets, Shapiro seeks further cuts to cyber school funding for a third straight year. This disinvestment in kids exacerbates inequity and treats some students as second-class citizens.
- Lawmakers should reject Shapiro’s misguided plans that limit choice and accountability and instead prioritize funding students directly and offer them a real opportunity to succeed.

SHAPIRO IGNORES WELFARE COSTS

- The largest cost-driver continues to be Medicaid, the largest program within the Department of Human Services (DHS). Medicaid spending consistently grows **faster than revenue**.

- Shapiro’s budget includes a \$1.7 billion, or 8.6 percent, increase in Human Services, without proposing any reforms to promote work among healthy, childless, working-age adults or reduce payment errors.
- In fact, the budget spends nearly \$3 billion to fund housing and food assistance through Medicaid.
- Under this proposal, despite Shapiro’s taxpayer-funded website attacking Congressional Republicans for “cuts,” federal funds for DHS would increase by more than \$2 billion (or 5.6 percent), reaching nearly \$40 billion
- The implementation of federal work requirements for healthy adults eligible for Medicaid and the Supplemental Nutrition Assistance Program (SNAP) is projected to generate savings as Pennsylvanians move into the workforce.
 - The IFO projects \$135 million in annual state Medicaid savings. Likewise, SNAP work requirements are [reducing the healthy adult population dependent on food assistance](#).
 - Still, there are 100,000 more Pennsylvanians on SNAP now than pre-pandemic (and 30,000 more than in December 2020, at the height of the pandemic), and recipients are getting 58 percent more in food stamp benefits than pre-pandemic.
- More people on welfare is *not* the measure of a thriving economy, regardless of Shapiro’s claims.
 - Rather, declining enrollment and greater independence are signs of a healthy economy and growing workforce
- Under federal legislation, Pennsylvania will pay a portion of SNAP benefit costs if the payment error rate remains above 6 percent.
 - In 2024, Pennsylvania’s payment error rate was 10.8 percent. The IFO projects a benefit [cost of \\$173 million](#) in 2027-28 due to a payment error rate between 6 and 8 percent.
- The federal government will begin penalizing states for high Medicaid payment error rates in 2030.
 - Looking at 2024 spending levels, the 11.4 percent error rate will cost state taxpayers an [additional \\$2.2 billion](#).
- Lawmakers should build on the 2025 reforms to incentivize work for health, childless, working-age adults on welfare programs, and improve eligibility systems to prevent waste and fraud, reducing Pennsylvania’s high error rates.

LAWMAKERS MUST FOCUS ON GROWING THE ECONOMY

- Despite Shapiro’s recent statements, Pennsylvania’s economy is sluggish compared to the rest of the nation.
- Since 2020 alone, Pennsylvania has lost a net 54,209 residents to other states through interstate migration.
 - Data shows that Americans consistently [move](#) to low-tax, economically competitive states such as Texas, Florida, and South Carolina, and away from high-tax, high-regulation states like California, New York, and New Jersey.

- Shapiro’s budget fails to remedy Pennsylvania’s outmigration problem or make Pennsylvania open for business. Instead, he proposes copying the states that are losing population instead of states whose economies are growing.
- Pennsylvania continues to lose out on economic opportunities due to its uncompetitive tax and regulatory environment, and the commonwealth is on track to lose another congressional seat in 2030.
- Shapiro’s plan to impose combined reporting for corporations will make Pennsylvania less competitive.
 - Combined reporting will [increase](#) the costs of filing taxes in Pennsylvania, increase tax litigation, and deter multi-state businesses from operating in Pennsylvania, severely [limiting](#) the benefits of the rate reductions.
 - Rather than offsetting rate reductions with combined reporting, lawmakers should cut corporate welfare.
- Shapiro has touted permitting reform and targeted regulatory relief programs. Yet, Pennsylvanians need broad relief, including legislative review of costly regulations, and a serious effort to review its [over 164,000 regulatory restrictions](#).

MORE TAXPAYER DOLLARS TO BAIL OUT FAILING MASS TRANSIT SYSTEMS

- Shapiro proposed diverting an additional 1.75 percent of sales and use tax revenue—equivalent to \$319.6 million, to bail out failing transit agencies like the Southeastern Pennsylvania Transportation Authority (SEPTA) and Pittsburgh Regional Transit (PRT), beginning next fiscal year.
- 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.
 - This funding occurs despite [declines in riders](#), reduce reliance on fares, and a slew of boondoggles [created by SEPTA mismanagement](#).
- Instead of more bailouts, lawmakers should reprioritize transportation funding so that users pay for the transportation they use—roads and bridges, buses, or rail—and limit taxpayer funding to help low-income riders. Transit agencies should become more reliant on riders paying for the transportation they want, instead of lobbying the state for higher taxes.

CONCLUSION

The 2026 proposal is an unaffordable spending binge that will force increased taxes on working families, drive up energy costs, and exacerbate Pennsylvania’s economic stagnation.

Lawmakers should reject Shapiro’s unaffordable agenda and work to control government spending and protect taxpayers, expand educational opportunity, unleash Pennsylvania energy, and adopt and make Pennsylvania a more attractive place to live and work.