

Balancing the 2026 State Budget

Controlling and Prioritizing Spending Can Help Balance the Budget

SUMMARY

- Gov. Josh Shapiro’s 2026–27 budget proposal spends \$3.2 billion more than last year and drains the Rainy-Day Fund, increasing the [structural deficit](#) to more than \$6 billion.¹ The Independent Fiscal Office (IFO) [projects](#) the structural budget deficit to rapidly expand over the next five years as spending continues to grow faster than revenue.²
- Lawmakers can reduce the structural deficit, protect Pennsylvania families from taxes, and preserve the commonwealth’s emergency savings, or [Rainy-Day Fund](#),³ by:
 - Controlling spending increases.
 - Utilizing the \$5.3 billion in the shadow budget.
 - Prioritizing economic growth.

WHAT’S HIDING IN PENNSYLVANIA’S “COUCH CUSHIONS”?

The state budget includes over one hundred [Other Special Funds](#), or “shadow budget funds,” which have grown faster than the General Fund, many holding significant surpluses.⁴ Lawmakers should evaluate the necessity of these shadow spending programs and utilize unreasonable cash balances to balance this year’s budget and reduce the structural deficit.

- The Commonwealth Foundation has identified 34 special revenue funds where cash balances exceed annual disbursements and/or with projections to grow.
 - Treasury’s fund balance report as of April 30, 2026, shows these 34 funds hold approximately \$5.3 billion in cash balances.
 - Among them, 25 have balances surpassing one year of operating expenses/fund transfers, with the median fund amount equal to about 19 months of operating expenses.
 - The significant growth in these special funds indicates excesses that lawmakers could draw back to the General Fund to reduce Pennsylvania’s structural deficit.
- In addition to the 34 identified special funds, the Self-Insurance Guaranty Fund, Tobacco Settlement Fund, and Unconventional Gas Well Fund collectively have more than \$811 million as of April 30. While these funds have additional restrictions, lawmakers should consider bringing revenue and appropriations into the General Fund.
- Lawmakers should also evaluate bringing numerous other enterprises and fiduciary funds back into the General Fund for better control over state appropriations and spending priorities.

PRIOR-YEAR LAPSES

Unspent funds from prior years, called “lapses,” are another part of state government couch cushions.

- As of April 2026, there are [more than \\$2 billion](#) in prior-year General Fund unspent or noncommitted state appropriations.
 - These are distributed funds that their respective departments have not spent. Often, departments retain these funds to ensure equal or increased funding in the future.
- Lawmakers used \$1.1 billion in prior-year lapses to close out the 2024–25 budget.
- Lawmakers should recapture prior-year lapses before raising taxes or draining emergency reserves.

CORPORATE WELFARE

- Shapiro’s [proposed budget](#) for fiscal year (FY) 2026–27 seeks \$1.7 billion in [corporate welfare spending](#), an increase of \$41 million compared to last year.⁵
- These targeted corporate welfare programs are ineffective. An [IFO review](#) found that most tax credits return less than 25 cents per dollar spent.⁶ A Mercatus Center [report](#) finds targeted economic development subsidies discourage more economic activities than they encourage.⁷
- Grant and loan programs are also ineffective and [suffer](#) from bureaucratic roadblocks.⁸ Even when businesses receive state grants, there is no guarantee of success.⁹
- The government [determines](#) the “winners,” and often they are large multinational corporations that can afford to lobby the government for subsidies.¹⁰ According to a recent tax credit report, among the recipients are multinational corporations such as Amazon, Apple Inc., Boeing Co., Pfizer Inc., and META/Facebook.¹¹
- Low-tax, economically competitive states [attract](#) more businesses and residents.¹² Cutting all corporate welfare spending and using the cost savings to make 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 corporate welfare spending could allow lawmakers to immediately reduce the CNIT to 5.75 percent, without any revenue loss, and the cost savings could similarly reduce the PIT to 2.82 percent. This would save the average family of four \$530 annually.

OTHER WAYS TO BALANCE THE BUDGET AND PROTECT TAXPAYERS

Lawmakers must reject unnecessary spending increases for education and mass transit:

- State support of public schools continues to increase despite [declining](#) enrollment, poor [return on investment](#), and [flush](#) reserves.¹³ Shapiro’s budget proposal adds nearly another billion to public education funding.
 - Private schools serving tax credit scholarship recipients educated students at an [average](#) annual tuition of \$5,448, a fraction of the [nearly \\$24,000](#) per student spent in public education.¹⁴ Across the country, school choice programs [generate](#) between \$1.70 and \$2.64 in cost savings per dollar spent.¹⁵

- Opt in to the new [Federal Scholarship Tax Credit \(FSTC\)](#): Providing families opportunities for their children to attend all types of schools: private, charter/cyber charter, career technical, public, home schools, and microschoools.¹⁶
- Mass transit agencies received \$2.47 billion in state funding during FY 2025–26 and Shapiro [proposes](#) diverting additional funds equivalent to \$319.6 million.¹⁷
 - These systems should increase fares, become more reliant on riders paying for the transportation they want, and reevaluate services rather than receive more state funding.

Lawmakers should enact reforms to address the biggest driver of state spending, Medicaid, within the Department of Human Services.

- Medicaid spending consistently grows [faster than revenue](#), and Shapiro’s budget includes a \$1.7 billion, or 8.6 percent, increase in Human Services, without proposing any reforms to promote work or reduce erroneous payments.
- Pennsylvania should enshrine work and community [requirements](#) for able-bodied adults on Medicaid in state law, limit medical exemptions, and legislate bi-annual eligibility reviews to reduce waste.¹⁸

Enact 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.¹⁹

- This year, the Taxpayer Protection Act Index spending increase limit would be roughly three percent.
 - Shapiro’s proposal increases the budget by more than six percent, from \$50 billion to \$53.2 billion.
 - Lawmakers have a starting point of between \$738 million and over \$1 billion to reappropriate back to the General Fund to address the structural deficit.

Lawmakers should take proactive steps to systematically safeguard the state from future deficits, including:

- Closing the [loophole](#) that allows an unbalanced budget to become law without the governor’s signature.²⁰
- Require lawmakers to pass legislation that matches revenues to spending before enacting an appropriations bill.
- Ensure greater transparency around [special fund reserves](#) and [lapsed funds](#), giving lawmakers more oversight and the ability to prioritize taxpayer dollars.
- Provide transparency and accountability around supplemental appropriations. This additional spending should require [legislative approval](#) during the fiscal year the spending occurs—rather than tacking it onto the subsequent budget.

Treasury's Report on Special Funds

Special Revenue Funds	Treasury's Balance*
Acid Mine Drainage Abatement and Treatment Fund	\$70,058
Agricultural Conservation	\$77,030
Banking Trust Fund	\$110,760
Ben Franklin Technology Development Authority Fund	\$30,262
Boat Fund	\$65,592
Catastrophic Loss Benefits Continuation Fund	\$78,308
Compulsive and Problem Gambling Treatment Fund (Unrestricted)	\$53,901
County Voting Apparatus Fund	\$15,300
Emergency Medical Services Operating Fund	\$27,693
Energy Development Fund	\$3,944
Environmental Education Fund	\$2,376
Environmental Stewardship	\$135,342
Fish Fund	\$69,740
Game Fund	\$470,591
Historical Preservation Fund	\$7,398
Industrial Sites Cleanup Fund	\$17,789
Keystone Recreation, Park and Conservation	\$292,774
Machinery and Equipment Loan Fund	\$32,346
Manufacturing Fund	\$58,384
Minority Business Development Fund	\$2,206
Motor Vehicle Transaction Recovery Fund	\$2,175
Multimodal Transportation	\$459,655
Municipalities Financial Recovery Revolving Aid Fund	\$17,454
Non-Coal Surface Mining Conservation and Reclamation Fund	\$14,723
Nutrient Management Fund (Unrestricted)	\$34,373
Oil and Gas Lease Fund	\$98,096
PA Infrastructure Bank	\$70,399
Public Transportation Ass Fund	\$46,866
Public Transportation Trust	\$2,315,032
Racing Fund	\$20,377
Recycling	\$76,006
Small Business First Fund	\$69,925
Underground Storage Tank Indemnification Fund	\$486,318
Water Supply and Wastewater Treatment Fund	\$22,951
Total	\$5,356,146

Note: Dollar amounts are in thousands

* Pennsylvania Treasury Department's reporting as of April 30, 2026



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- ¹ Pennsylvania Independent Fiscal Office, “General Fund Revenues, Spending, and Deficits,” February 2026, https://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/BB_GF_Revenue_and_Spending_Trends_02_2026.pdf.
- ² Pennsylvania Independent Fiscal Office, “Economic and Budget Outlook: Fiscal Years 2024–25 to 2029–30,” November 2024, https://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Five_Year_Outlook_2024.pdf
- ³ The Rainy Day Fund is the state’s largest budgetary reserve fund, which, by law, is only for emergencies or unexpected revenue shortfalls—not new programs. See: Commonwealth Foundation, “The Rainy Day Fund,” January 14, 2025, <https://commonwealthfoundation.org/research/pa-rainy-day-fund/>.
- ⁴ Commonwealth Foundation, “Pennsylvania Budget Chart Book,” January 21, 2025, <https://commonwealthfoundation.org/research/pennsylvania-budget-chart-book/>.
- ⁵ Pennsylvania Office of the Budget, “2026–27 Governor’s Executive Budget,” February 3, 2026, <https://www.pa.gov/agencies/budget/publications-and-reports/commonwealth-budget>; Jacob Custer, “Corporate Welfare in Governor Shapiro’s 2026–27 Budget Proposal,” Commonwealth Foundation, May 1, 2026, <https://commonwealthfoundation.org/research/corporate-welfare-in-governor-shapiros-2026-27-budget-proposal/>.
- ⁶ Stacey Knavel et al., “Summary of Tax Credit Reviews, 2019 to 2023 Evaluation Period,” Pennsylvania Independent Fiscal Office, October 2023, http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Summary_Tax_Credit_Reviews_Oct_2023.pdf.
- ⁷ Matthew D. Mitchell et al., “The Economics of a Targeted Economic Development Subsidy,” Mercatus Center, November 19, 2019, <https://www.mercatus.org/research/research-papers/economics-targeted-economic-development-subsidy>.
- ⁸ Angela Coulombis, “Persistent Problems with a Pa. Grant for Beer Promotion Led to Headaches, Layoffs for Awardees,” *Spotlight PA*, December 16, 2024, <https://www.pennlive.com/news/2024/12/persistent-problems-with-a-pa-grant-for-beer-promotion-led-to-headaches-layoffs-for-awardees.html>.
- ⁹ Pennsylvania Department of Community and Economic Development, “Shapiro Administration Invests Millions in Astrobotic Technology, Helping the Leading Space and Robotics Company Expand and Create Nearly 300 High-Tech Jobs Ahead of December Moon Launch,” November 14, 2023, <https://dced.pa.gov/newsroom/shapiro-administration-invests-millions-in-astrobotic-technology-helping-the-leading-space-and-robotics-company-expand-and-create-nearly-300-high-tech-jobs-ahead-of-december-moon-launch/>; Associated Press, “Pittsburgh-Based Astrobotic’s Lunar Lander Will Burn up in Earth’s Atmosphere after Failed Moonshot,” CBS News, January 15, 2024, <https://www.cbsnews.com/pittsburgh/news/astrobotic-lunar-lander-burn-up-in-earths-atmosphere-failed-moonshot/>.
- ¹⁰ Pennsylvania Office of the Budget, Redevelopment Assistance Capital Program (RACP) Grant Process: “Pre-Award Process; Pre-Award Flowchart,” August 2023, <https://www.pa.gov/agencies/budget/programs-and-services/for-people-doing-business-with-the-commonwealth/for-grantees-and-subrecipients/racp>.
- ¹¹ Pennsylvania Department of Revenue, “Tax Credit Reports,” accessed May 15, 2026, <https://www.pa.gov/agencies/revenue/resources/reports-and-statistics/tax-credit-reports#sortCriteria=%40copapwpyear%20descending%2C%40copapwpissuedate%20descending&f-copapwptopic=%20Tax%20Credit>.
- ¹² Commonwealth Foundation, “Pennsylvania’s Uncompetitive Economy Continues to Drive Away Residents,” December 20, 2024, <https://commonwealthfoundation.org/2024/12/20/pennsylvanias-uncompetitive-economy/>.
- ¹³ Rachel Langan, “If Public School Enrollment is Declining, Why is Spending Increasing?” Commonwealth Foundation, February 19, 2026, <https://commonwealthfoundation.org/blog/if-public-school-enrollment-is-declining-why-is-spending-increasing/>; Commonwealth Foundation, “Pennsylvania’s Students Fall Behind in Math and Reading, Despite \$4.1 Billion School Funding Boost,” January 29, 2025, <https://commonwealthfoundation.org/2025/01/29/pennsylvania-students-math-reading-scores/>; Pennsylvania Department of Education, “AFR Data: Detailed,” accessed May 15, 2026, <https://www.pa.gov/agencies/education/programs-and-services/schools/grants-and-funding/school-finances/financial-data/summary-of-annual-financial-report-data/afr-data-detailed>.
- ¹⁴ Rachel Langan, “Pennsylvania’s Education Tax Credit Scholarships: How EITC Serves Children and Families in the Commonwealth, 2nd Edition” (Commonwealth Foundation, May 13, 2026), <https://commonwealthfoundation.org/research/how-eitc-serves-children-and-families-in-the-commonwealth-2nd-edition/>.
- ¹⁵ Martin Lueken, “2024 Fiscal Effects of School Choice: The Costs and Savings of Private School Choice Programs in America through 2022” (EdChoice, October 2024), 5, <https://www.edchoice.org/research/2024-fiscal-effects-of-school-choice/>.
- ¹⁶ Commonwealth Foundation, “Federal Scholarship Tax Credit,” February 23, 2026, <https://commonwealthfoundation.org/research/federal-scholarship-tax-credit/>.
- ¹⁷ Nathan Benefield, “Governor Shapiro’s Reckless 2026–27 Budget Proposal,” Commonwealth Foundation, February 3, 2026, <https://commonwealthfoundation.org/research/governor-shapiros-reckless-2026-27-budget-proposal/>.
- ¹⁸ K. Alexander Adams, “The Benefits of Work: Why Work Is More Than a Job” (Georgia Center for Opportunity, May 2024), <https://d1f2pkmaj85sd.cloudfront.net/wp-content/uploads/2024/05/Benefits-of-Work-May-2024.pdf>.
- ¹⁹ Sen. Camera Bartolotta, “Taxpayer Protection Act – Constitutional Amendment,” co-sponsorship memo, December 2, 2024, <https://www.palegis.us/senate/co-sponsorship/memo?memoID=43412>.
- ²⁰ Seth Grove, “Budget Reforms to Eliminate the Structural Deficit,” co-sponsorship memo, December 12, 2024, <https://www.palegis.us/house/co-sponsorship/memo?memoID=44246>.