

# Revenue Shortfalls, Overtaxation of Working Families, and Fair Share Solutions

Governor Shapiro's budget proposal underscores a structural mismatch between recurring revenues and the costs of maintaining core public services. While the budget speech only briefly addressed the Commonwealth's fiscal outlook, the documents are clear: The proposal balances in large part through nonrecurring and assumption-based solutions, rather than durable revenue.

The proposed General Fund budget totals about \$53.3 billion in FY 2026–27 (shown as \$53,262,046, in thousands), an increase of about \$2.7 billion compared to FY 2025–26 (shown as \$50,542,552, in thousands).

Just as important, the proposal effectively begins FY 2026–27 with no meaningful General Fund cushion. The Seven-Year Financial Statement shows an adjusted beginning balance of \$628 (in thousands), which is essentially zero for a budget of this size.

Some things stayed the same in this proposal:

- The Personal Income Tax (PIT) rate stays at 3.07%.
- The statewide sales and use tax rate remains at 6%.
- The Corporate Net Income Tax (CNIT) rate continues the already enacted step-down schedule (7.49% for tax years beginning January 1, 2026, then 6.99% for tax years beginning January 1, 2027, continuing downward to 4.99% by 2031).

However, other things did change:

- The budget assumes legalization and taxation of skill games by folding them into the video gaming terminal tax structure. Total new revenue in 2026–27 is expected to be about \$766 million, with about \$743 million transferred into the General Fund and about \$23 million coming from licensing fees. This is treated as partial-year revenue, and the administration projects that once fully implemented, this source could exceed \$2 billion annually in future years.
- Adult-use marijuana legalization is also assumed, with sales beginning January 1, 2027. Total revenue assumed in 2026–27 is about \$729 million, with about \$660 million from license fees, about \$37 million from the cannabis excise tax, and about \$33 million from sales and use tax on retail cannabis.
- The budget assumes a corporate tax change that ends the use of separate-entity reporting, commonly referred to as closing the Delaware Loophole. It would do this through water's-edge combined reporting, a proposal PPC has long advocated for as a fair-share reform to curb profit shifting. Expected new revenue is about \$328 million annually.

Beyond revenues and taxation, the budget also makes major choices across core services and long-term investments:

### **Minimum Wage**

Minimum wage is treated as both a cost-of-living policy and a budget item through projected revenue effects.

- The proposal raises the minimum wage to \$15.00 per hour starting January 1, 2027 (with tipped minimum wage also increased, as specified), and states the minimum wage increase would add roughly \$80 million annually in increased revenue to the Commonwealth once fully implemented. It would also reduce expenditures by \$300 million as some Pennsylvanians would no longer be eligible for Medicaid.

### **Education**

In education, the proposed budget delivers the third adequacy installment and continues funding increases across major K–12 lines, while leaving the overall adequacy gap far from closed.

- Adequacy increase for 2026–27: \$565,000,000, delivered through the Ready to Learn Block Grant as an additional adequacy adjustment.
  - Ready to Learn Block Grant total, 2026–27 proposed: \$1,948,481,000.
- Basic Education Fund, 2026–27 proposed: \$8,312,444,000, which is \$50,000,000 above 2025–26 (\$8,262,444,000).
- Special Education, 2026–27 proposed: \$1,576,815,000, which is \$50,000,000 above 2025–26 (\$1,526,815,000).
- Transfer to Public School Facility Improvement Grant Program: \$125,000,000 in 2026–27 (same as 2025–26).
- Pre-K Counts, 2026–27 proposed: \$334,313,000, an increase of \$7,500,000 over 2025–26 (\$326,813,000).

### **Health Care**

In health care, the proposal increases General Fund support for Medical Assistance and related programs, largely reflecting enrollment, rate, and mandated cost pressures.

- Medical Assistance:
  - Medical Assistance Capitation, 2026–27 proposed: \$4,358,991,000, up \$566,145,000 from 2025–26 (\$3,792,846,000).
  - Medical Assistance Fee-for-Service, 2026–27 proposed: \$731,161,000, up \$28,314,000 from 2025–26 (\$702,847,000).
  - Payment to Federal Government, Medicare Drug Program, 2026–27 proposed: \$1,129,538,000, up \$46,988,000 from 2025–26 (\$1,082,550,000).
- Mental Health Services:
  - Mental Health Services, 2026–27 proposed: \$1,003,276,000, up \$64,663,000 from 2025–26 (\$938,613,000).
- Children’s Health Insurance Program (CHIP):
  - CHIP, General Fund, 2026–27 proposed: \$104,257,000 (up \$7,614,000 from 2025–26 at \$96,643,000).

## Child Care

In child care and early learning, the proposal continues recent tax-credit strategies to help families and employers with child care costs, while also adding new spending aimed at stabilizing the child care workforce.

- The proposal adds \$10,000,000 to continue child care workforce recruitment and retention grants (bringing total funding to \$35,000,000 in the budget year).
  - In 2025–26, included \$25,000,000 to provide about 55,000 employees up to \$450 in retention bonuses. The additional funding would bring these bonuses up to \$630.
- Child Care Services: \$300,286,000 in 2026–27 (up from \$298,080,000 in 2025–26).
- Child Care Assistance: \$124,876,000 in 2026–27 (up from \$123,255,000 in 2025–26).
- Recent child care tax-credit policies are reaffirmed as part of the broader strategy:
  - Child and Dependent Care Enhancement Tax Credit: state match raised from 30% to 100% of the federal credit, and maximum benefit increased from \$630 to \$2,100 per family.
  - Employer Child Care Contribution Tax Credit (up to 30% of eligible contributions, capped at \$500 per employee, as described in the budget narrative).

## Transportation

Transportation is a major policy choice area in this proposal, particularly through the revenue-side plan to increase the share of sales and use tax revenues directed to public transit.

- Current structure: The sales and use tax statute already includes set transfers to transit funds, including the Public Transportation Trust Fund.
- Proposed change: Beginning July 1, 2027, the budget proposes a new transfer to support operations of the Public Transportation Trust Fund equal to 1.75% of total sales and use tax revenues collected.
- Budget impact framing: The notes explain this would reduce General Fund revenues by an initial \$319.6 million starting in 2027–28.

## Data Centers

The budget documents show that data center tax preferences are a fast-growing cost within the tax code, even as the proposal leans on one-time and assumption-based solutions to balance.

- Computer Data Center Equipment Exemption (sales and use tax expenditure): estimated at \$188.4 million in 2026–27, rising to \$260.3 million in 2027–28 and continuing to grow in later years.
- In addition to the sales tax exemption, the Commonwealth also maintains a “Computer Data Center Equipment Incentive Program” within its catalog of tax credit programs.

