



Public Investment Deficit

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Executive Summary

Pennsylvania faces a growing public investment deficit driven not by excessive spending but by a revenue system that has failed to keep pace with the cost of maintaining core public services. Temporary federal relief during and after the pandemic helped mask these structural problems for a time, but that cushion has largely disappeared as reserves decline, federal supports expire, and new cost-shifting pressures fall on the Commonwealth. Without stable new recurring revenue, Pennsylvania will struggle to meet longstanding unmet needs, respond to rising costs, and sustain the public investments necessary for broad-based prosperity.

Key Takeaways

- Before the pandemic, General Fund ending balances were typically near zero and the Rainy Day Fund remained largely depleted for years. The pandemic temporarily improved the Commonwealth's fiscal position through an influx of federal relief funds and stronger-than-expected revenues, yet those temporary resources did not resolve the underlying structural imbalance and have now largely been exhausted.
- The state's budget challenge is driven more by inadequate revenue growth than by excessive spending. Inflation-adjusted General Fund expenditures have grown only modestly over time, while revenues have failed to keep pace with public needs and projected costs.
- Federal cost-shifting is increasing the urgency of state revenue reform. As federal support is reduced and more responsibility is pushed onto Pennsylvania, the Commonwealth will need stable new recurring revenue to prevent deeper cuts and meet both longstanding and emerging needs.
- The affordability crisis is intensifying the consequences of underinvestment as families face rising costs for housing, child care, health care, food, and transportation while public systems are under increasing strain.

Introduction

Before the COVID-19 pandemic hit Pennsylvania, our need for new, recurring revenues was clear to all who followed Pennsylvania's budget politics. For more than a decade before the pandemic, Pennsylvania began each fiscal year with a structural deficit. Projected revenues consistently fell short of the expenditures required to maintain current levels of public services. These expenditures included inflation-adjusted obligations and constitutionally or contractually mandated costs such as debt service, pension contributions, and salaries for state workers. Year after year, this structural deficit was papered over with temporary solutions. These included short-term revenue boosts—such as selling licenses for new forms of gaming—and fiscal gimmicks such as shifting revenues forward from future years, pushing expenditures into future budget cycles, or borrowing from special funds.

During the pandemic, significant federal funding flowed into Pennsylvania's state and local governments through the American Rescue Plan Act (ARPA), which allocated \$6.15 billion to

counties, metropolitan cities, and local governments.¹ Notably, 76% of Pennsylvania’s ARPA stimulus spending went toward revenue replacement, mostly into the General Fund, making the state one of the top users of ARPA funds for this purpose.² However, as federal funds wind down, the structural imbalance in Pennsylvania’s finances remains and, in many ways, is more urgent than ever.

As Washington shifts costs to states, cutting support for health care, nutrition assistance, child care, housing, and other essentials, it preserves tax breaks that overwhelmingly benefit the wealthy and large corporations. This means Pennsylvania will face even harder budget choices.³ These federal changes increase the responsibility placed on the Commonwealth to protect families, stabilize services, and prevent deeper harm.

This fiscal strain is unfolding in the middle of a broader affordability crisis. Across Pennsylvania families are paying more for groceries, doctor visits, gas, and other necessities, while wages and public supports have not kept up.⁴ When everyday costs rise faster than incomes, underfunded public services and repeated budget shortfalls make life even harder for working people. In that context, the Commonwealth’s failure to raise adequate recurring revenue is not just a budget problem—it is a direct threat to economic security.

This report examines Pennsylvania’s fiscal outlook and the real-world consequences of chronic underinvestment. It demonstrates that the Commonwealth’s persistent budget challenges are not driven by excessive spending, but by a revenue system that has failed to keep pace with economic growth and public need. It reviews the current and projected condition of the General Fund and budget stabilization reserves and connects those fiscal trends to the growing public investment deficit across core systems, including infrastructure, health care, education, and environmental protection. Taken together, these trends point to the same conclusion: Pennsylvania’s current fiscal path is not sustainable. Without new, recurring revenue, the Commonwealth will face a future defined by recurring deficits, shrinking reserves, and continued difficulty maintaining core services, much less making the strategic investments needed for shared prosperity. With federal relief expiring, costs rising, and new federal policies shifting additional burdens onto states, Pennsylvania is entering a critical fiscal turning point. The choices made in the coming budget cycles will

1. Pennsylvania Department of Community and Economic Development (2002), *COVID-19 ARPA Local Fiscal Recovery Funding*, <https://dced.pa.gov/programs/covid-19-arpa-local-fiscal-recovery-funding/>.

2. Commonwealth of Pennsylvania, *Recovery Plan: State and Local Fiscal Recovery Funds, 2024 report*, <https://www.pa.gov/content/dam/copapwp-pagov/en/budget/documents/publications-and-reports/fiscal-recovery-reports/2024%20recovery%20plan%20performance%20report.pdf>.

3. Pennsylvania Policy Center, “The Republican Budget Plan Will Lead to the Largest Redistribution from the Working and Middle Class to the Ultra-Rich in US History,” May 16, 2025, https://pennpolicy.org/research_publication/the-republican-budget-plan-will-lead-to-the-largest-redistribution-from-the-working-and-middle-class-to-the-ultra-rich-in-us-history/.

4. John Kelly, Grace Manthey, and Taylor Johnston, “CBS News price tracker shows how much food, gas, utility and housing costs are rising,” CBS News, updated March 11, 2026, <https://www.cbsnews.com/news/price-tracker/>.

determine whether the Commonwealth continues down a path of disinvestment or builds a sustainable foundation for shared prosperity.

Current Fiscal State of Revenues in Pennsylvania

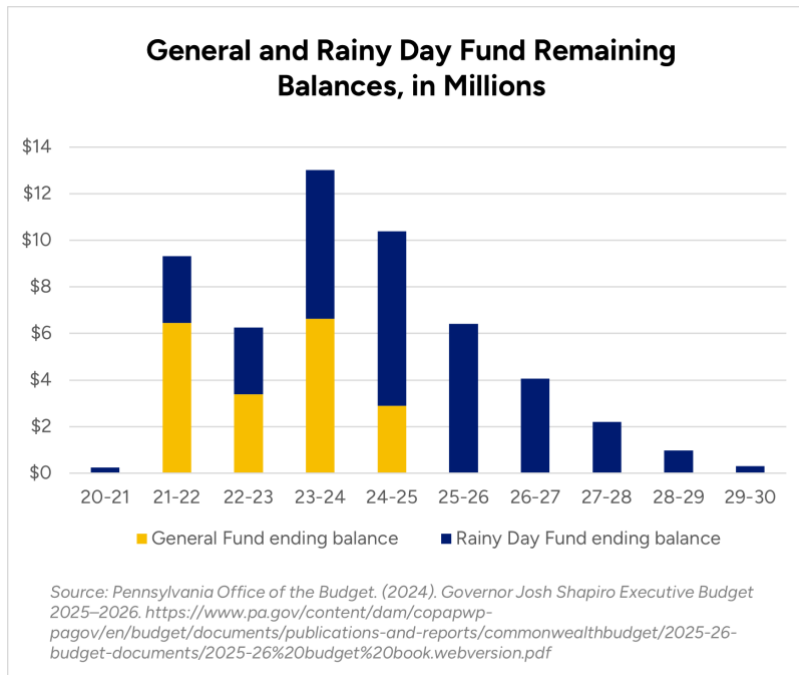
Pennsylvania’s current fiscal trajectory reflects a structural imbalance; recurring revenues are not sufficient to sustain even baseline levels of public investment. This section demonstrates that the state’s budget challenges are not the result of excessive spending growth, but of a revenue system that has not kept pace with the economy or the cost of maintaining essential services.

General and Rainy Day Fund Balances

Despite a period of temporary relief due to pandemic-related federal aid, Pennsylvania continues to face long-term structural challenges in its revenue system. As shown in figure 1, current year balances of the state’s General Fund show a sharp decline beginning in 2024–25, dropping steadily until they are nearly depleted by 2029–30. Looking at the state’s budget stabilization reserves, commonly referred to as the Rainy Day Fund, the outlook is similarly grim. These reserves peaked in 2023–24 due to federal support from the American Rescue Plan but have already begun to decline with FY 2024–25 marking the expiration of that temporary cushion.

Governor Shapiro’s FY26–27 proposed budget reinforces this trend by confirming that the temporary fiscal cushion created by federal relief has largely disappeared. The proposal begins the year with an adjusted General Fund beginning balance of just \$628,000 and relies on a proposed transfer of about \$4.58 billion from the Budget Stabilization Reserve Fund to the General Fund in 2026–27, leaving the Rainy Day Fund with about \$3.31 billion at year’s end. In other words, the Commonwealth is using reserves to help close the gap because recurring revenues still are not keeping pace with ongoing spending needs.

Figure 1: General and Rainy Day Fund Remaining Balances



Source: Pennsylvania Office of the Budget (2024), *Governor Josh Shapiro Executive Budget 2025–2026*, <https://www.pa.gov/content/dam/copapwp-pagov/en/budget/documents/publications-and-reports/commonwealthbudget/past-budgets-to-2021-22/2025-26-budget-documents/2025-26%20budget%20book.webversion.pdf>.

General Fund Expenditures and Revenues

Turning our attention to General Fund expenditures and revenues as a share of the state’s economic output (Gross State Product, or GSP), several important patterns emerge. First, compared to the national average, Pennsylvania has experienced relatively sluggish economic growth over the last three decades. As shown in table 1, the state’s real GDP grew from approximately \$803,903 million between 1997 and 2011 to \$893,180 million between 2016 and 2024, an increase of just over 11%.⁵ In contrast, U.S. GDP nearly doubled during the same period, growing by approximately 97%.⁶ From a fiscal capacity standpoint, Pennsylvania’s relatively slow economic growth has constrained revenue generation—but this alone does not explain the state’s persistent deficits. Even within this context, the Commonwealth has not fully captured available revenue relative to its economic base.

Second, General Fund expenditures have grown only modestly when adjusted for inflation. Average real spending rose from \$37,318 million between 1997 and 2011 to \$41,375 million between 2016 and 2024—an increase of roughly 11%, suggesting that spending growth has largely reflected the cost of maintaining existing services rather than expanding public investment. In other words, Pennsylvania is not experiencing rapid growth in public spending. Instead, it is struggling to generate sufficient revenue to sustain even modest, inflation-adjusted service levels. On the revenue side, the picture is similar. Real General Fund revenues increased only slightly, from an average of \$38,894 million during 1997–2011 to \$42,790 million during 2016–2024. While projections for 2025 and 2026 suggest that, in 2024 dollars, revenues will reach \$42,888 million and \$44,322 million, respectively, these gains remain minimal and are unlikely to keep pace with projected increases in expenditures.

This growing imbalance is further reflected in the gap between General Fund revenues and expenditures. Between 1997 and 2011, Pennsylvania ran an average annual surplus of approximately \$1.6 billion in inflation-adjusted terms. That surplus shrank dramatically in the following periods—dropping to just \$86 million annually between 2012 and 2015 and only slightly rebounding to \$1.4 billion between 2016 and 2024. Looking ahead, projections for 2025 and 2026 reveal a sharp reversal: The state is expected to run deficits of \$3.7 billion and \$4.6 billion, respectively. These growing shortfalls suggest a looming structural deficit, driven not by excessive spending but by a revenue system that has failed to keep pace with even modest economic and service-level growth.

5. For nominal values, please refer to Appendix 3.

6. World Bank (2024), *GDP (constant 2015 US\$) – United States*, World Development Indicators, <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD?locations=US>.

Table 1 – Pennsylvania General Fund Expenditures and Revenues as a Percent of Gross State Product (GSP), Real Values

Pennsylvania General Fund Expenditures and Revenues as a Percent of PA Gross State Product (Dollar Amounts in Millions – Real Values, Adjusted to 2024 Avg. Dollars)						
Fiscal year ending	GDP	Expenditure	Revenue	Revenue– Expenditures	Expenditures / GDP (%)	Revenues / GDP (%)
Average 1997 to 2011	\$803,903	\$37,318	\$38,894	\$1,576	4.64	4.84
Average 2012 to 2015	\$895,075	\$38,781	\$38,867	\$86	4.22	4.34
Average 2016 to 2024	\$893,180	\$41,375	\$42,790	\$1,415	4.63	4.79
Governor’s projection 2025	\$814,504	\$46,626	\$42,888	-\$3,738	5.72	5.27
Passed 2025	\$818,713	\$50,093	\$45,638	-\$4,455	6.12	5.57
Governor’s projection 2026	\$810,590	\$48,931	\$44,322	-\$4,609	6.04	5.47

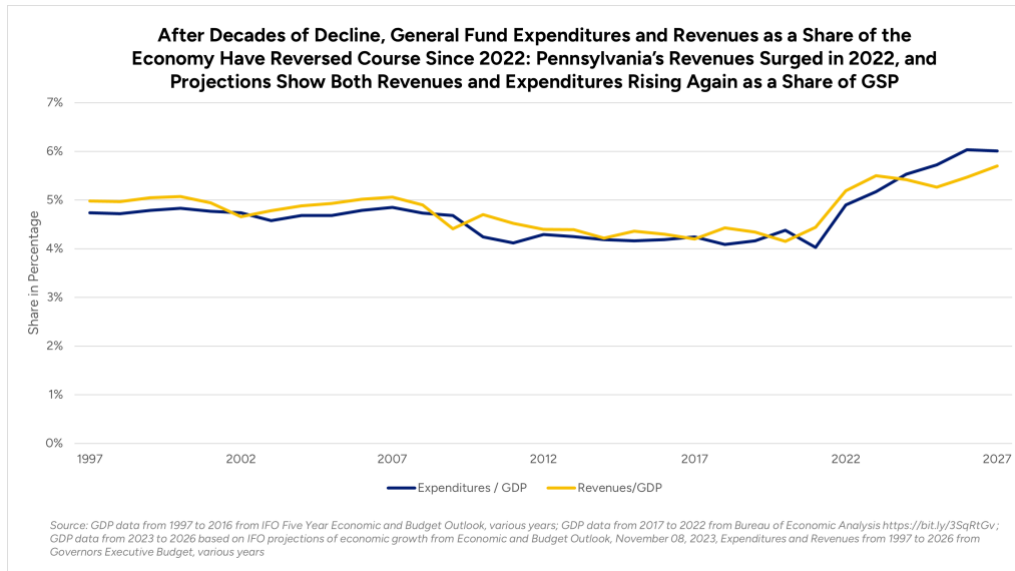
Sources: GDP data from 1997 to 2016 from IFO Five Year Economic and Budget Outlook, various years; GDP data from 2017 to 2022 from Bureau of Economic Analysis, <https://bit.ly/3SqRtGv>; GDP data from 2023 to 2026 based on IFO projections of economic growth from Economic and Budget Outlook, November 08, 2023, Expenditures and Revenues from 1997 to 2026 from Governor’s Executive Budget, various years; Inflation Updates – Federal Reserve Bank of Minneapolis (2024), *Consumer Price Index, 1913–*, <https://www.minneapolisfed.org/about-us/monetary-policy/inflation-calculator/consumer-price-index-1913->.⁷

To better understand these fiscal trends over time, figure 2 illustrates the path of General Fund revenues and expenditures as a percentage of Pennsylvania’s Gross State Product (GSP), using inflation-adjusted values. These ratios provide a clear view of the state’s fiscal footprint: how much of the economy is dedicated to public spending and how much is being captured through revenues. From the late 1990s through 2018, both expenditures and revenues as a share of GSP trended downward, reflecting a period of constrained investment and sluggish revenue growth relative to the economy. This began to shift after 2020. By 2026, expenditures are projected to rise to 6.04% of GSP, up from just 4.63% between 2016 and 2024. Revenues, meanwhile, are projected to reach

7. Appendix 3 shows the non-inflation-adjusted version of table 1.

only 5.47% of GSP by 2026, creating a growing gap. This divergence signals a structural imbalance: While the state is devoting more of its economy to public services, it is not generating enough revenue to sustain that investment. Without changes to the revenue system, these trends point to persistent deficits and limited fiscal flexibility in the years ahead. These fiscal trends are not abstract. They translate directly into underfunded systems and unmet needs across the Commonwealth. The following section examines how this structural imbalance has produced a growing public investment deficit across key sectors.

Figure 2: After Decades of Decline, General Fund Expenditures and Revenues as a Share of the Economy Have Reversed Course Since 2022



Sources: GDP data from 1997 to 2016 from IFO Five Year Economic and Budget Outlook, various years; GDP data from 2017 to 2022 from Bureau of Economic Analysis, <https://bit.ly/3SqRtGv>; GDP data from 2023 to 2026 based on IFO projections of economic growth from Economic and Budget Outlook, November 8, 2023, Expenditures and Revenues from 1997 to 2026 from Governor’s Executive Budget, various years.

The Need for Revenue in the Commonwealth Budget: Unmet Needs

A well-functioning state government must provide the foundational services that enable all residents to thrive. However, Pennsylvania’s current revenue system has made it increasingly difficult to sustain these investments at the required level. This includes high-quality public education at every level, access to health and human services for those in need, and infrastructure that supports safe, connected, and economically vibrant communities. When these public systems are adequately funded, children are prepared for success in school and life, families can live in healthy environments, and workers and businesses alike can benefit from a well-maintained, functional economy. However, when a public investment deficit becomes the norm or, as is increasingly the case in Pennsylvania, when revenue fails to keep pace with even modest economic and service-level growth, those systems begin to erode. The consequences are clear: Low- and middle-income families bear the brunt, but the impacts ripple throughout the economy. Children miss out on the educational opportunities they need to compete in a 21st-century labor market. Infrastructure deteriorates, impeding commerce and daily life. Public health declines, driving up costs for families and the state. Prosperity for all is compromised.

Although in recent years, and as evidenced in the Governor’s most recent proposed budget, there have been efforts to address some of these challenges through targeted investments, those efforts have not been sufficient to reverse decades of underfunding. Critical areas such as early childhood education, infrastructure, environmental protection, and health care continue to operate under resource constraints that limit their reach and effectiveness. Moreover, these one-time or short-term investments are being made against the backdrop of an unsustainable fiscal trajectory. As structural deficits widen and temporary federal supports expire, the Commonwealth lacks a stable revenue base to maintain, let alone expand, these public investments.

The Public Investment Deficit

The consequences of Pennsylvania’s inadequate revenue system are most visible in the widening gap between what communities need and what the state is able to provide. Despite ongoing policy discussions and some incremental gains, Pennsylvania faces a deep and persistent public investment deficit, an accumulated shortfall in funding that affects nearly every aspect of daily life. Unlike a cyclical budget shortfall tied to short-term economic downturns, this deficit is structural. It reflects years of decisions to defer maintenance, limit spending growth, and avoid raising new revenues, even as the demands on public systems have grown.

This deficit is not merely financial—it is functional. It represents a sustained gap between what Pennsylvanians need to thrive and what the Commonwealth is able or willing to invest. It undermines the quality of public services; strains local governments, which are forced to backfill state responsibilities; and reinforces regional and racial disparities in access to opportunity. The state’s inability to sustain adequate investment means that infrastructure goes unrepaired, classrooms remain understaffed, health care services are stretched thin, and environmental risks remain unaddressed. Rural and urban communities alike feel the effects, though they often manifest differently.

These fiscal pressures are occurring alongside a broader affordability crisis, amplifying the impact of underinvestment on households across the Commonwealth.

Early Childhood Education Funding

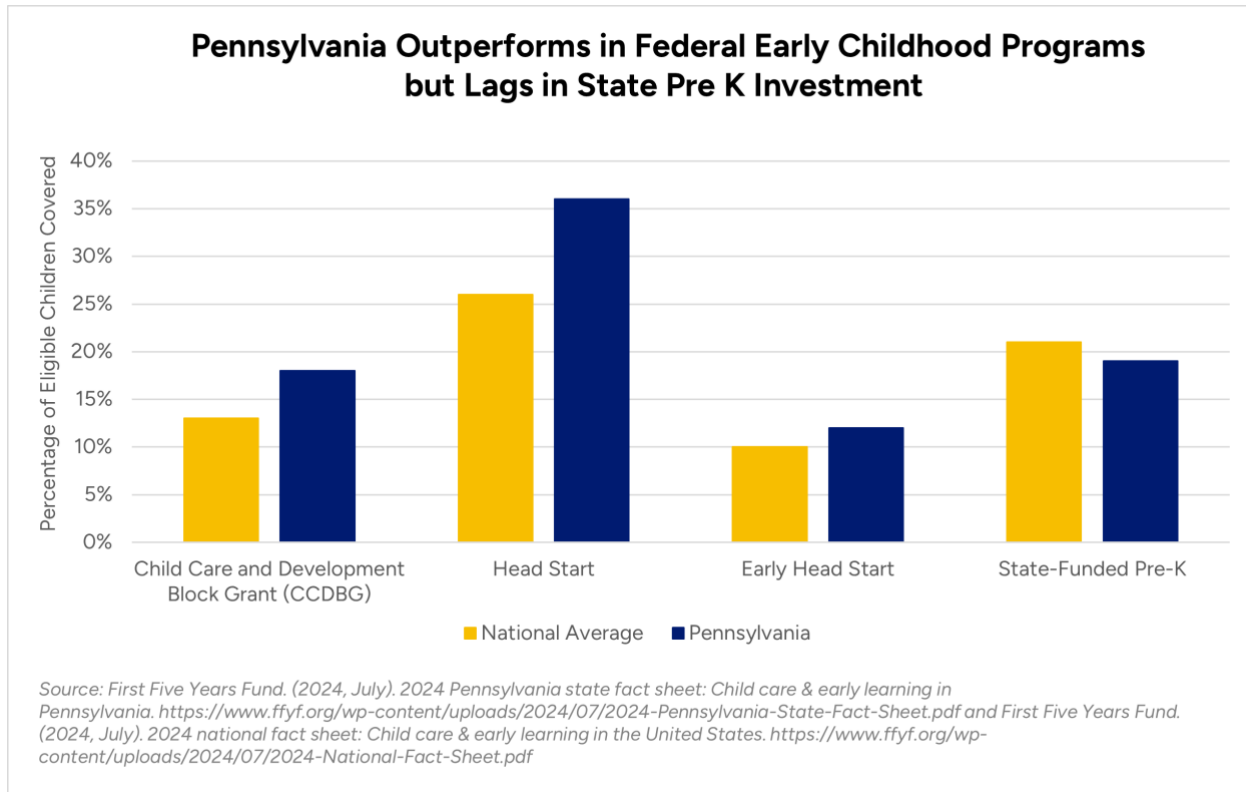
One of the most pressing areas of underinvestment is early childhood education. While Pennsylvania performs better than the national average in some areas, there remains a considerable shortfall in state-funded pre-K. The state covers 18% of eligible children under age 5 compared to the national average of 13% for child care assistance; serves 36% of eligible children through Head Start compared to 26% nationally; and reaches 12% through Early Head Start compared to the 10% national average. However, only 19% of the state’s 3- and 4-year-olds are enrolled in a state-funded preschool program, slightly below the national average of 21% (figure 3).

Despite ranking 11th in state spending per child, Pennsylvania ranks just 26th in access for 4-year-olds and 11th for 3-year-olds. The state meets only 6.7 out of 10 quality benchmarks, indicating that while spending levels are comparatively high, both quality and reach remain inadequate.⁸ This

8. National Institute for Early Education Research, *The State of Preschool 2023: Pennsylvania State Profile*, Rutgers University, 2023, <https://nieer.org/yearbook/2023/state-profiles/pennsylvania>.

shortfall stems from the way funding is distributed and a lack of affordable, high-quality early learning options, particularly in rural and low-income communities. As a result, many children in Pennsylvania enter kindergarten without access to the foundational educational supports necessary for long-term academic and developmental success.

Figure 3: Pennsylvania Outperforms in Federal Early Childhood Programs but Lags in State Pre-K Investment



Sources: First Five Years Fund, *2024 Pennsylvania State Fact Sheet: Child Care & Early Learning in Pennsylvania*, July 2024, <https://www.ffyf.org/wp-content/uploads/2024/07/2024-Pennsylvania-State-Fact-Sheet.pdf>; and First Five Years Fund, *2024 National Fact Sheet: Child Care & Early Learning in the United States*, July 2024, <https://www.ffyf.org/wp-content/uploads/2024/07/2024-National-Fact-Sheet.pdf>.

While the state has taken recent steps to address challenges in the early childhood sector, including Governor Shapiro’s 2026–27 budget proposal to strengthen the child care workforce through an additional \$10 million investment in the Child Care Recruitment and Retention Program, these actions represent only a beginning. Despite these investments, child care providers continue to face staffing shortages and low wages. This shortfall has broader economic implications as limited access to affordable, high-quality child care constrains workforce participation and reduces overall economic productivity. The state currently has an estimated 3,000 unfilled child care jobs, preventing up to 25,000 children from accessing care and limiting families’ ability to participate in the workforce. Without sustained and increased public

investment, these challenges will persist, undermining educational equity and economic opportunity across the Commonwealth.⁹

K–12 Funding

In addition to the constraints placed on families during the early years of child development, Pennsylvania’s underinvestment in public education continues through K–12, limiting opportunities for students across the Commonwealth. This chronic underfunding was brought into sharp focus in 2023 when the Pennsylvania Supreme Court ruled in *William Penn School District et al. v. Pennsylvania Department of Education et al.* that the state’s system of education funding is unconstitutional. The Court concluded that the current approach fails to provide every student, regardless of ZIP code, with a fair and equal opportunity to learn.¹⁰

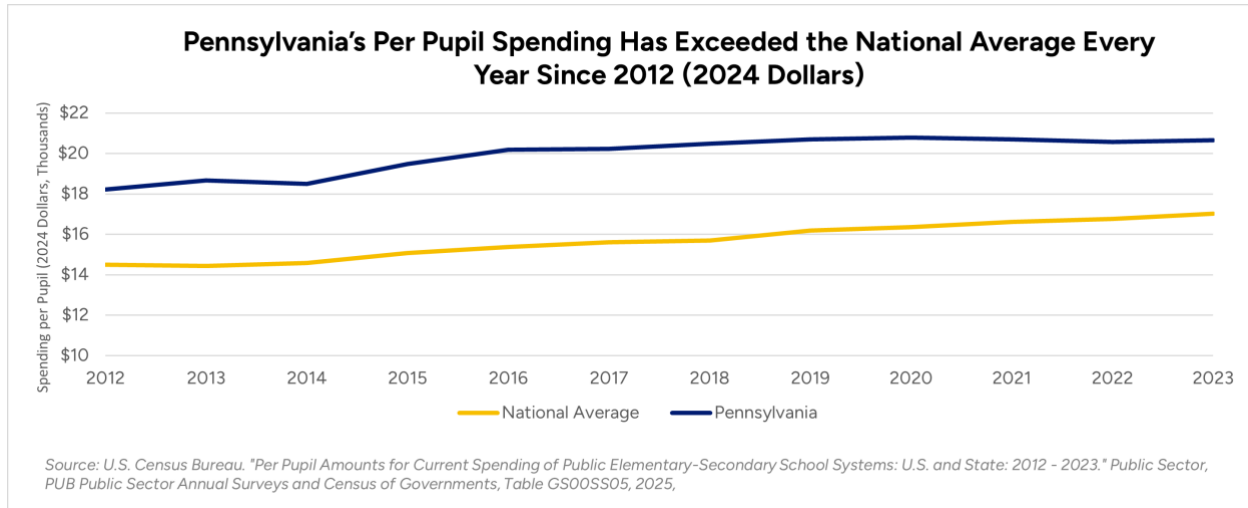
Although Pennsylvania has consistently spent more per pupil than the national average in recent years (see figure 4), this investment is uneven and has not been targeted effectively to close persistent gaps. The Court’s ruling underscores that the issue is not overall spending levels alone but how resources are distributed and the insufficient role of the state in ensuring equity across districts. According to the U.S. Census Bureau, Pennsylvania’s per-pupil spending has exceeded the national average every year since 2012 when adjusted for inflation. Yet this topline figure masks deeper inequities in the way education funding is distributed and who is contributing. While overall spending may appear high, the state’s share of that spending is disproportionately low. In 2023, Pennsylvania contributed just 37.3% of total public-school revenue—well below the national average of 44.7% (see figure 5). As a result, local communities are forced to shoulder an outsized burden through property taxes, which exacerbates disparities between wealthier and lower-income districts.

Recent budgets have begun to respond to the Court’s mandate, but they also underscore the scale of the unfinished work. The FY 2025–26 budget signed by Governor Shapiro invested more than \$900 million in additional pre-K–12 education funding, including \$565 million in additional adequacy funding, while the Governor’s proposed FY 2026–27 education budget would add another \$565 million in adequacy funding. Even so, most core education funding lines remain largely flat, and the Commonwealth is still far from closing the full adequacy gap.

9. Pennsylvania Department of Human Services, *Shapiro administration highlights budget proposal to expand Pennsylvania’s child care workforce, reinforces commitment to supporting families and investing in early education*, June 2, 2025, <https://www.pa.gov/agencies/dhs/newsroom/shapiro-administration-highlights-child-care-budget-proposal-pit.html>.

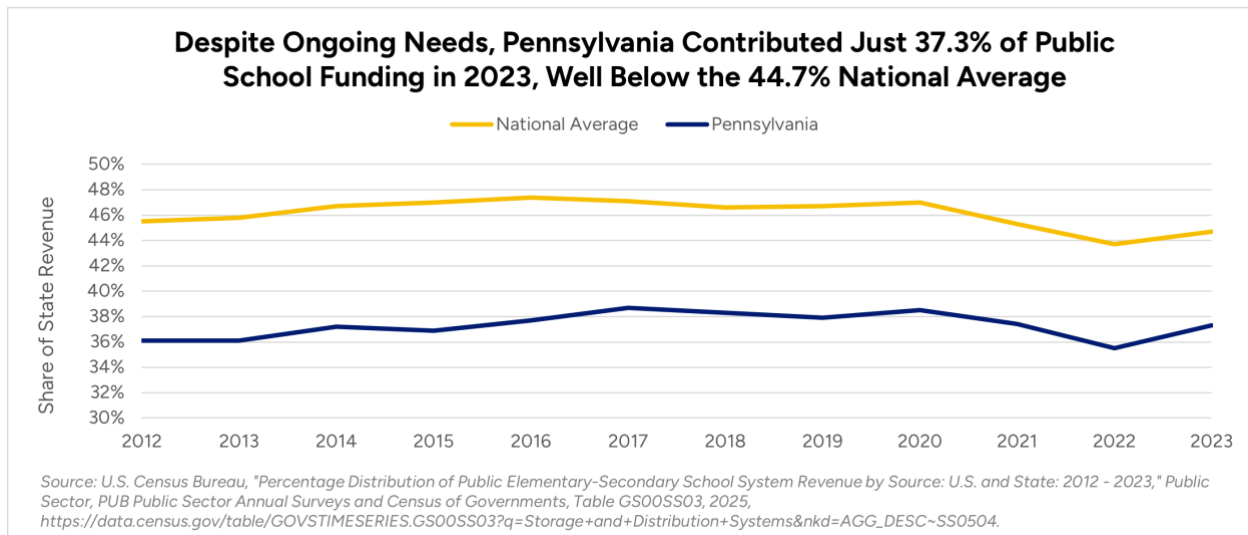
10. *William Penn School District et al. v. Pennsylvania Department of Education et al.*, 294 A.3d 537 (Pa. Commw. Ct. 2023). <https://www.elc-pa.org/cases/william-penn-sd-et-al-v-pa-dept-of-education-et-al-pa-commonwealth-court-2018/>.

Figure 4: Pennsylvania’s Per-Pupil Spending Has Exceeded the National Average Every Year Since 2012 (2024 Dollars)



Source: U.S. Census Bureau, "Per Pupil Amounts for Current Spending of Public Elementary-Secondary School Systems: U.S. and State: 2012 – 2023," *Public Sector, PUB Public Sector Annual Surveys and Census of Governments, Table GS00SS05*, 2025, accessed on June 30, 2025, <https://data.census.gov/table/GOVSTIMESERIES.GS00SS05?q=Storage+and+Distribution+Systems&t=Government>.

Figure 5: Despite Ongoing Needs, Pennsylvania Contributed Just 37.3% of Public School Funding in 2023, Well Below the 44.7% National Average

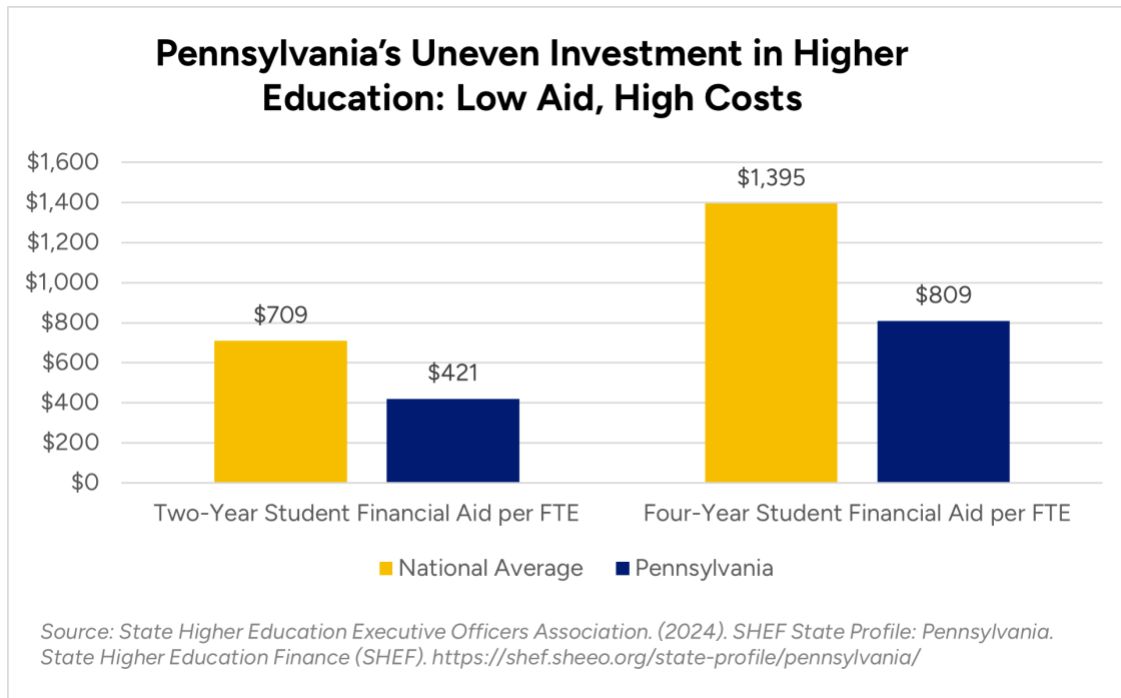


Source: U.S. Census Bureau, Percentage Distribution of Public Elementary-Secondary School System Revenue by Source: U.S. and State: 2012 - 2023, *Public Sector, PUB Public Sector Annual Surveys and Census of Governments, Table GS00SS03*, 2025, retrieved June 30, 2025, from https://data.census.gov/table/GOVSTIMESERIES.GS00SS03?q=Storage+and+Distribution+Systems&nkd=AGG_DESC~SS0504.

Higher Education Funding

Pennsylvania’s underinvestment in higher education is another clear example of the Commonwealth’s ongoing public investment deficit. According to data from the State Higher Education Executive Officers Association (SHEEO), education appropriations have decreased 40.3% in the state since 1980.¹¹ This long-term disinvestment has shifted costs onto students and families, contributing directly to Pennsylvania’s above-average tuition levels and rising student debt burdens. In 2024, public colleges and universities in Pennsylvania received \$6,735 in education funding per full-time student—about 58% of the national average. In terms of financial aid, Pennsylvania also lags: Students at two-year public institutions received only \$421 per full-time equivalent (FTE) student, while those at four-year institutions received \$809—both well below the national averages of \$709 and \$1,395, respectively (figure 6). Financial aid also represents a smaller share of total education appropriations in Pennsylvania than it does nationally, further limiting the state’s ability to make college more affordable for students.

Figure 6: Pennsylvania’s Uneven Investment in Higher Education



Source: State Higher Education Executive Officers Association, “SHEF State Profile: Pennsylvania, State Higher Education Finance,” 2024, <https://shef.sheeo.org/state-profile/pennsylvania/>.

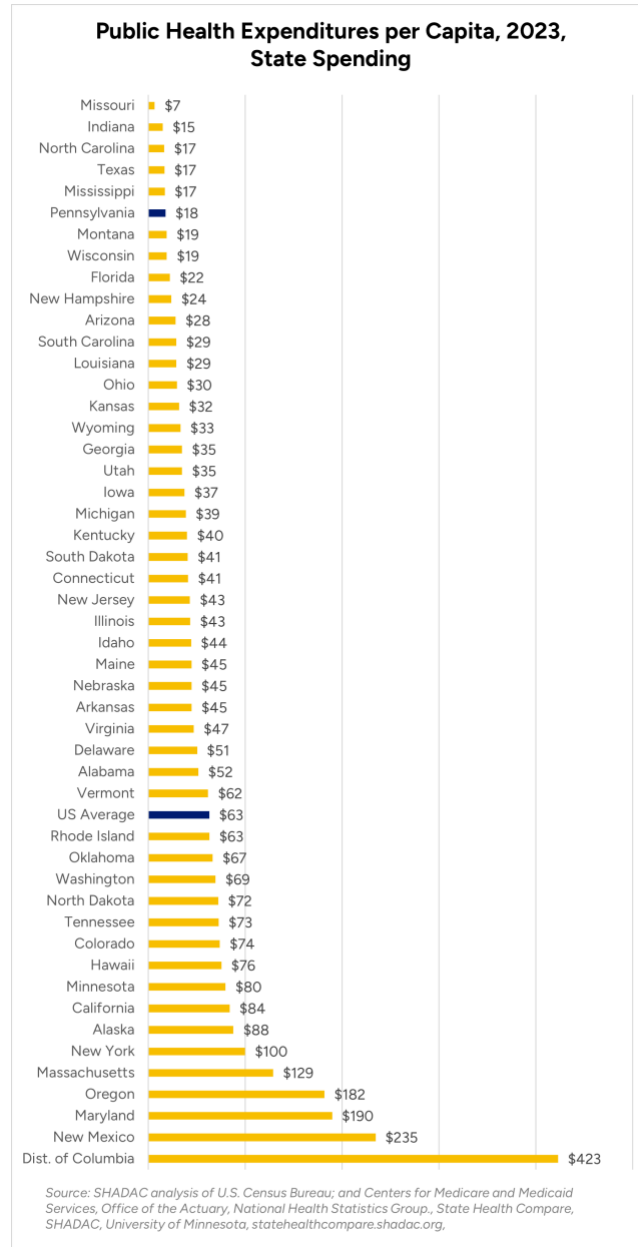
Health Care Funding

The Commonwealth’s public investment deficit is also evident in its approach to health care funding. While Pennsylvania has made gains in expanding coverage, particularly through its Medicaid expansion under the Affordable Care Act, gaps in access, affordability, and public health

11. State Higher Education Executive Officers Association, “SHEF State Profile: Pennsylvania, State Higher Education Finance,” 2024, <https://shef.sheeo.org/state-profile/pennsylvania/>.

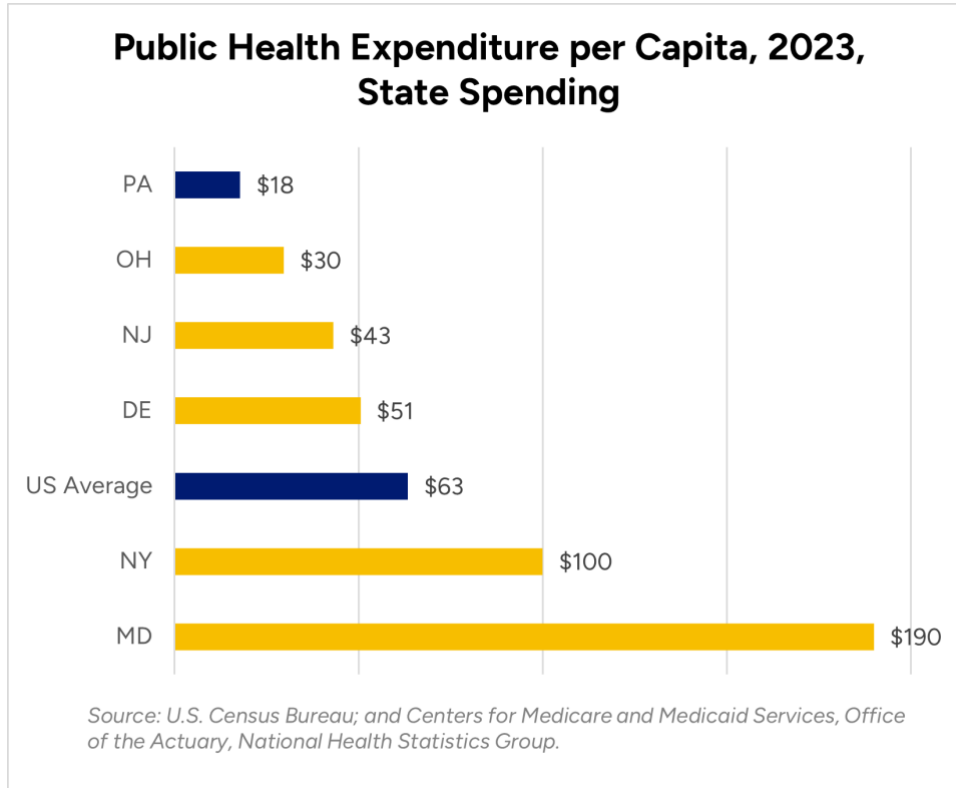
infrastructure remain. As figure 7 shows, Pennsylvania spends only \$18 per capita on public health, far below the national average of \$63. In fact, Pennsylvania ranks among the bottom tier of states for public health investment, trailing behind neighboring states like New Jersey (\$43), Delaware (\$51), and New York (\$100). Low levels of public health investment weaken the state’s ability to prevent disease, respond to public health emergencies, and reduce long-term health care costs.

Figure 7A: Public Health Expenditures Per Capita, 2023, State Spending



Sources: SHADAC analysis of Shortchanging America’s Health, Investing in America’s Health, The Impact of Chronic Underfunding on America’s Public Health System, Trust for America’s Health (TFAH), and Annual Estimates of the Resident Population for the United States, Regions, States, and Puerto Rico, U.S. Census Bureau, Population Division, State Health Compare, SHADAC, University of Minnesota, accessed July 9, 2025, statehealthcompare.shadac.org.

Figure 7B: Public Health Expenditures Per Capita, 2023, State Spending, Surrounding States



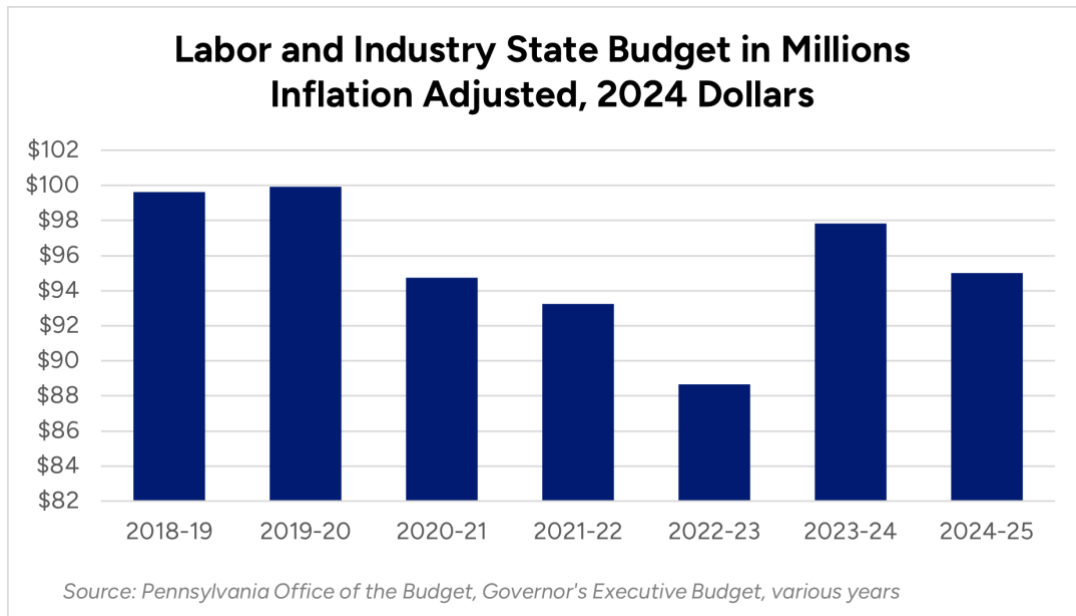
Employment and Employment Protections Funding

Another area where the Commonwealth’s public investment deficit is evident is in its underfunding of employment supports and worker protections. In today’s labor market—shaped by rising precarity, automation, and the expansion of nonstandard work arrangements—Pennsylvania has not kept pace with the urgent need to modernize employment services or enforce labor standards robustly. According to the Pennsylvania Department of Labor & Industry, all major categories of labor enforcement experienced sharp increases in activity in 2023. Prevailing Wage Act cases rose from 56 in 2022 to 173 in 2023—a 209% increase. Child Labor Act cases grew from 402 to 574 over the same period, a 43% increase. Cases under the Wage Payment and Collection Law rose from 3,050 to 3,834—an increase of 26%. And investigations under the Minimum Wage Act totaled 282 cases in 2023, a 31% increase over the previous year.¹² These trends point to a growing crisis in compliance and enforcement, where the need for worker protection is rising even as state enforcement capacity remains constrained.

12. Pennsylvania Department of Labor & Industry, *Shapiro Administration Labor Law Investigators Return More Than \$4 Million in Earned Wages to Pennsylvania Workers in 2023*, Commonwealth of Pennsylvania, February 8, 2024, <https://www.pa.gov/agencies/dli/newsroom/shapiro-administration-labor-law-investigators-return-more-than-4-million-in-earned-wages-to-pennsylvania-workers-in-2023>.

Despite this rising demand, funding for the Department of Labor & Industry has fluctuated over the past several years and, in real terms, remains below earlier levels. After peaking at just under \$100 million in 2019–20 (adjusted to 2024 dollars), the department’s inflation-adjusted budget declined for three consecutive years, reaching a low of approximately \$89 million in 2022–23. Although the enacted 2023–24 state budget provided a welcome increase, restoring funding to about \$98 million in today’s dollars, the 2024–25 budget reflects another decline, bringing the total down to approximately \$95 million (figure 8).

Figure 8: Labor and Industry State Budget in Millions, Inflation Adjusted 2018–2024



Source: Expenditures and Revenues from 2018 to 2024 from Governor’s Executive Budget, various years.

Affordable Housing Funding

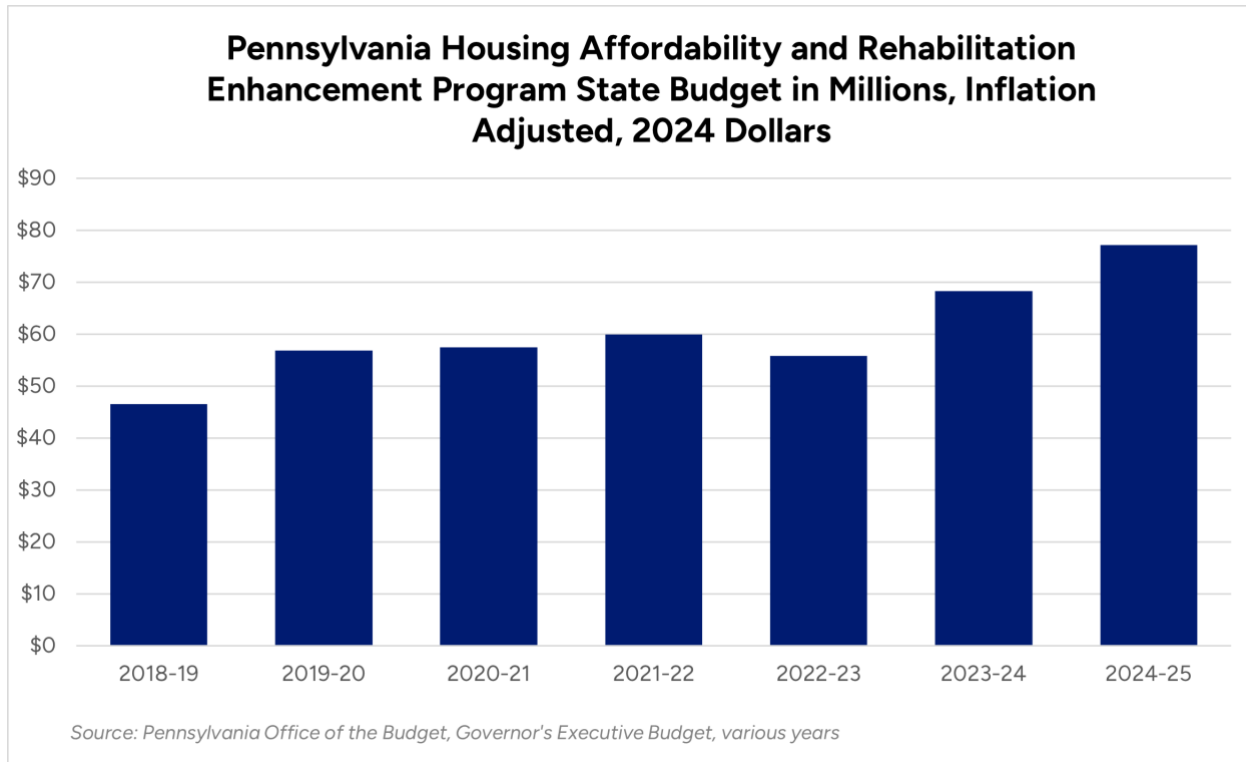
Affordable housing is another clear example of the Commonwealth’s broader public investment deficit. While some efforts to address housing instability and the shortage of affordable homes have moved in the right direction, they remain insufficient to meet the scale of need across Pennsylvania. One important example is the Pennsylvania Housing Affordability and Rehabilitation Enhancement (PHARE) Fund. In 2024, Governor Josh Shapiro signed legislation increasing funding to the Pennsylvania Housing Affordability and Rehabilitation Enhancement (PHARE) Fund by \$10 million each year until it reaches \$100 million in 2027, while also eliminating the restrictive formula that previously capped PHARE funding.^{13,14} As figure 9 shows, PHARE has already experienced steady growth in state support over the past several years. Adjusted for inflation, the

13. Housing Alliance of Pennsylvania. (2024, July 12). *VICTORY: PHARE funding will be raised to \$100 million!*, <https://housingalliancepa.org/victory-phare-funding-will-be-raised-to-100-million/>.

14. Pennsylvania Housing Finance Agency, *Pennsylvania Housing Affordability and Rehabilitation Enhancement Program (PHARE): 2024 annual report*, July 1, 2025, https://www.phfa.org/forms/phare_program_phare_fund/annual_report/2024_phare_legislative_report.pdf.

program’s budget rose from approximately \$47 million in 2018–19 to \$77 million in 2024–25. 2018–19 to \$77 million in 2024–25.

Figure 9: Pennsylvania Housing Affordability and Rehabilitation Enhancement Program, State Budget



Source: Expenditures and Revenues from 2018 to 2024 from Governor’s Executive Budget, various years.

Infrastructure

According to the American Society of Civil Engineers, in 2022, Pennsylvania received a cumulative infrastructure grade of C-, with especially poor ratings for roads, transit, stormwater, and wastewater systems.¹⁵ In particular, with respect to stormwater systems, Pennsylvania ranks as the state with the second-highest total estimated annual structural damage costs due to flooding, amounting to \$1.22 billion—a stark indicator of the consequences of underinvestment in climate resilience and stormwater infrastructure.¹⁶ Moreover, as shown in figure 10, the state’s transportation funding is severely inadequate. In fiscal year 2021–22, PennDOT faced a \$9.35

15. American Society of Civil Engineers, 2022 Report Card for Pennsylvania’s Infrastructure, 2022, <https://infrastructurereportcard.org/wp-content/uploads/2016/10/PA-Report-Card-2022.pdf>.

16. Ibid.

billion state-level annual funding gap, driven by unmet needs for highway and bridge maintenance (\$8.15 billion) and multimodal infrastructure (\$1.2 billion).

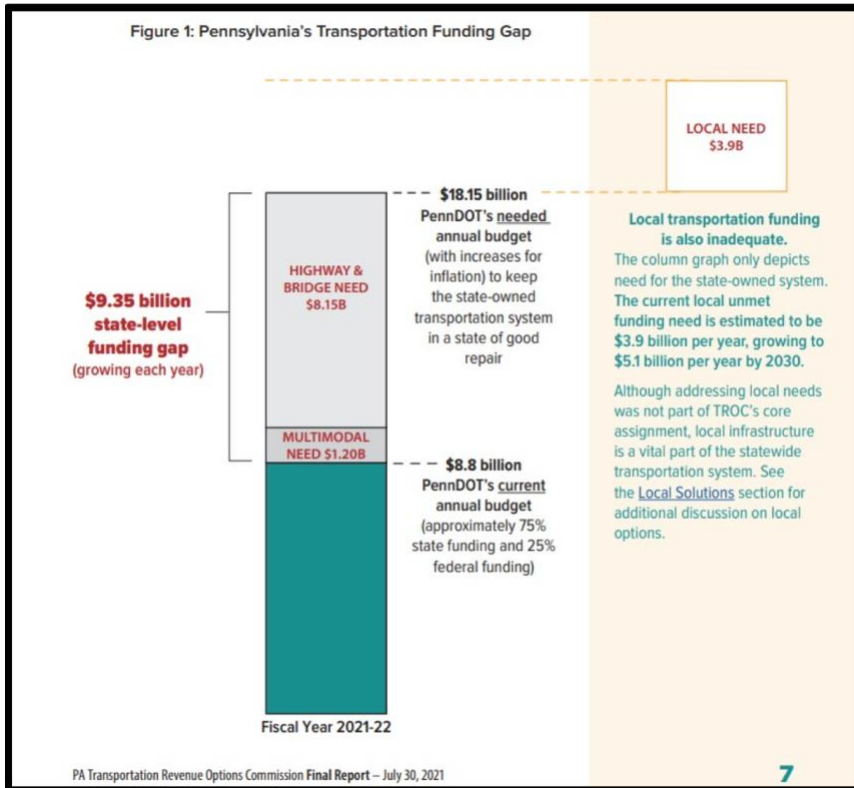
While PennDOT's current annual budget stands at \$8.8 billion, the total need to maintain the state-owned transportation system in a state of good repair is \$18.15 billion. This does not even account for local infrastructure, which faces its own shortfall of \$3.9 billion per year, projected to grow to \$5.1 billion by 2030.¹⁷ Without significant new revenue, these mounting deficits will continue to compromise safety, mobility, and economic development across the Commonwealth.

For rural areas, the impacts of infrastructure disrepair are especially pronounced due to limited alternative routes and lower population density. According to a 2024 report by TRIP, a national transportation research nonprofit, 19% of Pennsylvania's rural pavements are in poor condition—the 11th highest rate in the country—and 15% of its rural bridges are rated poor or structurally deficient, the fifth highest nationally. In 2022, the fatality rate on Pennsylvania's non-Interstate rural roads was nearly double the rate on all other roads in the state, highlighting the safety risks associated with deteriorating infrastructure.¹⁸

17. Ibid.

18. TRIP, Rural Connections: Examining the Safety, Connectivity, Condition and Funding Needs of America's Rural Roads & Bridges, TRIP: A National Transportation Research Nonprofit, September 2024, https://tripnet.org/wp-content/uploads/2024/09/TRIP_Rural_Connections_Report_September_2024.pdf.

Figure 10: Pennsylvania’s Transportation Funding Gap



Source: American Society of Civil Engineers, *2022 Report Card for Pennsylvania’s Infrastructure*, 2002, <https://infrastructurereportcard.org/wp-content/uploads/2016/10/PA-Report-Card-2022.pdf>.

Environmental Protections Funding

While Pennsylvania has made some incremental progress in environmental regulation over the past decade, the Commonwealth continues to underinvest in the agencies responsible for safeguarding public health and natural resources. According to the Forty-Third Statewide Investigating Grand Jury, oversight of the unconventional oil and gas industry—commonly known as fracking—was deeply flawed for many years, resulting in significant and avoidable harm to both the environment and surrounding communities.¹⁹ Residents near fracking sites reported serious health effects, including rashes, nosebleeds, respiratory issues, neurological symptoms, and increased cancer risk.²⁰ In numerous cases, families were forced to abandon their homes, purchase alternative water sources, or invest in costly air filtration systems. Regulatory failures at the Department of Environmental Protection (DEP) were widespread, including failure to test for the

19. Office of the Attorney General of Pennsylvania, *Report 1 of the Forty-Third Statewide Investigating Grand Jury*, 2020, <https://www.attorneygeneral.gov/wp-content/uploads/2020/06/FINAL-fracking-report-w.responses-with-page-number-V2.pdf>.

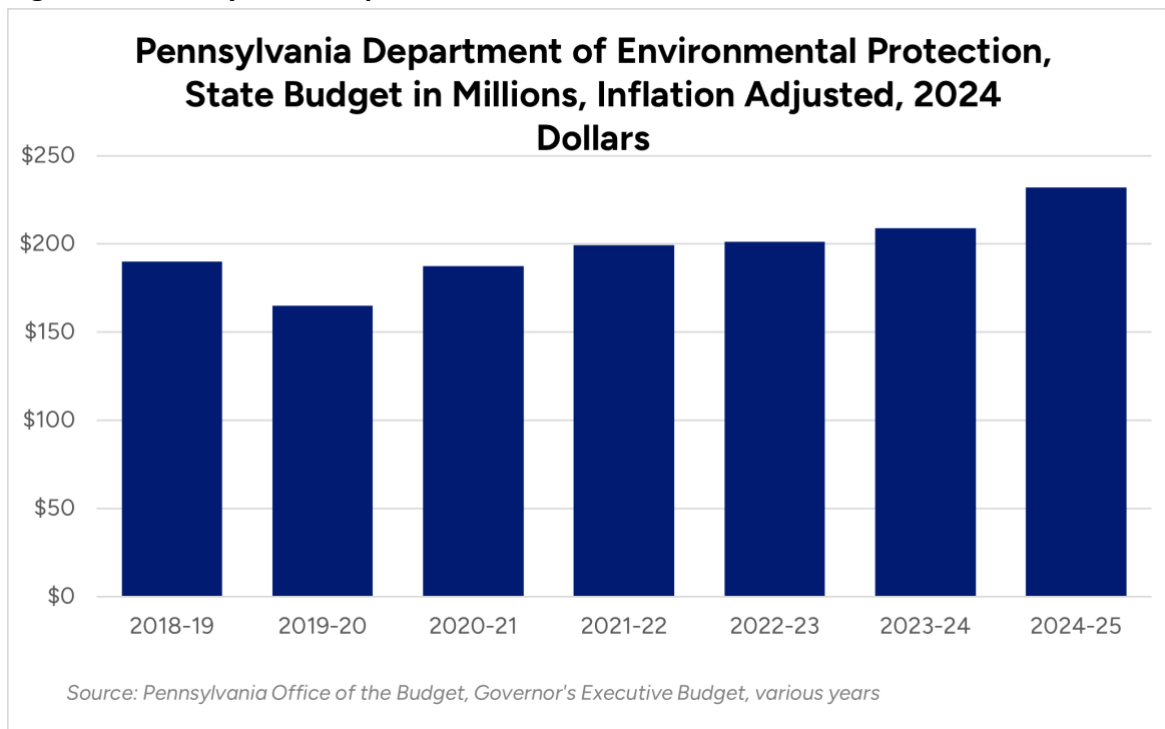
20. Ibid.

appropriate contaminants, lack of public notice to affected communities, and an overall pattern of deferring to industry claims over citizen concerns.²¹

Environmental harms are not confined to fracking regions. The *State of the Air 2025* report from the American Lung Association lists Philadelphia County among only 27 counties nationwide receiving failing grades for all three measures of air pollution: ozone, short-term particle pollution, and annual particle pollution.²² This places the health of millions of Pennsylvanians, especially children, older adults, and those with preexisting conditions, at serious risk due to long-term exposure to unsafe air.

When it comes to funding for the Department of Environmental Protection, the pattern is consistent with broader underinvestment in public goods. While the scope and complexity of the DEP’s responsibilities have grown—particularly in response to climate change, industrial pollution, and energy infrastructure development—the agency’s funding has not kept pace. As shown in figure 11, state General Fund appropriations for the DEP have remained essentially flat when adjusted for inflation, even as the agency has been tasked with overseeing a rapidly expanding array of environmental and public health concerns.

Figure 11: Pennsylvania Department of Environmental Protection



Source: Expenditures and Revenues from 2018 to 2024 from Governor’s Executive Budget, various years.

21. Ibid.

22. American Lung Association, *State of the Air 2025 Report*, American Lung Association, 2025, <https://www.lung.org/getmedia/5d8035e5-4e86-4205-b408-865550860783/State-of-the-Air-2025.pdf>.

Federal Cuts

Federal policy changes are compounding Pennsylvania's public investment deficit by shifting greater responsibility onto the Commonwealth at the very moment when its own fiscal position is already strained. These changes effectively transfer risk and cost from the federal government to states, increasing pressure on Pennsylvania to either raise new revenue or cut services. On July 4, 2025, President Trump signed a federal bill into law, the One Big Beautiful Bill Act (OBBBA), which will reduce support for Medicaid, SNAP, and clean energy investment, while increasing pressure on state budgets and family finances.

Food Assistance

Beyond the roughly 143,967 individuals at risk of losing SNAP assistance due to the work restrictions and new administrative barriers created by the law, the OBBBA also places significant financial and administrative burdens on states, weakening the federal government's longstanding commitment to fully financing SNAP benefits.²³ In particular, the OBBBA requires states to assume a share of SNAP benefit costs if they exceed specified payment error thresholds and raises the state share of administrative costs from 50% to 75%. Under the law, states with payment error rates between 6% and 7.99% must pay 5% of benefit costs, states with rates between 8% and 9.99% must pay 10%, and states with rates of 10% or higher must pay 15%.²⁴ Because Pennsylvania's FY 2024 SNAP payment error rate was 10.76% the Commonwealth would face the highest state cost-share category if that benchmark holds. Our estimates show that a 10% state match could cost the Commonwealth about \$427 million, a 20% share could cost about \$854 million, and the increase in administrative cost-sharing could add another \$113 million.

Health Care

Health care is another area where federal cuts threaten to intensify Pennsylvania's fiscal and public health challenges. Similar to the SNAP work and reporting requirements, the OBBBA's Medicaid eligibility and renewal changes are expected to cause significant coverage losses in Pennsylvania. We estimate that, statewide, about 375,000 people are at risk of losing Medicaid coverage under greater data matching and about 576,000 are at risk under limited data matching.²⁵ In addition, the expiration of the enhanced Affordable Care Act premium tax credits is expected to cause about 150,000 Pennsylvanians to lose marketplace coverage, this year alone, while we estimate that

23. Pennsylvania Policy Center, "The Trump-Republican Reconciliation Bill: A Threat to Food Assistance in Pennsylvania," October 11, 2025, https://pennpolicy.org/research_publication/the-trump-republican-reconciliation-bill-a-threat-to-food-assistance-in-pennsylvania/.

24. Leslie Ford, "What States Can Expect with the New SNAP Match: Options to Reduce State Error Rates," Alliance for Opportunity, October 20, 2025, <https://allianceforopportunity.com/federal-snap-match-what-states-should-know/>.

25. Laura Beltrán Figueroa, "The Trump-Republican Reconciliation Bill: A Threat to Pennsylvanians' Health Care," Pennsylvania Policy Center, September 25, 2025, <https://pennpolicy.org/wp-content/uploads/2025/09/Subtitle-B-%E2%80%93Health-Chapter-1-%E2%80%93-Medicaid-1-1.pdf>.

roughly 270,000 people could lose insurance because of the failure to extend the expanded tax credits.²⁶

However, beyond the direct coverage losses, the OBBBA will also place significant administrative and cost burdens on the Commonwealth. Among these is the increased likelihood that Pennsylvania will have to devote more state resources to eligibility verification, renewals, and compliance systems while also confronting the broader fiscal consequences of reduced federal Medicaid support.

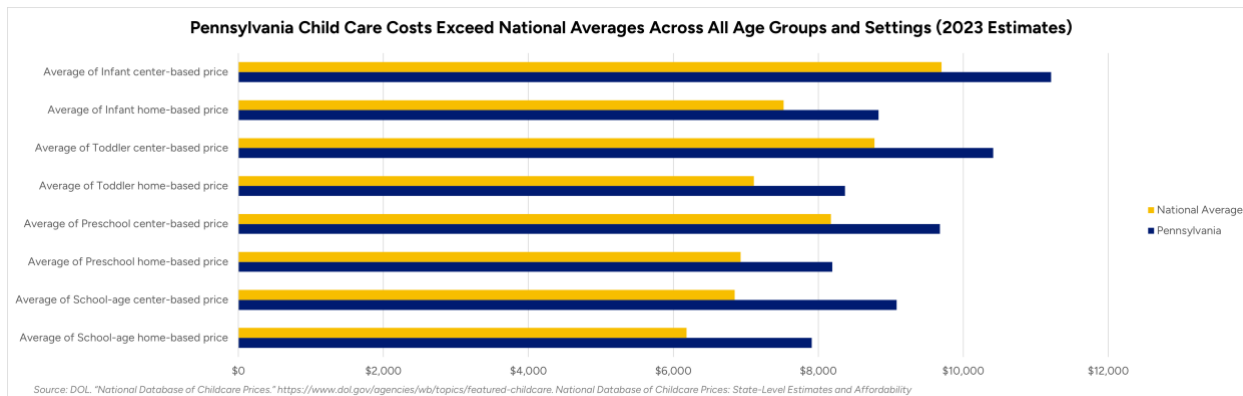
Affordability Crisis

Pennsylvania’s public investment deficit is unfolding in the middle of a broader affordability crisis that is making it harder for families to meet basic needs even when they are working. The problem is not limited to any single budget line or policy area. It shows up in the rising cost of groceries, gas, housing, child care, health insurance, and utilities, while wages and public supports have not kept pace.

Child Care Costs

Pennsylvania families face significantly higher child care costs than the national average. Across every age group and setting, whether in-home or center-based care, Pennsylvania exceeds national cost benchmarks (figure 12). For example, the average annual cost of infant center-based care in the Commonwealth is approximately \$11,210, compared to \$9,700 nationally. home-based care, often seen as a more affordable option, is markedly more expensive in Pennsylvania. These elevated costs place tremendous pressure on working families and can force parents, especially mothers, to reduce work hours, delay employment, or leave the labor force altogether.

Figure 12: Pennsylvania Child Care Costs Exceed National Averages Across All Age Groups and Settings



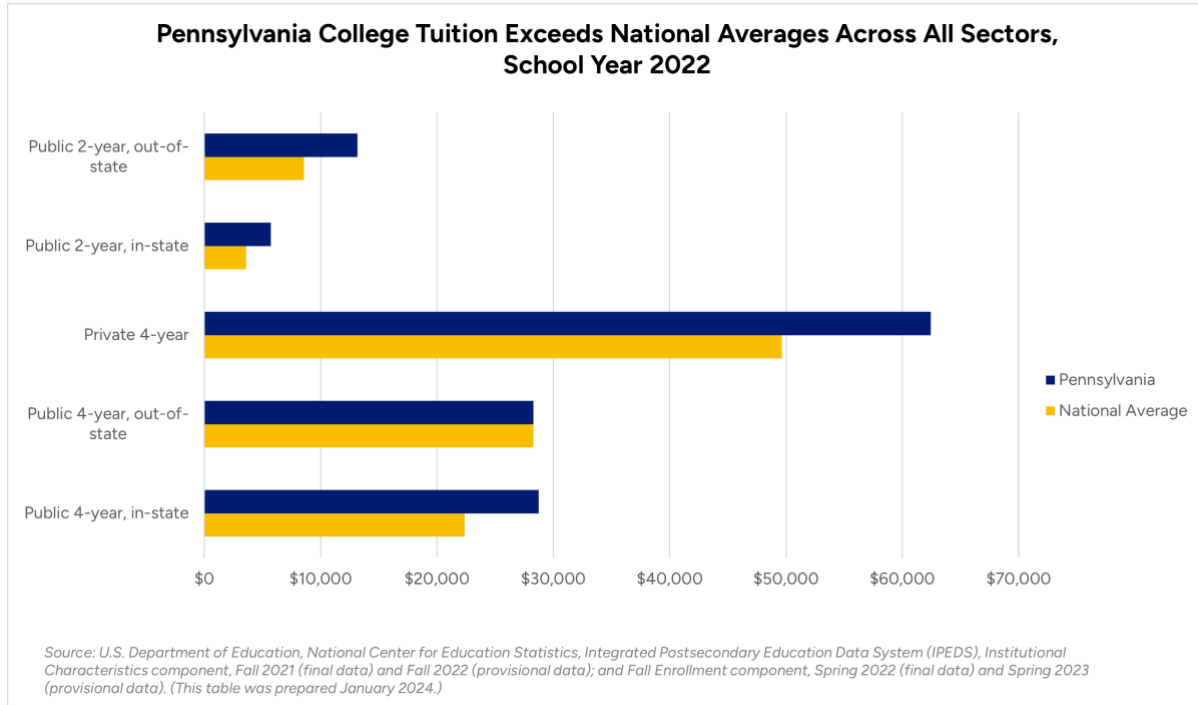
Source: U.S. Department of Labor, Women’s Bureau, Childcare Prices by Age of Children and Care Setting, accessed July 7, 2025, <https://www.dol.gov/agencies/wb/topics/childcare/price-by-age-care-setting>.

26. Pennie, August 2025 Pennie Board of Directors Meeting Deck, <https://agency.pennie.com/wp-content/uploads/2025/08/August-2025-Pennie-Board-of-Directors-Meeting-Deck.pdf>.

Higher Education

Higher education is another major driver of affordability pressures in Pennsylvania. Once a national leader in supporting public colleges and universities, Pennsylvania’s tuition costs now far exceed national averages across all sectors. In 2022–23, in-state tuition and required fees at Pennsylvania’s public four-year institutions averaged \$16,217, over 66% higher than the national average of \$9,750. Tuition at Pennsylvania’s public two-year colleges was similarly higher than average, with in-state students paying an average of \$5,717 compared to \$3,598 nationally (figure 13). These costs create substantial barriers to college access and completion, while increasing students’ reliance on debt and placing additional strain on family finances.

Figure 13: Pennsylvania College Tuition Exceeds National Averages Across All Sectors

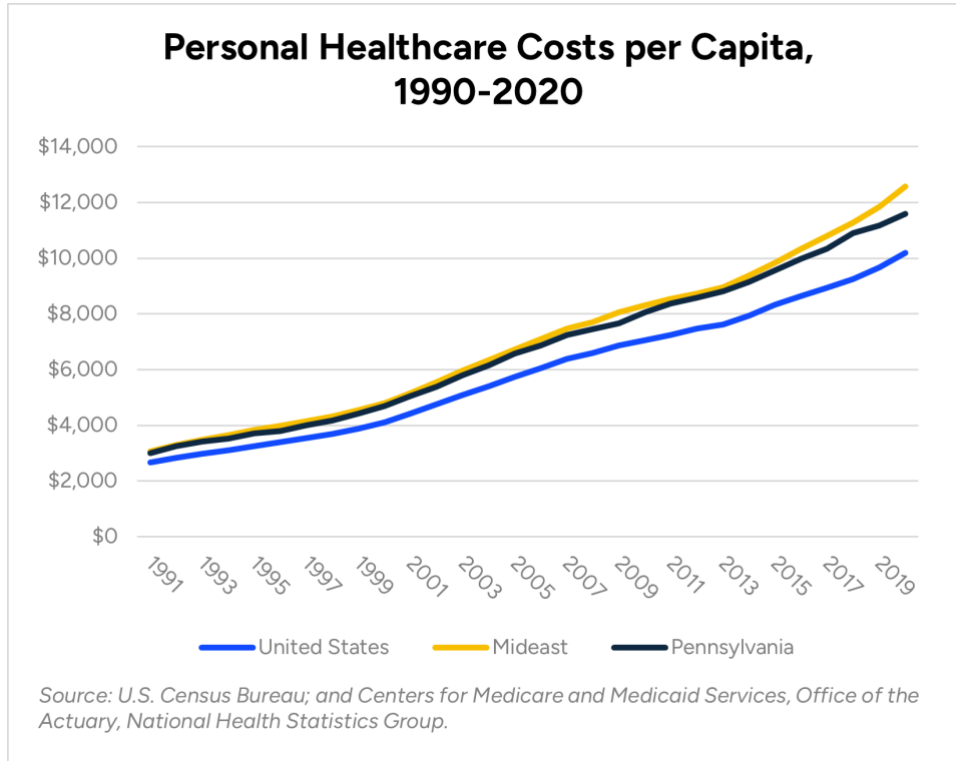


Source: National Center for Education Statistics (2024), Table 330.20. Average undergraduate tuition, fees, room, and board charges for full-time students in degree-granting postsecondary institutions, by control and level of institution and state: Academic years 2021–22 and 2022–23, U.S. Department of Education, 2024, https://nces.ed.gov/programs/digest/d23/tables/dt23_330.20.asp.

Health Care Costs

Health care costs also weigh heavily on Pennsylvania households. For households seeking care, these expenditures ultimately reflect the high overall cost of medical services, whether paid directly out of pocket, through private insurance, or through public programs. In 2020, Pennsylvanians spent an average of \$11,603 per person on personal health care, compared to \$10,191 nationally, a difference of over \$1,400 (figure 14). When health care costs outpace national averages, families are more likely to delay treatment, accumulate medical debt, or forgo other essentials in order to afford care.

Figure 14: Personal Health Care Costs Per Capita, 1990–2020



Source: U.S. Census Bureau; and Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, <https://www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data/nhe-fact-sheet>. Health expenditures by state of residence: summary tables, table 11. Mideast states include DE, D.C., MD, NJ, NY, and PA.

Housing Costs

For anyone living in Pennsylvania, the housing crisis is no longer abstract, it is a daily reality. Across urban, suburban, and rural communities alike, skyrocketing rental prices, a limited supply of affordable housing, and under-resourced housing assistance programs have left thousands of families struggling to find and maintain stable shelter. As table 2 shows, a significant share of Pennsylvania renters is severely cost-burdened. In 2023, nearly 39% of renters spent more than 35% of their household income on housing, a level generally considered unsustainable. By comparison, only 18% of homeowners with a mortgage and 11% of those without a mortgage spent that much. Meanwhile, only 28.2% of renters spent less than 20% of their income on housing, compared to 52.6% of homeowners with a mortgage and 74.1% without one.

Table 2: Monthly Housing Costs as a Share of Household Income for Owners (With and Without a Mortgage) and Renters in Pennsylvania, 2023

	Monthly Owner Costs as a Percentage of Household Income		Monthly Renter Costs as a Percentage of Household Income
	Housing Units With a Mortgage	Housing Units Without a Mortgage	
Less than 20.0 percent	52.6%	74.1%	28.2%
20.0 to 24.9 percent	14.7%	7.0%	12.8%
25.0 to 29.9 percent	9.2%	4.7%	11.5%
30.0 to 34.9 percent	5.9%	3.0%	8.7%
35.0 percent or more	17.7%	11.2%	38.9%

Source: U.S. Census Bureau, U.S. Department of Commerce. (n.d.). Selected Housing Characteristics, *American Community Survey, ACS 5-Year Estimates Data Profiles, Table DP04*, retrieved August 5, 2025, from https://data.census.gov/table/ACSDP5Y2023.DP04?g=040XX00US42_060XX00US4209179136.

Conclusion

Pennsylvania’s fiscal challenges are not temporary, and they are not the result of an unexpected downturn alone. They are the product of a long-running mismatch between what the Commonwealth asks public systems to do and the revenues it is willing to raise to support them. For years, structural deficits were masked by one-time fixes, borrowed funds, and, more recently, extraordinary federal relief. That window has now closed. What remains is a revenue system that is too weak to sustain even current commitments, much less meet growing needs in education, health care, housing, infrastructure, environmental protection, and economic security.

The evidence throughout this report points to the same reality. Pennsylvania’s reserves are being drawn down, General Fund balances are projected to erode, and recurring revenues are not keeping pace with ongoing expenditures. At the same time, the consequences of underinvestment are visible across the Commonwealth. Families face child care costs, housing costs, tuition bills, and health care expenses that exceed national averages. School districts continue to struggle under an unconstitutional funding system. Public health and environmental agencies remain under-resourced. Transportation systems face multibillion-dollar maintenance gaps. These are not isolated problems. They are connected expressions of a deeper public investment deficit.

Federal policy changes have made the situation even more urgent. As Washington reduces support for Medicaid, SNAP, clean energy, and other essential programs, Pennsylvania will be expected to shoulder more of the burden. Without new recurring revenue, the Commonwealth will be forced into a cycle of service cuts, delayed investments, and growing hardship for working families. That would deepen existing racial, regional, and class inequities while weakening the foundations of long-term economic growth.

Pennsylvania does not lack the capacity to do better. The Commonwealth has substantial untapped revenue capacity, particularly among high-income households and profitable corporations which

currently contribute a smaller share relative to their economic gains. What it lacks is a tax system aligned with today’s economy and with the scale of the public responsibilities the state has chosen, and is constitutionally required, to carry. Reversing the public investment deficit will require more than short-term balancing measures. It will require modernizing Pennsylvania’s tax system, including closing loopholes, ensuring that multinational corporations pay taxes on the profits they generate in the state, and adopting policies that ask more of the wealthiest Pennsylvanians to provide the stable resources needed to support thriving communities across the Commonwealth. Without such changes, Pennsylvania will remain locked in a cycle of structural deficits, constrained investments, and growing inequality.

Appendix

Table 1 – Pennsylvania General Fund Expenditures and Revenues as a Percent of Gross State Product (GSP), Nominal Values

Pennsylvania General Fund Expenditures and Revenues as a Percent of PA Gross State Product (Dollar amounts in Millions – Nominal Values)					
Fiscal year ending	GDP Nominal	Expenditure	Revenue	Expenditures / GDP (%)	Revenues / GDP (%)
Average 1997 to 2011	\$476,653	\$22,127	\$23,061	4.66	4.86
Average 2012 to 2015	\$665,100	\$28,074	\$28,881	4.22	4.32
Average 2016 to 2024	\$774,165	\$35,862	\$37,088	4.52	4.66
Governor’s projection 2025	\$836,833	\$47,904	\$44,064	5.72	5.27
Governor’s projection 2026	\$852,709	\$51,474	\$46,625	6.04	5.47
Sources: GDP data from 1997 to 2016 from IFO Five Year Economic and Budget Outlook, various years; GDP data from 2017 to 2022 from Bureau of Economic Analysis https://bit.ly/3SqRtGv ; GDP data from 2023 to 2026 based on IFO projections of economic growth from Economic and Budget Outlook, November 8, 2023, Expenditures and Revenues from 1997 to 2026 from Governor’s Executive Budget, various years.					