COMMONWEALTH FOUNDATION | BACKGROUNDER

Key Takeaways from Governor's 2024 Budget Proposal

Governor Shapiro proposed an unbalanced, out-of-touch, unserious budget.

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KEY POINTS

- Gov. Josh Shapiro's startling spending increases and myriad of new initiatives would explode the budget deficit and invite massive tax hikes on working families in the coming years.
- Shapiro missed an opportunity to prioritize students, leaving out any funding for Lifeline Scholarships, proposing massive increases for school districts, but cuts to public cyber schools.
- Shapiro's proposal does not address Pennsylvania's economic competitiveness and the outmigration that drains our working-age population. Instead, his proposals would exacerbate these trends.
- Instead, lawmakers must focus on policies that bring the budget into balance to prevent tax hikes on working families, expand educational options and funding that follows students, and enact policies that make Pennsylvania more competitive and more attractive to families, workers, and job creators.

SHAPIRO EXPLODES BUDGET DEFICIT, INVITING TAX HIKES

The proposed budget represents a startling scope of spending increases and new initiatives.

Shapiro proposes more than $48.3 billion in general fund spending, a dramatic 7.1 percent increase over last year's ongoing spending. This is more than double the average growth in Pennsylvania's personal income over the last three years.

While the 2023–24 budget already includes a budget deficit, spending more than revenues, Shapiro's plan balloons the structural deficit.

Shapiro's massive spending increase takes the Independent Fiscal Office (IFO) projected $2.0 billion deficit and inflates it into a massive $3.6 billion deficit.

Even with highly unrealistic revenue and spending projections in future years, Shapiro would exhaust the general fund balance in 2026, accelerating the looming crisis. This overspending would require tax hikes on working families in 2026.

The cost to cover Shapiro's $3.4 billion deficit in 2026 equals a tax hike of $1,000 per family of four.

The actual outlook is significantly worse, as Shapiro's executive budget includes both optimistic revenue projections and unrealistic spending projections—including almost no increases for education after 2024–25—to hide the size of the looming budget deficit and cost of tax hikes to pay for it.

While Shapiro proposes draining the state's Rainy Day Fund to fuel deficit spending, he is ignoring state law in this regard, which specifies that Pennsylvania's Rainy Day Fund can be used "only when emergencies ...or downturns in the economy resulting in significant unanticipated revenue shortfalls" happen; and "shall not be used to begin new programs."

Further, the law requires a two-thirds vote to spend Rainy Day Funds.

This is not a "surplus," but a savings that protects taxpayers from future recessions. It is both imprudent policy and illegal to propose draining the Rainy Day Fund to cover up a structural deficit. Further, Shapiro's plan fails to ever bring the budget into balance, just delaying tax hikes until after reelection.

Lawmakers need to act now to control the growth of government and protect taxpayers from burdensome taxes.

GOVERNOR MISSES OPPORTUNITY TO PRIORITIZE STUDENTS

A responsible state budget would address education inequity by expanding education opportunities. A longtime budget priority, and "unfinished business" from the 2023–24 budget, the Lifeline Scholarship Program, also known as the Pennsylvania Award for Student Success (PASS), provides an alternative for students stuck in highly funded, low-achieving schools.

In recent polling, 64 percent of voters support scholarships for low-income students in the worst-performing schools, and 90 percent of black single mothers believe traditional public schools fail to meet students' needs.

We are pleased that in his speech, Shapiro reaffirmed his support for Lifeline Scholarships/PASS as passed by the Senate. He called on the House to "examine and consider" this budget priority and to "seize this moment to lift up the entire Commonwealth." We wish more Democrat governors were willing to speak out like this.

Unfortunately, despite a budget address with over 11,000 words, Shapiro's budget proposal included zero dollars to help kids or expand educational choice—with no inclusion of Lifeline Scholarships/PASS, and flat funding of tax credit scholarships. For a governor who claims to empower children to "chart their own course," one wonders how this is possible for kids trapped in failing public schools.

Instead, Shapiro proposes yet another $1.6 billion in state support of public schools, from $15.5 billion to $17.1 billion. This increase, despite declining enrollment in public schools, is on top of historic increases in education spending in recent years. In fact, in each of the last three years, the governor (Wolf twice and Shapiro once) and legislative leaders have celebrated "record increases" in public school funding.

Curiously, Shapiro's budget shows virtually no increase in public school funding beyond 2025—a laughable expectation, clearly meant to hide the size of future deficits.

Overall, taxpayers provide around $22,000 per student—that's as of 2021–22 (the most recent state data available) before some of the most recent increases—which ranks Pennsylvania among the highest in the nation. During this time, school districts have also grown their reserve funds significantly—year over year. School district reserves have neared $6 billion—which, as a percentage of spending, is double what the state's rainy-day fund holds.

Unfortunately, Shapiro missed an opportunity to focus on distributing this funding more equitably by funneling more money into the Fair Funding Formula—which is based on student enrollment—and moving away from "hold harmless," which prioritizes buildings and bureaucrats, rather than focusing on students and learning. Currently, only about 25 percent of the basic education and special education line items go through the funding formula, and other fund streams could be moved into that.

Simultaneously, Shapiro endorsed more than $262 million in cuts for students attending public cyber charter schools. While Shapiro argues that public schools need more money, he wants to cut funding for the *public charter schools* where **enrollment is actually growing,** even though they already receive less per student than brick-and-mortar public schools.

While charter schools do not get funding for facilities, Shapiro justified the proposed cuts on the grounds that "cybers deserve less because their facilities cost less." Cutting funding to cyber charter schools exterminates opportunity for the children enrolled at these schools.

If anything, equitable policy reform would be to increase funding for brick-and-mortar charters—to give them parity with district-run schools.

BEVY OF MISGUIDED NEW INITIATIVES

Shapiro's budget includes a number of new initiatives, which are long on rhetoric but misguided as policy.

Higher Education

Details about Shapiro's higher education proposal remain lacking. He offers no explanation as to how he will keep tuition to $1,000 per semester for state system students at the median income—and this talking point relates to new programs that Shapiro has proposed in future budgets.

He offers a significant increase in funding for public universities where enrollment is declining and accountability is lacking.

Further, he proposes converting the state-related university funding to a grant program, in an effort to thwart constitutional checks and balances. At worst, this is an unconstitutional proposal, as earmarked funds for specific institutions not owned by the state would still require a two-thirds vote. At best, Shapiro is attempting to do an end run around the Pennsylvania Constitution, given his unwillingness to deal with the legislature.

While Shapiro offers some rhetoric about using "outcomes" to determine university funding, he stops far short of the ideal of moving away from politically driven aid to institutions and toward putting all funding into student-based aid, which students can use at two-year, four-year, public, private, and alternative higher education options.

Corporate Welfare

Shapiro campaigned on making Pennsylvania “open to business” with tax reform and cutting red tape, but he has seemingly forgotten that and is reverting to the same old corporate welfare ideas that have repeatedly failed.

Shapiro proposes to dole out more than $500 million in new corporate welfare subsidies to politically selected special interests. Pennsylvania already ranks as a leader in corporate welfare spending, handing out more than $1.4 billion in grants, tax credits, and loans every year—but these policies have a track record of failing.

Shapiro’s idea of a “10-year plan” sounds like something from the former Soviet Union. It stems from politicians’ arrogance that they know best, and by handing out your tax dollars to politically selected corporations—usually those who hire the best lobbyists—they can grow the economy. Instead of following the lead of prosperous and growing states like Florida, Texas, or North Carolina, Shapiro wants to imitate New York and New Jersey—declining states that are bleeding jobs and losing population due to their disastrous tax and spend economic policies.

In reality, Pennsylvanians need a better business climate for *all businesses*, including the hundreds of thousands of small businesses that drive job growth.

Lawmakers should go the opposite direction, reducing corporate welfare spending and using that savings to lower overall tax rates, while simultaneously cutting red tape and chronic permitting delays.

Such reforms would unleash prosperity in Pennsylvania and make the commonwealth a destination state for businesses and families.

Mass Transit Bailout

Shapiro proposed diverting more state tax revenue to bail out failing transit agencies, like Southeastern Pennsylvania Transportation Authority (SEPTA) and Pittsburgh Regional Transit (PRT). Only 35 percent of voters support a mass transit bailout and with good reason.

Ridership on these major transit systems has declined 40 percent from pre-pandemic levels, but agency spending continues to rise. Similarly, SEPTA and PRT are more reliant on state funding, and less reliant on fares and local funding than most transit systems around the country.

Mass transit agencies already receive more than $2.1 billion from sales tax revenue and driver charges—charging drivers fees, fines, tolls, and taxes to fund the transit systems they avoid.

Transit agencies should become more reliant on riders paying for the transportation they want and make policy decisions based on market demand (routes, safety of riders) rather than lobby the state for higher taxes. If the riders of SEPTA are not willing to pay for it, why should lower-income taxpayers in Forest County?

Minimum Wage

Shapiro proposes raising Pennsylvania’s minimum wage to $15/hour, and $9 for tipped workers. A recent analysis finds such an increase could result in up to 86,000 jobs lost.

The IFO also projects job losses due to a minimum wage increase but does not assess the impact on tipped workers given the lack of real-world examples of such a dramatic increase.

Other studies have found that poverty rates and the reliance on public assistance increase following significant minimum wage hikes. Workers also lose valuable benefits like tips, health insurance, employee discounts, and flexible hours.

Unfortunately, Shapiro does not even acknowledge these verified tradeoffs—he erroneously assumes no price increases, no jobs lost, and no impact on small businesses, nonprofits, or teen workers. He also pretends that no workers have received a raise in 16 years.

Meanwhile, the IFO's model assumes that 60 to 70 percent of the wage *gains* pass through as "higher prices paid by Pennsylvania consumers." That means more inflation for Pennsylvania families.

Given just one percent of workers make the minimum wage, there are better alternatives that would boost wages for *all* Pennsylvanians. We can help all workers by reducing income taxes, streamlining professional licensing, and cutting regulatory red tape.

ACCELERATES PENNSYLVANIA'S ECONOMIC DECLINE AND OUTMIGRATION

Shapiro claims to be as "competitive as hell," but his budget would make Pennsylvania less competitive than it already is.

Unfortunately, Pennsylvania has long been a laggard in economic competitiveness, with slow growth. As a result of an uncompetitive economy, Pennsylvania has suffered from outmigration for 12 of the past 13 years. Tens of thousands of residents are leaving for greener pastures in economically competitive, fiscally responsible states like North Carolina, Florida, and Texas almost every year.

Worse yet, that outmigration concentrates among younger, working-age adults. This brain drain is a threat to our fiscal and economic health. Pennsylvania does rank among the "best states to retire"—but also often among the worst states to find a job or economic opportunity. A growing senior population means more human services costs, and a shrinking working-age population means fewer taxpayers to cover those costs.

Shapiro's budget fails to address this troubling trend. In fact, his proposed budget will exacerbate the growing problem.

Shapiro refuses to address surging Medicaid and human services costs. Overall Medicaid costs are growing more than twice as fast as revenue. Needed Medicaid reforms include enhanced eligibility reviews, work and work search expectations, and audits of managed care providers to identify opportunities to move more Pennsylvanians to higher-quality private insurance.

In the immediate future, the legislature should block a proposed waiver to use Medicaid for food and housing services, which is duplicative and projected to cost $3 billion over five years.

Likewise, Shapiro's budget ignores many of the reforms he campaigned on. While candidate Shapiro supported accelerating planned reductions to the corporate tax rate to improve the state's competitiveness, his budget keeps the status quo. Pennsylvania is failing to compete with other states; meanwhile, six states lowered the corporate tax rate in 2024 alone.

Shapiro’s budget also neglects any proposal to reduce regulatory red tape or enact permitting reforms. Pennsylvanian maintains more than 166,000 regulatory restrictions, the 12th highest in the nation. Research shows regulation reduction is associated with growth in state GDP and jobs.

Likewise, while affordable energy is key to economic growth, Shapiro maintains his insistence on new energy taxes—taxes like the Regional Greenhouse Gas Initiative (RGGI), estimated to cause a 30 percent increase in residential electric bills, or “an alternative cap and invest program” (read “tax)—even though candidate Shapiro expressed reservations on the impact of this tax.

While Shapiro claims his budget does not raise taxes, the reality is anything but—it relies on new vice taxes to balance the budget, draining fiscal reserves, and forcing future tax hikes on working families.

The greatest challenge for policymakers is how to make Pennsylvania more competitive and more attractive to families, workers, and job creators. Unfortunately, Shapiro’s budget takes Pennsylvania in the wrong direction and will continue to push young residents to other states.