Pennsylvania's Rainy Day Fund at risk as spending outpaces revenue

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The state Independent Fiscal Office is warning that if Pennsylvania's government spending continues to outpace revenue, the state's Rainy Day Fund will be cut in half as the state confronts a structural deficit topping $5 billion in the 2026-27 fiscal year.

The warning comes days before Gov. Josh Shapiro is set to release his proposed spending plan for 2026-27.

Shapiro's fourth budget address is set for Tuesday and comes less than three months after the governor signed his third budget. The 2025-26 budget was delayed more than four months as Shapiro and lawmakers wrangled over how to balance the spending plan without new taxes or other forms of revenue. Shapiro had proposed legalizing adult recreational use of marijuana and taxing skill games — slots-like video games found in convenience stores and bars. However, neither of those proposals were included in the 2025-26 budget.

The IFO is estimating that when the current fiscal year ends, the state will have a $732 million general fund balance and $7.7 billion in the Rainy Day Fund.

Unless lawmakers and the governor reach a deal on some kind of plan to generate

additional revenue, the general fund balance will likely be wiped out and the Rainy Day Fund would be reduced to $3.1 billion after 2026-27.

The IFO is basing those projections on estimates that state revenues will grow by 1.3% in 2026-27 while state spending will increase 4.6%. At that rate, the state would be on pace to spend well over $52 billion in 2026-27.

Shapiro signed a $50.1 billion 2025-26 budget in November that boosted spending 4.7% over the prior year.

Mid-year update

While the IFO is projecting a structural deficit, officials say the state is on pace to bring in almost $400 million more in revenue in 2025-26 than expected. The biggest factor in that change is that the state is collecting more in sales tax. The IFO had estimated that sales tax would generate $13.76 billion in revenue this year. Now, the fiscal office says it expects sales tax revenue will come in just under $14 billion.

Revenue from sports betting also generated more than expected. The fiscal office is now predicting that taxes on sports betting will bring in almost $70 million more than the original forecast.

The state taxes sports betting at a rate of 34% of the adjusted gross revenue of the sports books. As a result, when bettors lose, the state wins.

“We had a surge in (sports betting) tax revenues in the fourth quarter. It jumped to $72 million, or 81% growth year over year,” Matthew Knittel, the executive director of the IFO, said in a call with reporters on Wednesday. “What we think happened here was not only is sports wagering more prevalent, but some of the local teams had some tough outcomes, and therefore the house retains more money and pays more tax upon it in the fourth quarter.”

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