

Pennsylvania budget season begins with focus on school funding and Medicaid pressures

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*Gov. Josh Shapiro signs the 2025-26. budget Wednesday, Nov. 12, at the state Capitol.
(Credit: John Finnerty)*

Gov. Josh Shapiro is set to release his fourth budget address Tuesday, kicking off a new budget season just three months after the 2025-26 budget deal was completed and just as Shapiro's campaign for re-election ramps up.

The governor's new budget proposal comes after lawmakers balanced the current spending plan using a variety of one-time moves, including shifting \$1.6 billion in funds that had been appropriated in prior years' budgets but never spent by state agencies, officials with the Commonwealth Foundation told reporters Thursday.

The state's Independent Fiscal Office on Wednesday warned that if the state continues to spend more than it brings in through taxes, the state will be forced to shift money out of its general fund balance or the state's Rainy Day Fund.

The state's structural deficit is already forecasted as being well over \$5 billion. The state is also faced with the challenges associated with responding to new mandates from the federal government to improve error rates in payments in entitlement programs and potentially crippling financial penalties if those error rates don't improve.

Despite those fiscal challenges, there will be immense pressure on lawmakers to boost spending on schools and health care, while also trying to find a way to reduce utility prices that have been surging due to demand from power-hungry data centers.

School funding

Public school leaders on Thursday called for lawmakers to make additional investments to confront the disparities in funding between school districts, largely due to the state's heavy dependence on local property taxes. Federal and local dollars account for 63% of the funding spent on education in Pennsylvania. Only six states — New Hampshire, Nebraska, South Dakota, Nevada and Connecticut — contribute a smaller share toward the cost of public education than Pennsylvania does, according to the National Center for Education Statistics.

The disparities in education spending was at the heart of a 2023 state court decision that found the state's system of funding schools unconstitutionally short-changes students in less wealthy districts.

The 2025-26 spending plan provided an additional \$565 million to address the adequacy gap highlighted by a landmark school funding lawsuit that ended with the state courts decreeing that the state's system of funding schools was unconstitutional because of spending disparities between school districts. In addition, the budget calls for a \$105 million increase in basic education funding and a \$40 million increase in special education funding.

Advocates involved in the lawsuit said Thursday that the state has begun to confront

the disparities but much more must be done to fully eliminate what officials have called the adequacy gap between school districts.

“In the past two years, the Legislature, with the governor's leadership and strong support, has provided slightly more than \$1 billion towards that \$4.5 billion target,” said Michael Churchill, attorney with the Public Interest Law Center. “Clearly, there is a long way to go before those big gaps between what we expect all schools to do for their students and what many are actually able to do, and for the legislature to actually comply with the order to fix their broken funding system.”

Energy policy

Republicans fought successfully in 2025 to get Shapiro to agree to drop an effort originally launched by his predecessor Tom Wolf to have Pennsylvania enter into the Regional Greenhouse Gas Initiative — a cap and trade program that uses taxes on polluters to pay for clean energy investments.

Shapiro rolled out his own energy plan last year, as well. But while permitting reforms have been enacted, other major parts of the plan, such as a proposed statewide board to expedite approval for large-scale energy projects, sputtered.

“The need to bring new power generation online has perhaps never been more acute,” Adam Walters, senior energy advisor for the state Department of Community and Economic Development, said at a hearing on the plan last summer. He said the statewide board would bring a balanced statewide approach to new energy projects and require approval of applications in 90 days.

But trade groups representing local government officials opposed the RESET board proposal, and the proposal has drawn ire from citizen groups around the state concerned about the rapid growth of data centers.

The need for more state revenue has business groups bracing themselves for new attempts to add taxes on natural gas drilling, as well.

Thursday, the Pennsylvania Chamber of Business and Industry and a coalition of other business groups sent a letter urging Shapiro to resist proposals from Democrats to enact a new severance tax on natural gas drilling. Pennsylvania has collected impact fees, based on the number and age of wells, but doesn't collect a tax on the volume of gas produced by those wells. Democrats have long sought to implement the severance tax, which would generate much more revenue, and allow for more of the proceeds to be redirected around the state.

“Proponents often point to Texas as a model, but that comparison ignores key facts. Texas has no corporate income tax, no personal income tax, and a legal and regulatory environment built for speed and certainty. Pennsylvania's overall tax and regulatory

landscape is fundamentally different, and comparing one tax in isolation ignores the broader competitiveness picture,” the groups said in their letter.

Medicaid

The state budget signed by Shapiro in November restricted the use of Medicaid benefits to cover the cost of expensive weight-loss drugs.

But the ballooning cost of Medicaid and the challenges of dealing with an aging population will continue to put intense pressure on the budget.

Homecare groups have been lobbying for the state to boost the reimbursement rate paid for in-home care, a campaign that has attracted the support of key Democratic lawmakers, including House Speaker Joanna McCClinton.

The Pennsylvania Homecare Association says more than 100,000 homecare shifts go unfilled every month because of staffing shortages blamed on low pay. The average direct care worker made less than \$16 an hour in 2023.

It’s a problem that’s been well-documented — a rate and wage study commissioned by the Department of Human Services estimated that the state would need a 23% boost to its reimbursements for agency-employed direct-care workers to keep pace with wages of direct care workers in other states.

However, the price tag of that reimbursement hike would cost more than \$800 million.

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