2026-27 State Budget Rundown

On July 12, the PA House and Senate took a series of votes to finalize the budget for the 2026-27 fiscal year.

The budget deal passed 167–35 in the House and 44–6 in the Senate.

The fiscal code, which includes many of the policies passed as part of the overall agreement, as well as instructions for allocating funding provided in the budget bill, passed 188-14 in the House and 46-4 in the Senate.

The PA Chamber Government Affairs team continues to review the budget and various related code bills to identify provisions relevant to employers and assess the impact on the business community and Pennsylvania's economy.

Below is a general summary of the budget agreement and our initial outline of elements important to the business community. We will continue to report on the 2026-27 budget as we gain more insight.

Please join us this Tuesday, July 14, for our Virtual Budget Briefing for an in-depth review of this year's spending plan with the PA Chamber's government affairs team.

Total Spend

- Total General Fund spending of **$50.8 billion** for Fiscal Year 2026-27, representing a $1.8 billion or 3.7 percent increase in state spending over last year, after accounting for supplemental appropriations and delayed payments to Medicaid MCOs and the Community HealthChoices program.
- The budget includes two months of delayed payments to Medicaid MCOs and the Community Health Choices program for both the 2025-26 and 2026-27 fiscal years, which reduces spending by **over $2.6 billion** over the two years.
- The budget also relies on a combination of **over $2 billion** in lapses of unspent prior year allocations, special fund transfers, and moving General Fund spending into other funds.
- **Spends $1.1 billion less** than what Gov. Shapiro proposed in February.
- Does not take any money from the Rainy Day Fund, which currently has a balance approaching **$8 billion**.
- The budget does not include any new revenue sources, including any legislation to legalize skill games. The state Supreme Court found skill games to be illegal gambling devices in June, but stayed the enforcement of their order until mid-October to allow lawmakers to act.

Tax Changes

- Maintains the current phase-down schedule of the Corporate Net Income Tax (CNI), from 7.49 percent to 6.99 percent in 2027. The rate remains on track to be reduced from 9.99 percent down to 4.99 percent by 2031.
- Maintains the improvements to Pennsylvania's treatment of Net Operating Losses moving forward which was enacted in 2024. Current law gradually increases the amount companies are able to deduct using losses incurred after Jan. 1, 2025, from the previous cap of 40 percent up to 80 percent in 2029. Net Operating Losses incurred prior to Jan. 1, 2025 may still be used to offset tax liabilities by up to 40 percent.
- Decouples the tax base of Philadelphia's business privilege tax from the Federal tax base for research and experimental expenditures, qualified production property, and business interest calculations.
- Includes a provision clarifying that situs for the local sales taxes in Allegheny County and Philadelphia is the same as the situs for the statewide Sales and Use Tax.

Data Centers

- The budget does not repeal or modify the Sales and Use Tax exemption for data center computer equipment.
- Requires data centers to report water and energy usage to the Department of Environmental Protection. No additional regulatory changes affecting data centers were included in the final budget.
- The Senate incorporated several amendments the PA Chamber suggested to S.B. 1345, which authorizes municipalities to adopt temporary moratoriums on new data center development while they develop and adopt zoning ordinances. The new amendments exempt projects with power purchase agreements and clarifying that pauses are intended to be temporary. The PA Chamber continues to suggest improvements to this bill, which may be considered for final consideration when the Senate returns for fall session.

Energy Policy

- Includes a provision negotiated by the Energy Association of PA directing Electric Distribution Companies and gas pipeline owners to provide advanced notice when proposed alternative transmission technologies could increase capacity on electric transmission lines.
- The Fiscal Code establishes standards for determining when a well plugger has invoked "reasonable effort" to reach the total depth of a well and to plug the well instead to its "attainable bottom". This legislation, advanced by the Marcellus Shale Coalition, the PA Coal Alliance, and the PA Independent Oil Gas Association, adds clarity and predictability to enhance efficiency.
- The Marcellus Shale Coalition also successfully advocated for an update to regulations related to energy development in the Utica Shale, waiving a 330-foot setback requirement for underground horizontal wellbores, which has led to stranded or wasted natural gas, and lost royalty earnings for landowners. This change will ensure that future Utica or deeper formation wells are able to be constructed in the same manner as current Marcellus wells.

K-12 Education

- Adds **$678 million** in new K-12 public education funding. This includes:
  - **$58 million** increase in Basic Education Funding for a total of $8.3 billion;

- **$55 million** increase in special education spending for a total of $1.5 billion; and
- **$565 million** increase in the adequacy line through the Ready-to-Learn Block Grant for a total of $1.9 billion.

- Directs the Legislative Budget and Finance Committee to conduct a study on standardized tests and Federal accountability requirements, as well as the feasibility of using higher education assessments in future years.
- Provides additional funding for the Structured Literacy Program, aimed at increasing literacy rates among students.
- Does not include any increase to the Educational Improvement Tax Credit program but also does not add any additional reporting or regulatory compliance for the program.
- Increases administrative mandates on cyber charter schools through expanded parent notification requirements.
- Increases Career & Technical Education spending by $10 million, a 6.9 percent increase over last year.
- Authorizes CTE students to complete their programs before 12th grade, allowing them to earn industry credentials and enter the workforce earlier.

Higher Education

- Appropriates $10 million to the State-Related University Performance Fund to be distributed to Penn State University, the University of Pittsburgh, and Temple University, to be distributed through a performance-based funding formula.
- Includes $42.5 million for Grow PA Scholarships, a program aimed at incentivizing students to enter in-demand fields, an increase of $10 million.
- Expands eligibility for the Grow PA Tuition Waiver Program to accelerated master's degree students and increases promotion of Grow PA programs.
- Provides a $5.9 million increase in PHEAA Grants for Students, for a total program allocation of $419 million.
- Provides no increase to PASSHE schools but provides an additional $78.1 million to reduce long-term facilities debt. The budget also provides level funding for community colleges.

Economic Development

- Establishes the Innovate in PA 2.0 tax credit program. The Department of Revenue will sell $125 million in tax credits against the insurance premiums tax to fund the Ben Franklin Authority’s venture funds and for grants for the life sciences and biotechnology industries.
- Includes a couple new Keystone Opportunity Expansion Zones, including one for the navy yard in Philadelphia.

Workforce

- Increases the Child Care Worker Retention and Recruitment program, which gives bonuses to childcare workers, by $5 million, increasing the total program to $30 million.
- Provides for a workforce development program for veterans through the Department of Labor and Industry.
- Provides additional funding for WEDnetPA to support employer-led job training and workforce development initiatives.

- Strengthens workforce readiness by expanding and modernizing personal financial literacy education, including recognizing Career and Technical Education programs as satisfying the requirement.

Transportation

- Creates a design-build best value alternative procurement option for PA Turnpike highway and bridge projects to streamline and accelerate project delivery.
- Reverses the planned phaseout of State Police funding from the Motor License Fund by increasing Motor License Fund support for State Police operations to $375 million in FY 2026-27, an increase of $125 million.
- Directs PennDOT to accelerate highway improvements by deploying an additional $775 million from the Motor License Fund over two years, including $500 million in FY 2026-27.
- Extends the waiver of local matching fund requirements for the Multimodal Transportation Program, continuing flexibility for and reducing financial barriers for eligible projects.
- Requires the Secretary of Transportation to provide quarterly reports to the legislature on the status of both the Motor License Fund and the Public Transportation Trust Fund.
- Continues state support for a special prosecutor for mass transit through the Office of Attorney General.
- Authorizes funding mechanisms to administer federal grant funding for rail freight rehabilitation and improvement programs and rideshare and vanpool initiatives.
- Maintains transfer to the Aviation Restricted Account, preserving existing funding mechanism with no new appropriation or policy changes.
- No changes to public transit funding allocations.

Not Included

It’s important to note that the final budget agreement also does not include several proposals in which the PA Chamber has been engaged throughout budget negotiations. Those include:

- **No Mandatory Unitary Combined Reporting** for Corporate Net Income Tax, which would significantly increase the cost and complexity of filing tax returns.
- **No Digital Advertising Tax**, which would increase costs for Pennsylvania businesses who advertise online.
- **No repeal of the Sales and Use Tax exemption** for data center computer equipment, which would disincentivize investment in Pennsylvania.
- **No False Claims Act**, which would subject healthcare providers to private lawsuits over billing discrepancies.
- **No Paid Leave Mandate**, which would require billions in new payroll taxes to pay wages for individuals to take leave of as much as 20 weeks per year.
- **No Minimum Wage increase**, which would increase costs for small businesses.
- **No EITC overhaul**, despite a proposal to end the current EITC and OSTC program, which would have limited students’ access to educational opportunities and reduced the value of tax credits for scholarships.
