

WEEK TWO

BUDGET HEARING WRAP

March 2-5, 2026



General Overview:

Affordability starts with low energy costs. Energy costs are lowest when energy generation is abundant and produced through coal, natural gas, and nuclear power plants; it's simply supply and demand. This was the clear theme House Republicans emphasized throughout the week while questioning agency leaders from the Department of Environmental Protection (DEP), the Department of Conservation and Natural Resources (DCNR), the Public Utilities Commission (PUC), and the Department of Labor and Industry (L&I).

During week two, House Republican Appropriations Committee members pressed DEP on the need to expand baseload energy production from coal, natural gas, and nuclear power to decrease energy costs. Committee members asked DEP about the implementation of permitting reform provisions enacted as part of the FY 2025-26 budget, how the Commonwealth can create certainty in the permitting process moving forward, and shared concerns about grid reliability. With DCNR, Members inquired about the proposal to shift operating costs from the Oil and Gas Lease Fund to the General Fund. Members shared that they believe natural gas development can be done safely and sustainably under state lands without surface impacts to provide needed revenue.

With the PUC, Members focused questions on keeping energy prices affordable and on the need for increased energy generation, while pushing the PUC to support policies in pursuit of these goals. With L&I, Members focused questions on investing in career and technical training, especially as it relates to the energy industry.

During hearings with the Office of the Attorney General, public safety was the focus, with concerns raised about support for law enforcement. Republican committee members also expressed concerns that the Governor's proposal fails to sufficiently fund the Office of the Attorney General for a second year in a row. Attorney General Dave Sunday shared that his office needs more funding to prosecute and combat human trafficking in Pennsylvania, among other functions of his office. Similar views were shared by the Judiciary, as the Governor's budget proposes funding at a lower level than the Judiciary's submitted request.

The Department of Human Services (DHS) accounts for 42% of the Governor's proposal, and PreK-12 Education Spending under the Pennsylvania Department of Education (PDE) accounts for another 36%. Both agencies appeared before the Appropriations Committee this week. The House Republican Caucus championed many program integrity measures included in the current-year budget, leading Members to inquire with DHS on how those reforms are working. Members also asked what DHS is doing to help improve access to healthcare in rural Pennsylvania, while keeping costs contained and in line with federal laws. Additionally, Members discussed the need to more accurately project future costs for the Commonwealth. With PDE, committee members addressed the proposed PreK-12 spending increase, investments in career and technical education, accountability within grant programs, cell phone use in schools, and the planned closure of seven Penn State branch campuses.

Budget Hearings conclude next week with PennDOT, State Police, the Department of Revenue, Pennsylvania's state system and state-related higher education institutions, and the Governor's Budget Office.

In the News:

PA Environment Digest Blog: DCNR House Budget Hearing: House Republicans Proposed More Shale Drilling In State Forest Land, Under State Parks; Gas Drilling Has Caused The Loss Of 30,000 Acres Of Core State Forest Land So Far (Reps. Barton & Davanzo).

Vote Beat: Pennsylvania secretary of the commonwealth answers questions on elections at House hearing. (Reps. Barton & Flood).

WESA: Pa. schools use new state dollars to expand full-day kindergarten and reduce class sizes (Rep. Brown).

CapitolWire: Concerns raised about Pennsylvania's ability to meet building trades workforce needs (Reps. Kail & Struzzi).

Herald-Standard: Lawmaker calls for state audit, investigation of Fay-Penn use of public funds (Rep. Krupa).

CHNI: L&I: Fraud falling in Pa.'s unemployment compensation system (Rep. Kutz).

KYW: Pa. education secretary says positive signs as state continues to put more money in education (Rep. Marcell).

Tri-State Alert: Appropriation hearings still continue in Harrisburg for the budget (Rep. Reichard).

Marcellus Drilling News: PA Republicans Propose More Drilling On and Under State-Owned Land

WESA: Pa. Human Services, Education officials defend increased funding in budget hearings

Attorney General Key Takeaways:

- For the OAG, the Governor is proposing \$171.5 million in General Fund spending in Fiscal Year 2026-27. This represents an overall increase of \$20.2 million, or 13.3%, over the current fiscal year.
 - Funding in the Governor's budget proposal is still \$19.2 million less than OAG requested for the upcoming fiscal year. House Republicans expressed concern about the ability of the OAG to perform its duties with the Governor again proposing less funding than requested.
- The OAG is partially funded by restricted accounts. The OAG is capped at \$2.5 million in funds recovered through settlements in Consumer Protection, which brought in \$102 million last year. AG Sunday would like to see the cap moved to \$5 million to fund additional operations within his office.
- During the hearing, AG Sunday shared that OAG has fewer attorneys than the Governor's Office of General Counsel despite OAG's broad responsibilities and important law enforcement functions.
- The AG echoed the committee's concerns about human trafficking in Pennsylvania and discussed actionable ways to combat this scourge in the Commonwealth.
 - AG Sunday shared that his office is seeking additional tools not included in the Governor's budget that would enhance OAG's ability to prosecute human traffickers.
 - With the high-profile events scheduled across the Commonwealth, Members shared that they are concerned that human trafficking may increase, a sentiment shared by AG Sunday.
- Members shared their concerns with the recruitment and retention of law enforcement personnel across the board and shared their commitment to work with AG Sunday to end this looming crisis.
- Republican members were pleased to hear from AG Sunday that he prioritizes working with County District Attorneys and supporting their offices when they require training or assistance.
- The committee was also pleased to hear the success of the Safe2Say Program in reducing violence in our schools. Members expressed concern that the Governor's proposal does not include enough funding to run the program adequately.

DEP Key Takeaways:

- The Governor is proposing total General Fund spending of \$291.0 million, an overall increase of \$44.4 million, or 18.0%, for DEP.
- House Republicans believe affordability begins with energy costs. Committee members pressed DEP on the need to embrace coal, natural gas, and nuclear base load power generation.
- House Republicans noted the success they have seen with the expansion of the Streamlining Permits for Economic Expansion and Development (SPEED) program.
 - The committee was informed that DEP is working closely with the Governor's Office of Transformation and Opportunity (OTO) to implement legislatively required reforms and tracking.
- Members inquired if the \$100 million "Federal Response Fund" would be used for DEP. Secretary Shirley indicated this fund would be discretionary, and could not confirm with certainty that the funding would be directed to DEP.
- Data center development presents Pennsylvania with tremendous economic opportunities. These opportunities also present some challenges that must be addressed.
 - Members shared that they want to see permitting reform continue to move in a positive direction and not unduly delay projects.
 - Anticipated development also means that the Commonwealth will need to increase the supply of baseload power by supporting ALL forms of energy generation.

DCNR Key Takeaways:

- The Governor is proposing total General Fund spending of \$182.8 million, which is an overall increase of \$56.1 million, or 44.3%, for DCNR.
 - Part of this increase is due in part to shifting some operational funding from the Oil and Gas Lease Fund back to the General Fund.
- House Republicans expressed concerns that DCNR is not working effectively with the energy industry to ensure the Oil and Gas Lease Fund remains a viable funding stream for the department.
 - DCNR claims the moratorium on new oil and gas leases on state lands is not hindering the fund's growth; however, House Republicans believe DCNR should explore additional drilling options.

Judiciary Key Takeaways:

- The Governor is proposing a total General Fund spending amount of \$500.2 million for the Judiciary in Fiscal Year 2026-27, an overall increase of \$46.7 million, or 10.3%, over the current fiscal year.
 - The Judicial Branch also receives part of its funding through various fees, which are not included in General Fund spending support.
- The Judiciary began its budget hearing by stating that it requested an increase of \$64 million for FY 2026-27, meaning the Governor's proposal falls \$18 million short of the Judiciary's full budget request.
 - The justices claim this request represents the true cost of meeting the courts' obligations.
- House Republicans learned that Treatment Courts are working effectively in providing second-chance opportunities for mental health and substance abuse-related offenses.
 - Overall, treatment courts continue to show improved success year after year.
- Committee members also shared concerns that the Governor's recreational marijuana proposal won't result in any cost savings for the Judicial Branch, as the Governor has said.
 - The justices confirmed that the Judiciary has not provided an official estimate to the Governor's Office of the costs or cost savings associated with the proposal to legalize recreational marijuana.
- The Judiciary was asked to provide an update on cybersecurity across state and county computer systems. Many County Courts still require upgrades, but several Cybersecurity Regional Summits planned for this spring will assist with training.
- AI has become more prevalent in all areas of life, including its use in legal documents. House Republicans were informed that AI is not generally used by employees in the Court system.

L&I Key Takeaways:

- The Governor is proposing to spend a total of \$103.3 million from the General Fund for the Department of Labor and Industry in Fiscal Year 2026-27, an overall increase of \$6.5 million, or 6.8%, over the current fiscal year.
- House Republicans led the hearing by advocating for L&I to work with the energy industry and invest in training programs to help the energy industry grow.
- Broadband deployment in Pennsylvania remains delayed due to L&I's refusal to recognize the appropriate classification for the telecommunications workers who will install broadband infrastructure throughout the state.
 - Secretary Walker again refused to comment on the rationale for this decision and pointed to pending litigation as to why the department will not offer comment again this year.
- Stopping improper payments and cracking down on fraud are important elements in providing for efficient government. House Republicans again pressed the department to keep fraud prevention a top priority for the department so that costs can be reduced for Pennsylvania's residents and employers.
- House Republicans also asked for information on how the department awards grants under the Schools-to-Work program.
 - Members were informed that processes are in place, but the department offered few details. House Republicans pressed L&I to ensure the awards are free from political influence.
- Members learned that the Office of Vocational Rehabilitation (OVR) is seeking to reduce the waiting list for services to workers with disabilities, including those that are blind, deaf, and hard-of-hearing.
- The Governor is once again proposing to increase the minimum wage to \$15 per hour. House Republicans confirmed from L&I that the number of workers earning the current minimum wage has decreased by almost 200,000 since last year. This shows the private sector is raising wages without government mandates.

PDE Key Takeaways:

- The Governor is proposing to spend \$18.92 billion in General Fund dollars for Fiscal Year 2026-27 on PreK-12 Education, an overall increase of \$884 million, or 4.4%, over the current fiscal year.
 - PreK-12 spending represents nearly 36% of the state budget.
 - Of the \$18.92 billion in PDE spending, approximately \$12 billion is within the Basic Education Funding, Special Education Funding, and Ready to Learn Block Grant line items, which drive out funds to school districts through statutory formulas.
- When asked by House Republicans about the 2023 Commonwealth Court ruling on school funding adequacy, Secretary Rowe would not say that it created a mandate for education spending. When later pressed, she acknowledged that she believes that "adequacy gap" funding, which is distributed through the Ready to Learn Block Grant, is constitutionally required and must be planned for.
 - It is notable that the Governor's budget shows zero increase in adequacy funding in future years.
 - Secretary Rowe appeared to create a significant contradiction by claiming that only legally required spending is included in future year projections.
 - Not including adequacy gap funding in future years is, at best, dishonest budgeting.
 - The Governor's budget proposal continues to address the "adequacy gap" as determined by the majority report of the Basic Education Funding Commission, but it does not offer a vision of what success looks like under this funding.
 - Secretary Rowe once again affirmed that there is not a direct correlation between increased education funding and improved test scores.
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PDE Key Takeaways (continued):

- Members also shared concerns that rural school districts are receiving less than urban and suburban districts. Secretary Rowe acknowledged that some rural school districts do receive lower amounts of funding than other areas of the Commonwealth through the Ready to Learn Block Grant.
- House Republicans were informed that inspections are in place to prevent the type of childcare center fraud discovered in Minnesota in 2025.
- Members learned that plans to close Penn State branch campuses have not been fully submitted to PDE, but they continue to work toward a final plan to close or transition seven branch campuses.
- Career and Technical Education (CTE) is essential to growing our economy. Members pledged to support efforts to increase the availability and effectiveness of CTE programs.
- Cellphones in the classroom have become an issue facing all schools in Pennsylvania. Members shared their desire to see PDE engage with school districts to reduce cellphone use, especially among grade school students.
- Dual Enrollment programs offer students the opportunity to earn college credits while still in high school. Members learned that the current \$7 million program awarded funding to 15 out of 25 applicants.

DHS Key Takeaways:

- The Governor's FY 2026-27 Executive Budget contains \$21.94 billion in General Fund spending for DHS, accounting for over 42% of the Governor's entire General Fund proposal. This represents an overall increase of \$1.36 billion, or 6.6%, over the current fiscal year.
 - \$1.07 billion, or 79%, of the increase is attributable to the Medical Assistance – Capitation and Medical Assistance – Community HealthChoices line items
 - Thanks to the federal government, we are receiving an increase in the blended FMAP rate for FY 2026-27, which will reduce the projected burden on state taxpayers by \$570 million.
- The Governor's budget projects a future budget growth rate of 0.78% for DHS, whereas recent history indicates an average annual growth rate of 5.5%. Secretary Arkoosh could not explain why the projections are so low and directed Members to the Governor's Budget Office.
- House Republicans expressed concerns about healthcare access in rural Pennsylvania.
 - Members noted that the One Big Beautiful Bill (HR 1), signed by President Trump, included \$193 million in funding for rural healthcare, a portion of which is being used for maternal health.
- Secretary Arkoosh informed the Committee that Pennsylvania's SNAP error rate is projected to be below 6%, which means the Commonwealth may not be required to pay the penalty included in HR 1.
 - House Republican members corrected the record to note that work requirements for certain benefits, like SNAP, also include volunteer options.
 - Members also clarified that the process for confirming employment or volunteer hours for the required SNAP recipients can only be sent via mail or fax; an online option is still under development.
 - Secretary Arkoosh was not able to determine the full impact of the Commonwealth's mail vendor's monthlong delivery lapse and its potential impact on the SNAP error rate. However, the department has incurred at least \$250,000 in expenses related to this issue.
- Part of the reason healthcare costs continue to rise is due to litigation. Members pressed DHS to look at the potential impacts of tort reform in Pennsylvania on costs, especially in maternal healthcare.
 - Because of a recent decision rendered by the Democrat-controlled state Supreme Court, rural hospitals can be sued in counties outside their service areas known for excessive damage awards.

DHS Key Takeaways (continued):

- Committee members were skeptical of a program designed to use Medicaid dollars to pay for housing for recently released inmates, in addition to other household items like pots and pans and bedding.
- House Republicans noted that DHS claims the Governor's minimum wage proposal will have minimal impact. The reason is that by 2027, the market wage will already meet and exceed the proposed \$15 per hour, meaning the market, not the government, will naturally provide for increased wages.

DOS Key Takeaways:

- The Governor is proposing a General Fund spending total of \$44.4 million for Fiscal Year 2026-27, an overall increase of \$1.3 million, or 2.9%, over the current fiscal year.
- Election Integrity should be a bipartisan issue. House Republicans asked several questions to Secretary Schmidt on how DOS is taking election integrity seriously.
 - Members learned that the SURE system, originally scheduled for completion by 2024, remains behind schedule and will not be implemented in 2026; no target date was provided.
 - Secretary Schmidt indicated he believes PennDOT already screens driver's license applicants for citizenship before presenting an opt-out screen for automatic voter registration.
- House Republicans once again pressed DOS to detail how much money was saved as a result of changes to automatic voter registration unilaterally implemented by the Shapiro Administration. DOS was unable to provide an amount, despite promises of efficiency in the Governor's announcement.
- In the current fiscal year, DOS is projected to spend \$1 million on special elections, and \$400,000 is proposed for FY 2026-27. Since 2017, Pennsylvania has spent \$4.4 million on special elections.
 - Secretary Schmidt did not provide an opinion when asked if this is an appropriate use of funds, given that these elections could be held during regularly scheduled Primary or General Elections.
- Members inquired about the Governor's proposal to add \$1.4 million in Voter Education funds, an increase of nearly 250%. House Republicans expressed concern and sought to ensure that such funds would not be used in a partisan or geographically biased manner.
- In addition to administering elections, DOS also issues professional licenses.
 - The Governor's proposal included a promise to update the professional licensure process. Members learned that DOS is working to integrate the education and licensing process so graduates with a professional degree can meet their licensing requirements faster.
 - Members also asked for an update on the ability to move some licenses over to less onerous certificates. Secretary Schmidt indicated this will be included in a report that will be released soon.

PUC Key Takeaways:

- While the PUC is not funded through General Fund tax dollars, it is responsible for regulating industries that are very important to Pennsylvania's overall economic climate.
- The PUC repeatedly stated that energy generation should be diverse and not too reliant on one single source of power.
- Affordability starts with low energy costs. Energy costs are lowest when energy generation is abundant and produced through coal, natural gas, and nuclear power plants; it's simply supply and demand.
 - Members asked the PUC why electricity costs have risen. Chairman DeFrank noted that generation costs have driven consumer rates, substantially impacted by the loss of base load generation.
 - Chairman DeFrank noted Pennsylvania is effectively sustaining the PJM grid, given that surrounding states have adopted policies that restrict generation from coal and natural gas.
 - The Commission also agreed that PJM is often unfairly blamed for energy prices and that increased generation is needed to bring them down.
 - The loss of additional coal-fired power plants or other base load generation in Pennsylvania would cause energy prices to rise.

PUC Key Takeaways (continued):

- House Republicans showed through their questions that the Governor's PA Reliable Energy Sustainability Standard (PRESS) and PA Climate Emissions Reduction Act (PACER) plans are essentially a carbon tax. Carbon taxes have been proven to increase energy costs.
- Data centers present Pennsylvania with a tremendous opportunity for economic growth. Members asked the PUC how the Large Load Model Tariff might impact Data Center development.
 - The PUC said the Tariff would require data centers to make contributions to Utility Hardship Funds if they are not connected to a dedicated generation source.

Notable Q&A:



Rep. Josh Kail explains that the Governor's PRESS and PACER plans are essentially carbon taxes that will raise the consumer cost of electricity.

Rep. Kristin Marcell discusses how PJM is often blamed for electricity costs, but state policies are dictating energy generation, the main driver of energy costs.



Chairman Jim Struzzi wraps up the hearing by discussing natural gas development with DCNR and asks DEP for an update on permitting reform outside of the SPEED Program.

Rep. Chad Reichard confirms with L&I that fewer Pennsylvanians are earning minimum wage year over year.



Rep. Charity Krupa confirmed that market forces are raising the minimum wage without the need for legislation or the governor's three-time failed proposal.

Rep. Zach Mako asks why the governor's budget shows a 0.78% growth rate for DHS in future years, when history shows DHS spending increases on average by 5.5%.



Rep. Jamie Barton asks PDE whether the 2023 Commonwealth Court case mandates that the Commonwealth spend more money on education.

AG Sunday and Rep. Marla Brown discuss the lack of funding in the Governor's budget for combatting human trafficking.



Rep. Eric Davanzo asks Secretary Arkoosh to explain why she feels Medicaid funding should be available to help recently released inmates pay for housing and household expenses.