



# WISCONSIN POLICY FORUM

For Immediate Release

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## **WPF: Proposed State Budget Addresses Several Investment Needs But Taps Reserves to Do So** *Bill Would Increase State Spending More Than Revenues*

MADISON AND MILWAUKEE—Gov. Tony Evers' proposed 2019-21 state budget proposes a breadth of new spending to address longstanding priorities, but uses several revenue increases and a drawdown of state reserves to help finance the cost. The key question, according to an analysis by the nonpartisan, independent Wisconsin Policy Forum (WPF), is “whether the proposed budget strikes the correct balance between needed re-investment and prudent financing.”

In the organization's first “State Budget Brief,” WPF researchers note the state is projected to end its current fiscal year on June 30 with a balance of \$691.5 million in its main fund, also known as the general fund, as well as \$320.1 million in its separate rainy day fund. These figures represent some of the strongest reserves the state has achieved over the past two decades, although they fall well below the national median. By the end of the two-year cycle, however, the proposed budget would spend most of that general fund balance.

The report notes that in the first year, the governor's budget would take in substantially more in general purpose revenue (GPR) than it spends, raising the general fund ending balance to \$937.9 million. In the second year, however, the budget proposes spending \$832.6 million more than projected revenues. The state would close the year with just \$105.3 million in the general fund, the lowest amount since 2011. The estimated balance would cover roughly two days of average state spending, WPF researchers conclude.

The report notes that given divided party control, the governor's proposal likely will not be adopted in its current form. Nevertheless, the brief identifies and discusses seven key issues likely to dominate budget deliberations, including:

- **Taxes:** The governor's budget includes a two-year, \$688.7 million net increase in collections of GPR income, sales, and excise taxes. It proposes a 10% income tax cut for middle- and

lower-income taxpayers, as well as increases in other tax credits for low-wage workers. At the same time, the budget would raise corporate or individual income collections by substantially more over the next two years, largely by limiting a tax credit for manufacturing and restricting capital gains exclusions. The report notes legislative Republicans passed their own version of a middle-class tax cut earlier this year, which the governor vetoed (and which also would have been paid for by drawing down reserves).

- **Education:** The governor would raise GPR spending on K-12 education and the Department of Public Instruction by \$1.59 billion over two years, including \$618.8 million more in general school aids. Equally noteworthy, according to WPF researchers, are his proposed changes to the school aids formula and increases in school revenue limits to provide more money to districts, as opposed to additional “per pupil” aid that does not account for district wealth. Both of those proposals would benefit poorer districts.
- **Medicaid:** The governor proposes spending \$329 million more in GPR within the Department of Health Services to help increase hospital reimbursements, expand dental care, and raise funding for counties for crisis intervention services. The report notes that while the financing mechanism for those moves (expansion of Medicaid under the federal Affordable Care Act) is likely to receive the most attention, the policy objectives associated with the proposals also need to be considered.
- **Corrections:** The brief observes that the state’s growing prison population, projected to hit more than 25,000 inmates by 2021, gives state leaders little choice but to increase spending, at least in the short-term. The budget would provide \$151 million in GPR for new Corrections spending over the next two years, primarily for additional prison staff, overtime, and inmate health care costs, and would also provide \$259 million in funding for additional corrections building projects.
- **University of Wisconsin System:** The governor would provide \$127 million more in GPR for the UW System while retaining a freeze on in-state undergraduate tuition. The report notes the funding increase follows a recent trend of slowly increasing GPR support for the UW, although state funding would remain below the levels seen a decade ago
- **Transportation:** The analysis lays out the conflict between the state’s aging infrastructure and lagging revenues from sources such as vehicle registration fees and the gas tax. The governor would raise spending on transportation from all sources by \$537.7 million over the next two years, in part by adopting an 8-cent gas tax increase (the first in 13 years). The budget also reduces transportation borrowing to the lowest amount in nearly two decades.
- **Local Aids:** The governor proposes increasing state aids to local governments and allowing them to raise property taxes by at least 2% instead of limiting property tax increases in general to the rate of new construction. WPF researchers note that while this may provide some short-term relief to local governments, it largely would continue Wisconsin’s reliance on the property tax to fund local services which is far greater than other Midwest states.

The report concludes by noting that the governor’s key spending proposals reflect a favorable economy and a desire to address what he deems to be years of under-investment in priority areas. It asserts that “in deciding the budget, the state must weigh these benefits and priorities against their cost,” including the additional taxes and proposed drawdown of state reserves.

“On the one hand, the existence of a healthier surplus...affords the state an opportunity to address some of its outstanding needs. On the other, no economic expansion will last indefinitely. If the state

cannot sustain the tax and spending levels it sets now, then doing so will prove even more difficult when growth slows or recession occurs,” the report states.

The “State Budget Brief” continues the legacy of WPF’s predecessor organizations: The Wisconsin Taxpayers Alliance, which analyzed state and local finances in its *Focus* and *The Wisconsin Taxpayer* publications and the Public Policy Forum, which published detailed analyses of Milwaukee city and county and Milwaukee Public Schools budgets. The complete report can be downloaded [here](#).