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Ready for Recession?

State Better Prepared for Downturn than in 2007, Though Trouble Still Lies Ahead

Facing an economic downturn of stunning speed and unknown length, the state of Wisconsin's finances are much stronger now than at the onset of the last recession in 2007, according to a new report from the independent, nonpartisan Wisconsin Policy Forum.

Though difficult and painful choices loom, the state can draw on supports that were absent or depleted when it entered the last recession. These include a relatively strong unemployment insurance fund (though one that will still be severely challenged by an historic level of claims), bolstered cash balances that can help cover the state's short-term bills, and improvements in other basic measures of fiscal strength. The state's reserves will be essential since the economic slowdown will both diminish state tax collections and increase spending on jobless benefits, social services, and emergency needs.

"While policymakers have debated options for using those growing balances, our organization has repeatedly stressed the value of maintaining them as a cushion against unexpected economic shocks," the report reads.

The report notes that for all the state's progress, it is no better than average among all states in total preparedness and like other states will need federal aid to address the challenges facing its citizens. Wisconsin still ranks behind most states on measures such as debt per capita and the total it has in its general and rainy day fund reserves as a share of expenditures. And in 2018, the Mercatus Center at George Mason University ranked the state 26th in its overall fiscal ranking.

Still, with the state's reserves at nearly 10% of its General Purpose Revenues (GPR), Wisconsin is much better positioned today than in 2007, when its GPR reserves were just under 1%. As the report notes, these funds will be tested and potentially depleted by the decreased tax revenues and increased social services spending that will occur in the months ahead – depending on the length of the economic crisis and the degree of federal government aid, as well as the potential need for more state resources to be channeled to local governments.

Examining the state's Comprehensive Annual Financial Report and other statements, the latest issue of *The Wisconsin Taxpayer* finds:

- The state's unemployment fund made crucial gains in the past decade. As of June 2019, the fund had slightly more than $2 billion, compared to $783.9 million in June 2007 just before the last recession. Despite the massive improvement, a recent U.S. Department of Labor report found Wisconsin ranked just 30th among states on a key measure of readiness for a recession.
- Boosted by gains in the unemployment fund, the general and rainy day funds, and the University of Wisconsin System, the state has increased its ratios of short-term assets to liabilities. Though there will still be challenges, improvement in its so-called "cash ratio" means that, taken as a whole, state government has more cash and other short-term assets available to cover its short-term bills than at any point since at least 2002.

- The state's total yearly revenues now more easily cover its expenses than they did from 2002 to 2011. The gains in its "operating ratio" give the state more ability to absorb a hit to its revenues or an increase in spending because of the current crisis.
- Overall state debt stands at $12.6 billion as of December 2019, down 11.1% from its peak in 2012 even before adjusting for inflation, according to figures from the state's annual disclosures to federal securities regulators. In recent years, the state has also lowered debt payments as a share of its annual GPR spending.
- Debt used to finance transportation projects remains at relatively high levels but has moderated somewhat in recent years.

The analysis provides at least some small degree of reassurance about the state's financial position as it seeks to navigate the huge financial challenges from the COVID-19 crisis. When the last recession arrived, Wisconsin was in many ways among the least prepared states in the nation. Today at least, the state is average on most measures and its fully funded pension system is actually a national leader. These gains will evaporate quickly but will be helpful in cushioning at least some of the heavy financial blows in the months to come.

This report reflects state and federal news available as of the morning of March 23. Go here to read "Ready for Recession? A Look at State Finances Amid Uncertainty."