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**High-Stakes Choices on Spending, Pandemic Recovery Define 2021-23 State Budget**  
*Evers seeks robust spending on education, economy, but bipartisan agreement may be elusive*

As lawmakers begin their deliberations over the next state budget, they must grapple with the myriad ways in which COVID-19 has upended state programs, triggering sizable enrollment shifts in K-12 schools, Medicaid, jobless claims, and prison populations, according to a new report from the Wisconsin Policy Forum.

To address the pandemic's stark effects, Gov. Tony Evers proposes in his 2021-23 budget bill to bolster spending on education, economic development, social services, and infrastructure. Though many of the Democratic governor's spending and tax proposals will likely falter in the Republican-controlled Legislature, both sides must find a way to confront many of the same financial forces.

For example, since the end of 2019, Medicaid enrollments have risen by 211,000 recipients, or more than twice as many as would be added under the governor's proposed expansion of the program.

Notably, the state is in far better financial position today than was expected only months ago, and two massive rounds of federal aid are on the way – the Consolidated Appropriations Act approved in December and the American Rescue Plan Act being finalized this week. Yet the question of how to disburse the federal dollars could create challenges for policymakers, and some uncertainty remains about the rules and timelines for the use of the aid as well as the trajectory of state tax collections.

Meanwhile, budget stakeholders including businesses, health care institutions, universities, schools, and local governments are confronting their own pandemic-related challenges.

“Given the stakes of the present moment,” the brief finds, “the budget decisions made by state officials will reverberate far into the future.”

The Forum's state budget brief provides an overview of Evers' proposal while scrutinizing key areas of the budget that require attention regardless of what state lawmakers ultimately approve and send to the governor's desk.

Evers' 2021-23 budget recommends tax cuts targeted to low-income families and caregivers; a surge of state spending; and additional revenues for local governments and schools. Overall, the proposed budget would increase net spending in the state's main fund at the fastest rate in at least a decade.

The governor seeks to pay for these initiatives with federal dollars from Medicaid expansion, and tax increases primarily on high earners and certain manufacturers that collectively would be the largest in 12 years – the tax increases would net more than \$1 billion over the course of two years after accounting for the tax cuts. He also seeks what is projected to be the largest drawdown of state reserves in decades, though the state would maintain a record rainy day fund balance.

The budget brief identifies six keys that are likely to influence the upcoming debate:

- **A brighter outlook:** So far, the state's fiscal outlook has significantly improved from the early days of the pandemic, as targeted state spending cuts, strong corporate tax collections, and

billions in federal relief funds have helped alleviate spending pressures. Yet there is still much that is unknown or may change, the report finds.

- **Pandemic's impact on safety net, prisons, schools:** The economic fallout from the pandemic caused jobless claims and Medicaid enrollment to soar, with the latter seeing an increase of nearly 18% from December 2019 to December 2020. Meanwhile, state prison populations declined 16.9% from mid-2019 to February 2021, and school enrollment decreased by about 4% from the 2019-20 to the 2020-21 school year. Policymakers will have to wrestle with these impacts – from obvious effects on families to subtler ones on school funding formulas – as they debate the state budget.
- **Educational equity:** In the past year the pandemic raised concerns about learning loss and increased mental health challenges in K-12 schools and widening disparities in educational outcomes. It also imposed significant, unanticipated fiscal pressures on school districts. Evers' budget proposes large increases in discretionary state aid to districts and new ways of distributing aid that seek to reduce disparities. The brief suggests that both the amount of state aid and the strategies for distributing it merit careful consideration.
- **Economic recovery:** Evers' proposals to help Wisconsin's economy recover from the COVID-19 pandemic, or address problems created or highlighted by the crisis, include a massive increase in state spending on economic development, targeted largely to assist small businesses. The governor also calls for expanding broadband Internet access for underserved areas, and for what would be the largest state spending boost for higher education in two decades. Whether lawmakers agree with these specifics, they may find common ground on the need to encourage entrepreneurship, expand broadband access and ensure the state's higher education system remains competitive.
- **The public health picture:** The governor proposes to invest more than \$450 million in public health programs and service enhancements, many of which are relevant to the pandemic. These proposals will likely be controversial with some lawmakers as they are tied to Evers' proposal to expand Medicaid. However, given the historic public health challenges from COVID-19, lawmakers may wish to seek consensus on the types of public health investments that are needed before debating how to pay for them.
- **Keep it local:** As local governments cope with the effects of the pandemic, the governor's budget would give counties and municipalities greater ability to increase local property and sales tax revenues while also boosting state payments to them. Ultimately lawmakers must determine if they agree that local governments need more resources. If so, a key question is whether they should come from additional state aids, greater local revenue authority, federal funds, or some combination.

Ultimately, the Forum hopes this brief will provide a modest contribution to what is likely to be a contentious – and highly consequential – budget debate.

“Our hope is to provide greater understanding of the state's financial picture,” the report says, “and to promote thoughtful deliberations as state policymakers wrestle with thorny budget decisions at a critical moment in the state's history.”

[Go here to read our 2021-23 state budget brief.](#)

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