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INTRODUCTION

The state of Wisconsin is experiencing a crisis unlike any in generations, with 6,500 dead so far from the COVID-19 pandemic, unemployment still elevated, and many small businesses in dire circumstances. The pandemic slowed state tax collections, sent hundreds of thousands onto Medicaid health care and unemployment programs, cut prison populations, and lowered public school enrollments. Yet despite these sizable challenges, the state’s budget has held up relatively well and billions of dollars more in federal relief is coming.

In response, Gov. Tony Evers’ proposed 2021-23 state budget recommends tax cuts targeted to low income families and caregivers; a surge in state spending on education, social services, and pandemic relief; and additional revenues for local governments and schools. He proposes to pay for these initiatives with federal dollars from Medicaid expansion, a combination of tax increases that collectively would be the largest in 12 years, and what is projected to be the largest drawdown of state reserves in decades, though the state would still maintain a record rainy day fund balance.

The proposal would deliver a substantial increase in aid to families, schools, local governments, and affected businesses in the short term amid the pandemic, which has created extraordinary needs. It also would mean higher taxes for upper income individuals and some businesses and fewer resources available to the state over the longer term to address lingering challenges from COVID-19.

The governor says the hardship of the moment calls for a comprehensive response from the state. The Legislature’s Republican leaders in turn have already criticized the elevated spending and additional taxes, saying these costs will impose a different sort of burden on the state. These political differences may add to the difficulties within the state budget process.

Yet so far, the state’s financial picture has generally lightened from the early days of the pandemic, as federal relief funds have helped alleviate spending pressures and vaccines have provided hope for the future. Much is unknown or may change. But the massive infusion of additional federal aid being approved this week could absorb much of the remaining difficulties— one early estimate placed it above $5 billion for state and local governments in Wisconsin.

In this report, we seek to explain the governor’s proposal in its broad sweep but also hone in on the budget fundamentals that will have to be dealt with even if GOP lawmakers reject key provisions of the Evers bill. Our hope is to provide greater understanding of the state’s financial picture and to promote thoughtful deliberations as policymakers wrestle with thorny budget decisions at a critical moment in the state’s history.
2021-2023 BUDGET SYNOPSIS

Core state spending

The proposed operating budget would increase net spending in the state’s main fund at the fastest rate in at least a decade. However, much of the growth in net appropriations for 2022 reflects proposals that the Legislature has rejected in the past and is unlikely to approve now.

For gross appropriations, the budget proposes spending of general purpose revenue (GPR - see WPF’s budget glossary for more definitions), which is the state’s most flexible form of revenue and comes mainly from state taxes, of $20.7 billion in fiscal year 2022 (which runs from July 1, 2021 to June 30, 2022 – all references to years are fiscal years unless otherwise noted). This is an increase of 7.3% over base levels. For 2023, the budget proposes GPR spending totaling $21.1 billion, a 2% increase.

Using income and sales taxes and other GPR revenues, the state’s general fund supports major programs such as aid to schools and Medicaid health coverage for the needy. Overall, state GPR spending would rise $3.2 billion over the two-year budget, with half of that going to K-12 schools. Substantial increases also would go to Medicaid as well as the Wisconsin Economic Development Corporation to help businesses and communities affected by the pandemic (see Figure 1).

Core state taxes

The governor proposes substantial increases in income and capital gains taxes affecting upper-income earners and manufacturers and changes to bring state tax rules in line with the federal tax code (See Key #1). In addition, he is seeking tax cuts for other groups and low-income residents with a smaller, but still significant, new tax credit for those providing long-term care to family members, notable expansions of the Earned Income Tax Credit (EITC) and Homestead Credit, and a supplement of the federal Work Opportunity Tax Credit. However, the Legislature has rejected similar tax increases and expansions of the EITC and Homestead credits previously.
As shown in Figure 2, state general fund tax collections, such as those on income, sales, and corporations, have held up relatively well during the pandemic but in 2022 are projected to grow at the slowest rate since 2014. If no changes are made to state tax laws, they are projected to increase by $181 million, or 1%, before picking up and growing $833.3 million, or 4.6%, in 2023. Under the governor’s proposal, general fund tax collections would rise more quickly by an estimated $807.5 million (4.5%) in 2022 and $843.9 million (4.5%) in 2023.

As noted above, the governor’s budget would both raise and lower taxes on state residents and businesses, but the net effect would be a revenue increase of just over $1 billion over the course of two years – the largest tax increase since the 2009-11 budget (see Figure 3). The decreases include a new tax credit for family caregivers ($202.9 million), the EITC expansion ($148.3 million), and raising the maximum income to qualify for the Homestead credit to $30,000 ($68.9 million).

The changes that would bring in more tax revenue include: bringing the state tax code more in line with the federal Internal Revenue Code ($540.1 million); limiting to $300,000 in income the amount that the owners of manufacturing firms can claim under a specific credit ($487.4 million); and
limiting the capital gains exclusion to single filers with adjusted gross income below $400,000 and married joint filers below $533,000 ($350.5 million). The governor’s recreational marijuana proposal – which top Republican legislators have already dismissed – would generate tax revenues starting in 2023.

**Property taxes would rise**

Under the governor’s budget, property taxes are projected to rise about 1.5% annually on the typical home in Wisconsin. In addition to delivering a huge infusion of state aid to schools (and to a lesser extent other local governments), the budget would pave the way for more local tax revenue by loosening state limits on county and municipal property tax levies as well as the revenues school districts can raise from combined local property taxes and state aid (see Keys #3 and #6). GOP lawmakers nixed or rewrote similar proposals by the governor two years ago.

The state has kept property taxes under tight control for the past decade, but led by K-12 school districts they have risen more quickly the past two years. That is due in part to school revenue limits being loosened in the current 2019-21 budget, but also to a rise in successful school referenda, a trend that could continue if there is no action on school funding from state officials.

**The “All Funds” budget**

The proposed operating budget also calls for the biggest increase in state spending across all sources of funding in at least a decade. That reflects, in part, the increase in federal funding that would come from the governor’s proposed expansion of Medicaid coverage (see Key #2).

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**MARIJUANA WOULD BE LEGALIZED**

Though the plan is unlikely to win support from lawmakers, the governor’s budget includes a proposal to legalize recreational and medical marijuana. If approved, the proposal would add Wisconsin to the ranks of 15 other states – including neighbors Illinois and Michigan – and Washington D.C. in allowing marijuana to be consumed recreationally. Additionally, the proposal includes measures to reduce or repeal sentences related to previous nonviolent drug convictions.

Evers’ proposal would treat marijuana in a similar fashion to alcohol and place it under the regulation of the Department of Revenue (DOR) and the Department of Agriculture, Trade, and Consumer Protection (DATCP). Unlike previous proposals in the state, this one would not allow for vertical integration: marijuana producers would be required to sell their product to processors, not directly to retailers or distributors, and with the exception of certain small businesses no retailer could produce, process, or distribute marijuana.

Notably, the Evers administration projects that a combination of marijuana taxes would produce $165.8 million in state revenue in fiscal year 2023 – effectively the first “full” year of implementation. Evers proposes a 15% excise tax on marijuana sold by producers to processors, which would be similar to the rates in other states such as Nevada, Colorado, and California. Additionally, a 10% sales tax would be added on top of the existing 5% statewide rate for sales of recreational marijuana (the bill excludes medical marijuana from sales and excise taxes). Counties with an existing sales tax of 0.5% in place would collect additional revenue.

For comparison, Illinois – a state with a lower excise tax but far higher sales taxes on recreational marijuana, and more than double Wisconsin’s population – likely collected around $175 million in revenue in its first year of recreational marijuana implementation.

The administration would use the revenues to fund priorities such as rural schools and grants to address racial disparities. While the projections for these revenues might appear optimistic, quite a bit would depend on the speed of implementation. In any case, the strong opposition of many lawmakers to legalization likely makes it a moot point.
This “all funds” total includes GPR; federal money (FED); segregated revenues (SEG), such as the gas tax and hunting and fishing licenses that flow into stand-alone funds for transportation and conservation; and program revenues (PR) such as university tuition or inspection fees. As Figure 4 shows, all funds expenditures would rise by a proposed 9.3% over base levels in 2022 to $45.4 billion and by a more modest 0.4% in 2023 to $45.6 billion. Notably, the American Rescue Plan being approved this week could alter these figures substantially.

For total appropriations (including state and federal funds) at the Department of Transportation in 2022, Evers’ proposal calls for a 4.8% decrease over base levels to $3.14 billion. Appropriations would then increase by 2.2% to about $3.21 billion in 2023.

**State Employees**

The governor’s budget proposes adding just over 300 full-time equivalent (FTE) positions, increasing the state’s workforce 0.4% over the two years from 71,481 in 2021 to 71,789 by 2023. That increase would be smaller than the current budget but would still be the second largest in at least a decade. Nearly all of it would come in 2022, and Corrections, Health Services, and the UW System alone would account for more than three out of every four new positions (see Figure 5).
Meanwhile, certain departments would experience some downsizing, including Workforce Development (down 39.1 FTEs over two years), Veterans’ Affairs (-19.9), and Justice (-17).

The budget includes a 2% raise for state employees on Jan. 1, 2022 and again on Jan. 1, 2023. Compared to total GPR compensation reserves of $107.9 million to cover added salary and benefit costs in the current budget, the governor is seeking to set aside $171.9 million for 2021-23.

The governor’s budget would also restore collective bargaining for state and local workers that had been largely repealed by 2011 Wisconsin Act 10. This proposal would have sweeping implications for state and local finance in Wisconsin. However, the measure stands little to no chance of passage in the Republican-held Legislature.

**Debt and capital projects**

After one of the largest capital budgets of the past two decades in 2019, Evers is proposing $2.4 billion in total spending on building projects – a 37.1% increase over the $1.7 billion approved for 2019-21. Just over $1.0 billion (42.3%) would go towards the UW System.

The vast majority of this capital budget (82.1%) would be funded through new borrowing, while most of the remaining amount would be financed through other sources like federal funds, gifts, and grants. Combined with some bonding that had been approved previously, the capital budget authorizes just over $2 billion in total borrowing, more than most recent two-year budgets. The bonding does come at a time when state debt payments are accounting for a smaller share of general fund tax revenues, having fallen below 3%.

Separate from these state building projects, the budget would also approve additional borrowing for other purposes such as highways, land purchases, and clean water. The largest chunk of new borrowing ($556 million) would go to transportation. That’s a 71% increase from the $326 million in the current two-year budget but is still below the transportation borrowing in most other budgets of the past decade. The legislation also would renew the Knowles-Nelson Stewardship program for a decade by authorizing $70 million in borrowing per year for $700 million in total.

Taking all that into account, the governor’s budget would include more than $3.6 billion in total borrowing, the most since the 2009-11 budget after accounting for inflation. However, the number would be considerably smaller if some of the Stewardship bonding is attributed to future budgets since it would not all be used in the next two years.
How the Budget is Balanced

The state heads into the next two-year budget in a surprisingly strong position given the toll the pandemic has taken on the state’s economy and residents. Bolstered by federal relief funds to residents and businesses, state tax collections have remained relatively strong over the past year and the state has added to its already sizable reserves.

Under the governor’s proposal, however, the state would draw down its general fund balance to help cover health care and economic relief spending and increase funding for education. As Figure 6 shows, the drawdown would occur because proposed spending exceeds revenues by nearly $1.1 billion in 2022 and $661 million in 2023. That would be the largest imbalance of any budget in more than two decades.

Republicans have criticized the governor’s proposed spending increases and some might assume that removing those would solve the problem on its own. However, several other factors will complicate efforts to balance the budget while minimizing impacts on reserves. First, Evers and the Legislature recently approved a bill containing a projected $563.1 million in tax cuts for recipients of Paycheck Protection Program loans and others plus $31.3 million in additional spending on tax credits. The budget impacts have not yet been included in the Evers proposal.

In addition, the governor’s bill includes a projected $634 million savings from the additional federal funds that would be gained through his proposed expansion of the Medicaid program – a measure that Republican leaders have said they oppose (see Key #2). It also appears that the federal relief legislation would further enhance the savings for non-expansion states. The budget bill also contains more than $1 billion in net tax increases that GOP lawmakers are also likely to nix.

If Republicans drop these proposals, the impact to the general fund balance would be a projected $2.1 billion with an additional impact to the rainy day fund. Therefore, undoing the governor’s spending increases might not be enough to preclude the heavy use of reserves (see Figure 7).
On the bright side, the state is expected to have on June 30 about $858 million in its rainy day fund that is not being tapped under the Evers proposal. The state is also expected to receive more than $2 billion in additional federal funds from legislation passed late last year (see Key #1), though much of that money is directed toward specific programs. In addition, the state and local governments in Wisconsin are expected to receive as much as $5 billion from the American Rescue Plan Act that is receiving final approval in Washington.

If the state is able to use some of these federal relief funds to offset new spending or lost revenues or if the state were to dip into its rainy day funds or expand Medicaid, then the short-term budget challenges would diminish considerably, although questions of long-term sustainability might then arise in the case of the use of one-time federal funds or a drawdown in reserves. Lawmakers may wish to avoid deciding on these questions until May when they know whether April tax numbers for the state are better or worse than expected and the exact nature of the additional federal relief funds and their requirements is known.
**Keys to Understanding the State Budget**

**Key #1: Previous spending cuts and federal aid improve outlook**

The state budget has been bolstered by two developments that were initiated early in the pandemic – targeted state spending cuts and additional federal aid. In key areas of the state’s budget, such as Medicaid and the UW System, those two forces actually worked together.

First, since the spring of 2020, the governor and his administration have made two rounds of spending cuts, or lapses, in which funds that had been appropriated to an individual agency were returned to the state’s general fund. There were $70 million in cuts or moves to avoid spending made by June 30, followed by a second round through June 2021 that was initially set at $300.9 million but that ultimately will be much greater according to the Department of Administration and Legislative Fiscal Bureau (LFB).

As Table 1 shows, most of the savings came from two places – the UW System and the Department of Health Services (DHS) and its Medicaid program. As the state agency with the largest workforce by far, the UW has typically borne a disproportionate share of cuts during budget challenges, though one difference from past recessions is the state’s universities are not able to increase tuition (see Key #4).

With regard to DHS, despite a surge in enrollment in Medicaid stemming from the pandemic, the state is able to go well beyond the initial planned reduction of $140 million in that program in 2021 because of additional federal relief funds obtained through the Families First Coronavirus Response Act (see Key #2). Those additional funds held 2020 spending on Medicaid below 2019 levels despite the increased enrollment.

In addition, the state received $2 billion in fiscal years 2020 and 2021 through the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act. The aid was primarily for healthcare, economic support, and local government and education aid (see Figure 8). However, CARES Act funds by law could only be used to address additional costs borne by the state, not revenues lost to the economic impact of the virus.

Going forward, the state should also benefit from the latest federal relief legislation approved in December. According to LFB, the Consolidated Appropriations Act would provide Wisconsin with an additional more than $2 billion in estimated relief funds that would generally be available through the end of 2021 at least and would include:

- Roughly $1.1 billion for K-12 and higher education

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<th>Agency or Program</th>
<th>2020</th>
<th>2021</th>
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<td>UW System</td>
<td>$40.7</td>
<td>$45.4</td>
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<tr>
<td>Medicaid and Health Services</td>
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<td><strong>Total</strong></td>
<td><strong>$69.9</strong></td>
<td><strong>$845.9</strong></td>
</tr>
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Source: Legislative Fiscal Bureau and Department of Administration
• **$209.9 million** for Wisconsin’s transportation programs plus $83.2 million for airports

• $386.8 million for emergency rental assistance to state and local government

• $147 million to supplement the state’s Child Care Development Block Grant allocation

• More than $100 million for priorities such as vaccinations and testing, mental health, and substance abuse treatment and prevention

This week, Congress and President Joe Biden are finalizing the details of the sweeping American Rescue Plan Act, which will provide further stimulus and assistance to states in the coming weeks. Broad provisions include direct payments to individuals and an extension of the $300 federal unemployment benefit through September 6.

In addition, the legislation would provide a massive infusion of aid to state and local governments. The [House Committee on Oversight and Reform estimated](https://www.oversight.house.gov) that an earlier version of the measure would provide $5.5 billion to Wisconsin including: $3.2 billion to state government; $788 million to large cities; $399 million to other cities, villages, and towns; and $1.1 billion to counties.

Though the final amounts, requirements, and timeline for the use of the funds are not fully known, the impact both in terms of direct aid to the state and increased tax collections from economic measures will clearly be substantial. Lawmakers will need to account for the additional federal aid that is on the way for state and local programs when considering how to determine the state’s own tax and spending levels on these priorities.
Key #2: Pandemic impacts use of major state programs with varying fiscal consequences

As the pandemic’s full weight fell on Wisconsin, it closed businesses and some government operations, drove up unemployment, and caused a cascade of effects on citizens and public programs. Unemployment claims and Medicaid enrollments shot up while there were major drops in state prison populations, usage of the Wisconsin Shares child care subsidy, and public school enrollments. 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.

Medicaid

Prior to COVID-19, Medicaid enrollments in the state had been stable overall and falling modestly for five years within the BadgerCare Plus program for children, families, and childless adults. That changed when the pandemic handed Wisconsin one of the largest Medicaid enrollment increases in the nation among the states that have not taken federal funds to fully expand the program.

Between December 2019 and December 2020, overall Medicaid enrollment rose 17.9% to 1.39 million in Wisconsin, an increase of 211,197 individuals, according to Department of Health Services data. As Figure 9 shows, the increase was driven by an even greater rise (24%) within the BadgerCare Plus program, where the acute care coverage depends heavily on economic factors such as income. The increase was smaller within long-term care programs for the elderly and disabled, where the number of individuals in these categories statewide also plays a role.

Kaiser Family Foundation data on Medicaid and the related Children’s Health Insurance Program show the pandemic-related enrollment increase in Wisconsin exceeded that of the country as a whole, with August 2020 enrollment in those programs up 10.3% from the prior year in Wisconsin and 7.5% nationally. This difference among states likely reflects a range of factors, from the intensity of the pandemic and unemployment to differences in eligibility and enrollment rules.

![Figure 9: Medicaid Enrollees Skyrocket During Pandemic](image-url)
On a percentage basis, Wisconsin recorded the 14th-largest enrollment increase. Only two states that have not expanded Medicaid through the federal Affordable Care Act – Wyoming and North Carolina – had a larger jump in enrollment. That may reflect at least to some degree the fact that Wisconsin partially expanded Medicaid to cover more childless adults.

These enrollments are expected to continue to increase in Wisconsin and are the main driver of a projected $646.4 million rise in GPR costs to run the state’s current Medicaid programs over the two-year budget. This increase totals $2.9 billion when including federal and other revenue sources.

The rise in GPR costs could have been even greater if not for an increase in the rate of federal reimbursement for state Medicaid spending. Under the Families First Coronavirus Response Act, the federal government is reimbursing Wisconsin for roughly 65.6% of its Medicaid costs in fiscal years 2020 and 2021 instead of 59.4%. In return, Wisconsin cannot drop individuals from Medicaid coverage while the federal public health emergency around COVID-19 is in effect.

As seen in Figure 10, accepting the ACA Medicaid expansion as proposed by Evers would cover an additional 90,900 individuals and deliver additional federal money that would cover most of the state’s remaining increase in GPR for its current Medicaid programs. The American Rescue Plan Act appears to provide even greater savings on top of those projections. GOP lawmakers rejected this expansion before and may do so again. Either way, the state will have to account for 211,000 individuals – more than twice the expansion number – who enrolled in Medicaid over the past year.

**Unemployment**

Just as with Medicaid, the massive job losses from the pandemic drove up usage within Wisconsin’s unemployment program with continuing claims hitting the highest levels on record (see Figure 11). As a result, the balance in the state’s unemployment fund has fallen from nearly $2 billion at the beginning of February 2020 to less than $1.1 billion at the beginning of February 2021, according to federal data. The drop is significant because, as we noted in June, payroll tax rates for employers could rise automatically in early 2022 if the trust fund balance is below $1.2 billion on June 30.

Policymakers may wish to consider the impacts on employers and workers of a payroll tax increase. While the increase would restore the massive loss of reserves in the state’s jobless fund, it could also dampen hiring at a critical time. Evers also has proposed eliminating the state’s one week
waiting period for unemployment benefits permanently and increasing benefit levels – measures that would aid struggling workers but also potentially further drain the fund. Last, Evers is seeking $79.5 million in GPR to upgrade the state’s unemployment system to avoid the kinds of delays in processing benefits that were seen during the pandemic.

**Corrections**

Within the state’s prison system, the pandemic has produced the opposite effect: a shrinking population of inmates. This decrease has taken place independently of budget proposals from Evers to overhaul the criminal justice system to reduce inmates and recidivism.

Trends within the Department of Corrections (DOC) matter because it represents the second biggest employer among state agencies after the UW System and the fourth-largest spending priority out of the state’s general fund, making up about 6% of GPR spending. Evers is seeking a 3.1% increase in GPR spending for the Department for 2022 to $1.3 billion. In 2023, that amount would fall by $11.7 million, or 0.9%.

After rising for seven years, the state’s average adult prison population fell from nearly 23,600 in June 2019 to less than 19,600
by the end of February 2021 (see Figure 12). That was the lowest population since late 1999, and represented a decline of 16.9% in the span of just 20 months.

Corrections staff say that a fall in admissions – rather than an increase in early releases—is driving the decrease in inmates and they suggest three reasons for the dropoff:

- Admissions to prisons from newly sentenced inmates are down because courts have slowed trials due to the pandemic.
- The prison population is about 1,000 inmates lower than typical because there is a backlog for moving male prisoners from county jails into state prisons – the backlog stretches back to the spring of 2020 when the state stopped admissions for a time because of COVID-19.
- DOC has made changes that have resulted in fewer inmates on extended supervision being revoked and returning to the prison.

The decrease in adult inmates has reduced health-care and programming costs, and DOC also has received reimbursement for some COVID-related expenses through the CARES Act (see Key #4). The administration is still seeking an increase in overtime funding for the next budget, however.

The governor’s budget would rewrite early release policies and policies around revocation for offenders on extended supervision to reduce the inmate population over time. Many, though not all Republicans have been skeptical of these policies and may ultimately reject them.

The decrease since COVID-19, however, is likely greater than what any of these proposals would produce. One question for the state going forward is whether inmate numbers will rise again as courts catch up with trials and more inmates are moved from county jails into the state system. If so, state policymakers may wish to delve more deeply into how this unusual episode has affected public safety and state spending and consider whether policy changes may be warranted to reduce any such increase in the inmate population or prevent it.

Key #3: Historic K-12 spending levels and new funding strategies target vulnerable students

The COVID-19 pandemic has wrought unprecedented disruption to K-12 schooling in Wisconsin over the past year, causing alarming drops in student enrollment and raising serious concerns about learning loss, threats to mental health, and widening disparities in educational outcomes. It also has imposed significant, unanticipated fiscal pressures on school districts stemming from unique logistical, staffing, facilities, equipment, transportation, and other needs.

Additional federal funds may help to alleviate some of those concerns. For now, however, the governor’s proposal aims to confront these challenges through large increases in discretionary state aid to districts and new policies for distributing it that seek to reduce disparities in education.

The governor’s budget includes $15.2 billion over two years in GPR spending for K-12 education and the Department of Public Instruction, which is more than a third of the state’s total proposed GPR appropriations. This represents an increase of $1.6 billion over the base budget – just over half of the increase the governor is proposing for the entire state budget – and returns the state’s share of education costs to two-thirds, a requirement that was in place until 2003-05.
Some Republican legislative leaders already have voiced objection to the size of the governor’s overall proposed K-12 spending increases. However, some of the governor’s recommendations – like increases in the per pupil revenue limit and categorical aids and funding boosts for sparsity aid to rural schools and school mental health services – have received bipartisan support in some form in the past and may have a chance of gaining such support this year.

**Enrollment declines dramatically**

Enrollment drives the state’s public school finance system, and a large one-time drop due to the pandemic looms large over the governor’s proposal.

A measure of enrollment called full-time equivalent (FTE) student membership is a major factor in the distribution of state general equalization aid and also plays a role in defining revenue limits (the annual caps on combined school district property tax levy and general equalization aid). As shown in Figure 13, in the 2020-21 school year, public K-12 enrollment by this measure fell by nearly 4% or 33,000 students. Although enrollments were already declining in Wisconsin prior to the pandemic, this is almost eight times the decline (both numerically and percentage-wise) seen by school districts in the preceding year.

This dramatic change can be traced to several areas. Enrollment in grades 1 through 12 fell by 1.9%, which meant a loss of 13,722 students and contributed almost 42% of the total decline. Summer school enrollment plunged by 57.2%, while 4K/PK special education and kindergarten enrollment saw declines of 15.6% and 5.0%, respectively. More than 90% or 381 school districts experienced a decrease in 2020-21 compared to 54% in 2019-20. The drop was not limited to traditional public schools but affected some choice and charter schools as well.

The governor’s proposal seeks to mitigate the fiscal impact of these declines, in part, by allowing the use of either 2019-20 or 2020-21 pupil counts for calculating revenue limits. Because revenue limits are based on a three-year rolling enrollment average, this measure would dampen the impact for districts that suffered a one-time COVID-related decline for the next three years. Given the outsized drop in pre-kindergarten student counts, another proposal to count four-year-old kindergarteners in full-time programs as full FTEs for revenue limit and equalization aid purposes (instead of the current 0.5 or 0.6 FTE) starting in 2022-23 also would help mitigate the fiscal impacts of enrollment drops.
Boost in school spending prioritizes poorer districts

The governor’s budget increases general school aid by $612.8 million over the budget’s two years – the largest increase since 2005-07. This strategy achieves the dual goals of significantly boosting school resources in an equitable manner (via its use of the equalization aids formula) while limiting the need for school districts to raise property taxes through referenda, a phenomenon that tends to widen disparities between districts based on property wealth.

The budget proposal also ensures districts would have more money to spend by increasing revenue limits for all school districts by $200 per pupil in 2022 and $204 in 2023 (up from a $179 bump in 2020-21). Finally, the governor’s budget raises the per pupil limit for low-revenue districts from $10,000 to $10,250 in the first year and $10,500 in the second year, a move that supports 140 districts that have been frozen at relatively low spending levels since revenue limits were imposed in 1993-94.

It is notable that the governor proposes a modest boost in per pupil categorical aid, a flat amount that is awarded for every student, irrespective of a district’s property wealth. His budget would raise it to $750 per pupil in each year of the budget, up slightly from $742 in 2020-21.

The per pupil approach has garnered support among GOP legislators in particular because it delivers a predictable amount of money to schools but does not allow them to raise property taxes the way a revenue limit increase would. However, providing a flat amount means the aid does not account for property wealth or the needs of student populations.

Figure 14 shows how sizable annual increases in per pupil aid largely supplanted annual revenue limit adjustments as a means of helping school districts keep up with inflationary cost pressures for the better part of the past decade. The governor’s reversal of that approach shows his preference for one that is tied to equalization instead of an across-the-board distribution.
Evers would further address perceived inequity by creating a category of aid to support low-income students outside of the revenue limit. He proposes adding $75 in per pupil aid for every student who is economically disadvantaged. By DPI’s estimate, this provision would benefit 350,000 students in poverty statewide and add about $26.3 million in each year of the budget. This provision holds some promise to win bipartisan support because it would deliver substantial aid across the state, including rural areas, with no property tax increase. And because 2020-21 enrollment dropped so drastically, the per pupil amount could be raised without significant change to current spending on this program.

**Historic increase in funding for special education**

The governor proposes to increase special education categorical aid by $709.6 million over the two-year budget. This would be the largest increase in history, eclipsing the sizable increase in the 2019-21 budget of $96.9 million. Special education costs for districts have been rising for the past 20 years and state appropriations have not kept pace, causing the reimbursement rate to fall to an estimated 28%. The governor’s proposal would increase reimbursement levels to 45% in the first year and 50% in the second year of the budget and would convert the aid from a fixed dollar amount to a fixed reimbursement level.

The proposal is significant for all students because districts are mandated to spend whatever is necessary to provide specialized services to meet the needs of students with disabilities whether or not state or federal support is sufficient to cover those costs. When reimbursement falls below the costs for these services, school districts are forced to draw resources away from their regular education programs (which largely are capped by revenue limits). As a result, a boost of any magnitude for special education aids amounts to a boost for all students in the state.

The governor’s budget also would almost double the reimbursement rate for educating English learners (from 8.1% to 15%) and would ensure that all districts educating English learners receive at least some funding no matter how sparsely distributed they may be. Eligibility and funding levels for school mental health aid also expand in the budget as does sparsity aid to support rural districts.

The overall thrust of the governor’s 2021-23 budget for K-12 education is to both increase and redirect the flow of state resources to areas of need, including some that reflect the pandemic and how it has exacerbated the challenges of districts serving disproportionate numbers of disadvantaged students. Lawmakers are unlikely to accept several key elements of the governor’s proposal. Yet they will have to consider in some way the potential federal aid, statewide enrollment decline, and the other challenges that districts are experiencing as they seek a return to “normal.”

**Key #4: Budget invests heavily in economy and higher ed to spur economic recovery**

The proposed budget includes a slate of proposals that are intended to help Wisconsin’s economy recover from the COVID-19 pandemic, as well as address problems created or highlighted by the crisis. Most notably, the proposal calls for a massive increase in state spending on economic development, targeted largely to assist small businesses, and on expanding broadband Internet
access to unserved or underserved areas. It also includes what would be the largest state spending boost for higher education in two decades in Wisconsin.

**Economic development**

The proposed budget for the Wisconsin Economic Development Corp. (WEDC) calls for an infusion of $329.1 million in GPR in 2022, which would translate into a 26-fold increase for the agency. This would largely be a one-time increase, though proposed GPR spending in 2023 still would be 28% higher than the base levels heading into the budget.

Most, though not all, of this new spending would be for COVID-19 relief to Wisconsin businesses, supplementing the roughly $240 million in federal business relief aid already disbursed by the state (see Key #1).

The biggest piece is a $200 million appropriation for WEDC to provide “financial assistance to small businesses adversely affected by the pandemic, including for the retention of current employees and the rehiring of former employees.” The budget also proposes $20 million over the two years to increase block grant funding for a range of WEDC programs and an $8 million one-time appropriation to help regional economic development organizations pursue pandemic relief for their local businesses and economies.

Another major component of the WEDC budget, but one not tied to pandemic relief, would be a $100 million appropriation for a new venture capital fund that would invest in Wisconsin startup companies, with 20% of investments targeted to underserved communities. The budget notes Wisconsin currently receives far less in venture capital investment than its share of national population or income. Previous Forum research also showed metro Milwaukee receives much less venture capital investment than most of its Midwestern peer metro areas.

**Broadband**

In the last 11 months, students and workers who went remote due to the pandemic faced a clear disadvantage if they lacked access to a high-quality, high-speed Internet connection. Previous Forum research on the so-called “digital divide” has shown there are both rural and urban areas of the state with higher-than-average shares of residents under age 18 who lack a high-quality home broadband connection, and that residents of color or those with low incomes are disproportionately affected.

Evers’ budget calls for a major increase in state funding to expand access to “affordable, reliable, high-speed Internet.” The $204 million package would be more than the state spent on broadband in the 2013, 2015, and 2017 budgets combined, according to the administration.

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**FUNDING INCREASE FOR CHILD CARE**

The governor’s proposal seeks to increase access to quality child care throughout the state by providing a monthly base payment to all child care providers meeting regulatory and quality requirements; an additional payment to providers serving 25% infants and toddlers; and a per child stipend to providers that go beyond the state’s basic regulatory requirements in terms of providing quality child care.

The budget would provide $53 million in new GPR a year as well as $17.6 million in reallocated funds. The Forum will explore trends in state child care programs further in an upcoming brief.
The bulk of this proposal would be a two-year allotment of $152 million for the broadband expansion grant program administered by the state Public Service Commission. This program provides grants to businesses, nonprofits, or municipalities to help deliver broadband access to underserved areas.

The budget also would create a $20 million per year program to fund broadband subscriptions for low-income families. This program would be administered by the Department of Children and Families, which would work with local agencies to reimburse Internet service providers.

**Higher education**

As the Forum noted in December, COVID-19 has exacerbated the fiscal challenges already faced by the state’s public colleges and universities. Disruptions to in-person learning and to students living on or near campus during the last 11 months have significantly diminished revenue streams from athletic events, student fees, and tuition; led to cuts in state funding in both 2020 and 2021 (see Key #1); and required universities to spend large unexpected sums in responding to the pandemic.

The UW System has estimated a negative impact from COVID-19 of $258 million just through September 30, 2020, after factoring in higher costs, lost revenues, and an early round of federal aid that was approved in March 2020. Additional federal funds (see Key #1) may help to address this loss.

To help Wisconsin’s public universities cope – and to advance other objectives, including bolstering the state’s workforce and economic prospects – Evers proposes a $192 million GPR funding increase for the UW System across both years of the budget. According to the administration, this would be the largest state funding increase for the system in more than two decades. The budget would maintain the in-state resident tuition freeze that has been in place since 2014 but would provide about $50.4 million of the overall increase to offset lost tuition revenues.

An additional $39 million would expand to the entire UW System a program that guarantees enough scholarships and grants to cover four years of tuition and fees to certain in-state residents. The program, which was pioneered at UW-Madison as Bucky’s Tuition Promise, ensures free tuition to in-state students from households with adjusted gross incomes of $60,000 or less. The budget also includes an additional $40 million for general program expenses and $10 million to expand student mental and behavioral health services.

The proposal also calls for giving the UW System Board of Regents authority to borrow on a short-term basis for certain operating expenses – a potential tool for the system in navigating the financial uncertainties of the current moment. Wisconsin’s current policy is unusual in this regard: previous Forum research found other states grant at least some level of borrowing authority to their public university systems though that borrowing could be for capital projects rather than day-to-day operations. The plan would come with tradeoffs for the UW, as it would make its short-term challenges more manageable but increase its long-term costs.

**Key #5: Bill seeks boost in health spending amidst COVID-19**

The significant attention typically devoted to the Department of Health Services (DHS) budget owes in part to the growth of its programs serving low-income individuals – the state’s budgeted $3.5
billion of GPR spending on DHS Medicaid-related programs this year is 72% higher than the roughly $2 billion budgeted for 2013. DHS would continue its substantial growth in the 2021-23 proposed budget with a $463 million increase in GPR (the largest of any department besides DPI).

Another reason for the attention is the strong ideological disagreement between lawmakers of both parties over expansion of the program using federal funds through the Affordable Care Act (ACA). The governor again proposes such an expansion as part of the budget.

This year, the traditional debates over DHS’ budget will occur as the state struggles to emerge from the worst public health crisis in a century. Consequently, while policymakers must first confront the escalating growth in Medicaid enrollment (see Key #2), it will be essential for the overall battle lines to be shaped by consideration of the weaknesses that have been exposed in Wisconsin’s public health preparedness and infrastructure, as well as the critical health-related challenges and racial disparities that continue to be inflicted by the pandemic.

The governor proposes to invest more than $450 million of the $634 million in GPR savings from the Medicaid expansion in a variety of public health programs and service enhancements, many of which are directly relevant to the pandemic. The budget argues that such investment is justified, in part, by the comparatively low level of spending by Wisconsin’s state government on public health services.

As shown in Figure 15, the state ranked 47th of the 50 states in 2017 in state spending on public health but was among the highest spenders at the county (5th) and municipal levels (7th). Overall, Wisconsin ranked 20th in public health spending. This reflects the state’s delegation of much greater responsibility in this area to counties and municipalities than most other states. An important question as Wisconsin emerges from the pandemic is whether this approach has served the state well in this time of crisis or whether a new paradigm should be considered.

While more time will be needed to answer that question, the proposed budget takes several steps to invest in perceived areas of need exposed by the pandemic at both the state and local level:

![Figure 15: Public Health Spending in Wisconsin Highly Local](image-url)
• **Mental health and substance abuse** – the budget includes several initiatives to increase reimbursement and capacity for mental health and substance services given the greater demand for such services as the pandemic has lingered. Those include enhanced Medicaid reimbursement rates for certain treatment services for opioid abusers and for general outpatient mental health and substance abuse services (a combined $51.6 million including $20.6 million of GPR); $17.6 million of GPR to support new regional crisis centers and regional crisis stabilization facilities; and a new $1.25 million grant program for local governments seeking to establish ties between behavioral health providers and law enforcement (as well as a $850,000 boost for Milwaukee County’s existing mobile crisis teams).

• **Medicaid community health benefit** – the governor proposes $25.5 million (including $10.5 million of GPR) for a new benefit to cover nonmedical services for Medicaid recipients, including housing referrals, stress management, and other supports to “improve emotional health and resilience and reduce health risk.” Another $14.2 million ($5.7 million of GPR) is proposed to expand Medicaid reimbursement to services provided by community health workers. Both state and local officials and advocates have argued that the need for such services has become more pronounced in light of COVID-19.

• **Communicable disease control** – the governor proposes staffing enhancements within DHS to respond to communicable diseases ($3.6 million of GPR to add 23 positions to the Bureau of Communicable Diseases) as well as $435,000 to create a 3-person “communicable disease harm reduction strike team.” To enhance local communicable disease control and prevention, he also proposes a $5 million increase in GPR for grants to local and tribal health departments.

The budget also includes several more expensive proposals to generally enhance Medicaid reimbursement for several types of providers, many of whom have been stretched thin during the pandemic. Those include a $104 million increase (of which $40 million is GPR) for hospitals that serve a disproportionate share of Medicaid recipients; an additional $200 million in mostly federal funds for supplemental payments to all hospitals that serve Medicaid recipients; an additional $242 million (including $95 million of GPR) for rate increases for nursing homes and intermediate care facilities that serve individuals with intellectual disabilities; and $156 million (including $60 million of GPR) to address workforce challenges and enhance compensation for personal care workers.

Finally, DHS’ proposed budget contains several initiatives aimed at pressing public health needs in low-income communities. Those include $11 million of GPR to address childhood lead poisoning (as well as $40 million elsewhere in the budget to replace lead service lines); $35.7 million (including $14.3 million of GPR) to boost reimbursement for dentists who serve Medicaid recipients; and $30 million (including $10 million of GPR) for health equity grants.

The budget explicitly ties some of these investments to Medicaid expansion and most will at least indirectly depend on the GPR savings produced by the expansion plan. That calls their adoption into question, as Republican lawmakers have rejected Medicaid expansion in the past and are likely to do the same this year. Federal funds may help to address some of these priorities and more will be learned on that front in the coming weeks.

However, with state and local public health challenges heightened to historic levels by the pandemic, it will be particularly important for this year’s debate on the DHS budget to focus just as much on the types of public health investments that are required as on the options to pay for them. It would be
difficult to argue that some significant new investment is not required to respond to newly identified public health needs in Wisconsin, and state leaders must collectively confront that reality even as they differ on where the funds should come from and which investments should be prioritized.

**Key #6: More help for local governments**

As local governments in the state cope with the effects of COVID-19, the governor’s budget would give counties and municipalities greater ability to increase local tax revenues while also boosting state payments to them. Potential property tax changes may not win much support from GOP lawmakers, however, who rejected similar proposals from Evers two years ago. A similar fate may await the governor’s plan to give certain local governments the opportunity to increase sales taxes.

Evers’ budget would loosen current state property tax limits on counties, municipalities, and technical college districts, which generally can raise property taxes for operations only by the rate of net new construction in their community. The proposal would instead allow all local governments to raise property taxes by up to 2% even if their net new construction increase does not meet that level. The state had such a “floor” in the past but discontinued it in 2011.

Since 2008, statewide net new construction rates have been below 2% in every year. In 2019, only 19.3% of Wisconsin’s cities and villages saw a net new construction rate of more than 2% (see Figure 16 and our September 2019 Focus). Given that Wisconsin’s local governments rely heavily on property taxes, the re-institution of a floor would guarantee them some growth. However, the Legislature rejected this proposal from Evers in 2019.

Additionally, the governor’s bill would give counties and large municipal governments a new revenue tool. Counties would be eligible to levy an additional one-half percent sales tax on top of the 0.5% sales tax that is currently available as a local option and that is currently in place in all but four counties (Manitowoc, Racine, Waukesha, and Winnebago). Unlike the existing local option, this sales tax would have to be approved by a voter referendum but it could be used for any purpose as opposed to being designated solely for property tax relief.
In 2020, the 0.5% sales tax generated $471.5 million in the counties with the tax, meaning it could generate up to a roughly equivalent amount – depending on which counties approved referenda. Notably, the four counties without the current sales tax are some of the state’s most populous, and other populous counties (Brown, Calumet, Outagamie) have only adopted the sales tax in the last five years and might not adopt a new one. That said, Dane County ($60.3 million) and Milwaukee County ($80.0 million) – the state’s two most populous – received substantial amounts from the existing half-cent amount in 2020 and may move quickly to seek voter approval of an additional half-cent tax.

On top of this change for counties, the governor would provide the same local sales tax option for municipalities with populations above 30,000. Currently, 27 municipalities across Wisconsin would qualify for this provision and together they account for 36.9% of the state’s total population. Given that the state raised $5.8 billion from its 5% sales tax in fiscal year 2020, these communities could see upwards of $200 million in sales tax revenue if all of them were to approve the new tax.

Should all of these provisions pass, Wisconsin residents could see sales tax rates ranging from 5% in some parts of the state – representing just the state sales tax – to potentially 6.5% in places such as Milwaukee and Madison if both the county and municipal options were adopted.

The proposed budget also would increase shared revenue payments. Through the County and Municipal Aid Program, the state provides a direct funding allocation to counties and municipalities each year as a means of sharing state tax revenues with local governments, which have limited taxing authority themselves. Since 2016, total shared revenue payments to counties and municipalities have remained flat at $753.1 million. The governor’s budget proposal would increase those payments by 2% in 2021 and again in 2022 at a GPR cost of about $45 million.

The Legislature removed a similar Evers proposal two years ago. Yet even if it were approved, total shared revenue payments would remain below amounts provided in the early 2000s, when they routinely topped $1 billion each year. As we detailed in our recent report, “Dollar for Dollar,” total state spending has been catching up to total local government spending in Wisconsin in recent years at least in part because of constraints on both local property taxes and state aid payments.

The governor also recommends increasing general transportation aids that support local roads by 2% in both 2022 and 2023. Over the last decade, transportation aids have risen 24.1% for municipalities and 29.2% for counties, outpacing inflation. The governor’s budget would increase those amounts to $399.0 for municipalities and $127.1 million for counties by 2023.

These four changes are the most significant but are not the only forms of increased support for local governments in the governor’s budget. Others include increased payments for municipal services, a 2.5% increase in mass transit aids, and full funding for video service provider fee aids.

The desire to shore up state support for local governments will need to be considered in the context of increased state spending needs for other priorities like education and Medicaid-related programs. For now, the governor’s approach may appeal to local government advocates since it increases shared revenue payments and allows counties and municipalities to increase their own revenues. Conversely, given the precarious state of the economy and the financial burdens facing many Wisconsin families – as well as the substantial influx of federal relief that may now be on the way for most local governments – some might argue that this is not the time to seek increases in local taxes.
CONCLUSION

Given the stakes of the present moment, the budget decisions made by state officials will reverberate far into the future. As we have discussed, they will decide in the coming months how to handle a Medicaid program with rising enrollment, K-12 schools that have lost students, a still elevated unemployment program, and the disrupted operations of the UW System. At stake will be the fortunes of the state’s families, businesses, and local governments as they seek to rebuild.

Given the severity of the pandemic, state leaders have good reason to consider spending or tax benefits to help address it. Yet that in turn begs the question of how that spending will be paid for – with further federal relief funds, increased taxes, a drawdown of reserves, or cuts in other programs.

Evers and lawmakers have already approved a tax package with $563 million in cuts, which mainly went to businesses that received PPP loans because of the pandemic. Additional decreases might benefit state residents but at a likely cost to state services, while increases would ease budget pressures but would have to account for any potential impact on the state’s economy and residents. Ultimately, the divided control of state government makes any breakthrough in this area difficult.

The billions in federal relief funds may well alleviate much of the pressures at present but may also raise questions about how to sustain the state budget once they are depleted. Now or after the use of the federal funds, some drawdown of state reserves may also be justifiable given the extent of the current problems and the fact that general and rainy day fund reserves are expected to exceed $2.5 billion by the end of June – much more than during the Great Recession. How much to use, however, is open to much debate. Lawmakers will have to consider how they balance the desire to use these funds to help residents right away versus the desire to leave a cushion for future difficulties.

Ultimately, these decisions will be heavily influenced by factors that are yet unknown. As they craft the budget in the coming months, state officials will learn a great deal, including how April tax collections turn out, the exact amounts and requirements of the forthcoming federal aid, and how much vaccines and COVID-19 variants will shift the course of the pandemic for better or worse. The stimulus bill approved by the U.S. Senate would provide $350 billion in aid to states and local governments – that would mean billions more for a state like Wisconsin if it were to become law.

For that reason, lawmakers and the administration may wish to develop more contingency plans than usual, perhaps including what the state would do if state and federal revenues and state spending going forward turn out to be much higher or lower than projected. Doing so might help prepare them for surprises late in the budget process and even after the next budget takes effect.

Underlying all of these considerations is the question of whether Evers and lawmakers can agree on a budget bill at all or whether the state will have to simply continue under current tax and spending levels. Elected officials managed to pass a budget in 2019 but the state’s needs are now greater.

As COVID-19 unsettles so many aspects of Wisconsin life, passing the state’s tax and spending plan before July 1 would provide some certainty to local governments, businesses, and families as they plan for the next year. We hope this report plays a modest role in framing the key issues surrounding the next state budget and helping state officials deliver an agreement on it in the coming months.