

A GOLDEN OPPORTUNITY FOR WISCONSIN

Projections for state tax collections have been revised upward by an unprecedented \$4.4 billion through June 2023, positioning state reserves to reach historic levels and giving Wisconsin a once-in-a-generation chance to address some of its most longstanding challenges. State leaders are unlikely to get an opportunity like this one again; they should consider the consequences of failing to bridge partisan divides to seize it.

In an unprecedented windfall, Wisconsin now expects a massive increase in state tax collections through mid-2023, likely netting billions of dollars and opening up opportunities for the state unlike any in decades. With tax collections boosted by federal stimulus, vaccination efforts, and the release of pent-up consumer demand, the state now has ample resources to help citizens and businesses while strengthening its own finances and potentially reducing taxes.

According to new [projections from the Legislative Fiscal Bureau](#) (LFB), the state of Wisconsin expects to collect \$19.25 billion in general fund taxes in fiscal year 2021 (which ends June 30), a remarkable increase of 9.8%, or \$1.72 billion, over 2020 (see Figure 1). That is the largest rise in general fund taxes since the 10% increase in 2000 and the second-largest since 1984.

As recently as January, [LFB was projecting](#) just 3.2% growth in taxes this year. This unexpectedly strong performance matters because it gets built into the following two-year budget and leads to higher expectations for 2022 and 2023 as well. The state is now projected to take in \$4.43 billion more over the next two years than was expected in January, setting the stage for a massive budget surplus.

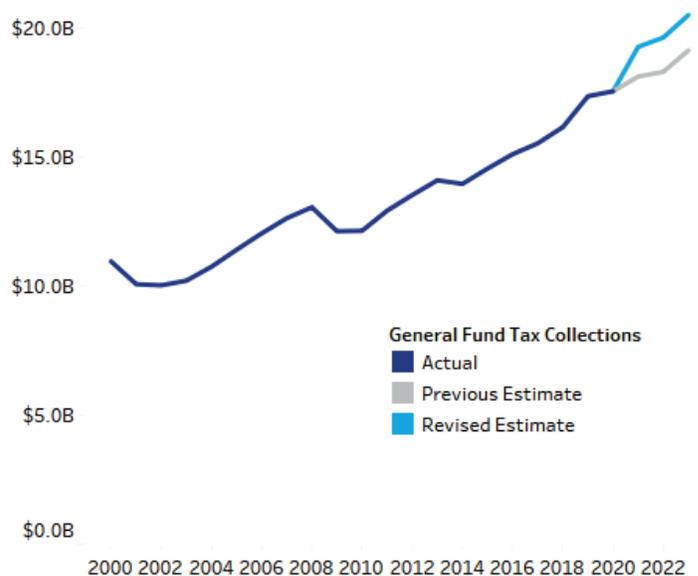
EXPLAINING THE IMPROVEMENT

Sales tax revenues are projected to grow 8.4% in 2021 – the fastest pace since the early 1980s when the state increased the sales tax rate to its current level. Corporate taxes are estimated to grow 44.9% in 2021, which would be second only to 2019 (49.7%) for the fastest growth since 1964. The individual income tax is expected to grow by 5.8%, also a rapid pace.

This projected increase in state tax revenues comes on top of [at least \\$19 billion in additional federal pandemic aid](#) to state and local governments in Wisconsin. The rising state tax revenues further strengthen the state budget since they can be used for a wider range of purposes than the federal aid and are potentially ongoing rather than one-time in nature.

The increased estimates, it should be noted, are just that and reflect projected tax revenues for 2022 and 2023 that have yet to be realized. Still, the revised estimates rely heavily on the strong actual tax collections in recent months and on improvements in national economic forecasts following the passage of

Figure 1: Tax Collections Now Expected to Rise Sharply
Actual and Projected State General Fund Tax Collections, 2000-2023



Sources: Department of Administration and Legislative Fiscal Bureau

the American Rescue Plan Act and progress in vaccinating the population and reopening the economy.

The state is now expected to finish fiscal 2021 on June 30 with a general fund balance of \$2.61 billion and a rainy day fund balance of \$1.57 billion (see Figure 2). The combined \$4.18 billion in reserves represents 22.8% of net appropriations of General Purpose Revenue (GPR) – easily the most reserves for the state in decades.

The Joint Finance Committee is still rewriting Governor Tony Evers’ 2021-23 budget proposal and could adopt spending increases or tax cuts that lower the projected ending balances. Evers also announced he is rescinding more than \$300 million in spending cuts planned for this year. Under the budget panel’s actions to date, however, LFB is projecting combined general and rainy day fund balances of \$7.79 billion at the end of June 2023. That would amount to more than 40% of net GPR appropriations, a level of reserves that would be much higher than what most states typically carry.

WHAT TO DO NOW

Based on the current estimates, Wisconsin can contemplate strengthening its finances and programs as well as cutting taxes. As state officials do so, they may wish to [consider provisions](#) within the recent federal relief measures which prohibit using federal funds for tax cuts and which require the state to maintain certain spending levels for K-12 and higher education. Failure to do so might cause the state to forfeit billions in federal aid payments.

Though WPF does not advocate specific policies, we offer for consideration several options to address longstanding policy and fiscal concerns highlighted in our work. The list is not meant to be comprehensive and is organized into four areas:

Infrastructure

Despite the polarized environment, both political parties have called for investing in access to broadband – a [challenge for rural and urban communities alike](#).

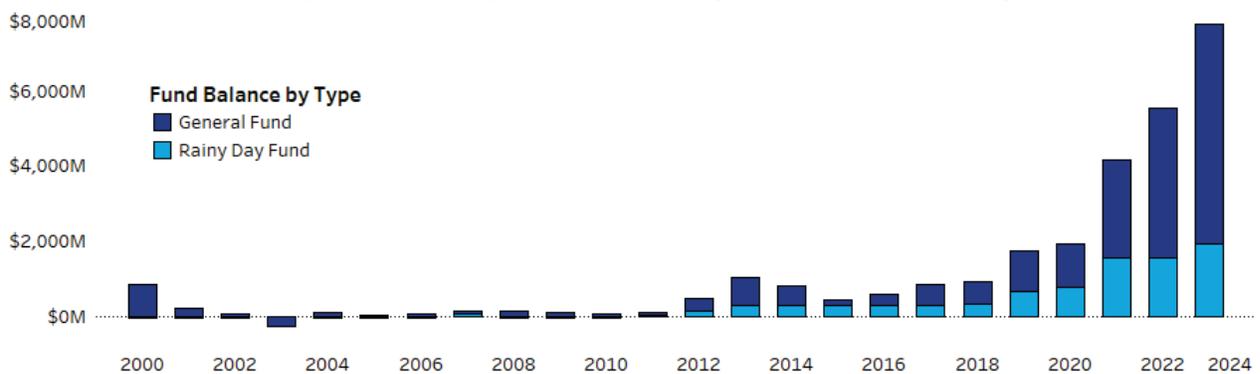
Other areas of concern highlighted by WPF and other groups in recent years have included deferred maintenance for state buildings and needs within the state and local road, highway, and bridge networks supported in part by the state’s transportation fund.

At the local level, priorities identified by WPF and other groups include replacing lead water pipes and other [water and sewer infrastructure](#). These investments generally would address important needs on a one-time basis (as opposed to establishing ongoing programs), could also benefit in some cases from federal funds, and would potentially allow the state to hold down debt levels while promoting economic growth.

Economic Development and Taxes

Employers have expressed widespread concern in recent months about a shortage of workers. The state’s large surplus could help to address that shortage for skilled workers at least, benefiting employers and workers, including racial and ethnic groups who remain [underrepresented in high-paying professions](#).

Figure 2: State Reserves Would Hit Unprecedented Levels
Year-end general and rainy day fund balances (not adjusted for inflation)



Sources: Department of Administration; Legislative Fiscal Bureau; Projections for 2022 and 2023 based on Joint Finance Committee action to date on the state budget and are subject still to considerable change.



Several strategies might be considered here, including more funding to the UW and technical college systems, greater financial aid for students seeking degrees or certifications in these fields, and support for training offered by employers and apprenticeship programs. Notably, falling university and technical college enrollments have left campuses with some unused capacity that might be put to use. Other potential tools might include tax incentives and marketing campaigns aimed at overcoming the state's traditional challenges in attracting skilled workers from outside its borders.

State officials might look as well at greater support for child care – either through tax benefits or [subsidies to parents](#) or direct support to providers – to help workers of all skill levels play a greater role in the labor market.

Clearly, the state also could consider efforts to simplify and reduce state and local taxes to promote capital investment and consumer spending and generate economic growth. Those could include ensuring the state income tax code better conforms with the federal code or eliminating personal property taxes while shielding local governments from revenue loss.

Again, any tax cut would have to be weighed carefully against the possibility of lost federal pandemic aid. However, U.S. Treasury guidance may allow certain tax decreases such as state adoption of federal tax code changes that would lead to lower tax collections.

Last, officials might help the state compete in the digital economy by supporting venture capital and other initiatives to foster new businesses and technologies.

Local Governments and Schools

For many years and over the past decade in particular, the state has sought to hold down its aid payments to school districts, municipalities, and counties and to limit what they can raise through local property taxes. The result has been a [historic decline in the state and local tax burden](#) but also tighter budgets at the local level. State officials could rethink these relationships to improve local services, lower property taxes, or both.

For years, efforts to overhaul the state's school funding formula have appeared out of reach given the amount of money needed to ensure most districts do not lose funding. The potential state surplus makes it possible to rewrite the formula to account for factors such as student poverty and English Learner status. Such an update might help close achievement gaps and also

could be used to cut school property taxes. Other priorities might include [boosting students' college and career readiness](#) and the [diversity of Wisconsin teachers](#), other issues WPF has highlighted.

State funding for municipalities and counties has also [fallen over time](#) as a share of local budgets, forcing them to become more and more reliant on property taxes. The state's added revenues could be used to boost aid payments and reduce pressure on property taxes, serving as an alternative to other options such as allowing local governments to raise sales taxes.

The state might also provide financial assistance or incentives to local governments such as the city and county of Milwaukee, which are struggling to address unfunded pension and retiree health care liabilities. Once again, the state would need to comply with prohibitions within the federal relief legislation.

State Budget and Finances

The state could use its newfound revenue to strengthen its own finances. For example, [historic unemployment claims](#) have lowered the balance in the fund used to pay benefits to jobless workers by roughly \$1 billion since the end of 2019. Using some of the state surplus to restore these reserves would prepare the fund for the next recession while avoiding payroll tax increases for employers and benefit cuts for the unemployed.

Other moves include retaining adequate general and rainy day fund balances. That step would help ensure the state does not return to so-called "hidden deficits" under rigorous accounting standards – a [problem that WPF has long noted](#). State officials also could pay down debt – the transportation fund in particular [carries higher debt levels](#) that limit funding for new projects.

SETTING PRIORITIES

Clearly, the state cannot pursue all these options and many additional proposals will likely surface. Yet the fact these ideas can be considered by state officials at all is a reflection of the state's fiscal good fortune.

Despite the heavy toll of the past year, the state's finances survived and even thrived. That is a testament to bipartisan actions at the state and federal level, and many officials can take some credit. If they now can see past political differences to work together in setting new priorities for Wisconsin's surplus, the state will be well-positioned to thrive in a post-pandemic future.

