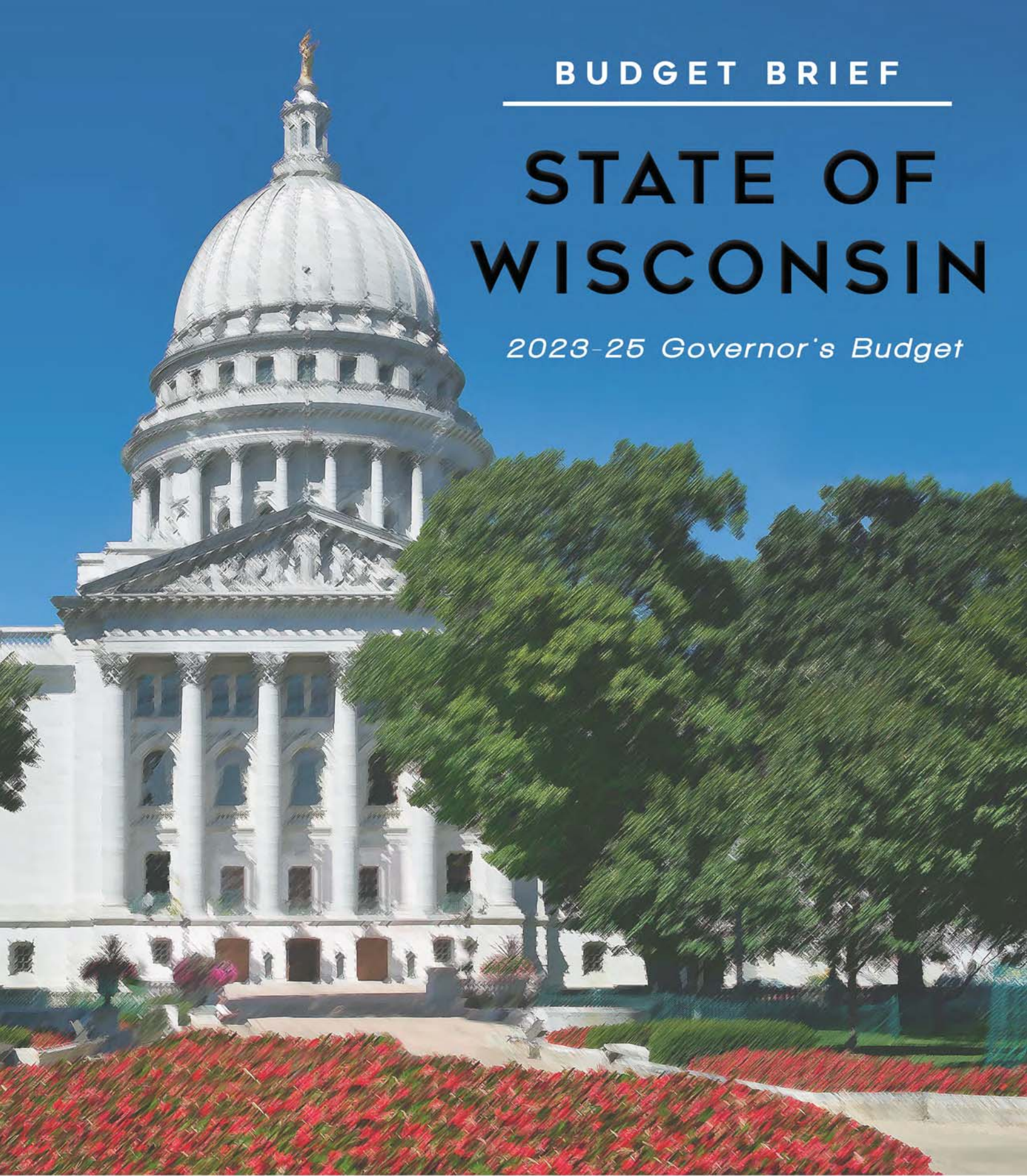


BUDGET BRIEF

STATE OF WISCONSIN

2023-25 Governor's Budget



WISCONSIN

POLICY FORUM



BUDGET BRIEF

*State of Wisconsin
2023-25 Governor's Budget*

March 2023

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INTRODUCTION

Despite a historic public health crisis that stretched all levels of government in recent years and created severe economic upheaval, the state of Wisconsin now finds itself with the largest budget surplus on record. The economic recovery from COVID-19, coupled with massive federal relief aids and tight state and local spending constraints, have produced an unprecedented opportunity in this budget. From tax cuts to aid to local governments, state leaders can make changes in this tax and spending plan that their recent predecessors could have barely even dreamed of enacting.

Gov. Tony Evers has proposed using this opportunity to make substantial income tax cuts for low and middle-income earners as well as the largest spending increases on record, boosting aid to schools and local governments, expanding health care coverage and broadband services, upgrading American Family Field (home of the Milwaukee Brewers), raising the pay of state workers, and launching a paid family medical leave program for private and public employees. To pay for these initiatives, he would take federal dollars available for Medicaid expansion, increase taxes on upper-income earners, and draw down state reserves by the largest amount on record, though the governor's bill would still add to the state's record rainy day fund balance.

The proposal would represent a fundamental shift in the state's relationship with schools and local governments, providing large increases in aid after many years of relatively slow growth, loosening state limits on local property taxes, and providing Milwaukee and other populous cities with the possibility of sales tax authority for the first time. Some of these changes have at least a measure of support from Republicans in the Legislature. However, many of the governor's other proposals, such as the expansion of Medicaid, appear to lack sufficient backing from lawmakers to advance.

In our overview of the governor's proposed budget, we describe its broad sweep and major initiatives. However, we direct most of our focus on the provisions that appear to have the most chance of passage and on the fundamentals of the budget – from the appropriate size of state reserves to the coming disenrollment of thousands of Medicaid recipients – with which lawmakers will have to grapple regardless of their views on the governor's bill. Though we are unable to look in depth at every aspect of the budget in this report, we plan to analyze additional items in the weeks and months to come, including competing income tax proposals and funding levels for higher education.

The decisions made over the next several months may well be some of the most momentous in the modern history of our state. Our goal, as always, is to help readers to better understand these issues and make up their own minds about them. In doing so, we hope to promote an informed discussion about our state's priorities at this critical juncture.



2023-2025 BUDGET SYNOPSIS

Core state spending would swell

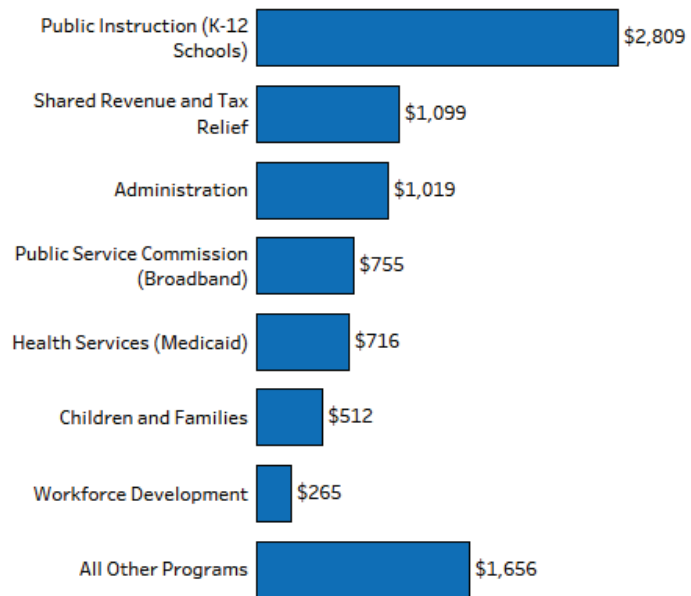
[Governor Tony Evers' proposed budget](#) would draw down the state's massive surplus and use the money to increase spending in the state's main fund by the largest amount on record. That said, the governor's proposed increases will not pass as written, as lawmakers have already said they will remove much of the new spending.

The budget proposes \$24.2 billion in gross general purpose revenue appropriations (see our [budget glossary for definitions](#)) in fiscal year 2024 (which runs from July 1, 2023 to June 30, 2024), an unprecedented 23.2% jump over the prior year base budget. GPR is the state's most flexible form of revenue; it comes primarily from state taxes such as those on income and sales and covers spending in major categories like K-12 and higher education, health care, state prisons, and local aids and property tax relief. In 2025 – the second year of the budget – GPR spending would decrease 1.2% to \$23.9 billion.

Relative to 2023 base spending, the bill proposes an additional \$8.8 billion in GPR spending across FY 2024 and 2025. The largest portion would go to K-12 education and the Department of Public Instruction (an additional \$2.8 billion over the two years), as well as local governments and tax relief (a combined \$1.1 billion), and the Department of Administration (\$1.0 billion) for various grant programs. Large increases also would go to the state's Public Service Commission for broadband expansion, the Department of Health Services for Medicaid health programs for low-income recipients, and the Department of Children and Families (see Figure 1). The Department of Administration funding includes a \$290 million grant for upgrades at the Brewers' stadium, \$250 million for affordable housing and home rehabilitation grants, and \$300 million to extend funding for three grant programs currently supported by federal pandemic aid: the Neighborhood Capital Investment Grant Program (\$150 million), the Healthcare Infrastructure Capital Grant Program (\$100 million), and the Tourism Capital Investment Grant Program (\$50 million).

Figure 1: Most New Spending Goes to a Few Priorities

State general fund spending increases by area (in millions), 2023-25



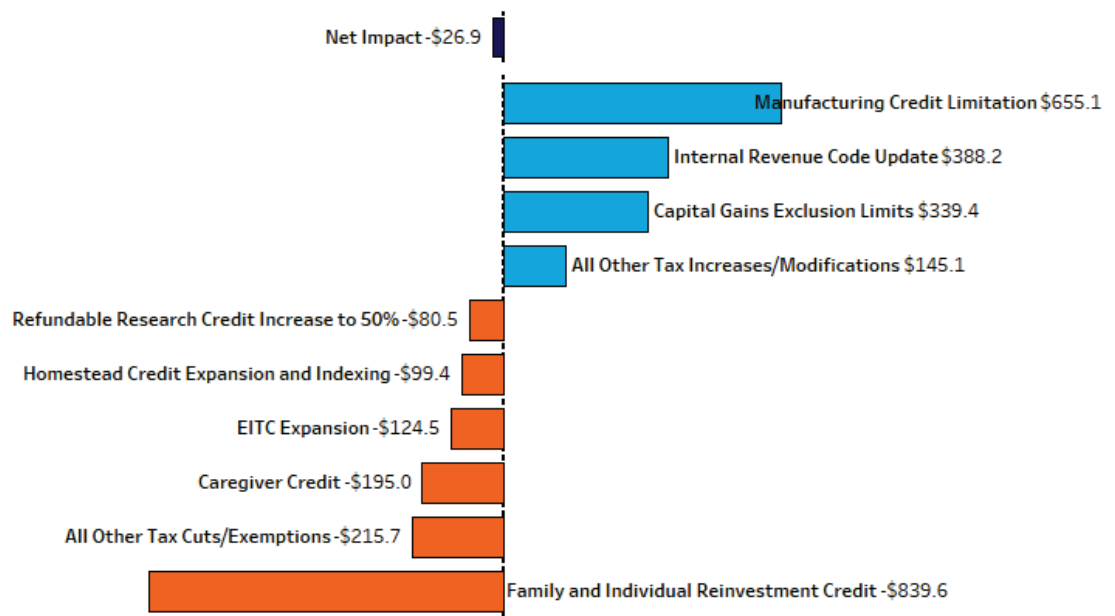
Source: Department of Administration



Core state taxes would match current trend

Despite the largest increases to overall spending levels on record, the proposed budget would keep total state tax revenues roughly flat. The proposal would lower certain taxes by \$1.55 billion over two years, with most of the cuts going to low and middle-income individuals (see Figure 2). That includes \$839.6 million over the two years for a nonrefundable “Family and Individual Reinvestment Credit” that would be worth the larger of \$100 or 10% of remaining tax liability to individuals with adjusted gross incomes below \$100,000 and married-joint filers with incomes below \$150,000. The credit would phase out for taxpayers with incomes above those thresholds.

Figure 2: Proposed Tax Cuts and Increases Would Cancel Out
Impact of general fund tax changes in 2023-25 Executive Budget (in millions)



Source: Department of Administration

At the same time, the governor has proposed a number of initiatives that would increase taxes by \$1.53 billion over the two years, generally on upper-income earners. Those include limiting a tax credit for owners of manufacturing firms, making changes to the state tax code to match provisions already adopted at the federal level, and increasing capital gains taxes in certain cases. The proposed increases and decreases would essentially cancel each other out and projections for overall tax collections essentially would be the same as current law, with general fund tax revenues rising under the bill by 1.8% (\$377.2 million) in the first year and 3.7% (\$814.6 million) in the second.

In the previous state budget, Evers [approved](#) a \$1 billion per year cut in income taxes, mostly for middle and upper-income earners, that was inserted by lawmakers after they removed the governor’s tax proposals. A similar dynamic could potentially play out this time, with Republican senators advocating for a flat tax proposal that would substitute a single income tax rate of 3.25% for the state’s current progressive income tax brackets with rates that rise to 7.65% along with the income of taxpayers. That proposal would cost just under \$5 billion over the two years of the 2023-



25 budget and an estimated \$5.06 billion per year once it is fully phased in after four years. The Forum plans to provide more analysis of these competing proposals in a future report.

Property tax growth would slow

Predictions in this area are difficult to make, but the Evers administration projects that growth in property taxes on the median-value home in Wisconsin would slow under the proposed budget. According to the Department of Administration, taxes on the median home (worth \$251,600 on next December’s bills) would fall 0.4% in the first year - from \$3,275 on December 2022 bills to \$3,261 in December 2023, and then rise 3.8% in the second year to \$3,386. That would be lower than the projected growth of 1.1% in the first year and 5% in the second year under the provisions currently in state law.

Some budget provisions could hold down property taxes, including huge infusions of state aid to schools and other local governments and the expansion of local sales taxes. On the other hand, other provisions may boost them, including large increases in school revenue limits and a loosening of state limits on county and municipal property tax levies (see Keys #2 and #3).

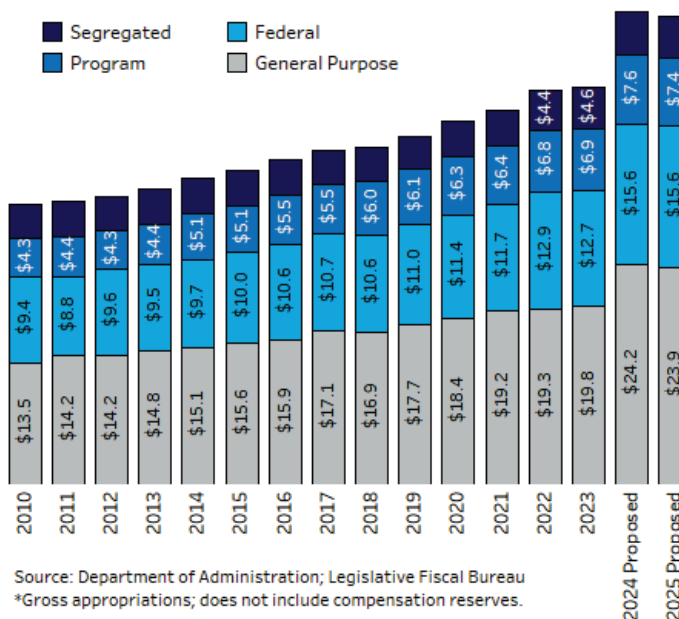
The state has kept property taxes under tight control for the past decade and GOP lawmakers nixed or rewrote similar proposals by the governor to relax revenue and levy limits in his past two budget bills. They will likely again opt to keep state limits relatively tight and, given the openness they have shown to providing additional aid to local governments and schools and possibly a sales tax increase in Milwaukee County, the ultimate budget the state adopts could help hold down property taxes even further.

The “All Funds” budget would grow sharply

The proposal also calls for the biggest spending increase on record when all types of state revenues are considered. The state’s so-called “all funds budget” includes GPR revenues, federal aid, segregated revenues such as the gas tax and hunting and fishing licenses that flow into stand-alone state funds for transportation and conservation, and program revenues such as university tuition and inspection fees. As shown in Figure 3, the proposed expenditures across all state funds would rise by a historic 17.9% over base levels in 2024 to \$52.1 billion, before a slight decline of 0.8% to \$51.7 billion in 2025.

A number of large initiatives account for these changes. Most notably, as we will

Figure 3: Budget Would Make Historic Spending Increase
Appropriations from all revenue sources by year in billions (nominal dollars)



discuss in further detail, historic increases in state aid to schools would be the largest boost to GPR expenditures, and the governor’s proposal to expand the state Medicaid program – one that has been repeatedly rejected by Republican lawmakers – would draw additional federal aid while also lowering GPR spending for the state (for more, see Key #4).

In the first year of the budget, while both GPR (up 23.2%) and federal revenues (21.9%) would account for by far the largest portions of the all funds spending increase, there would also be increases in program (6.2%) and segregated (2.7%) revenues. However, all types of revenue except federal would peak in FY 2024 and slightly decline in FY 2025.

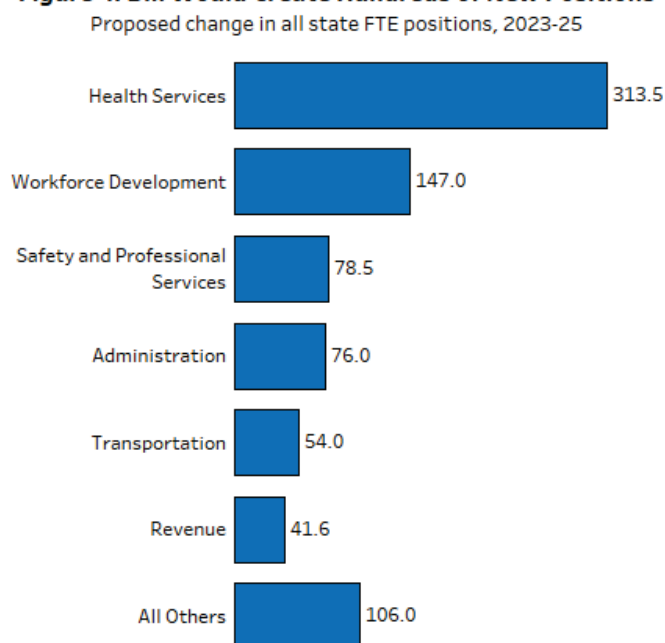
State workforce would expand

The governor’s budget proposes adding just under 817 full-time equivalent (FTE) positions, increasing the state’s workforce 1.1% over the two years from 72,916 in 2023 to 73,733 by 2025. Most of the positions would be added in 2024 and more than half of the positions would be in the Health Services and Workforce Development departments (see Figure 4). Meanwhile, certain departments would experience modest cuts, including the University of Wisconsin-System (down 59 positions) and the Department of Children and Families (down 13).

The budget sets aside \$415.7 million in GPR to provide a 5% raise for most state employees on July 1, 2023 and an additional 3% on July 1, 2024. Total compensation reserves of \$1.67 billion from all revenue sources would be set aside over the two years to cover added salary and benefit costs, compared to \$232.3 million in the current budget. The proposed compensation increase comes as state and local employee turnover hit record levels in 2021, as a [recent WPF brief found](#), but is unlikely to be approved by Republican lawmakers in its entirety.

The governor’s budget would also restore collective bargaining power for a large number of state and local workers that had been largely repealed by 2011 Wisconsin Act 10. If approved, this proposal would have sweeping implications for state and local finance in Wisconsin. However, the measure stands no chance of passage in the current Legislature.

Figure 4: Bill Would Create Hundreds of New Positions



Source: Department of Administration



Debt and capital projects

After two relatively large capital budgets in recent years, Evers is proposing that the state go even bigger and spend nearly \$3.8 billion in total on building projects – two and a half times more than the \$1.5 billion approved for 2021-23. Just under half, or \$1.76 billion, would go towards major projects at the UW System, a sum that does not even include additional amounts for maintenance and repair projects at campuses around the state that are lumped together with other agency projects in budget documents.

In a departure from past practice, more than half of this capital budget, or \$1.9 billion, would be funded with cash from the state's massive surplus, including nearly \$1 billion for the UW System alone. That would limit new borrowing outside of special segregated funds to \$538.3 million or the second-smallest amount for a capital budget since 2011. The projects funded would include:

- Key UW projects such as \$347 million for a new engineering building at UW-Madison (funded with \$197 million in cash), new science buildings at both UW-Eau Claire (\$231 million) and UW-La Crosse (\$182 million), and renovations to heating plants, instructional spaces, and residences across the UW System (\$286 million).
- \$255 million in new funding for the Department of Corrections, including \$32.6 million in new funds and \$45.8 million in previously authorized funds for a juvenile correctional center in Milwaukee County and \$83 million in new funds for a statewide center.
- Funding for upgrades to long-term care facilities like the Wisconsin Veterans Home at King (more than \$50 million), the Central Wisconsin Center (\$56 million) and the Mendota Mental Health Institute (\$56 million).
- Private projects that would be financed with a combination of state funds and private money such as donor gifts. These include the creation of the Bronzeville Center for the Arts in Milwaukee, funded with \$5 million in cash from the state and \$49.9 million in gifts, and an expansion of the National Railroad Museum, funded with \$7 million in cash and \$8 million in private gifts. The budget would also approve two medical projects - the Versiti Blood Research Institute (\$63.5 million total, including \$10 million in cash) and the Marquette University School of Dentistry (\$28 million total and \$10.8 million in cash).

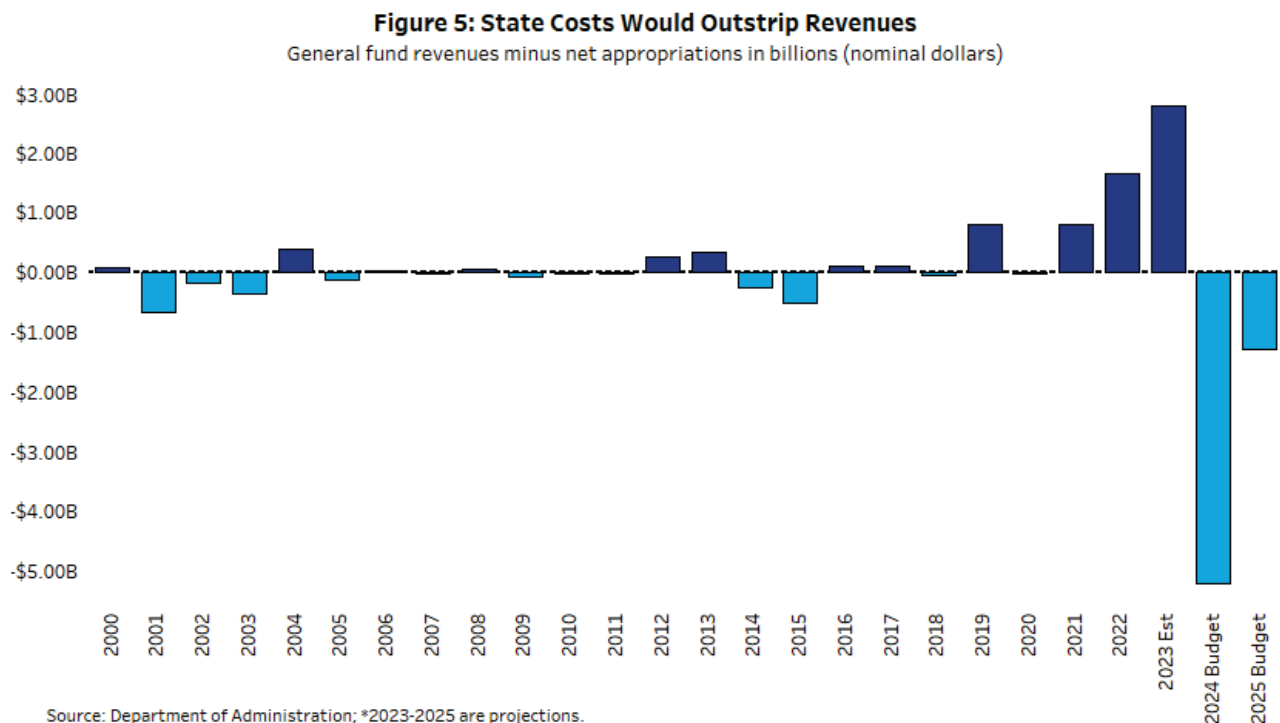
Separate from these state building projects, the budget would also approve additional borrowing for other purposes such as highways and clean water. The state would borrow \$167.7 million for highway and infrastructure projects that would be repaid with revenues out of the transportation fund, an amount that would be a modest increase from the current budget but still relatively low by historical standards.



HOW THE BUDGET IS BALANCED

The state heads into the next two-year budget in its strongest fiscal position in at least four decades and possibly ever. As [WPF noted in a December brief](#), the state’s general fund balance is projected to reach nearly \$7.1 billion by June 30, buoyed in recent years by federal pandemic relief to workers and businesses that strengthened state tax collections, federal aid to state and local governments that lowered state spending, the effects of inflation in boosting sales tax revenues, and decisions by elected officials to limit state spending in areas such as aid to local governments and schools.

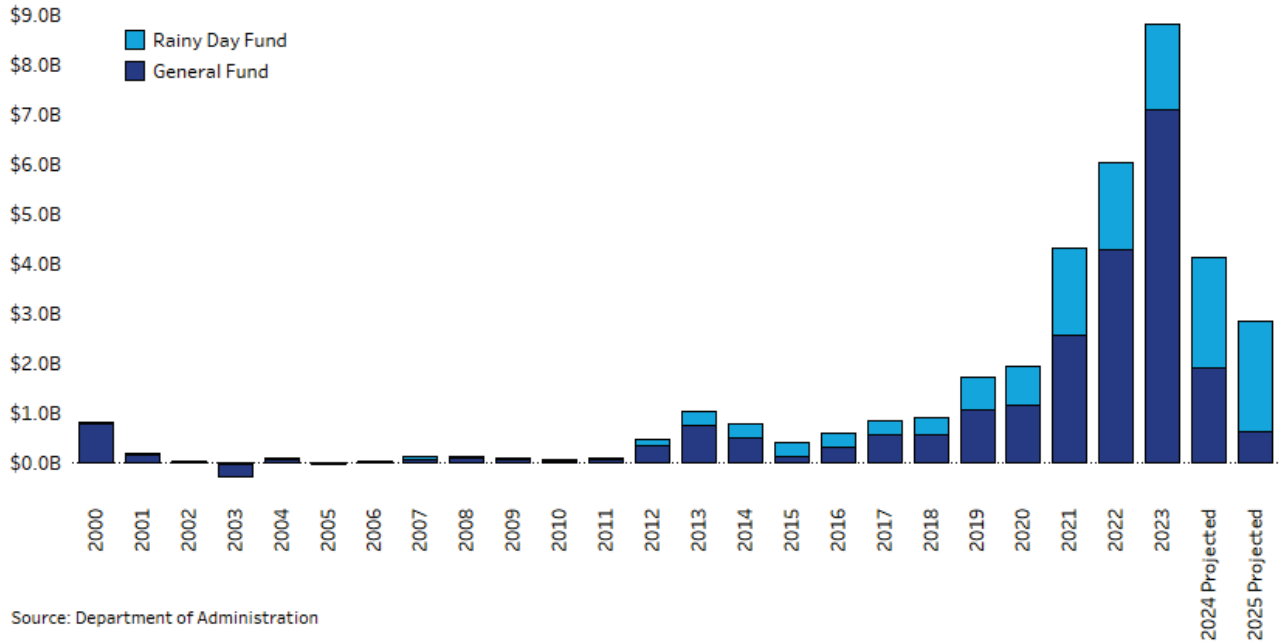
Under the governor’s proposal, however, the state would draw down its general fund balance to help cover new spending on education, local governments, transportation, and a variety of other priorities. As Figure 5 shows, the drawdown would occur because proposed spending exceeds revenues by nearly \$5.2 billion in 2024 and \$1.3 billion in 2025. That would amount to the largest imbalance of any budget on record.



Some of this spending is one-time in nature, which is an ideal use of a one-time surplus given the desire to avoid using such funds to create ongoing programs that lack long-term financial support. One-time items include \$750 million on broadband expansion, \$243.4 million to help establish paid family medical leave benefits in the state, and \$379.4 million to pay off debt on roads and infrastructure (which would have a further positive impact on future budgets). However, much of the new spending would indeed be ongoing and leave the state with a structural imbalance heading into the 2025-27 budget. That would make it difficult to sustain spending at the proposed levels and the state would have less in the way of reserves to draw on (see Figure 6 on the following page).



Figure 6: State Reserves Would Fall
 State general and rainy day fund balances by year (nominal dollars)



Source: Department of Administration

Republicans have said that they will remove or reduce many of the governor’s spending increases, which on its own would lessen the drawdown of state reserves and make the budget more sustainable. However, Senate Republicans favor a plan to shift the state’s income tax to one flat rate, a proposal which as we previously noted would lower state revenues by a projected nearly \$5 billion over the 2023-25 budget and then by \$9.4 billion in the 2025-27 budget, even before any cost to continue current services had been considered. This would likely make the overall budget even more difficult to sustain.

With a recession still at least a possibility at the national level in the coming year, lawmakers and the governor should consider ways to ensure any new spending and tax cuts are sustainable not simply in the upcoming budget, but in the following two years as well. A possible economic downturn also should be impetus to consider the appropriate level of state reserves, which we discuss next.



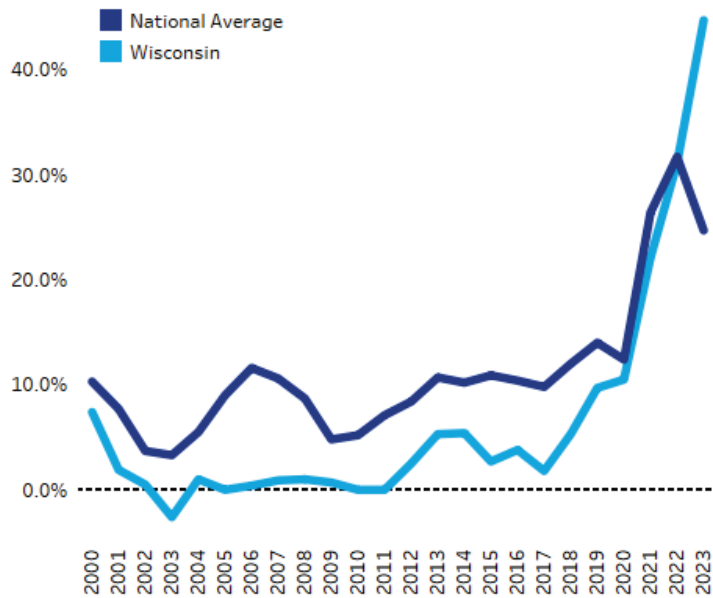
KEYS TO THE STATE BUDGET

Key #1: How high to keep state reserves?

Over the past two decades, Wisconsin's budget reserve totals have gone from being one of the very worst in the country to being well above average. The state's general fund is projected to close the 2023 fiscal year on June 30 with a balance of nearly \$7.1 billion and a rainy day fund balance of \$1.7 billion. The total reserves of more than \$8.8 billion would be more than 1,900 times larger than at the close of 2005 and amounted to an unprecedented 44.7% of 2023 general fund spending, or gross appropriations. That is the highest level in Forum records going back 40 years.

Yet, Wisconsin's reserves only recently have caught up with and now exceeded the national average. At the close of 2005, Wisconsin had total reserves of less than \$5 million, or less than 0.1% of general fund spending, ranking 48th among the 50 states, according to data from the [National Association of State Budget Officers](#). That year, the average state nationally carried reserves of 9% of spending (see Figure 7) – a huge disparity even after accounting for the fact that some states need to carry larger balances because they rely on volatile oil and gas revenues. By 2022, Wisconsin had reserves of 31.1%, just slightly below the national average and this year the state's reserves are the ninth-highest, well above the average of 24.7%.

Fig. 7: Wisconsin's Reserves Rise Above National Averages
Combined general and rainy day fund balances as a % of annual spending



Sources: National Association of State Budget Officers; Department of Administration

Elected officials can appropriate and spend the state general fund balance for any legal purpose, while the rainy day fund by law is reserved for times when revenues fall short of projections. In practice, however, the governor and Legislature could use either balance at any time if they approved a bill with the appropriate language.

How much of this historic balance should the state set aside to ensure healthy reserves going forward without overburdening taxpayers or too tightly limiting spending? The Evers proposal would add \$500 million to the rainy day fund, boosting its balance above \$2.2 billion, but it would spend down the general fund balance to \$634.1 million by June 30, 2025. That would leave total state reserves of nearly \$2.9 billion, or roughly 12% of spending in that year.

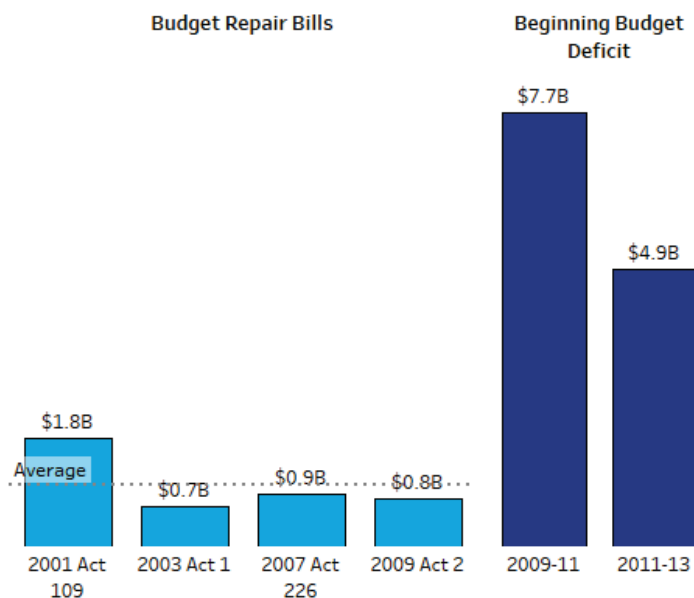


The Government Finance Officers Association says the right reserve level depends on a number of factors, including how volatile a government’s revenues are and whether it faces any unusual risks. Yet the [association also recommends](#) that all governments carry a general budget balance that could cover at least two months of its operations, or about 16.7% of annual spending, which for Wisconsin would work out to roughly \$4 billion for the governor’s proposed 2025 spending.

States nationally have often carried lower balances, however, particularly in the years following recessions when they have been forced to spend down their reserves. We analyzed the NASBO data from 1989 to 2019 – just before the massive federal pandemic aid increases. The all-time high for states was in 2019, when the median state rainy day fund could cover 7.9% of state spending, and general and rainy day fund reserves combined covered 14% of state spending nationally. The 30-year median for total reserves for states was much lower at 7.9% of spending and in years following recessions reserves could be much lower still.

A final way to think about state reserves is to look at the impact of past recessions in Wisconsin. In 2009, for example, state general fund tax collections came in 11.1% below estimates, a shortfall of roughly \$1.5 billion or more than \$2 billion today after adjusting for inflation. When the state carried little reserves during the 2000s, elected officials also frequently had to approve budget repair bills to rebalance the state budget after revenues fell short of projections. Figure 8 shows these shortfalls after adjusting them for inflation. The average budget repair bill adjustment came to approximately \$1.1 billion – another reason for state officials to consider retaining substantial reserves.

Figure 8: State Has Faced Budget Shortfalls in Past
Budget repair bill and projected budget shortfalls adjusted for inflation



Sources: Wisconsin Department of Administration, Legislative Fiscal Bureau

Last, during deliberations on the 2009-11 and 2011-13 budgets, the respective administrations said they faced two-year gaps of approximately \$5.6 billion and \$3.6 billion, which when adjusted for inflation would amount to \$7.7 billion and \$4.9 billion today. Arguably, these two-year figures overstate the size of the ongoing savings that were needed at the time since a spending cut or tax increase in the first year of a two-year budget can be counted twice. Yet, they do show the importance of reserves and provide reason for caution about the extent to which the state should reduce its surplus.

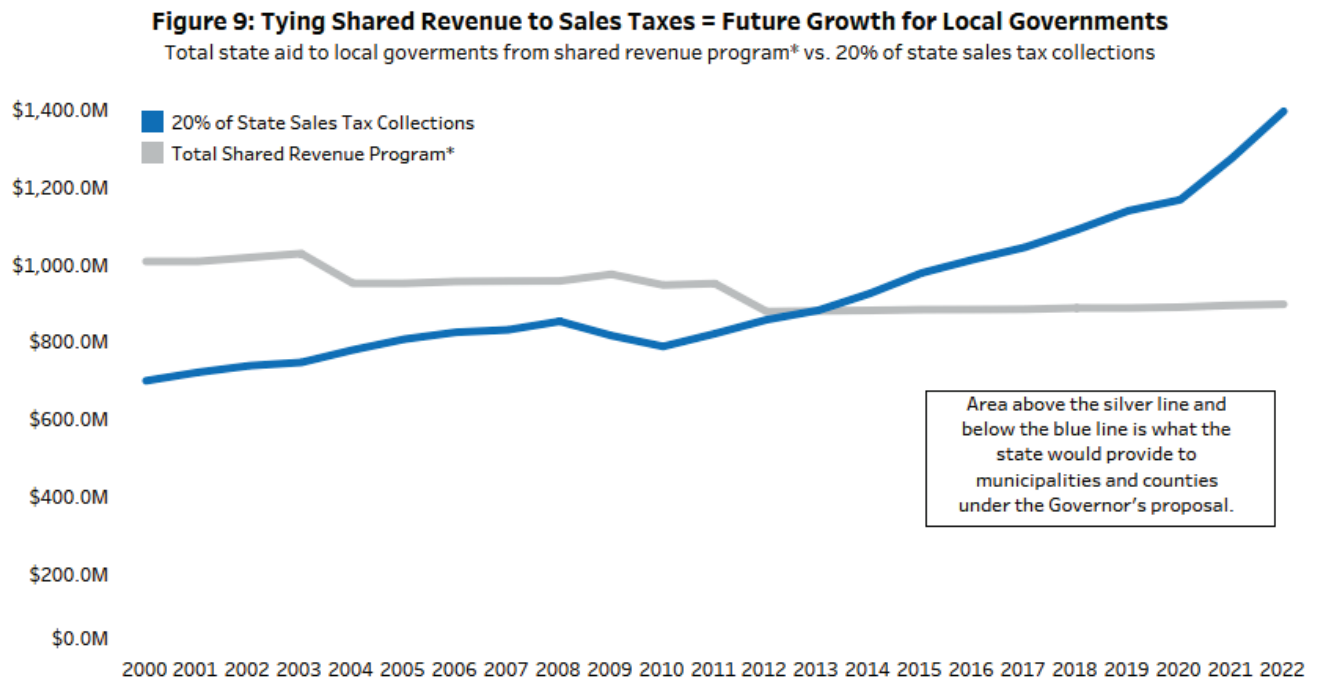


Key #2: More aid – and possibly sales taxes – for local governments

The governor’s proposal would increase the main form of state aid to local governments in Wisconsin by the largest percentage in Forum records going back to 1985. In addition, Evers would allow some municipal and county governments to seek voter approval of local sales taxes. If approved, these proposals would represent a new state approach to financing municipal and county services, and Republican lawmakers have shown interest in approving at least some of them, if not all, though perhaps not in their proposed form.

The governor’s budget would provide 20% of state sales tax collections annually to municipalities and counties in the form of shared revenue. As shown in Figure 9, had that approach been used from 2000 to 2022, then the shared revenue appropriation would have grown steadily rather than significantly lagging inflation.

As the Forum has [noted](#) and the chart shows, the state’s shared revenue payments made through the County and Municipal Aid, Expenditure Restraint, and Utility Aid Programs have declined over the last two decades even as state income and other tax collections have grown. Today, shared revenue payments for both municipalities and counties amount to around \$900 million combined, down from over \$1 billion during the 1990s and far more once inflation is factored in.



Source: Department of Revenue. *Includes County and Municipal Aid, Utility Aid, and the Expenditure Restraint Program.

This new system would not be implemented until the second year of the budget (FY 2025), with a projected \$576.2 million increase over the base budget that would be distributed in two main buckets. The first, accounting for 43.4% of the total, would be distributed to municipalities and counties to spend on public safety services such as law enforcement, fire and emergency medical services, district attorneys, and other parts of the justice system. Under this bucket, each local government would receive at least \$10,000; the remainder would be distributed proportionally on



the basis of existing expenditures on public safety. In FY 2025, this amount is expected to total about \$250 million.

The second bucket of new shared revenue payments would be for other general government purposes. Municipalities would receive 70% of this total and counties would receive the remaining 30%. The first 15% of these revenues would be doled out on a per capita basis; the remaining amount would be given out on a sliding scale based on the per capita property value of a given jurisdiction relative to that of the state. In other words, a village with half the property value per capita of the statewide average would receive double the average per capita amount of this portion of the aid.

Under current projections, in 2025, the governor's budget would provide the city of Milwaukee with an additional \$82.3 million in shared revenue payments, of which \$36.8 million would have to go towards public safety. The city of Madison would receive an extra \$21.9 million, with \$12.2 million devoted to public safety.

In addition, the budget would loosen state limits on local property taxes. Since 2011, municipalities and counties generally have been allowed to increase their property tax levy for operations only by the amount of net new construction within their boundaries in a given year. As statewide new construction levels have grown at a slow pace for more than a decade, allowable property tax increases have tended to lag inflation, placing fiscal pressure on many local governments.

The proposal would re-establish a "floor" that would allow local property tax increases of up to 2% regardless of net new construction growth (similar floors existed from 2006 to 2010). Of the 1,853 cities, towns and villages in the state, just 337 (18.2%) had net new construction rates above 2% in 2022. For the remaining 1,516 local governments, the proposal would have allowed local officials to increase their levy by more last year. However, GOP lawmakers have removed similar proposals from past Evers budgets and may do so again.

The governor's bill also would allow a small group of governments to levy a sales tax if approved by voter referendum. First, Milwaukee County would be allowed to ask voters for the authority to levy an additional 1% sales tax on top of the 5% state rate and existing 0.5% county rate. Of the additional 1% tax, the county would have to pass on half of the revenues to the city of Milwaukee. In 2022, the 0.5% local rate for the county raised \$96.3 million, so both local governments could see close to an additional \$100 million annually in the future under the proposal, which has been under discussion by lawmakers of both parties.

Additionally, the proposed budget would allow all other municipalities besides Milwaukee with a population of at least 30,000 to ask voters to levy a 0.5% sales tax. According to 2020 population numbers collected by DOR, there are currently 26 municipalities that could benefit from this provision were they to pass a referendum, including Madison and two of its suburbs (Fitchburg and Sun Prairie), five Milwaukee County suburbs, and other regional centers throughout the state including Green Bay, Kenosha, Racine, Appleton, Eau Claire, Oshkosh, Janesville, and La Crosse. Republican lawmakers have been skeptical of such proposals in the past, however.

The budget bill also would provide \$200.8 million in FY 2025 to compensate local governments for a repeal of the personal property tax – a proposal that Republicans have also favored. It would add an



additional \$150 million in flexible grants for public and private emergency medical services providers, as well as boost general transportation aids for counties and municipalities by a two-year total of \$51.5 million (4%). Local transit aids would rise by a similar amount.

While many of these provisions are unlikely to pass the Legislature in their proposed form, there appears to be at least some momentum behind a significant increase to shared revenue and the Milwaukee sales tax. As we [pointed out recently](#), since 2010, state tax revenues in Wisconsin have grown by 56.9%, compared to local taxes that have risen by just 21.7%. We also pointed out last year that 2022 was a record year for [local referenda](#) to exceed state levy limits as many municipal and county leaders and voters are looking for ways to maintain local services despite stagnant state aid. With state surpluses at their highest levels ever, the governor's budget proposal seeks to address these issues and lawmakers may agree at least in part.

Key #3: Proposal finds schools at critical crossroads

Once passed and signed, the 2023-25 state budget will answer a question foremost in the minds of many Wisconsin school districts and leaders: how will the state respond to the impending expiration of federal pandemic relief funds to schools and to record levels of inflation? COVID-19 prompted Congress to provide nearly \$2.4 billion in one-time funds to Wisconsin school districts to help them cope with the pandemic. Federal legislation allocated the majority of these dollars to districts serving higher percentages of students from low-income households.

In response to this extra federal funding, the 2021-23 state budget provided no increase to state limits on the revenues districts can receive from local property taxes and state general school aids, freezing the combined amount for two years. At the time, GOP lawmakers argued that any additional costs facing districts could be covered by the federal funds.

Spiking inflation and a historically tight labor market complicated this equation, however, by creating new cost pressures for districts, and compelled some to use portions of their one-time federal funds for ongoing operational costs (as opposed to one-time or pandemic-related needs). The last of the federal funds must be obligated by September 30, 2024. Going forward, that puts even greater importance on revenue limits and other major potential sources of school funding, like special education aid.

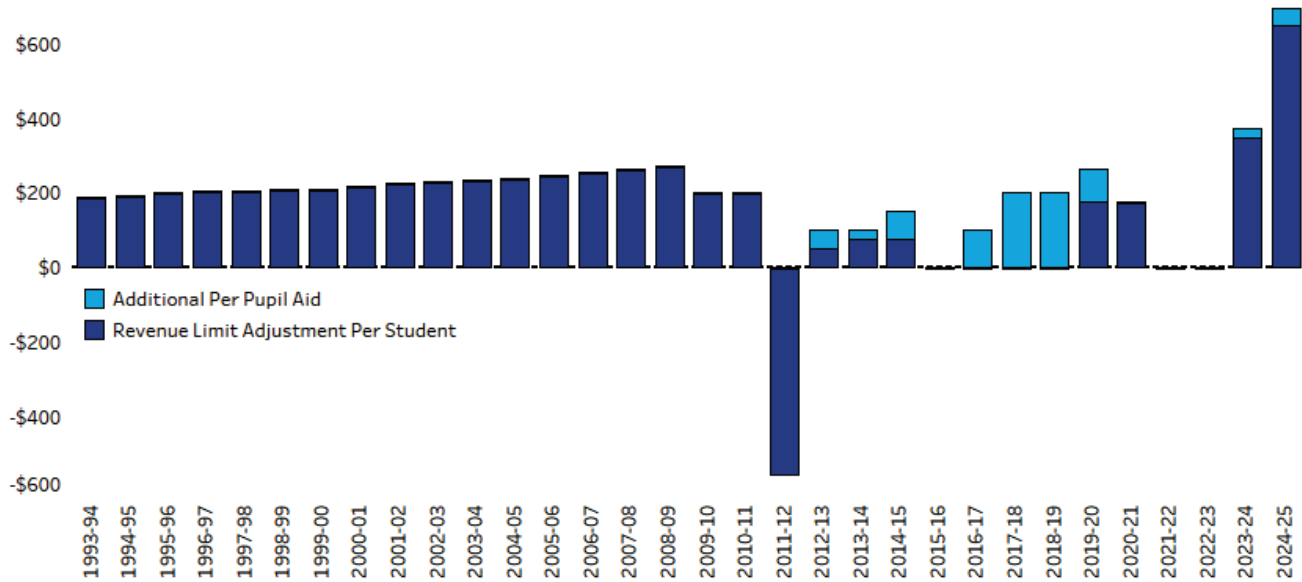
The governor would respond in the next budget with more than \$2.6 billion total in additional state dollars to schools – a massive increase that Republican lawmakers have said they will reduce in the months ahead. The proposed budget also would raise revenue limits by \$350 per student in the 2023-24 school year (which we refer to as 2024) and an additional \$650 per student in 2025. These would be the largest increases since the revenue caps were first introduced and a significant shift from the smaller increases that have prevailed over the past decade (see Figure 10 on the following page). Also, from 1999 to 2009, revenue limits were directly tied to inflation. The governor's proposed budget would reinstate that requirement for 2026 and beyond.

The revenue limit increases would be accompanied by just over \$1 billion in additional state general school aids over the two-year state budget, which would help to prevent a large increase in local property taxes. These funds account for over a third of the proposed K-12 spending. The governor's



budget would also provide \$46.5 million to raise a special form of per pupil aid that does not count toward revenue limits by \$24 per student in 2024 and an additional \$45 per student in 2025.

Figure 10: After Freeze, School Funding Would Increase Sharply Under Proposal
Annual change per student in state school revenue limit and per pupil categorical aid by year



Sources: Legislative Fiscal Bureau and Department of Administration. *Final two school years are as proposed.

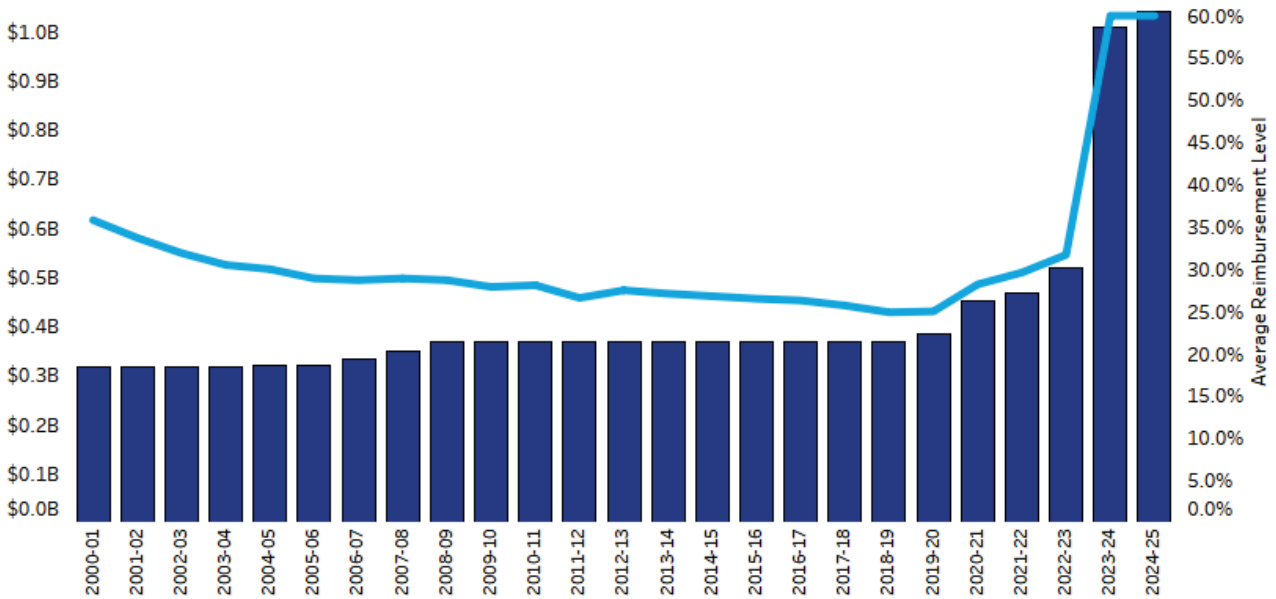
Of equal note for schools are the proposed increases in aid for special education, which schools are legally required to provide to students with special needs. State reimbursements to school districts have not kept pace with the costs of those services, which has in turn forced districts to reallocate resources intended for all students to make up the difference. As highlighted by the [Forum](#) and others, state special education reimbursements remained at \$368.9 million from 2009 through 2019. Over that decade, districts’ special education costs progressively rose, meaning that the state reimbursed districts at a lower rate each year, down to a low of 24.9% in 2019 (see Figure 11 on the following page), according to Legislative Fiscal Bureau (LFB) figures. The 2019-21 and 2021-23 state budgets increased special education aid and brought the reimbursement rate to an estimated 31.7% in 2023, but it remains well below its 1980 level of 66%.

The governor’s budget would provide an additional \$1 billion to special education aid over the next two years – the largest increase on record – in order to achieve reimbursement rates of 60% in both 2024 and 2025. The governor has further proposed to make the special education appropriation sum sufficient – that is, in the future the state would be required to provide whatever funding is necessary to meet its target reimbursement rate.

To an even greater extent than special education aid, state support for English Learners [has lagged for years](#), dipping to a proration level of 7.7% in 2022, according to LFB. The governor’s bill would invest \$22.4 million over two years to raise the reimbursement rate for bilingual-bicultural programs to 15% in 2024 and 20% in 2025 and would also create a new annual line item of \$26 million dedicated to English language acquisition. Other proposed K-12 budget items include various efforts to address teacher workforce issues, student mental health, literacy, and school meals.



Figure 11: Proposed Special Education Reimbursement Rate Would Rise Dramatically
 State special education aid to schools (dark blue) and reimbursement rate (light blue), 2000-01 to 2024-25*



Sources: Legislative Fiscal Bureau, Department of Administration. *2023-24 and 2024-25 amounts are as proposed.

In addition, the governor’s budget would freeze the number of students who can attend private school using public dollars through the state’s four voucher programs (Milwaukee, Racine, statewide, and special needs scholarships). It also tightens certain standards applying to voucher schools, including licensing requirements for their teachers and the amount they can receive for educating a student with special needs. At the same time, however, the budget also raises the per-pupil amount that participating private schools (and, separately, independent charter schools) receive: a \$374 per-student increase in 2024 and a further \$695 per student in 2025 that are intended to mirror the increases in revenue limits and per pupil aid for public schools.

Taken together, the governor’s proposals would constitute a dramatic increase in funding for K-12 schools that would follow two years of frozen school funding and arrive as federal pandemic relief funds are expiring. The budget bill, however, is just an opening offer to legislative Republicans, who are almost certain both to reduce the governor’s proposed aid and revenue limit increases and to seek to expand voucher and other school choice programs.

Last, we should note that K-12 schools are not alone in being affected by the end of federal relief funds for education. Child care providers also received federal pandemic aid, which helped them to stay open, encouraged improvements in the field, and kept more parents in the workforce.

Lawmakers can consider in this budget whether these supports should be sustained – in full or in part – by the state. For his part, the governor proposes using primarily state dollars to continue the pandemic-era Child Care Counts program. His budget also would create a \$22 million program to establish partnerships between businesses, their employees, and child care providers. It remains to be seen how lawmakers will react, but they may wish to consider child care quality, affordability, and access not only as an issue that is critical to children and families, but also as one that has significant consequences for businesses as pandemic-era programs expire.



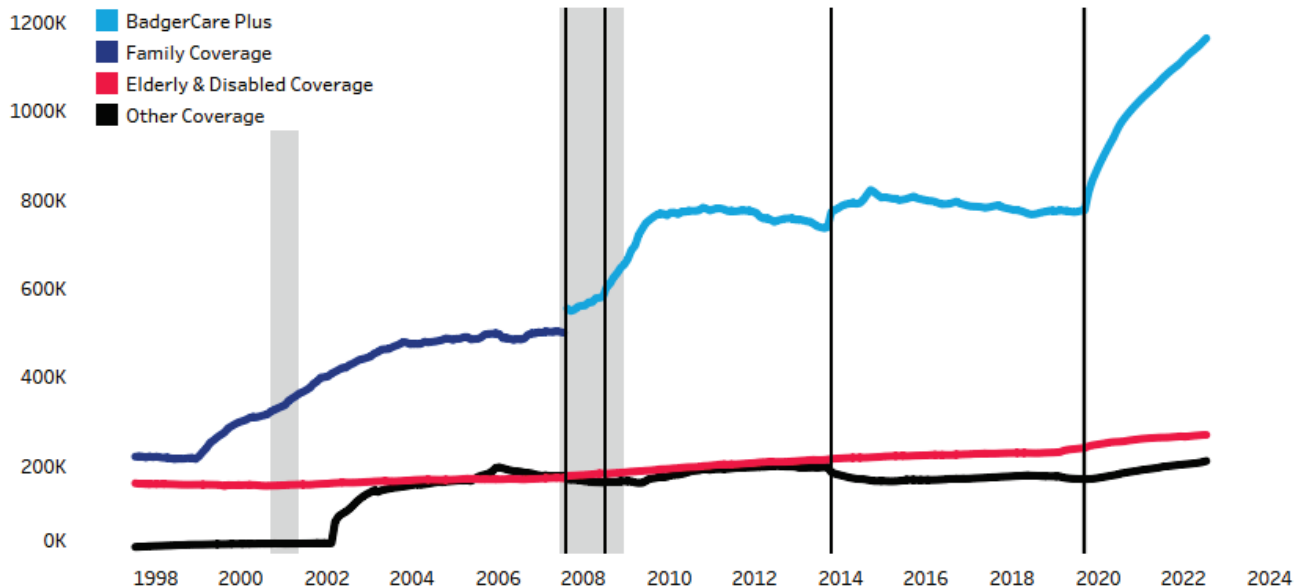
Key #4: Major shift coming in state health programs

The biggest point of debate in recent years about state health programs for low-income residents has been whether or not to take federal Medicaid dollars to expand them, as the governor's budget again proposes. However, there has been almost no discussion in recent years about a far larger expansion during COVID-19 that added hundreds of thousands of individuals to Medicaid programs that are jointly paid for by the state and federal government.

Just prior to the pandemic in January 2020, the state had 1.18 million recipients in its various Medicaid programs that provide medical and long-term care to state residents, including 774,000 adults and children within BadgerCare Plus programs for families. With the arrival of COVID-19, the federal government paid for an additional 6% of all Medicaid costs in the state, but in exchange prohibited the state from dropping individuals from coverage during the public health emergency. By January 2023, the number of Medicaid recipients in the state had risen to 1.65 million, or more than one in four state residents, according to state data. That represents an increase of 39.1%, or 462,800 recipients, including more than 391,000 new BadgerCare enrollees (see Figure 12).

Figure 12: After Skyrocketing During Pandemic, Medicaid Enrollees About to Fall

Enrollees in Wisconsin Medicaid programs in hundreds of thousands by year



Source: Department of Health Services; Note: Gray bars represent recessions, black lines represent BadgerCare coverage expansions, not shown are certain long-term care expansions.

Starting in April, the federal coverage requirement lapses and the state will once again begin to review recipients and drop those whose incomes exceed the program's limits or who fail to meet other eligibility criteria, according to DHS officials. Over the next 12 months, the state will review all current Medicaid recipients, and though state officials have no estimates on how many recipients will be dropped, it is likely to be a very large number given how much the economy and unemployment have improved since the depths of the job losses in the early months of COVID-19.



The state plans to send a letter in March 2023 informing Medicaid recipients of their individual renewal date, with packets arriving 45 days before that due date. If the state has email and cell phone numbers on hand, other reminders will also be sent through those means. If a recipient no longer qualifies for Medicaid, he or she will be referred to HealthCare.gov for potential federal outreach and coverage through provisions in the federal Affordable Care Act (ACA). Recipients will also be offered free assistance through Covering Wisconsin, the federally funded health insurance navigator program. However, given the large numbers of recipients expected to lose coverage over the next year, state policymakers may wish to consider ways to further smooth this transition.

With regard to Medicaid expansion, Evers is proposing using federal funding available through the ACA to expand eligibility for Medicaid from the current 100% of the federal poverty limit, or \$30,000 for a family of four, to 138%, or \$41,400 for the same family. That would add an estimated 89,700 recipients to the program with additional costs but would also pull in large additional amounts of federal aid. The net effect would be a projected \$1.62 billion in savings in state GPR funds over the two-year budget. Evers would use the savings in part to provide additional Medicaid services for patients, make program funding more favorable for counties and schools, and reimburse private providers for more of the costs of Medicaid services by making an additional \$626 million in various payments to hospitals and roughly \$250 million to primary care, emergency room, and other providers.

At this point, only 10 other states besides Wisconsin have not expanded Medicaid, including Wyoming, Kansas, and eight southern states, [according to the Kaiser Family Foundation](#). However, GOP lawmakers in Wisconsin have repeatedly rejected such an expansion and will presumably do so again, which means they will have to balance their version of the budget without these savings.

Medicaid expansion is an important policy debate that has deserved the attention it has received over the past decade. However, it is worth noting that handling the end of the federal coverage mandate is also a major issue that may affect even more people. That challenge should not be overlooked in the upcoming deliberations, not least because unlike the Medicaid expansion, it is now guaranteed to occur absent any policy change.

Key #5: Transportation budget relies more on general taxes

The governor's 2023-25 Wisconsin Department of Transportation (WisDOT) budget proposal continues the recent trend of transferring substantial sums from the state's general fund to support transportation spending. This marks an incremental but notable shift away from the former practice of relying solely on a segregated transportation fund, which is funded primarily through fuel tax and vehicle registration fee revenues, as the state source of transportation funding (in addition to federal funds).

Some previous general fund transfers were one-time in nature, but this budget would add to the current ongoing transfer of 0.25% of general fund tax revenues that have been provided to the transportation fund since 2013. The two-year \$7.54 billion budget for the Department of Transportation calls for two new sources of state sales tax revenue from the general fund, totaling about \$190 million. This is the estimated amount of sales tax generated by the sale of electric

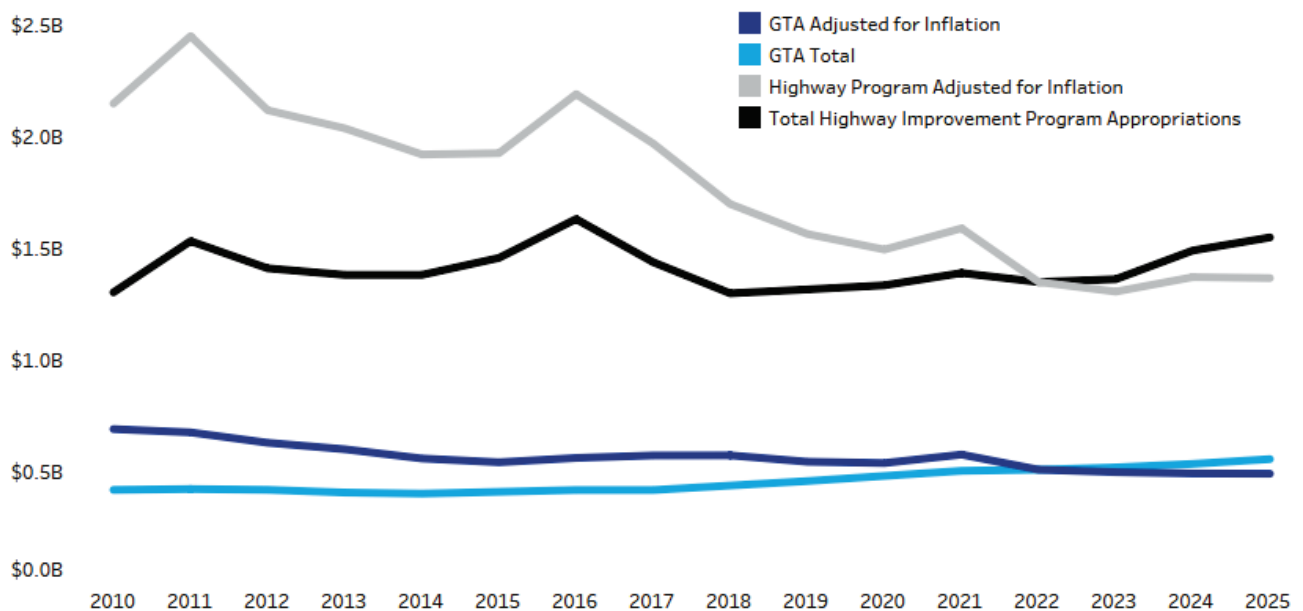


vehicles, and the growth from fiscal year 2021 onward in sales tax revenues from the sale of automotive parts, accessories, tires, and automotive repair and maintenance services.

Evers also proposes using nearly \$380 million in general purpose revenue to pay down bonds that would normally be retired using transportation fund revenues. This amount is equal to roughly two years' worth of transportation revenue bond debt payments, and would help reduce the share of transportation fund revenues used to make debt and interest payments. Last, Evers is proposing to use \$60 million in general purpose revenue to provide grants to local governments for traffic calming projects to reduce crashes.

One long-term area of concern for the state is how inflation is eroding the transportation fund's buying power. Figure 13 uses a state index that tracks construction project costs to show how inflation has affected the state's two biggest categories of transportation spending -- highways and general transportation aids (GTA) to local governments. Notably, the DOT construction cost index increased at an annual rate of 4.3% from 2010 to 2022, with a whopping 14.4% from 2021 to 2022.

Figure 13: Highway and Local Aids Spending Has Fallen Substantially After Adjusting for Inflation
Nominal and adjusted spending in 2022 using WisDOT Chained Fisher Construction Cost Index



Sources: Legislative Fiscal Bureau, WisDOT, and Department of Administration.

In response to this trend, Evers proposes increasing GTA payments – the state's main form of aid to municipalities, towns, and counties for road-related costs – by 4% in FY 2024 and another 4% in FY 2025 at a cost of \$51.5 million over the two years. That compares to a 2% annual increase provided in both years of the 2021-23 budget.

The governor also would increase transit aid to local governments by 4% in each year of the budget at a cost of \$6.8 million over the two years. If approved, this funding would be particularly important for local transit agencies, as ridership plunged during the COVID-19 pandemic and for most has yet



to return to pre-pandemic levels. Federal pandemic aid thus far has helped avert severe service cuts, but most of those funds are set to expire in 2024.

The governor’s proposal would authorize an additional 54 full-time equivalent positions for WisDOT, including 35 new state trooper positions and 10 additional motor carrier inspectors. [Previous Forum research](#) found that as of 2017, Wisconsin ranked dead last among states in its per-capita spending on state law enforcement and ranked more highly for local police spending.

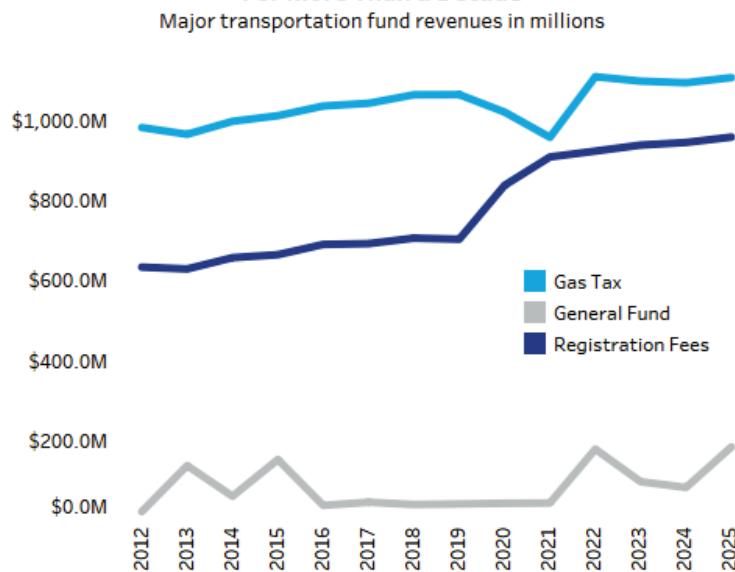
Perhaps the chief long-term concern for the state’s transportation budget is the lack of growth in its largest source of revenue: the 30.9 cents per gallon tax on gasoline and diesel. Figure 14 shows the trend in revenues from the fuel tax, vehicle registration fees, and general fund transfers, as well as projected amounts for FY 2024 and 2025 based on the governor’s budget.

The sharp increase in registration fee revenues in 2020 reflects an increase in the 2019-21 budget, when the fee was raised from \$75 to \$85 annually for automobiles, SUVs and vans. Registration fee revenues are projected to keep growing through FY 2024 and 2025, gradually catching up with fuel taxes as the state’s top source of transportation revenue.

The fuel tax revenue trend is spurred by increasingly efficient gas-powered vehicles and growing numbers of hybrid and electric vehicles. This trend, plus high levels of inflation for transportation project costs, poses concerns about the state’s ability to sustain needed funding for roads, bridges, transit, and other transportation functions.

The Evers proposal would provide a sustainable source of transportation funding by transferring sales tax revenues out of the general fund to pay for roads and other infrastructure. On the one hand, it would avoid a politically unpopular gas tax increase and also ensure that revenues from electric and hybrid vehicles help to cover the wear and tear they add to roads. On the other, the proposal would reduce the state funding available for other priorities like education, health care, prisons, and tax relief and would weaken at least somewhat the link between road funding and the motorists who are using the roads.

Figure 14: Transportation Fund Revenue Has Grown Slowly For More Than a Decade



Sources: Legislative Fiscal Bureau and Department of Administration. 2024 and 2025 amounts are proposed. Note: Impacts of the Governor’s proposed \$379 million transfer to repay bonds are shown when they will occur, with \$76.3 million beginning in 2025.



CONCLUSION

The state of Wisconsin's record surplus augurs an unprecedented budget in the months ahead. This time, the most controversial parts of the debate will not necessarily be about potential cuts but instead about tax relief and new investments. Gov. Evers has put forward his vision, which includes substantial new revenues for local governments and schools, a shift in taxes from low and middle-income earners to those at the high end of the income scale, and several health care expansions.

In addition to the major elements of the governor's vision detailed in this brief, the budget includes a number of other important provisions that we did not delve into here, including:

- A one-time funding increase to the Broadband Expansion Grant Program of just over \$750 million to be spent over no more than 10 years.
- One-time funds replacing federal pandemic aid for programs for neighborhood improvements (\$150 million), health care infrastructure (\$100 million), and tourism (\$50 million).
- \$290 million in FY 2024 for upgrades for American Family Field in exchange for a commitment by the Milwaukee Brewers to stay in the city through at least 2043.
- The creation of a paid family and medical leave program, which would provide 12 weeks of benefits for public, private, and self-employed workers who qualify. The proposal estimates this would cost \$65.8 million in FY 2024 and \$177.6 million in FY 2025.
- Two-year GPR funding increases of \$138.7 million for the Department of Corrections and \$133.6 million for the University of Wisconsin System.

If adopted in full, the Evers proposal would leave the state with enough reserves to cover about 12% of annual spending but also a structural deficit that would make it more difficult to balance the next state budget. Republicans will soon put forward their own vision for the budget, with some lawmakers saying they want to remove much of the governor's proposed spending but also add billions in new tax cuts, which could leave the state with a similar or larger structural imbalance.

While the state's opportunity to use its good fortune to invest in its priorities and cut taxes deserves most of the attention, there are still challenges ahead. A massive influx of federal aid has carried the state – and many school districts and local governments – through the pandemic in relatively good shape, but that aid will be largely spent by the end of 2024. The state and national economy remain strong for now, but a recession is still possible. The state has enough resources to increase spending to maintain or improve service levels, reduce taxes, *and* ensure it will be prepared for any unexpected setbacks. The volatility in today's world demands that it pay proper attention to all three.

A budget that strikes the appropriate balance will depend in no small part on whether the governor and lawmakers can negotiate a bipartisan bill. Though they have faced difficulties in working with one another in the past, there are at least some signs they could reach agreements on areas such as aid to local governments and broad tax cuts. We hope this report makes a modest contribution to the kind of constructive debate that could produce a bipartisan agreement on the budget and, ultimately, a more secure fiscal and economic outlook for our state.

