



# WISCONSIN POLICY FORUM

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## **New State Budget Settles Big Issues, Leaves Room to Keep Bargaining on Others**

*Provides rare mix of outcomes: spending increases, tax cuts, and ample reserves remaining*

Drawing upon an unprecedented state surplus of nearly \$7 billion, elected officials packed the new state budget with a combination that might otherwise have seemed impossible: the largest increase in funding for public services in three decades, coupled with sizable tax cuts, and the preservation of abundant reserves.

In the Wisconsin Policy Forum's new report that recaps the adopted 2023-25 state budget, we highlight the key issues that resulted in both compromise and conflict. For example, the budget provides a sizable funding boost to Wisconsin's public schools, a key priority of Gov. Tony Evers – while also giving historic increases to charter and private voucher schools.

The tax and spending plan also provides new resources for the state's cash-strapped local governments, allowing for particularly large infusions for Wisconsin's largest city, Milwaukee, as well as for many of its smallest communities. At the same time, it includes major funding increases for state payments and credits to lower local property taxes.

Yet it rejects many of the governor's other funding priorities, such as expanding Medicaid, establishing permanent funding to support child care providers, or increasing support for the University of Wisconsin System. The plan also dropped major income tax cuts, which along with the spending rejections means the budget will retain ample reserves for policymakers moving forward.

"The good news for both sides is that a final budget not only has been adopted on time, but has preserved much of the state's massive surplus, thus leaving the possibility at least of future compromises on child care, higher education, income tax cuts, and more," the report finds.

Some **key findings relating to state spending** in the budget and related legislation include:

- Following a period of record inflation, Wisconsin's newly enacted 2023-25 state budget **increased total gross state appropriations** from all revenue sources to \$98.66 billion over the two-year period, an **11.7% increase**. That is the fastest growth in budgeted spending in Legislative Fiscal Bureau (LFB) figures going back to at least 1995.
- Under the budget approved by lawmakers, school districts were set to receive – in both the 2023-24 and 2024-25 school years -- a \$325 per pupil increase to the state-imposed limit on combined revenues that they can receive from state general school aids and local property taxes. Evers used his partial veto pen to extend the \$325 increase to each year through 2425. The budget also provides \$625.4 million over the two years in additional state aid to schools. Notably however, the budget and a related new law will **increase per pupil public funding by far larger amounts for private voucher and independent charter schools**.

- For transportation spending, the **budget relies to a far greater degree on general fund revenues** such as income and sales tax collections, versus the past practice of leaning more heavily on transportation revenues such as gasoline taxes and vehicle registration fees. An additional \$749.7 million is directed from the general fund to transportation spending, in a major acceleration of a trend that has been ongoing since 2009.

**Key findings relating to taxes** in the budget and related legislation include:

- A new 2% local sales tax for the city of Milwaukee and a 0.4% additional sales tax for Milwaukee County dominated public discussion of this budget. But it's worth noting that **Wisconsin's small towns and rural communities received a huge funding boost of their own**, through a historic increase in state aid to local governments via the shared revenue program. Starting in 2024, nearly every municipality in the state will receive at least a 20% increase in a component of shared revenue: county and municipal aid. The vast majority of municipalities and counties will see larger percentage increases **through a formula that favors less populous communities**. Rural communities also will receive a sizable share of the new transportation funding in this budget, giving them a double win.
- The governor vetoed the Legislature's proposed reductions to income tax rates for the top two income brackets – those applying to adjusted gross income of more than \$36,840 – while approving rate reductions for income below that threshold. In 2023, lawmakers' plan would have lowered income taxes owed by \$1.33 billion, for **an average cut of \$405 for all tax filers**; the final budget lowers tax liability by \$82.9 million for all filers for **an average cut of \$25**. Lawmakers' plan would have delivered most of a very large tax cut to upper-income taxpayers, whereas the final budget provides a modest and even overall tax cut.
- Property taxes will be influenced by countervailing factors in this budget: increased local aids and eliminating the personal property tax will put downward pressure on property tax levies, while increases in per-pupil revenue limits imposed on school districts will push property tax bills up in some districts. The budget also provides the **largest funding increases in many years, at \$590 million, for a state credit** paid to counties and municipalities to provide property tax relief. The net impact is that **property taxes statewide should grow somewhat more slowly** than they would have if the measures had not been approved.

Under the new budget, the state's general fund balance would drop from an estimated \$6.88 billion on June 30, 2023 to a projected \$4.07 billion on that same date in 2025. The state would still retain an additional \$1.8 billion in its rainy day fund, leaving it with nearly \$5.9 billion in total reserves. That would amount to 25.5% of spending for fiscal year 2025, far above levels typically seen in both Wisconsin and other state governments in recent decades.

These vast reserves could help state leaders respond to unforeseen future events and positions the state favorably for the next two-year budget cycle. They also could be used to negotiate additional spending or tax cuts as part of the current budget. This provides elected officials with an unusual chance to address more of their priorities they felt were neglected in the newly enacted budget.

[Click here to read the report.](#)

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