WISCONSIN POLICY FORUM

COMPROMISE AND CONFLICT

Budget Settles Most Issues, Leaves Room for Bargaining on Others

Drawing on a massive state surplus, lawmakers and Gov. Tony Evers approved a 2023-25 budget that cuts property and income taxes, overhauls the funding framework for local governments and the transportation system, boosts K-12 school aids, raises state worker pay, and prioritizes affordable housing. The final version, however, did not provide for large funding increases for higher education and child care, upgrades to the Milwaukee Brewers stadium, or an expansion of Medicaid health coverage. Partial vetoes by Evers sharply scaled back the income tax cuts, leaving larger state reserves and the possibility for further compromises.

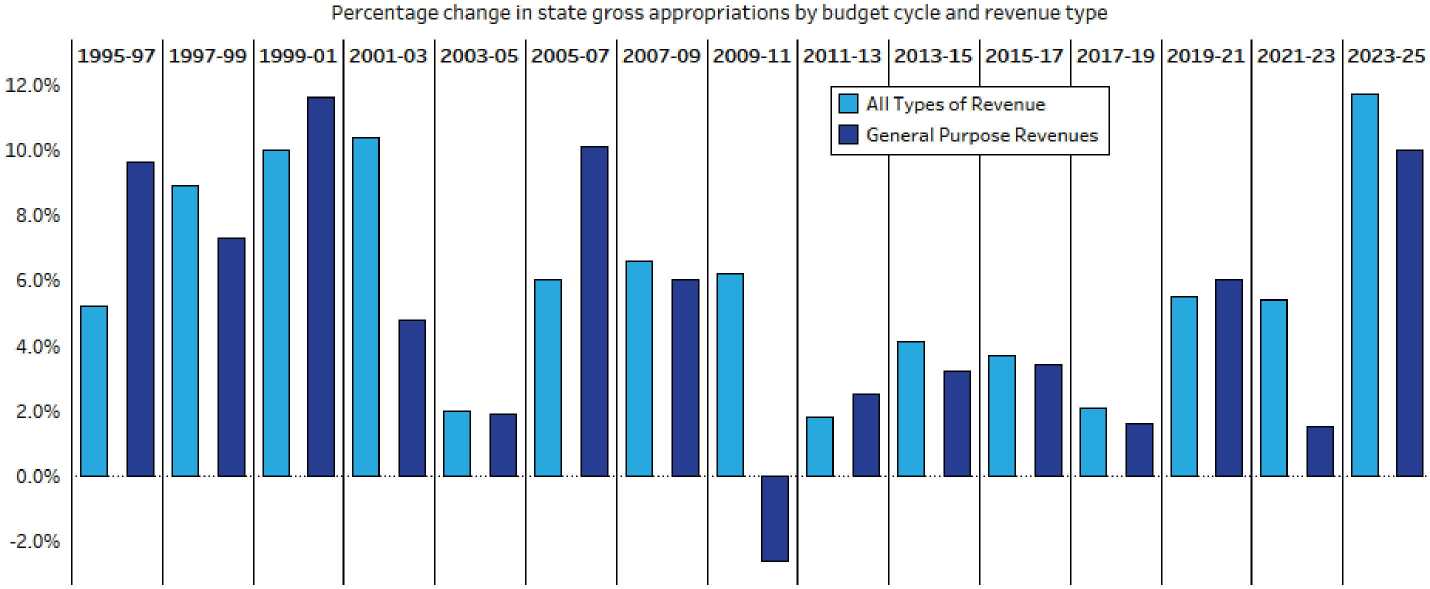
State officials used an unprecedented nearly $7 billion surplus to do in the 2023-25 budget what once would have seemed impossible: combine the largest increase in funding for public services in three decades with a relatively substantial package of tax cuts. The two-year plan running from July 1, 2023 to June 30, 2025 and related legislation will raise state spending by 11.7% while still cutting state and local taxes over both years by more than $1 billion.

This feat means that the budget contains a number of provisions that could prove popular with state residents across the political spectrum, including property and income tax cuts and funding for public and private K-12 schools, state and local roads, public safety, and affordable housing. Not every priority was addressed – Evers removed the biggest rate cuts within the GOP income tax plan and lawmakers approved little new funding for higher education and child care. Yet the budget still will produce major changes in communities across the state.

This big impact comes with a cost, but one that the state can clearly manage for now, with room for some additional spending or tax cuts later in the legislative session. After accounting for partial vetoes by Gov. Tony Evers, the state would spend down roughly $3 billion of its surplus but maintain a relatively healthy relationship between its ongoing revenues and its permanent spending commitments. In addition, the state would

Figure 1: State Spending Would Rise at a Rate Not Seen Since 1990s

Percentage change in state gross appropriations by budget cycle and revenue type



Source: Legislative Fiscal Bureau

retain considerable reserves that it could draw to address unforeseen challenges.

SPENDING TO RISE SHARPLY

The 2023-25 budget proposed by Evers would have included unprecedented increases in budgeted spending of roughly 20% over base levels. The legislation as approved by lawmakers on the Joint Finance Committee (JFC) will spend much less than Evers wanted but still deliver a massive increase. Evers' vetoes had relatively little effect on the budgeted spending in the JFC version.

Under the JFC plan, gross appropriations from all revenue sources will grow to $98.66 billion over the two years, an increase of $10.33 billion, or 11.7%. As Figure 1 on the previous page shows, that is the fastest growth in Legislative Fiscal Bureau (LFB) figures going back to at least 1995.

Appropriations from general purpose revenues (GPR – mainly income and sales tax collections) would rise to $44.41 billion over the two years, an increase of $4.02 billion, or 10.0%. That is the largest percentage increase since the 2005-07 budget.

MOST STATE RESERVES REMAIN

After building budget reserves to massive levels in recent years, the state would spend billions on public services and programs including state credits to lower local property taxes. However, the state would retain substantial assets in its general fund – its main set of accounts that finance aid to local governments and schools, health care, and prisons. Under the final version of the budget with Evers' vetoes, the general fund balance would drop from an estimated $6.88 billion on June 30 of 2023 to a projected $4.07 billion on that same date in 2025 (see Figure 2).

A Look at the Budget

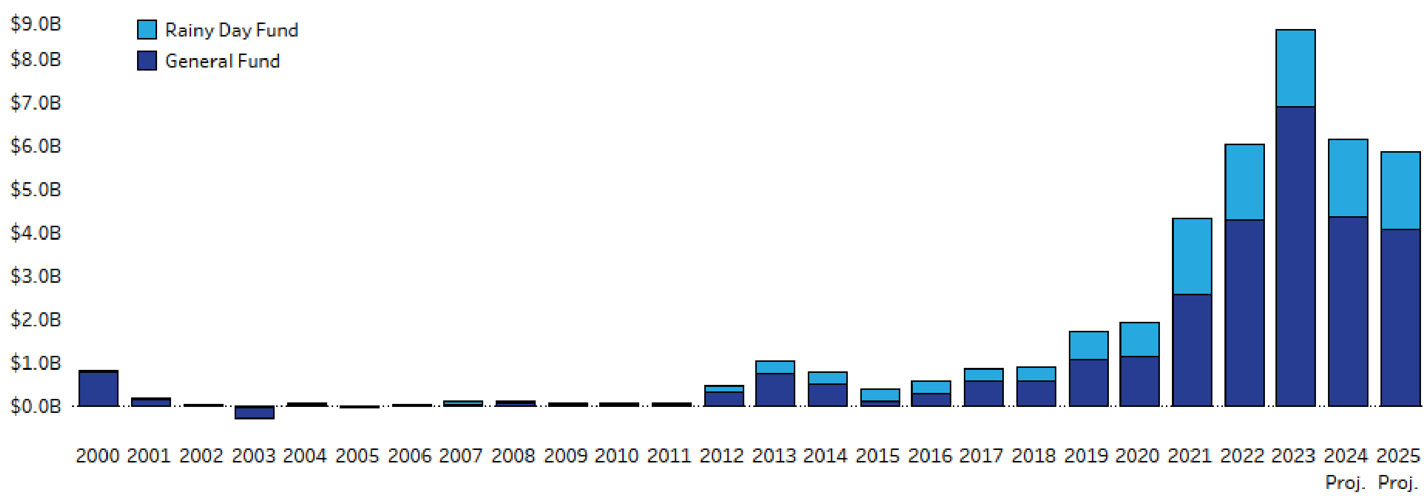
In describing the budget, this brief draws on the recent Legislative Fiscal Bureau analysis of the version of the bill approved by the Joint Finance Committee. Where possible, the figures have been updated to reflect both an amendment approved by the Senate as well as 51 partial vetoes by Gov. Tony Evers. In some cases, the final numbers could differ modestly from those presented here.

The state would still retain roughly $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 (or net appropriations) for fiscal year 2025, which would be well above the levels typically seen in both Wisconsin and among state governments on average over the past two decades. (For a look at those figures see our March brief on the state budget).

The state's reserves are projected to drop for a simple reason – the sharp increase in appropriations and more modest increase in state tax revenues together will mean that the state spends more than it takes in. After several years in which the state ran substantial surpluses, it will essentially run a projected deficit of

Figure 2: State Reserves Would Fall But Remain Sizable

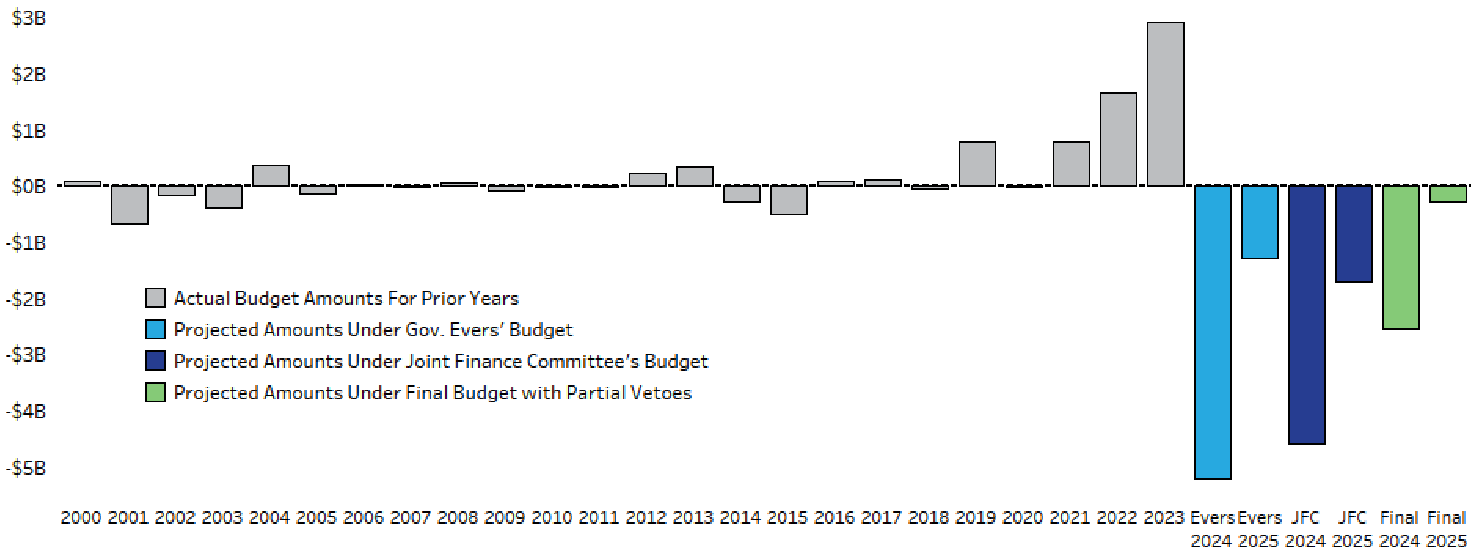
State general and rainy day fund balances by year (nominal dollars)



Sources: Department of Administration and Legislative Fiscal Bureau; chart shows projected budget amounts for 2024 and 2025 after partial vetoes by Gov. Tony Evers.

Figure 3: Final Budget Leaves Smaller Gap Between State Spending and Revenues

General fund revenues minus net appropriations in billions (nominal dollars)



Sources: Department of Administration, Legislative Fiscal Bureau, and WPF calculations

roughly $2.5 billion in fiscal year 2024 and about $279 million in 2025 (see Figure 3).

In all, spending will exceed tax revenues by about $2.8 billion over the two years – a large deficit to be sure but one that would be less than half as big as the ones projected under either the JFC budget or Evers' original plan. So though the state could still face challenges balancing its 2025-27 budget, current projections show it will retain massive reserves, leaving it in solid shape for the future.

MODEST INCOME TAX CUT

The handling of the state income tax was subject to some of the biggest changes in the budget between Evers' original proposal and the JFC version and then between the bill approved by the Legislature and the final law after the governor's partial vetoes. In short, income taxes and education and childcare funding remain the biggest areas of dispute between the Democratic governor and Republican lawmakers.

As explained in our April 2023 brief on the two leading tax plans at that time, Evers had sought various provisions that ranged from large tax increases on the very highest-income taxpayers to substantial income tax cuts for lower and middle-income filers, including a credit of 10% of net tax liability or $100 – whichever is greater – for taxpayers with Wisconsin adjusted gross income (AGI) of less than $150,000. The net effect of the various Evers proposals was to lower overall income tax revenues modestly and accentuate the state's progressive income tax system in which low-income filers pay lower tax rates than upper-income taxpayers.

A massive tax cut proposal made in the spring by Senate Majority Leader Devin LeMahieu would have implemented what is known as a "flat tax," collapsing the state's current series of four income tax brackets and rates down to a single rate of 3.25% for all taxable income. The JFC plan stopped short of that but still made massive overall cuts by lowering rates modestly on income at the lower end of the income scale and more aggressively for income at the upper levels. With his veto pen, however, Evers removed the larger rate cuts for middle and upper-income earners.

Table 1 shows how rates would have decreased by bracket under the Joint Finance Committee version of the budget and how they will fall under the final

Table 1: Budget Reduces Lower Rates

Marginal income tax rates by year (bracket amounts are for married couples filing jointly)

2023 Bracket Amounts	2022	2023 JFC	2023 Evers
$0 to $18,420	3.54%	3.50%	3.50%
$18,420 to $36,840	4.65%	4.40%	4.40%
$36,840 to $405,550	5.30%	4.40%	5.30%
$405,550 and greater	7.65%	6.50%	7.65%

Source: Legislative Fiscal Bureau

legislation. Under the JFC budget, rates in the first two current brackets would have dropped by 0.04 and 0.25 percentage points (1.1% and 5.4% respectively), but they would fallen by 0.9 and 1.15 percentage points (17% and 15%) for the two upper brackets. Evers dropped the two larger rate decreases, leaving only the smaller ones for income at the lower end. It is worth noting, however, that all taxpayers will still benefit under the final plan because the first bracket applies to all filers with a tax liability.

Projections from the state Department of Revenue (DOR) and LFB show the projected impact of the JFC tax cuts versus those remaining in the final budget after the partial vetoes. The JFC plan would have delivered most of a very large tax cut to upper-income taxpayers whereas the final budget would provide only a modest overall tax cut but do so more evenly.

In 2023, the JFC plan would have lowered income taxes owed by $1.33 billion, for an average of $405 for all tax filers (including those who would not have received a decrease). The final budget would lower tax liability by $82.9 million for all filers for an average of $25.

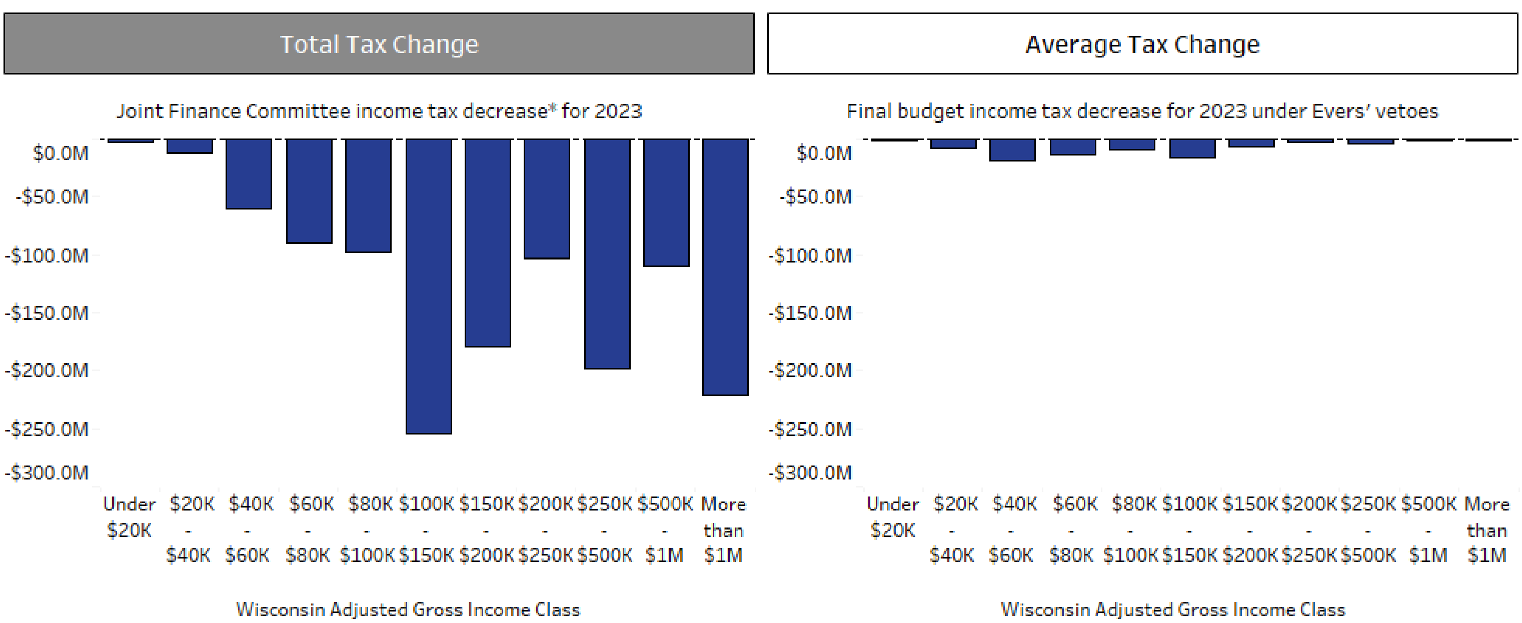
In 2023, the JFC plan would have lowered the taxes owed by those with AGI up to $20,000 by $2.3 million for an average tax cut of $2 per filer for all those in the group (see Figure 4). Taxes owed by those with income of between $100,000 and $150,000 would have declined by $254.6 million in 2023 with each filer receiving an average cut of $771. Taxes owed by those with income of more than $1 million would have declined by a projected $220.8 million in 2023, with each filer receiving an average cut of $28,978.

After the Evers' vetoes, the final budget will reduce the projected tax liability for those with AGI up to $20,000 by a similar amount as the JFC budget, though certain out-of-state filers will receive a smaller decrease. Taxes owed by those with income of between $100,000 and $150,000 would decline by $16.4 million in 2023 with each filer receiving an average cut of $50. Taxes owed by those with income of more than $1 million, however, would decline only $319,361 in 2023 with each filer receiving an average cut of $42 that is similar to those projected for middle-income earners.

For more context on Wisconsin income tax rates compared to other states, see our April brief. Together with the other provisions in the budget impacting income, sales, and property taxes (which we discuss in greater detail below), provisions in the budget would reduce state and local taxes by more than $1 billion over the next two years. However, related legislation could increase sales taxes in Milwaukee and Milwaukee County and allow local school districts to increase their property tax levies into the future.

Figure 4: Plans Would Impact Taxpayers Differently By Income Level

Amount of total income tax change (y-axis) compared to current law by adjusted gross income class of tax filer (x-axis)



Sources: Wisconsin Department of Revenue and Legislative Fiscal Bureau. *Does not include an estimated $22.6 million going to out-of-state corporate shareholders.

STATE AID TO RISE, ESPECIALLY FOR SMALL COMMUNITIES

Lawmakers and Evers also approved a landmark overhaul to the way the state's municipalities and counties are funded, particularly in Milwaukee. The provisions were approved as part of 2023 Wisconsin Act 12, which was approved last month as a companion bill to the state budget.

Under the combined effect of Act 12 and the budget, local governments will receive an additional $274.9 million in fiscal year 2025 through the state's shared revenue programs, a type of state aid that traditionally has come with relatively few restrictions on how it can be used. The increases in shared revenue payments will also be tied to growth in state sales taxes – a major change that if preserved would guarantee annual increases after decades in which state aid has failed to keep pace with inflation. In addition, the legislation provides an opportunity for local leaders in the city of Milwaukee and Milwaukee County to adopt new local sales taxes to help ensure they can overcome looming financial challenges.

Starting in 2024, nearly every municipality in the state will receive at least a 20% increase in a component of shared revenue known as county and municipal aid. The vast majority of municipalities and counties will see an even larger percentage increase based on a formula that favors less populous communities.

The state's two largest cities are guaranteed an increase of at least 10% in their county and municipal aid. Milwaukee will receive this minimum percentage, which will total $21.7 million in 2024 – still a sizable amount that reflects its status as the largest shared revenue recipient in the state. Madison's payment will rise by nearly 60%, but results in only around $2.8 million next fiscal year because the state's capital city receives relatively little shared revenue to start with.

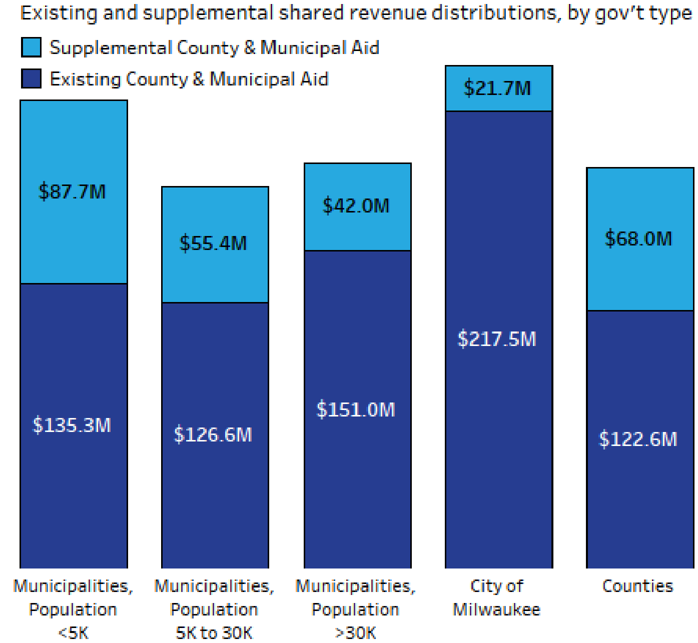
The legislation requires local governments to spend these additional funds only on public safety (including emergency communications), public works, courts, and transportation. Previous shared revenue payments can still be spent in whatever manner a municipality or county chooses.

Following this significant one-time boost next year, the amount of shared revenue each city and county receives in subsequent years would increase by the rate of growth in state sales tax collections from the prior year. The additional shared revenue funding has been matched with separate increases in local road funding (see page 10). Together, those actions represent a recognition by Evers and lawmakers that tight state limits on both shared revenue and local property taxes have proven extremely challenging for local governments in a time of rapid inflation.

These increases come with "maintenance of effort" requirements that local governments with public safety spending meet certain benchmarks or else face a 15% reduction in their overall shared revenue payment. All local governments, including counties, will have to meet two of four benchmarks with regards to their fire protection and emergency medical services (EMS) by at least maintaining their relevant spending, employment levels, levels of staff training and licensure, and response times. In addition, any municipalities with at least 20,000 residents must meet one of three benchmarks regarding law enforcement, which involve maintaining overall spending levels, the share of their tax levies devoted to law enforcement, and employment levels.

Act 12's distribution formula for the supplemental shared revenue payments favors the state's smallest communities: combined, municipalities with a population currently under 5,000 will see a shared revenue increase of 64.8%, compared to just a 17.3%

Figure 5: Smallest Municipalities See Largest Influx of Aid
Existing and supplemental shared revenue distributions, by gov't type



Source: Legislative Fiscal Bureau; amounts are for state fiscal year 2025.

increase for municipalities with populations above 30,000 including Milwaukee (see Figure 5 on page 5). Rural communities also will receive a significant share of the additional road funding in this budget, which provides them with a double win.

After the increase, municipalities with populations of less than 5,000 will receive about $114 per capita in total shared revenue, somewhat more than the $104 per capita that municipalities with populations between 5,000 and 30,000 will receive. After removing Milwaukee, municipalities with more than 30,000 residents will receive $122 per capita. Milwaukee will receive $407 per capita – a reflection of the city's size as well as how the previous state formula treated communities like Milwaukee with low property values.

In comparing communities, however, readers should note that the smallest municipalities (particularly towns) do not typically offer the full suite of services and infrastructure offered by some larger local governments. Such services include law enforcement, libraries, water lines and sewers, sidewalks, and lighting. That means that larger cities typically have much higher per capita costs than towns.

Despite the smaller increase in aid for many larger municipalities, however, the legislation would arguably impose more stringent maintenance of effort requirements on them with regard to public safety. For example, more populous communities tend to devote a greater share of their budgets to public safety (police and fire and EMS). Municipalities with populations under 5,000 devoted 22.7% of their operating and capital spending to public safety in 2021, compared to 43.8% for municipalities with at least 30,000 residents, according to a Forum analysis of state DOR data.

Those same data show that more than two thirds of all municipalities with populations of less than 5,000 spent nothing on law enforcement in 2021, whereas every municipality with a population of at least 30,000 spent millions of dollars on law enforcement. These additional public safety requirements could limit budget options for some cities in the future if financial challenges require them to cut spending to balance their budgets.

Evers had proposed a similar but much larger shared revenue increase that would have totaled $576.2 million in 2024 rather than the $274.9 million in Act 12. While the governor's proposal also would have tied future increases to growth in state sales tax collections, it did not include maintenance of effort requirements for local services and distributed the supplemental shared revenue in a different way that focused on population as well as other metrics, such as existing spending on public safety and revenue levels from other sources.

In addition to altering how the state distributes aid to its municipalities, Act 12 and the budget included many other items impacting local government finances and policies, including the following:

- Repealing the personal property tax, and providing local governments that received those taxes aid of $174 million to replace them.
- Prohibiting local governments from conducting advisory referenda, with some exceptions.
- Prohibiting local governments from giving "preferential treatment" to individuals based on their race, color, ancestry, national origin, or sexual orientation when it comes to contracting for public works or hiring in general.

This legislation also offers a historic opportunity for the city of Milwaukee and Milwaukee County – the state's two largest local governments – to help address huge financial challenges that have been building for years and to sustain current levels of critical services for residents and commuters.

The legislation authorizes new sales taxes of 2% for the city of Milwaukee and 0.4% for Milwaukee County on top of the county's existing 0.5%. The additional taxes come with stipulations for how they must be passed by governing bodies, what the revenues can be spent on, requirements for both local governments to gradually phase out their currently underfunded pension systems by placing new employees in the well-funded Wisconsin Retirement System (WRS), and more; these sales taxes would end after either 30 years or when the existing city and county retirement systems are fully funded. We will provide additional discussion of these provisions later this year in our budget briefs on the city and county.

However, along with this progress, both governments will also lose some local control over finances and policymaking:

- Both the city and county must approve any new program spending or positions via a two-thirds vote of their respective governing councils – a provision that could make it more difficult for local leaders to adapt their budget to changing needs.

- The city would no longer be able to use property or sales taxes to pay for either its streetcar or diversity efforts.
- The city would have to employ 1,725 law enforcement officers – including 175 detectives – and 218 paid fire fighters within 10 years of the start of the sales tax.
- Both the city and the county must use sales tax revenues for pension-related costs; the city can also use 10% to attain the level of police and fire employment it had on April 1, 2023.
- Shifting policymaking authority over the Milwaukee Fire and Police Departments from the city's Fire and Police Commission to the respective chiefs of those departments.

The Milwaukee Common Council approved the new city sales tax on July 11 by a vote of 12 to 3, clearing the way for the tax to go into effect in January.

PUBLIC FUNDING FOR PRIVATE AND CHARTER SCHOOLS CATCHING UP

With his powerful partial veto pen, Evers extended an annual funding increase for schools from two years to a potentially much longer time span. Under the budget approved by lawmakers, school districts were set to receive in both the 2023-24 (referred to here as 2024) and 2024-25 school years a $325 per pupil increase to the state-imposed limit on the revenues that they can receive from state general school aids and local property taxes combined. In a maneuver that could still be subject to litigation, Evers used his partial veto authority to extend the annual $325 per-pupil increase through the year 2425. The veto has no impact on the first two yearly increases that had already been included in the 2023-25 state budget.

The governor sought with his action to provide guaranteed revenue limit increases to school districts in perpetuity and in the process respond to complaints from school officials that previous freezes left their budgets to be eroded by inflation, particularly during the rapid rise in consumer prices over the past two years.

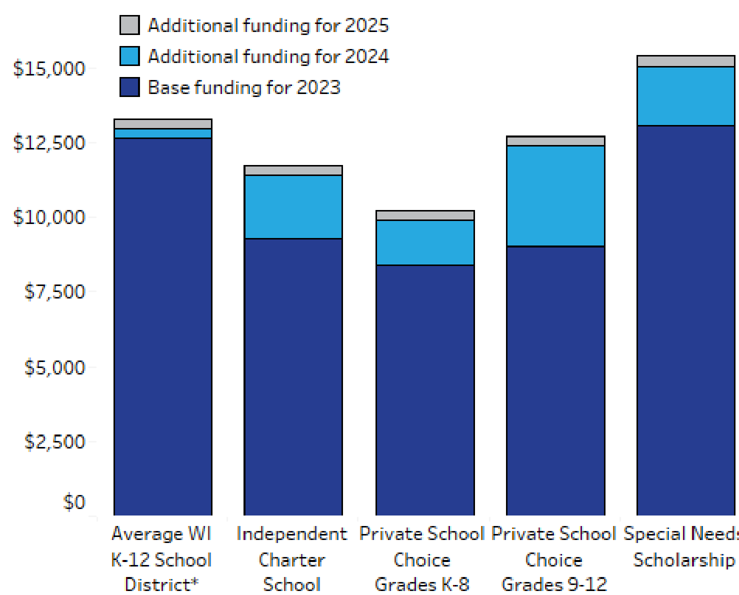
The new language could lead to both greater overall funding for K-12 schools in future years as well as higher local property taxes. The first two years of $325 increases, however, are not by themselves enough to catch districts up for the effects of inflation on their budgets in recent years.

Even if upheld, the language of the partial veto could still be changed by future governors and Legislatures. Yet it does make it more likely the revenue limit increase – equal to about 2.7% in the current school year – would continue through the 2026-27 school year and potentially beyond that period if Evers serves another term or is replaced by another Democrat.

In other actions, the budget also provides $625.4 million over the two years in additional state aid to schools. That includes $500.6 million in additional state general school aids along with $97 million more for special education aid. In the next section, we discuss the impact of these changes on K-12 property taxes.

The combined effect of the budget and a related piece of legislation will increase public funding by even larger amounts for private voucher and independent charter schools than the $650 revenue limit bump for public schools over the two years. As shown in Figure 6, the increases for each type will range from $1,838 per pupil for K-8 voucher students to $3,686 per pupil for high school students in that program.

Fig. 6: Funding Increases Most for Voucher & Charter Schools
Estimated per pupil funding amounts under budget and related legislation



Source: LFB; *Average statewide revenue limit plus per pupil aid for 2023 plus $325 per pupil increase in 2024 and 2025. Doesn't include other state aid outside revenue limits.

In 2023, the average revenue limit funding for public school students in Wisconsin was $11,888 per pupil plus $742 from another form of state aid that supplements the revenue limit for a total of $12,630. Though that amount was well above voucher and charter school funding last year, the amounts for these competitors to traditional public schools will catch up considerably over the next two years (see Figure 6 on the previous page).

Notably, future funding amounts for these alternative schools are tied to increases in both revenue limits and other forms of funding such as special education aid for school districts, so they could rise as well in the years to come because of the governor's partial veto. Funding for these programs are governed by a complex series of rules, but in many cases these voucher and charter increases will mean reduced state aid for area public schools and upward pressure on local property taxes.

PROPERTY TAX GROWTH IS LIMITED

The 2023-25 state budget should put some downward pressure on local property taxes over the next two years. The main mechanism for doing so is an increase in a key state credit that represents funding paid by the state to local governments to reduce the taxes owed by property owners.

Under the budget, funding for the school levy credit would rise by $255 million, or 27.1%, in year one and an additional $80 million, or 6.7%, in year two for a total increase in funding of $590 million over the two years. The year one percentage increase is the largest rise in the credit in a single year since 1997. Despite the credit's name, it is used to lower property tax levies and does not provide additional funding for schools.

While local governments and school districts set property tax levies and rates, the state budget has a large impact on how property taxes will change over the next two years. Increases in tax credits and local aids and the elimination of the personal property tax will exert substantial downward force on property tax levies, while increases in the per-pupil revenue limits imposed on school districts will push property tax bills up.

The Legislature left in place the existing state caps on local property taxes, effectively limiting the increase in operating levies for municipalities, counties, and technical colleges to the growth in net new construction. As noted earlier, the legislation also increases shared revenue and local transportation aids and provides new sales tax authority to Milwaukee and Milwaukee County. All of these provisions could help to slow the growth of local property tax levies.

The budget and Act 12 also eliminated the personal property tax, estimated to lower total statewide levies on December 2024 bills by $173.8 million. The budget also provides GPR funding to increase the state lottery credit by $31.7 million over the two years, which is also used to lower the net statewide property tax levy.

In his budget bill, Evers proposed increasing the amount that schools can raise from general state aid and the property tax by $350 per pupil in 2024, and then again by $650 in 2025, tying increases to inflation in the years following. Both would have been the largest increases seen since per-pupil revenue limits were instituted. However, the Joint Finance Committee lowered those amounts to $325 increases in both years – less than Evers sought but still the largest since the limits were put in place. As of this past school year, the state counted about 800,000 pupils for the purpose of revenue limits; an additional $325 would therefore equate to about $260 million each year between the two largest sources of school funding.

When considering the combined impact of these increases in the per-pupil revenue limit and the additional general aid increase of $137.9 million in the first year of the budget and $362.8 million in the second, by themselves these two changes would likely mean some increase in authority to raise property taxes in year one of the budget and a potential decrease in year two. However, separate legislation (2023 Wisconsin Act 11) also raised the "low revenue limit ceiling" – the confusingly named minimum revenue amount for school districts – from $10,000 to $11,000. That would increase the revenue limit authority for districts collectively by roughly $350 million in each year. However, not all of this amount would be in addition to the $325 per-pupil revenue limit increases and so the total increase would be less than the two added together.

Local school boards do not have to use all or even most of this new revenue limit authority, but in the current environment many of them will choose to do so. Readers should also note that school boards can choose to ask voters to raise property taxes outside of state-imposed limits via referenda. For those reasons, the increases in the revenue limits should be thought of more as a floor than a ceiling.

In all, property owners around the state can expect to see some increases in their collective taxes over the next two years. Yet the budget and the two related acts dealing with schools and local government funding should ensure that local property taxes grow at least somewhat slower than they would have if none of the measures had been approved.

CHANGE IN APPROACH FOR TRANSPORTATION FUNDING

The 2023-25 transportation budget shifts to a far greater reliance on general fund revenues such as income and sales tax collections to fund infrastructure spending, as opposed to leaning almost entirely on revenues that flow into the state transportation fund such as gasoline taxes and vehicle registration fees. The Evers proposal would have directed an additional $570 million in general fund revenue to the transportation budget, including $380 million to pay down existing debt. The Legislature increased that figure substantially to $749.7 million, meaning that a sizable share of total transportation funding will come from general state sources.

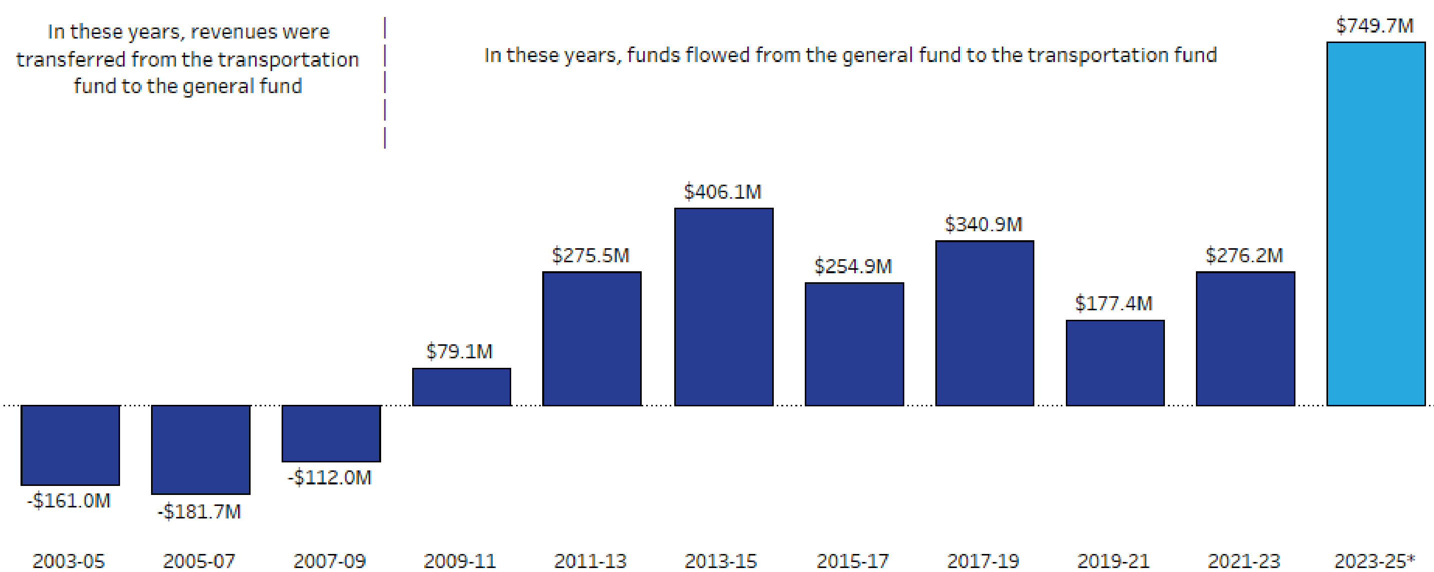
Figure 7 shows transfers of funds between the general fund and transportation fund over the last 11 two-year budgets. In the first three of those budgets, transportation funding was actually used to pay for general fund priorities. Over all 11 budgets, however, a net of more than $2.1 billion of general fund dollars will have flowed to spending on roads and other transportation infrastructure by June 2025.

The practice of using general fund revenues to support transportation priorities comes with benefits and drawbacks. On the one hand, the shift to general fund sources like income and sales tax revenues provides additional transportation funding without increasing borrowing or the state's gas tax and vehicle registration fees – something that elected leaders had been reluctant to do despite lackluster growth in these transportation revenues. However, this approach does put the transportation system into direct competition with other state priorities such as K-12 schools and higher education, Medicaid health coverage, prisons, and state credits to lower local property taxes.

To be clear, $555.5 million of the transfers in the 2023-25 budget have been structured as one-time maneuvers that would not necessarily continue in future years. Increased federal funding for infrastructure may also be helpful going forward and somewhat mitigate the need for such large transfers. However, the need for expanded investments in the transportation system will still exist in future budgets, as projects like the $1.3 billion in work on the I-94 East-West Corridor ramp up, aging infrastructure requires replacement, and the need

Figure 7: Nearly $1 Billion in General Fund Tax Revenue Would Be Used for Transportation in New Budget

Transfers between general and transportation funds by two-year budget cycle, 2003-05 to 2023-25



Source: Legislative Fiscal Bureau. Amounts in the chart represent the net impact of cash transfers out of the transportation fund less general fund supported borrowing for highway projects. *Transfers in 2023-25 do not include the impact of a shift of $228.7 million in transit funding from the transportation to the general fund.

continues for new programs such as an agricultural road initiative being funded in this legislation on an ostensibly one-time basis. Without additional transportation revenues from increased gas taxes or vehicle fees or from new sources such as toll roads, future lawmakers and governors will likely have to choose between a substantial reduction in transportation spending, increased borrowing, or additional large general fund transfers.

In addition to the financing changes already mentioned, the budget will also use general fund revenues to fund transit aids to local governments, which total just over $228.7 million over the two years. This move adds to the shift in resources away from general fund priorities toward transportation. It also has raised concerns among transit providers, who fear that competition with other state priorities for general fund revenues will result in decreased funding in future budgets. In this budget, however, transit aids received a one-time increase of 2% in calendar year 2024.

The Legislature also nearly doubled the state contribution to the existing Local Road Improvement Program that funds local projects costing more than $250,000, raising the funding from $166.1 million in the 2021-23 budget to $324.3 million over the next two years. The total funding includes $150 million for agricultural roads, which consist mainly of rural town roads with a small number of village roads and county highways, and $100 million of one-time supplemental aid, similar to amounts included in the 2019-21 and 2021-23 budgets. Counties will receive $35.6 million, cities and villages $25.4 million, and towns $39.0 million of that allotment. When combined with the funding for agricultural roads, town governments will receive substantial new funding on top of a substantial increase in shared revenue.

Each year of the budget would also provide a 2% increase in General Transportation Aid (GTA) to local governments, which covers a portion of the cost associated with road construction and maintenance as well as related costs such as sewers, lighting, and law enforcement. That was the same percentage increase as in the 2021-23 budget and comes at a time when the Wisconsin DOT reported construction inflation of 30.5% from the first quarter of 2021 to the first quarter of 2023. One of the governor's partial vetoes removed an increase in a component of the GTA formula that would have directed part of the additional funding to towns and smaller villages, which means more of it will go to cities and villages.

CUTS IN STATE JOBS BUT PAY RISES

The budget will have a mixed effect on state workers and employment. On the one hand, it funds a small number of new positions in a few agencies and broad wage increases for the overall state labor force plus additional amounts for some targeted workers to address high turnover rates. On the other, it cuts hundreds of authorized positions across state government.

Evers had proposed increasing the number of full-time equivalent (FTE) positions by a little over 800 in his budget proposal, but the JFC version of the budget would have instead cut nearly 794 FTEs compared to base levels, with the Department of Workforce Development (DWD) and the University of Wisconsin System taking the largest portions of the cuts.

In some cases, the positions being eliminated were already vacant, including 142 unfilled positions at the UW System and 29.2 at DWD, but in other cases the changes were more notable. The JFC budget, for example, would have eliminated 188.8 positions at the UW System to promote diversity, equity, and inclusion goals among the students and staff. Evers used his partial veto to restore those positions though not the funding associated with them, reducing the total state position cuts.

The budget also will increase wages for state employees in both years, though by somewhat less than what the governor proposed. The GOP budget provided the funding for a 4% general wage increase that started on July 1 of this year, and another 2% increase that would start on the same day in 2024. This will cost the state's general fund a projected $88.7 million in the first year and $132.4 million in the second, for a total of $221.1 million. The increases will blunt some of the effect of rapid inflation on state workers and may also help to address high turnover and vacancies within the state workforce, which as we noted recently reached record levels in 2022.

In the same brief, we pointed out that DOC prisons were among the state institutions facing particularly high turnover and vacancy rates. The budget does provide $169.8 million in the first year and $174.2 million in the second year for a variety of compensation increases for correctional workers, including a minimum $33 per hour wage for certain jobs. The budget also provides an additional $15.3 million in funding for overtime for correctional workers.

We also recently reported that state compensation for both public defenders and assistant district attorneys (ADAs) has not kept up with inflation and may be contributing to growing justice system backlogs. This area of the budget represented an area of strong bipartisan agreement: lawmakers of both parties agreed to raise the rate at which private sector attorneys are compensated for performing public defender work from $70 to $100 an hour, and the governor's proposal of raising starting hourly salaries for both positions from $27.24 to $35 was bumped up even further by JFC to $36 per hour. These changes, respectively, raise public defender and ADA salaries to something much closer to private-sector compensation for recent law school graduates and bring the state more in line with compensation rates in other states for private attorneys serving as public defenders.

CAPITAL BUDGET SMALLER THAN PROPOSED BUT STILL LARGE

The governor's capital budget contained $3.8 billion in spending for new projects and increases for existing projects, far higher than the $1.5 billion contained in the previous capital budget. The Legislature trimmed that amount to $2.4 billion, but it still represents a large increase in spending.

A substantial portion of the difference comes from the Legislature's decision not to include $967 million in projects across the UW System, including $347.3 million for a new engineering building at the University of Wisconsin-Madison, as well as $182.5 million for a science center at UW-La Crosse.

Other notable cuts to the governor's budget include:

- $141.4 million for the renovation of a state office building in Downtown Madison
- $54.9 million for an arts center in Milwaukee
- $83.0 million for a Juvenile Corrections Center, though planning funds were included
- $88 million for upgrades to state mental health centers, replaced with planning funds

Though the Legislature reduced the number of new projects, a few large ones will move forward, including:

- $138.9 million for educational space at UW-Stout
- $41.0 million for a food and farm center
- $50.0 million for grants to local organizations for capital projects

Much of the capital budget will be funded with cash from the state's budget surplus. The budget uses cash to fund $1.1 billion of the projects, or nearly half of the total. It authorizes $275.8 million of new borrowing, with the remaining funding covered by existing bonds, agency funding, gifts, and federal funding.

BOOST FOR AFFORDABLE HOUSING

The final budget will provide $525 million in funding for state loans or grants for various affordable housing initiatives. Three of those programs are revolving loan funds that were created by legislation earlier this spring to finance infrastructure to support new workforce and senior housing, upgrades to housing in mixed-used developments with commercial businesses on lower floors, and the conversion of commercial buildings to housing. The budget approved by JFC included $50 million – half of what the governor proposed – to provide low-interest loans or grants to homeowners to repair and rehabilitate aging houses.

In addition, the budget increases by $200 million the state's limit for backing certain financing mechanisms to support affordable housing. Together, all of these provisions focus on boosting the quantity and quality of the state's residential housing stock and addressing the impact that COVID had on commercial infrastructure.

WHAT LAWMAKERS CUT

Evers and GOP lawmakers reached a number of agreements as part of the budget, but they also ended the process with a gulf still separating them on many more. JFC removed hundreds of items from the governor's version of the bill, including 13 provisions that would have individually had a fiscal impact of at least $100 million. With the exception of an expansion of Medicaid, all of the dropped provisions would have spent GPR funds. The removed items include:

Medicaid Expansion. JFC opted against expanding the BadgerCare Plus Medicaid program to more low-income adults. As a result, Wisconsin will remain one of just 10 states that have not expanded eligibility to include parents and childless adults that earn between 100%

and 138% of the federal poverty line. As part of the Affordable Care Act (ACA), the federal government would have covered 90% of the costs associated with individuals who became eligible for Medicaid benefits as part of the ACA. Factoring in that provision and another one within the American Rescue Plan Act (ARPA), the state could have expanded Medicaid to an estimated 89,700 more people and freed up an additional $1.6 billion in state general purpose revenues over the next two years.

Funding for the Milwaukee Brewers' stadium. JFC removed a grant of $290 million in GPR that would have funded maintenance and upgrades to American Family Field. This grant would have been predicated on the team agreeing to lease the facility and remain in the city until at least the end of 2043. Republican legislators have said local contributions should help to fund the improvements. This item is likely to see further discussion in the months to come.

Family and Medical Leave Benefits Insurance Program. Evers would have created nearly 200 FTE positions and provided $243.4 million to establish mandatory paid family and medical leave in the state. As we we noted earlier this year, the proposal would have required employers with at least 50 workers to offer up to 12 weeks of employee leave in a number of situations, most notably a serious illness or the birth of a child.

Capital Grants. JFC removed $300.7 million and four FTE positions to extend the state's Investment and Capital Grants Programs, which included three separate programs originally funded via ARPA. The neighborhoods capital investment grant program gave grants to local and tribal governments to help build affordable housing, increase access to transit, and address local workforce needs. The health care infrastructure capital grant program also aided local governments in helping to expand access and reduce disparities in health care while also building facilities in areas of high need, while the tourism capital investment grant program gave those same governments grants to strengthen tourism, travel, and lodging at a time when the industry was suffering.

Lead Service Line Replacement Funding. Evers would have provided $200 million to replace lead water service lines. JFC removed the plan but the state still expects to receive just under $50 million each year from 2022 to 2027 from the federal government for this purpose. Half of that money will be available for the forgiveness of debt issued by municipalities for line replacement and the other half will be available in the form of low-interest loans to these communities. Over the past seven years, the federal government has provided the state a little over $100 million in principal forgiveness in this area.

Funding the Wisconsin Artistic Endowment Foundation (WAEF). Evers would have transferred $100 million to fund an endowment for this foundation, a nonprofit entity tasked with funding arts programs throughout the state. Though the foundation was created in 2001, it has yet to see any consistent funding. In 2022, we found that Wisconsin's 14-cent per capita state support for arts and culture ranked 49th out of 50 states, and the lowest of any neighboring state by a factor of more than three.

Child Care Counts Program. In May 2020, Wisconsin used federal COVID-19 funding to establish the "Child Care Counts" program, which provided hundreds of millions of dollars to child care centers to weather the impacts of COVID-19. Providers used the money to recruit and retain employees and sustain their operations through the pandemic. Recently, we found nearly 5,000 providers had received an average of more than $100,000 in program grants since its inception.

JFC voted to continue federal funding at $30 million over the two-year budget for child care. However, the budget panel dropped a much larger state appropriation of more than $300 million in permanent funding for Child Care Counts.

CONCLUSION

Early in the budget process, Evers and lawmakers reached a landmark agreement over funding for shared revenue and voucher schools. Though critics on both the right and left found fault with elements of those deals, many stakeholders across the political spectrum praised them for taking on and at least helping to address major problems that had lingered for years. In signing the final budget, the governor also opted against vetoing the legislation in its entirety, which avoided the possibility of a complete political breakdown that might have produced no budget at all.

Yet on several issues, both sides ended the budget in a standoff. Most prominently, GOP lawmakers declined to provide the funding increases sought by Evers for child care or the UW System, and Evers removed with his veto pen the massive income tax cut that had been Republicans' top priority.

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 in the weeks and months to come. Citizens have a rare opportunity to raise their voices in favor of the bargain that they would prefer. In the meantime, state residents can take comfort in the fact that even as economic worries have risen along with interest rates, the state remains in a strong fiscal position to weather whatever challenges may arise.