**Contact:** Mark Sommerhauser, Communications Director & Researcher
(608) 982-0324 or msommerhauser@wispolicyforum.org

**For release:**
**July 25, 2025**

# "All of the Above" State Budget Funds Bipartisan Priorities, Creates Future Challenges

*Era of budget surpluses wanes as state leaders face likely budget gap in 2027*

After retaining robust budget reserves the last five years, Wisconsin leaders are trading much of that fiscal cushion for an "all of the above" state budget that cuts income taxes, increases special education aid to schools, and boosts funding for transportation projects, child care, and the University of Wisconsin System.

The Wisconsin Policy Forum's analysis finds the state's next fiscal plan – from July 2025 through June 2027 – "puts its emphasis on the here and now." Signed into law July 3, it was passed in timely fashion thanks to a deal between Democratic Gov. Tony Evers and Republicans who control the state Legislature. Yet it will place the state in a much less favorable fiscal position in 2027.

"The 2025-27 budget will deliver progress on a number of key priorities," the report finds, "but also draw down most of the state's more than $4 billion surplus and leave a more challenging path for the state to balance its budget two years from now."

## Despite polarization, bipartisan compromise found

The 2025-27 budget is the fourth straight that was approved amid divided state government, with Republicans controlling the Legislature and Evers as governor. Yet each of these budgets was approved within days of the July 1 deadline. This budget again shows that, despite concerns about polarization, state leaders can overcome partisanship and compromise on at least some key issues.

The final state budget includes both tax cuts sought by Republican legislators and some new spending sought by Evers, spending down state reserves by more than $3.6 billion. The state's general fund balance is projected to fall from $4.4 billion on July 1 of this year to $770.5 million on June 30, 2027, the lowest year-end balance in the state's main fund since 2018. However, the state would retain an additional $2 billion balance in its rainy day fund. Its total estimated reserves would be 11.4% of net general fund appropriations in 2027, more than in any year prior to the pandemic.

Those reserves could be needed. In the second year of the plan, budgeted general fund spending would total nearly $24.4 billion, more than the $23.1 billion in general purpose revenue (GPR). The state can use its reserves to cover the $1.2 billion budget gap, but this projected shortfall would be one of the largest in a generation -- leaving the 2027-29 budget with a sizable potential gap.

## Major income tax cuts

The new budget has two major cuts to the Wisconsin income tax, totaling more $1 billion over the next two years. One enlarges the state's second income tax bracket and shrinks its third bracket, so that more taxable income would be subject to the second bracket's lower marginal rate of 4.4%.

The maximum benefit of the change will be $190 for middle and upper-income single and head of household filers and $253 for married couples. It will not provide any savings to state residents who owe little to no income taxes and will lower state tax collections by about $320 million a year.

The second cut shelters the first $24,000 of retirement income from state tax income for single filers ages 67 or older, or $48,000 in retirement income for married couples filing jointly. This reduces state tax collections by $395 million in the first year of the budget, then by $300 million in the second. This proposal makes Wisconsin more like its neighbors Iowa and Illinois, which do not tax retirement income. It will likely be popular among retirees and may modestly blunt their outmigration to other states, but will not incentivize work and may even marginally do the opposite.

## Unprecedented shift in school funding

This budget marks an unprecedented shift in how the state allocates new funding to schools, as it freezes general aid and per pupil aid to K-12 districts. Instead, it pours nearly all increases into state aid for special education, boosting such funding by more than $500 million over the two-year budget.

This leaves school boards around Wisconsin with both an opportunity and a difficult choice in the months ahead. A partial veto by Evers in 2023 locked into state law an annual increase of $325 per pupil in the state-imposed limit on school district revenues. However, the funds that districts will receive in increased special education aid do not count toward the revenue limit. Therefore, if they choose, school districts could opt to raise their levies by the full revenue limit increase amount.

The final budget also includes $110 million in essentially federal funds that will be paid directly to child care providers in fiscal year 2026 only. This extends payments to providers established during the pandemic under the expiring Child Care Counts program. The plan also has $123.2 million to increase access for low-income families participating in the Wisconsin Shares subsidy program. The budget also provides $88.5 million more in state funding for the Universities of Wisconsin over the two years and nearly $22 million more for the Wisconsin Grants, the main form of state financial aid.

## Transportation funding challenges approaching

The budget also raises the state fee to transfer a vehicle title, generating $116.3 million over the next two years, and other fees for a total of $188 million in new transportation revenue. While this marks a step toward sustainable support for state transportation funding, Forum research suggests the need for a greater long-term revenue source. Transportation may be on a collision course with other funding priorities such as education and health care in the next budget.

The budget also increases a state tax on hospitals' gross patient revenues. About $1.1 billion in additional state tax revenue collected under the tax will be used, in turn, to draw down federal funds and increase funding to hospitals on net by $919 million a year. About $298 million a year will be left over and used to offset Medicaid costs, making this move a major revenue increase for the state.

Other notable provisions in the budget include:

- A $2.5 billion capital budget that is one of the state's largest in at least a generation, about $1.1 billion of which will go to UW projects.
- A $7 million increase in payments to local governments for serving state buildings in their communities with roughly $3.0 million going to the city of Madison.
- State aid for policing interstates in Milwaukee County will jump from just over $1 million in 2025 to more than $19 million in 2026 and $21 million in 2027.

- A grant fund for talent recruitment in Wisconsin, which will provide incentives to households to relocate from out of state. This new $5 million appropriation would support talent recruitment grants to local or tribal governments, or nonprofits.
- The budget provides $130.7 million to build a new juvenile detention center in Dane County, which will help facilitate the closure of Lincoln Hills School for boys and Copper Lake School for girls in Irma. It also sharply lowers the daily rate charged to counties for sending juveniles to state correctional facilities. But the budget left key questions unanswered for the state Department of Corrections, including the timeline to close an aging adult prison in Green Bay.

Click here to read the report.