**Fiscal Facts: Despite progress, Wisconsin one of only three states with a negative general fund balance**

Last year, the state of Wisconsin’s “hidden deficit” fell by more than $2 billion since 2011, a one-third reduction marking the largest percentage decrease in decades. Wisconsin nevertheless remains one of only three states with a negative general fund balance when measured by Generally Accepted Accounting Principles. This method, used by publicly traded companies, books expenses when they are committed; the state uses cash accounting, which does not book expenses until they are paid.

Under the cash method, the state’s general and rainy day funds had a combined $1.74 billion surplus at the close of the fiscal year on June 30, 2019. However, GAAP accounting principles turn that budget surplus into a shortfall of $773.5 million, despite strong tax revenue growth helping reduce this “hidden deficit” to its lowest level since 1990 after adjusting for inflation.

This accounting maneuver has allowed state officials of both parties to take credit for more spending in a given year without affecting the balance shown in the general fund using cash accounting. For example, the general fund’s June 2019 balance is lowered by $491.2 million after adjusting the state’s cash accounting system to reflect delayed payments for state aid to local governments known as shared revenue. Accounting for delayed payments for state property tax credits lowers the balance by an additional $809.6 million.

So far this year, state tax revenue growth has remained strong, which if sustained could help continue positive trends in the general fund condition. Of course, future progress is not guaranteed; in fact, the current 2019-21 budget is projected to reduce the general fund’s cash balance substantially, which could, in turn, lower the GAAP balance.

The negative balance matters because it represents spending the state has committed to and will have to pay for in the following year. If Wisconsin’s economy and tax collections keep growing, the state can handle these unpaid bills. In a downturn, however, the negative balance puts added pressures on the state’s ability to meet its obligations.

This information is a service of the Wisconsin Policy Forum, the state’s leading resource for nonpartisan state and local government research and civic education. Learn more at wispolicyforum.org.