*Fiscal Facts by Wisconsin Policy Forum*

**State may face toughest budget challenge since 2011**

Next year, Wisconsin Gov. Tony Evers and newly elected lawmakers likely will confront the state’s toughest budget challenge since 2011. To balance the next two-year state budget, the state’s main fund would need to spend down its reserves by nearly $400 million even in the unlikely event that elected officials rejected every single new spending request from state agencies. The state does have substantial reserves to lean on but also faces massive additional costs for state health programs for those in need.

This difficult budget scenario, amid elevated unemployment, slowing state tax collections, and increased demand for social services created by the ongoing pandemic, projects general fund spending to exceed revenues by $373.1 million in the two-year budget running from July 2021 to June 2023 — a difference equal to about 1% of spending over the two years. However, that shortfall could grow considerably if the governor and lawmakers provide additional funds for other programs.

For example, this bare-bones tally does not factor in the projected expense of maintaining current services within Medicaid health programs — more than $1.1 billion over the next two years — or additional spending on COVID-19 response, state aid to K-12 schools or local governments, prisons, or the University of Wisconsin System. Higher spending in at least some of these areas appears inevitable, particularly in the case of Medicaid, unless lawmakers accept a plan they have repeatedly rejected for additional federal funding and expanded coverage.

In one bright spot, the state expects to finish the current 2021 fiscal year with reserves of roughly $2 billion — much more than was expected a year ago or was available in the past two recessions. However, Evers has proposed spending $541 million on pandemic response in the coming months, which if approved would reduce that total.

For now, these are mere projections and all forecasts should be taken with great caution in this volatile time. Additional federal aid or a timely vaccine rollout might improve the state’s position specifically or the economy more broadly, while federal inaction and a spike in COVID-19 cases could cause the economy — and state budget — to deteriorate even more.

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