*Fiscal Facts by Wisconsin Policy Forum*

**State achieves important fiscal milestone but will it last?**

For the first time on record, Wisconsin’s main fund closed the year with a small positive balance, wiping out the longstanding financial gap that was often referred to as its “hidden deficit.” Newly released financial statements report on June 30 of last year the state’s general fund had a balance of $1.5 million — essentially the first time year-end assets have outweighed liabilities in reports done since 1990.

This milestone reflects the progress Wisconsin made in the years prior to the pandemic and even during its early months. That’s welcome news because it leaves the state in a better position to weather financial challenges stemming from COVID-19.

However, nearly every other state had a stronger general fund balance prior to the pandemic. And Wisconsin could see its negative balance return as its leaders struggle to meet the needs of the state amid economic upheaval.

These figures come from the state’s latest Comprehensive Annual Financial Report (CAFR), which uses Generally Accepted Accounting Principles (GAAP). GAAP or accrual accounting requires the state to record expenditures such as a large payment to local governments when it commits to them, even if the payment is not made until later.

This differs from the accounting methods used in state budget documents; these use cash accounting and only book expenses when the state actually pays the money. Under cash accounting, the state general fund and its closely linked rainy day fund had roughly $2 billion in combined balances at the close of the fiscal year on June 30, 2020, and are currently projected to have about the same amount on June 30, 2021.

The $764.7 million improvement in the state’s general fund GAAP balance in 2020 was one of the largest on record and can be attributed in part to strong corporate tax collections, an infusion of federal aid to support Medicaid programs, and steps to limit spending growth.

Another key to this progress is the state has built up larger cash reserves in recent years. But negative GAAP balances will return if the state spends them down in response to the current crisis.

Over the next year or two, the state may have little alternative than to allow that to happen, as the state’s balances were set aside in part to meet the dire needs of a moment like this.

Eventually, however, state officials will have to give thought to replenishing whatever they draw down. Historically, Wisconsin has not done as well as other states at setting aside reserves. The sudden and severe onset of the current challenges underline how critical it is to be prepared for the unexpected.

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