**Fiscal Facts: Forum identifies five keys to the next state budget**

As state lawmakers begin deliberations on Gov. Tony Evers’ proposal for the 2023-25 state budget, a record projected surplus of $8.8 billion hands them an historic opportunity to make generational progress on some of the state’s most pressing policy challenges.

At the same time, much of the surplus is likely to be one-time dollars. This means policymakers must avoid overcommitting to ongoing new spending or tax cuts.

The Wisconsin Policy Forum’s new state budget brief identifies five keys that we believe will be critical to the state’s future fiscal outlook, its economy, and the quality of life of its citizens.

**How high to keep state reserves?** Over the past two decades, Wisconsin’s budget reserves have gone from being among the lowest of any state to well above average. The state's projected $8.8 billion in total reserves in June would be 44.7% of 2023 general fund spending, the most in at least 40 years. The Evers proposal would spend down reserves to about $2.9 billion, or roughly 12% of spending – still a historically high level for Wisconsin. The Government Finance Officers Association says reserves should cover at least 16.7% of annual spending, which for Wisconsin would be roughly $4 billion.

**More aid – and possibly sales taxes – for local governments:** Following years of stagnant state aid and increased inflation and local government costs, the governor proposes to increase the main form of state aid to local governments by the largest percentage since at least 1985. He does so by providing 20% of state sales tax collections to municipalities and counties via shared revenue – a concept in which GOP lawmakers have voiced interest. Evers also would loosen limits on local property taxes and allow some municipal and county governments to seek voter approval to impose local sales taxes.

**Proposal finds schools at a critical crossroads**: Schools are pressured by the impending expiration of federal pandemic aid, record inflation, and tight labor markets. The 2021-23 state budget froze state limits on district revenues from local property taxes and state general school aids. The governor now proposes $2.6 billion in additional state aid to schools, an amount GOP lawmakers already have vowed to reduce. The budget also would raise revenue limits by $350 per student in 2024 and an additional $650 per student in 2025. Another sticking point will be GOP efforts to expand school choice programs.

**Major shift coming in state health programs:** GOP lawmakers seem likely to again reject the governor’s proposal to take federal dollars to expand Medicaid in Wisconsin. This means the state budget must be balanced without the projected $1.62 billion in state savings that the expansion would generate. Meanwhile, the state faces the expiration of a federal COVID-19 mandate that prevents states from dropping Medicaid enrollees even if their incomes rise. During COVID, Medicaid enrollment in Wisconsin rose from 1.18 million recipients to 1.65 million, or 39.1%. State officials don’t know how many will now be dropped from Medicaid, but the number will be sizable.

**Transportation budget relies more on general taxes:** The governor’s proposal continues the recent trend of transferring large sums from the general fund to spend on transportation. Some previous transfers were one-time in nature, but this budget would add to the ongoing transfer with two new sources of state sales tax revenue from the general fund, totaling $190 million. Evers also wants to use nearly $380 million from the general fund to pay down transportation debt.

*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*](https://wispolicyforum.org/research/state-tax-burden-up-but-overall-burden-still-falling/)*.*