**Fiscal Facts: Due to One-Time Nature of Much of State Surplus, Budgetary Prudence Key**

With the largest surplus on record, state policymakers have an unprecedented opportunity in the 2023-25 budget to make once-in-a-generation progress on some of Wisconsin’s biggest challenges.

Gov. Tony Evers has proposed using the surplus to enact substantial income tax cuts for low and middle-income earners. In addition, he is proposing record spending increases, including a massive boost in aid to schools and local governments that would fundamentally reorient their fiscal relationship with state government. Some of the governor’s proposed changes have a chance to win backing from Republicans in the Legislature, while others appear to lack support.

By June 30, the state’s general fund balance is projected to reach nearly $7.1 billion, in addition to a rainy day fund balance of $1.7 billion. This would mark the state’s strongest fiscal position in at least four decades, and likely ever. The upshot: in the two-year budget cycle starting July 1, state policymakers can make changes that their predecessors could only have dreamed of enacting.

Crucially, however, much of the surplus is likely to be one-time in nature. Some of Evers’ proposed spending likewise is one-time: $750 million on broadband expansion, $243.4 million to help establish paid family medical leave benefits in the state, and $379.4 million to pay off debt on roads and infrastructure (which would have a further positive impact on future budgets).

Still, other proposed spendingwould be ongoing and, if adopted altogether, leave the state with a structural imbalance heading into the 2025-27 budget. Republican legislators have said they will remove or reduce many of the governor’s spending increases, which on its own would make the budget more sustainable.

However, some lawmakers favor a plan to shift the state’s income tax to one flat rate. This would decrease state income tax revenues by such a large amount that it likely would create a long-term structural imbalance that is as great or even larger.

With a recession still at least a possibility at the national level in the coming year, lawmakers and the governor should consider ways to ensure any new spending and tax cuts are sustainable not simply in the upcoming budget, but in the following two years as well.

Fortunately, the record surplus means the state has sufficient resources to increase spending to maintain or improve service levels, reduce taxes, and ensure it has the reserves to handle any unexpected setbacks. Striking the appropriate balance will depend in no small part on whether the governor and lawmakers can reach a bipartisan deal.

*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/)*.*