**Fiscal Facts: A High Water Mark for State Budget?**

Four years after the arrival of COVID-19, Wisconsin’s state finances are the strongest on record, with ample reserves and comparatively low debt levels.

State finances ended 2023 showing greater strength than at any point in decades on indicators such as the balance in the state’s main fund, short-term cash reserves, and overall debt and debt payments. Key contributors to this robust budget position include a huge influx of federal pandemic aid, a resilient economy that fueled strong growth in tax collections, and actions by state leaders.

While the overall picture is bright, there are points of concern. They include relatively high levels of transportation fund debt payments, and an unemployment fund balance that makes Wisconsin less prepared than most states to weather a major recession. In addition, this bright picture will dim at least somewhat this year, as cooling tax collections and recent tax cuts and spending increases will diminish state reserves – potentially leaving 2023 as a high-water mark for state finances.

The state’s largest source of reserves, its general fund balance, reached a new record high of $6.7 billion by June 2023 -- an increase of 42% over the year prior. This was particularly notable because historically, Wisconsin has not done as well as other states at setting aside budget reserves. The state also is well positioned to cover immediate financial obligations. Its “cash ratio” in June was 2.48, meaning the state had almost 2.5 times more cash and liquid assets than short-term bills and obligations. This ratio was the highest in our records going back to 2002.

As of December 2023, the state had $11.14 billion in total outstanding debt -- down 2.6% from the prior year. On an inflation-adjusted basis, it’s the lowest debt level for the state in at least a quarter-century. Another important metric is general obligation (G.O.) borrowing. The state owed $6.82 billion in G.O. debt in 2023, also down from the prior year. After adjusting for inflation, that was the lowest amount of state G.O. debt since 1999.

Areas of concern include that from 2002 to 2019, the share of state transportation fund revenues going to debt payments climbed from 7.0% to 18.9%. This share is projected to fall to 16.2% by 2025, but it will likely remain a concern. Also, due to the COVID-19 unemployment spike, the balance of Wisconsin's unemployment insurance fund fell by $871.5 million by June 2021. It regained most of these losses over the next two years. Still, as of Jan. 1, Wisconsin’s jobless fund ranked 30th among the 50 states on a key measure of readiness for a recession.

Looking ahead, federal pandemic relief funds will run out in 2024. And while the state economy remains strong, growth in the economy and tax collections have slowed. Gov. Tony Evers and lawmakers also approved a 2023-25 state budget that draws down reserves to pay for tax cuts and spending increases. As a result, the state’s general fund balance is projected to fall from nearly $7.1 billion in June 2023 to $3.8 billion in June 2024.

The considerable fiscal progress the state has made over the past decade is the result of a strong economy and federal assistance, as well as decisions by elected officials of both parties. Holding onto these hard-won gains will require both vigilance and prudence from state leaders as well as some measure of good fortune.

*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/)*.*