**Fiscal Facts: Moving Back to Budget Basics**

Heading into the 2025-27 state budget, Wisconsin retains impressive reserves that put the state in a strong fiscal position. But at the same time, after soaring to previously unseen heights two years ago, Wisconsin’s budget has predictably returned much closer to earth.

This means that state officials may wish to exercise caution this budget cycle -- especially with the prospect of large permanent tax cuts or spending increases.

Two years ago, the combination of record inflation and massive federal pandemic aid boosted state tax collections, and -- when paired with relatively tight limits on spending -- produced unprecedented state surpluses. Those surpluses helped to build up state reserves that remain exceptionally large today.

As of next June, the state is projected to have about $6 billion in reserves in its combined general and rainy-day fund balances. Those funds can be used to pay for state priorities but crucially, can only be tapped once.

Yet in some ways, the state’s fiscal situation has now reversed course from two years ago. Its main fund is now spending more than it is taking in, and the state’s balances are falling. State leaders now have more reason to exercise caution in approving permanent spending and tax cuts than they did in November 2022.

A Forum analysis relies on projected tax collections and spending amounts in the state’s general fund estimated by the Department of Administration (DOA) for the budget running from July 2025 to June 2027.

These numbers exclude all new spending requests by state agencies, and thus do not represent a true surplus -- they should be seen as merely a starting point for the upcoming budget. Most notably, these figures do not account for the rising cost of maintaining existing services such as Medicaid health care for the poor, K-12 schools, local governments, prisons, technical colleges, and the Universities of Wisconsin.

Using this approach, we calculate that state general fund revenues are currently projected to exceed base spending with some adjustments by $838 million over the two-year budget. That’s down from the $6.8 billion in excess starting revenues that we calculated two years ago.

Looking ahead, the state’s sizable reserves provide a substantial opportunity for state leaders to make investments in their chosen priorities. However, they would only cover large permanent spending increases or tax cuts for a limited time, and thus may be better directed toward onetime uses.

In recent years, despite the incredible turmoil of the pandemic, the influx of federal aid and a relatively strong economy helped protect the state’s finances. Yet there is no guarantee that this good fortune will last. Policymakers may wish to consider how much of their current reserves they should spend, and how much they should save in case of unforeseen shocks.

*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/)*.*