**Fiscal Facts: State Budget Bright Spots Abound, But Caution Warranted To Avoid Future Gaps**

As Wisconsin’s next state budget debate begins, state finances appear stronger than at most points in the 21st century, buoyed by low unemployment and a balance in its main fund of more than $4 billion.

Yet the near-term outlook suggests state finances may be nearing an inflection point, the Wisconsin Policy Forum’s new state budget brief finds. The state’s main fund is now spending more than it takes in, and its budget reserves, while very sizable, are shrinking.

Meanwhile, the Democratic governor and GOP Legislature are eying the state’s reserves and offering tax and spending plans that would deplete it and potentially leave the state with future budget gaps.

Gov. Tony Evers’ 2025-27 state budget proposal, if enacted, would represent the largest percentage increase on record in state spending. State all funds spending, when compared to the base budget, would climb 20.3% over the two years. The plan would boost state aid for K-12 schools and local governments, make the largest infusion of state dollars into the Universities of Wisconsin in a generation, and address priorities such as broadband expansion and lead remediation.

The governor’s capital budget proposes to transform and modernize the state prison system at a total cost of $500 million. Another operating budget proposal aims to address growing concerns about the cost, access, and quality of child care, at a total cost of $480 million over two years.

To help finance its spending, the budget would raise individual and corporate income taxes. The largest increase would be the creation of a bracket with a marginal rate of 9.8% for filers with taxable income over $1 million, which would generate an estimated $1.3 billion in revenue over the next two years. These changes are unlikely to be passed by the Legislature, but if approved along with some tax cuts, they would amount to a net general fund revenue increase of $2.4 billion over two years.

At the same time, the governor proposes nearly $1.1 billion over two years in new state aid intended to slow the growth of property tax levies. That includes more than $375 million in state general aid to K-12 districts that effectively would force districts to lower local property taxes. Another $375 million would increase the state’s school levy tax credit, thereby buying down local property taxes. The final $339 million in state aid goes to counties and municipalities to reduce property taxes.

The plan also would spend down the state’s general fund balance from nearly $4.3 billion to $646 million, though it would also leave roughly $2 billion in the state’s rainy day fund. The bill would also raise state taxes on net by more than $2 billion over two years, while also including $1 billion in measures to hold down local property taxes.

If adopted, Evers’ plan would leave the state with a two-year structural deficit of roughly $4 billion. This would make it difficult to balance the 2027-29 budget, even if the economy remains strong and does not succumb to recent drops in the stock market and consumer sentiment.

Ultimately, some further use of the state’s massive surplus is expected and welcome given the state’s many challenges, our brief finds. But taxpayers have good reason to watch both sides in this process carefully to ensure the final budget does not erode too many of the state’s hard-won financial gains.

*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/)*.*