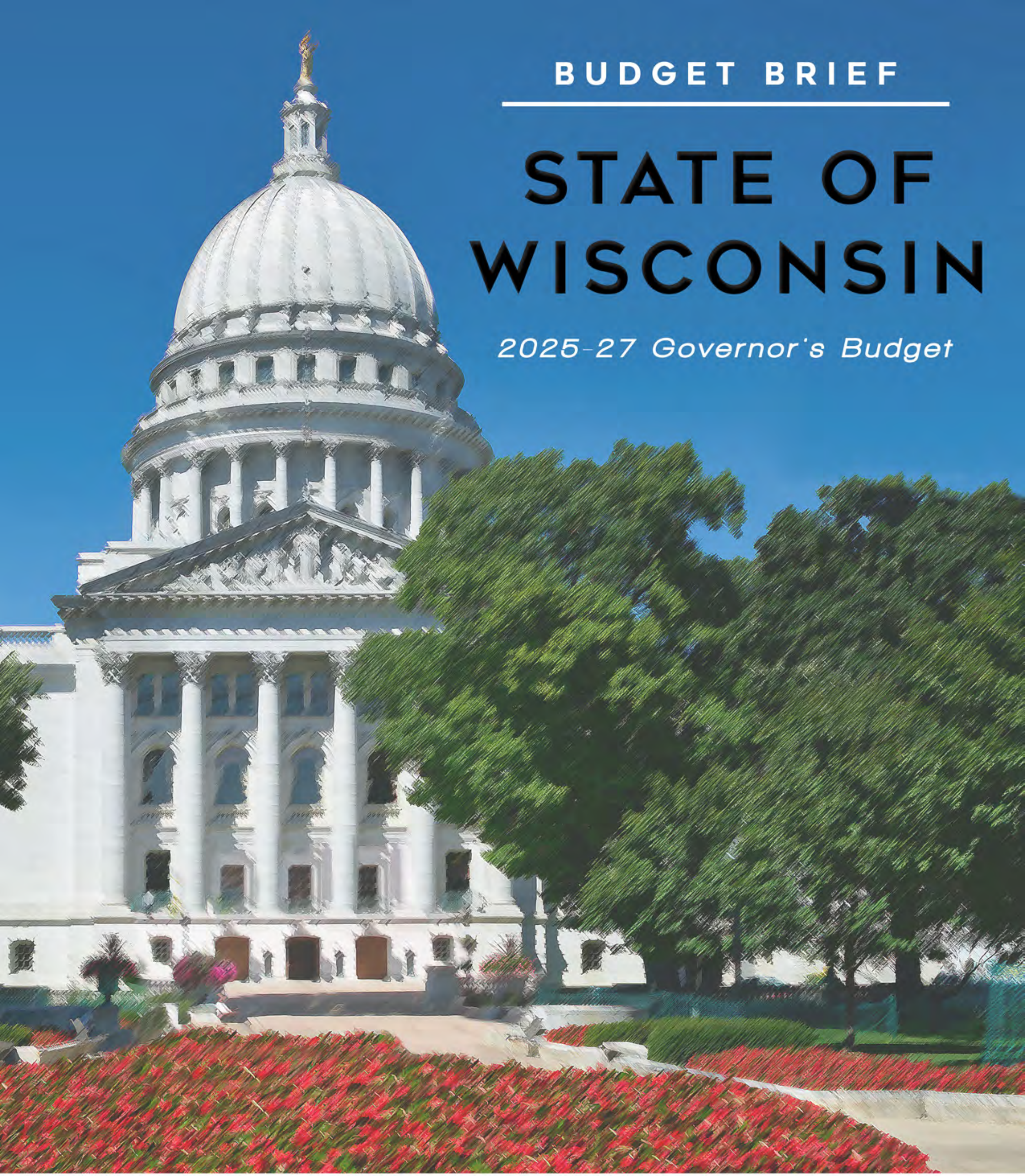
BUDGET BRIEF

STATE OF WISCONSIN

2025-27 Governor's Budget



WISCONSIN POLICY FORUM

ABOUT THE WISCONSIN POLICY FORUM

The Wisconsin Policy Forum was created on January 1, 2018, by the merger of the Milwaukee-based Public Policy Forum and the Madison-based Wisconsin Taxpayers Alliance. Throughout their lengthy histories, both organizations engaged in nonpartisan, independent research and civic education on fiscal and policy issues affecting state and local governments and school districts in Wisconsin. WPF is committed to those same activities and that spirit of nonpartisanship.

PREFACE AND ACKNOWLEDGMENTS

We wish to acknowledge and thank the Greater Milwaukee Foundation and the Greater Madison Chamber of Commerce for their support of our analysis of the child care market in Wisconsin and potential policy options for improving it.

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March 2025

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INTRODUCTION

After years of unprecedented budget surpluses, Wisconsin's bright financial outlook now has the potential to shift and perhaps even fall into shadow. During the COVID-19 pandemic, rapid inflation and massive federal pandemic aid boosted state tax collections even as the state kept relatively tight control on spending, building up historic surpluses and reserves. Today, however, the state's main fund is spending more than it is taking in and those reserves are shrinking. By June 30, Wisconsin's general fund is expected to close its fiscal year with a balance of $4.27 billion – a massive sum to be sure but one that is down $2.8 billion from just two years before.

The last several years have represented a reprieve from the scarcity mindset that prevailed in state budgeting over much of the past quarter century, but that could change over the next two years. For now, Gov. Tony Evers is proposing that the state use its ample reserves to increase spending by billions of dollars on education at every level – from early childhood to the state's public universities – as well as transportation, aid to local governments, and state credits to lower property taxes. Despite a strong economy and a proposed net increase of more than $2 billion in general fund taxes, under the bill the state's general fund balance would fall to less than $700 million by June 2027, leaving a potential shortfall in the next budget despite low unemployment and for now at least a relatively favorable economy.

For their part, Republican lawmakers have pledged to reject many of these new spending and taxing provisions, but have put forward their own income tax proposals in the previous session that would have also depleted the state budget and left the state with a potential gap in the following two years. To be sure, some further use of the state's massive surplus is expected and welcome given the state's many challenges. 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.

As we have done every two years, we seek in this brief to describe the broad sweep and major initiatives of the governor's proposal. We focus largely on the provisions that appear to have the greatest chance of passage and on the fundamentals of the budget – from the size of state reserves to the changes in federal funding happening in Washington, D.C. – that state officials will have to grapple with in the coming months regardless of their political party and ideological views. Though we cannot review every provision in the bill, we plan to examine additional elements in the weeks ahead as well as the broad contours of the final legislation.

As we have written, the state's massive surplus is a "golden opportunity" that, once expended, may not come again in the lifetimes of our readers. Every resident of Wisconsin has a stake in how the state uses it. Our goal with this brief is to help readers better understand the state budget and make up their own minds about the decisions it entails. In doing so, we hope to promote an informed discussion about our state's priorities at this critical juncture.

2025-2027 BUDGET SYNOPSIS

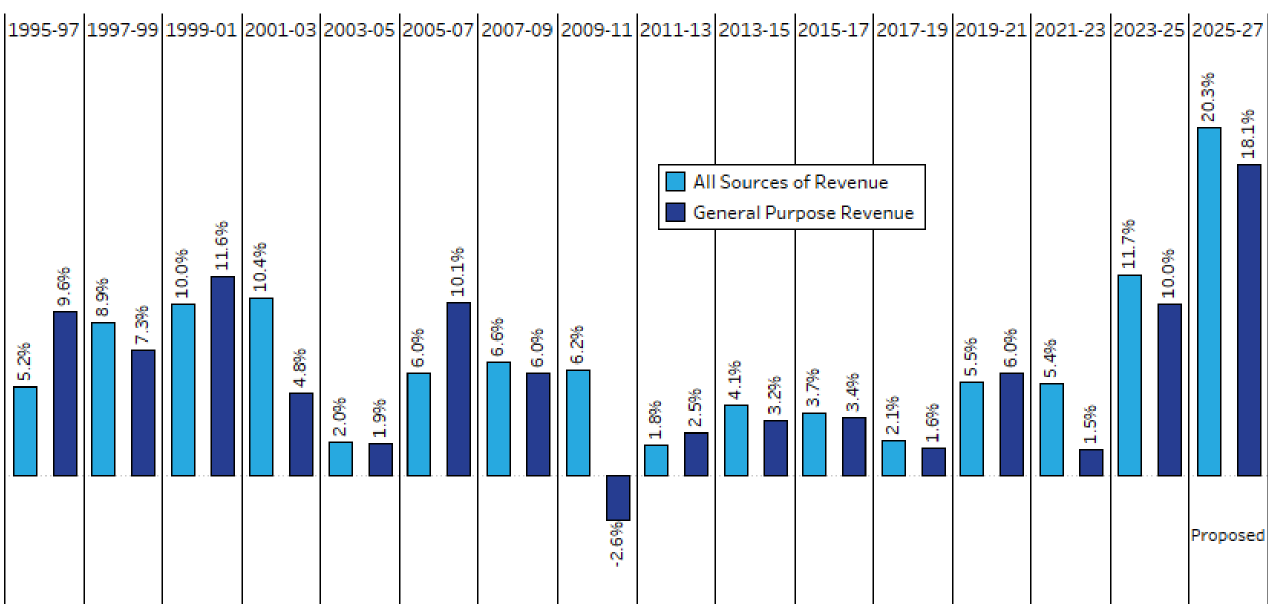
Core state spending would rise rapidly

Governor Tony Evers' proposal would draw on the state's surplus to increase spending in the state's main fund by what would amount to the largest percentage on record. Readers should bear in mind, however, that legislative leaders have already committed to removing much of this spending – the final budget will have a much different shape.

The budget proposes $25.49 billion in gross general purpose revenue (GPR) appropriations (see our budget glossary for definitions) in fiscal year 2026, which runs from July 1, 2025 to June 30, 2026 -- a historic 19.2% jump over the prior year base budget (see Figure 1). GPR is the state's most flexible form of revenue; it comes primarily from state taxes such as those on income and sales and covers spending in major categories such as K-12 and higher education, health care, state prisons, and local aids and property tax relief. In 2027 – the second year of the budget – GPR spending would decrease 1.9% to $24.99 billion.

Relative to 2025 base spending, the bill proposes an additional $7.7 billion in GPR spending across 2026 and 2027 (all years in this report are state fiscal years unless otherwise noted). As Figure 2 on the next page shows, the largest portions would go to K-12 education and the Department of Public Instruction (an additional $3.4 billion over the two years), local governments and tax relief (a combined $1.1 billion), and the Universities of Wisconsin (also known at the UW System - $691.6 million). Large increases also would go to the Department of Children and Families for child care ($601.2 million), the Department of Corrections to cover rising costs from employee raises and other factors ($522.3 million), and the state's Public Service Commission for broadband expansion ($422 million).

Figure 1: State Spending Would Rise at a Rate Nearly Double the Historic 2023-25 Budget
Percentage change in state gross appropriations by budget cycle and revenue type

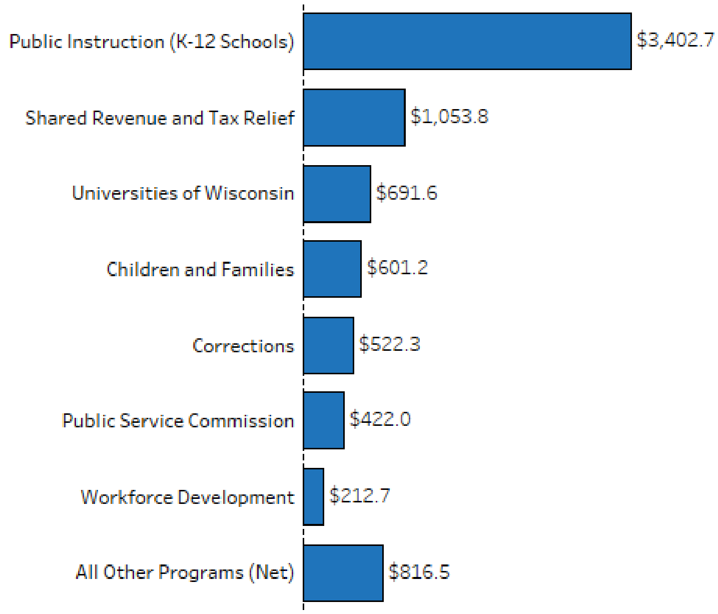


Sources: Legislative Fiscal Bureau and Department of Administration

Bill would raise taxes on high-income residents

To help pay for the governor's proposed spending increases, the budget would raise individual and corporate income taxes (and a few other smaller taxes), focusing largely on taxpayers with high incomes. Most of these changes are unlikely to be passed by the Legislature, but if approved they would amount to a net increase in state general fund tax revenues of $2.4 billion over two years (see Figure 3).

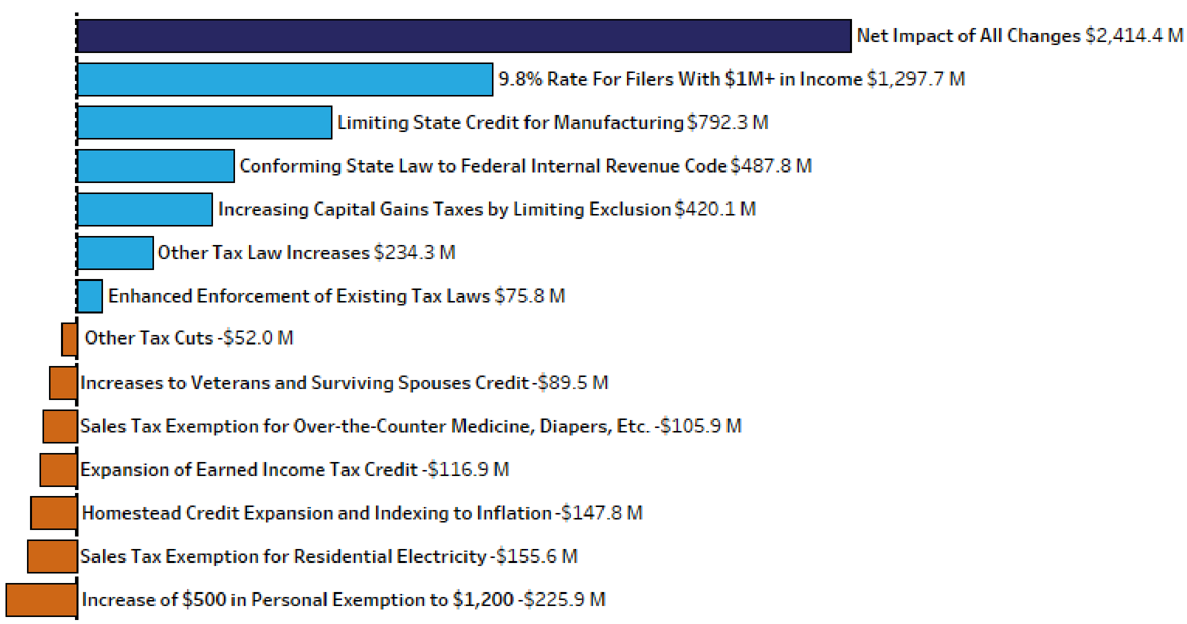
Figure 2: Most New Spending Goes to a Few Priorities
State general fund spending increases by area (in millions), 2025-27



Source: Department of Administration

The bulk of these changes would be made to the individual and corporate income taxes, where the net impact of the tax increases in 2026 of $1.4 billion would be approximately equal to 11.1% of the most recent year's tax collections from these two sources. The largest single 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 $1.30 billion in new revenue over the two-year budget period. The higher rate would also move Wisconsin up from the eight-highest top marginal tax rate nationally at present (7.65%) to sixth-highest. The next largest

Figure 3: Tax Increases Outweigh Cuts and Credits
Impact of general fund tax changes in 2025-27 Executive Budget (in millions)



Source: Department of Administration

change would limit a tax credit for manufacturers in the state, which would raise income and corporate collections by $792 million over two years.

The governor's budget also proposes to cut sales taxes on some common consumer goods and lower income taxes for those with lower incomes. Evers would increase the personal exemption for income tax purposes from $700 to $1,200 at a cost of $225.9 million in revenue over the two-year period and increase the Homestead Tax Credit by $147.8 million and the Earned Income Tax Credit by $116.9 million. The proposal would eliminate state income tax liability on cash tips at an estimated of cost of $13.6 million over two years. The bill would also exempt the purchases of residential electricity from the sales tax, saving homeowners and renters $155.6 million, and exempt sales of over-the-counter medicine from taxes, saving customers $70.6 million.

In his bill for the current 2023-25 budget two years ago, the governor also proposed $1.53 billion in tax increases but paired them with slightly larger tax cuts, so the net change in revenue would have been minimal. GOP lawmakers ultimately removed most of those tax cuts and increases. This time, legislators are once again likely to remove most of the governor's tax proposals from the budget and pursue their own substantial tax decreases, possibly in a separate bill. We examine the fiscal effect of these potential changes by both sides in the next section of this report (see "Is the Budget Balanced?").

Property tax growth would slow

Estimating the future growth in property taxes is difficult to do, and projections should be considered with caution. That said, the Evers administration estimates that growth in property taxes on the median-value home in Wisconsin would slow due to several provisions in the bill.

Property taxes in December on the median-value home of $272,500 are estimated at $3,415. Under current law, they are projected to grow to about $3,600 in the first year of the budget and to more than $3,700 in the second year. Meanwhile, the value of the median home is projected to rise to $290,300 in the first year of the budget and $299,000 in the following year. Under the budget, taxes on that home are projected to remain roughly flat in both years at $3,413 as its value grows.

The governor proposes nearly $1.1 billion over two years in new state aid to hold down tax levies. That total includes more than $375 million in state general aid to K-12 districts in excess of the proposed increase in state limits on school revenues, effectively forcing districts to lower local property taxes (for more see the section of this report on K-12 schools). Another $375 million over two years would increase the state's school levy tax credits, which are state payments that essentially buy down local property taxes instead of increasing what schools or local governments can spend. The final $339 million in state aid goes to counties and municipalities to reduce property taxes. This aid would be distributed to local governments that lower or keep their levy steady from the previous year, beginning in 2026.

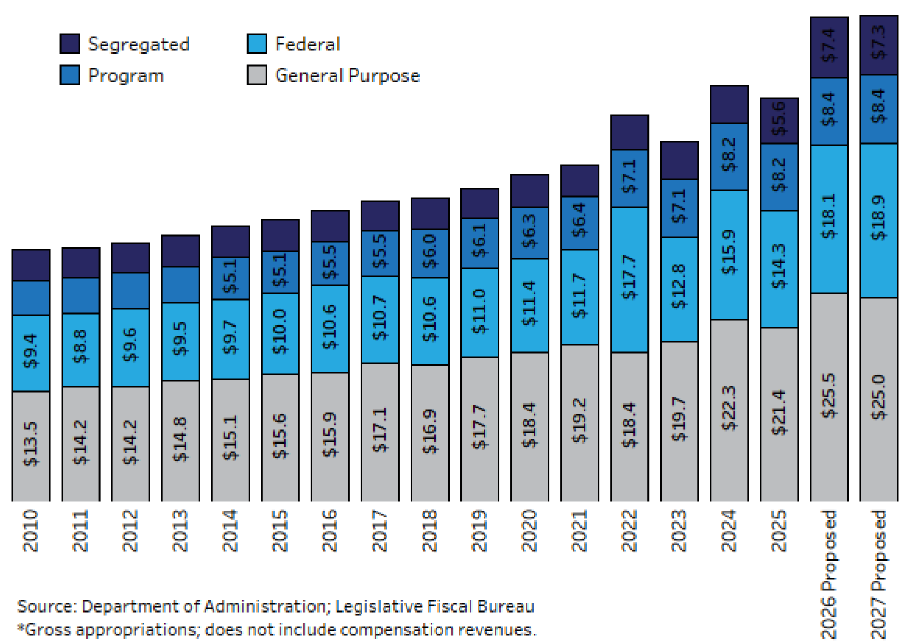
Additional downward pressure on property taxes comes from language ensuring that property taxes are in fact lowered to reflect the impact of $123 million of state aid to K-12 and technical college districts that was previously provided to pay for the repeal of the personal property tax at the local level. These changes, plus the governor's proposed local option sales tax for municipalities over 30,000, would help limit growth in property taxes statewide if they were to be approved.

Increases in funding for school districts and local governments through the current budget, and related legislation known as Wisconsin Act 12, relieved some of the long-term pressure on K-12 and local government budgets. Yet 2024 still saw a record number of school referenda (see the section of this brief on K-12 schools) and a near-record number of local government referenda, suggesting some elected leaders and voters still favor increasing funding for these services beyond state limits. The tension between holding down property taxes and paying for these local priorities is likely to ratchet up in the current budget.

"All Funds" budget would rise rapidly

Figure 4: Budget Would Make Historic Spending Increase

Appropriations from all revenue sources by year in billions (nominal dollars)



Source: Department of Administration; Legislative Fiscal Bureau
*Gross appropriations; does not include compensation revenues.

The governor's budget proposal, if enacted, would represent the largest percentage increase in spending on record, nearly double the size of the increase in the current state budget, which itself was a record high. The state's "all funds budget" includes GPR revenues, federal aids, segregated revenues such as the gas tax, and program revenue such as university tuition and fees for permits. As shown in Figure 4, the proposed expenditures across all state funds would rise by $9.92 billion over base levels in 2026 to $59.36 billion and then rise an additional $254.7 million to $59.6 billion in 2027. All funds spending, when compared to the base budget, would climb 20.3% over the two years.

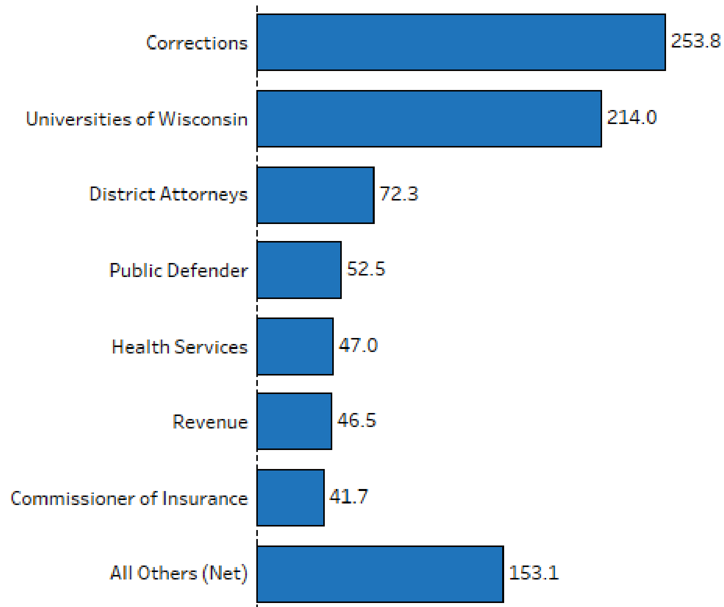
Once again, the largest increase in all funds spending would be for K-12 school districts. The governor's proposal to use federal Affordable Care Act funds to expand the state Medicaid program – a plan that has been repeatedly rejected by Republican lawmakers – would draw additional federal aid while also lowering GPR spending for the state.

The first year of the budget proposal would see an increase in all types of revenue and spending, driven by large jumps in GPR (up $4.10 billion) and federal revenue (up $3.87 billion). In the second year, GPR spending would fall by $496.2 million and segregated revenue spending would drop by $97.9 million, as one-time funds spent in the first year of the budget were removed.

Corrections and UW would add staff

The governor's budget proposes a 1.2% increase in the state's workforce, growing the total by 880.9 full-time equivalent (FTE) positions, from 74,732.7 in 2025 to 75,613.6 by 2027. The Department of Corrections would see the largest increase followed by the Universities of Wisconsin (see Figure 5). These two state employers make up more than half of the total increase. The proposal also includes increases in both public defenders (52.5 FTE) and district attorneys (72.3 FTE) to address growing caseloads. A small number of agencies would decrease their staffing, led by the Department of Transportation's drop of 29.0 FTE, the Public Service Commission (-11.0 FTE), and the Department of Public Instruction (-11.0 FTE).

Figure 5: Bill Would Create Hundreds of New Positions
Proposed change in all state FTE positions, 2025-27



Source: Department of Administration

The budget sets aside $372.5 million in GPR to provide a 5% base wage increase for most state employees on July 1, 2025 and an additional 4% raise on July 1, 2026. These increases would be higher than the current budget, which included a 4% increase in the first year and a 2% increase in the second year. Total compensation reserves of $938.8 million across all revenue sources would be set aside to cover all added salary and benefit costs over the two years, which would be somewhat lower than the $1.25 billion set aside in the current budget. The proposed compensation increase follows several years of rapid inflation and high state and local employee turnover, as a recent WPF brief found. However, it would also come with a cost and may not be approved in its entirety by Republican lawmakers.

The governor's budget expands some collective bargaining authority for a number of state and local workers but does not fully restore the powers that were largely repealed by 2011 Wisconsin Act 10. However, portions of that law have recently been declared unconstitutional by a trial court judge. The final decision will rest with the state's Supreme Court, but for now there is at least a chance that the Legislature and governor will need to reckon with a different legal environment with regard to collective bargaining in the near future.

Debt and capital projects

The governor has yet to unveil his full capital budget, so at this time we cannot review his proposals for state building projects beyond those already released for the Department of Corrections (see Key

#4). In addition to state building projects, the governor's operating budget would also approve additional borrowing for other purposes such as highways and clean water. The budget would borrow $631.7 million for highway and infrastructure projects that would be repaid with revenues out of the transportation fund, an amount that would be an increase over the current budget but in line with previous budgets. The governor's proposal would authorize $45.0 million to continue a series of ongoing water infrastructure programs within the Department of Natural Resources, including $15.0 million for dam safety and $21.0 million for addressing pollution from runoff.

The governor's largest borrowing proposal consists of reauthorizing the Knowles-Nelson Stewardship fund, a program to purchase and set aside public land for conservation and recreation and finance projects on public lands. The bill would provide total funding of $1 billion over the next 10 years, which would consist of $830 million in new state borrowing that would be repaid with general purpose revenues, and $170 million in cash funding that would come from a combination of GPR and money from the state conservation fund.

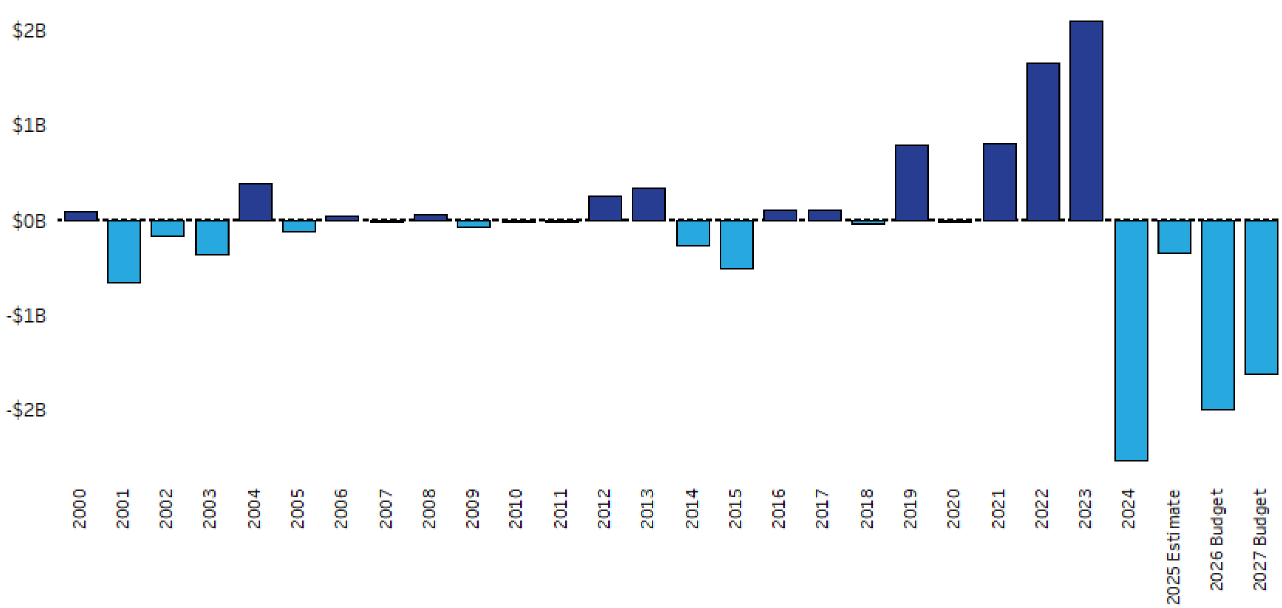
IS THE BUDGET BALANCED?

Heading into the 2025-27 budget, the state of Wisconsin is still in strong shape overall but finds itself in a less favorable position than two years ago. As WPF noted in a December brief, the state's general fund balance is projected to fall from $7.1 billion in June 2023 to an estimated $4.27 billion at the end of June, reflecting decisions by Evers and lawmakers in the current budget to cut income and property taxes, increase aid to local governments and school districts, make one-time investments in state projects and roads, and other expenditures. In the current 2025 fiscal year, the state is projected to spend about $350 million more than it takes in.

Some ongoing drawdown of the state surplus to meet the needs of Wisconsin residents is expected and appropriate in the 2025-27 budget. The question is how much. Under the governor's proposal, the state would increase general fund taxes by more than $2 billion but still end up using most of the remaining balance in the fund to help cover new spending on K-12 and higher education, child care, aid to local governments, and a variety of other priorities. As Figure 6 shows, the drawdown would occur because the proposed spending would exceed revenues by just under $2 billion in 2026 and $1.6 billion in 2027. If approved, that would be the largest imbalance of any budget on record.

Figure 6: State Costs Would Outstrip Revenues For Third and Fourth Year

General fund revenues minus net appropriations in billions (nominal dollars)

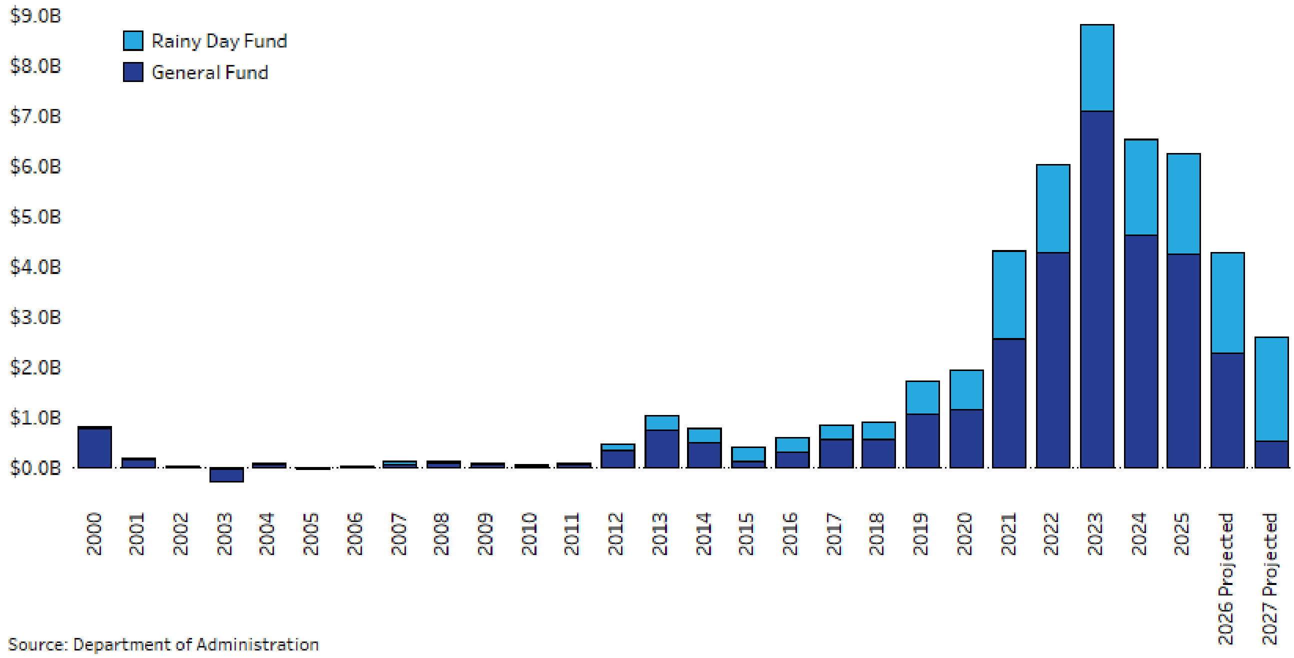


Source: Department of Administration; 2025-2027 are projections.

Some of this general fund spending is billed as one-time in nature, which is an appropriate use of a surplus. That includes $400 million for broadband expansion, $300 million for addressing lead paint in homes and lead water laterals around the state, and a substantial portion of the general fund dollars used for transportation funding. However, much of this new spending would be ongoing and would leave the state with a structural gap heading into the 2027-29 budget despite a relatively favorable economy. The state would also have much smaller reserves to cover any potential budget hole (see Figure 7 on the following page.)

Figure 7: State Reserves Would Fall

State general and rainy day fund balances by year (nominal dollars)



Source: Department of Administration

For their part, GOP lawmakers have promised to remove many of these spending proposals, which in isolation would help leave the state with greater reserves in 2027 and make it easier to balance the budget over the following two years. However, Republican legislators will also likely favor some new spending and have pledged to remove all or most of the governor's proposed tax increases while pursuing even larger income tax cuts of their own. The result could also be difficult to sustain.

What comes next? Some clues may be found in the process two years ago that produced the current 2023-25 budget. Under that legislation, the sizable spending increases in the proposal from Evers would have spent down the state surplus by $6.5 billion over the current two-year budget while the large income tax cuts in the budget produced by the Joint Finance Committee would have used up nearly as much at $6.3 billion. Ultimately, Republican lawmakers removed much of the governor's proposed spending, Evers vetoed much of the legislators' tax cuts, and the result was a budget that is projected to draw down $2.8 billion of the surplus – a huge sum but less than half of either of the more partisan proposals.

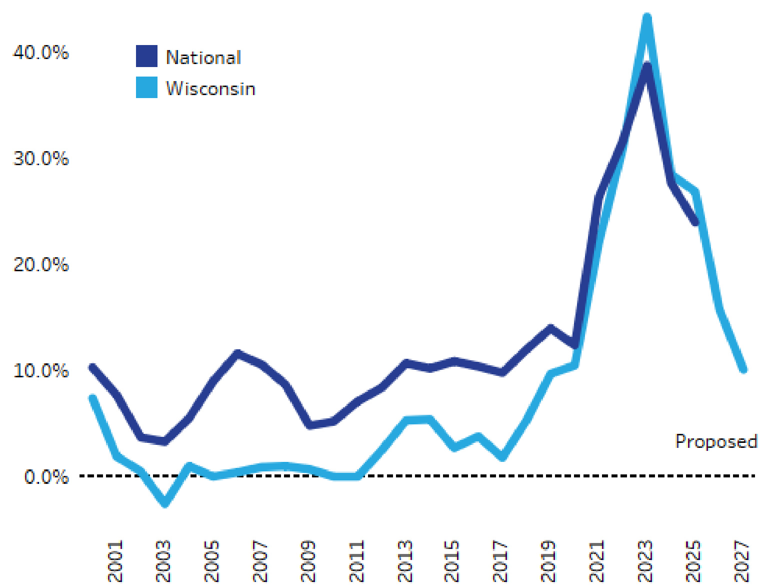
Ultimately, a key question for the public is whether the divided control of state government will once again produce a budget that is more in balance and easier to sustain. The concern is more than academic given the potential unknowns facing the state. For example, the new federal administration is pursuing a host of changes to policies around federal aid to states and local governments, tariffs, immigration, taxes, and regulation. Whatever the impact of those changes on the state's budget and larger economy, state leaders may wish to be ready for them.

How much *should* the state carry in reserves? As we noted, the state is projected to have a more than $4 billion general fund balance on June 30, plus an additional $2 billion in its rainy day fund. That total of $6.3 billion accounts for 26.9% of state general fund spending in 2025 (see Figure 8). That level is much greater than the balances that the state carried throughout the 2000s and into the 2010s and is also greater than the 24% average balance expected across all states at the end of this fiscal year, according to the National Association of State Budget Officers.

In Wisconsin, elected officials can appropriate and spend the state general fund balance for any legal purpose, while the rainy day fund by law is reserved for times when revenues fall short of projections. In practice, however, the governor and Legislature could use either balance at any time if they approved a bill with the appropriate language.

Figure 8: Wisconsin Reserves Now Following National Trends

Combined general and rainy day fund balances as a % of annual spending



Sources: NASBO and Wis DOA. Note: 2025, 2026, and 2027 percentages are estimated.

Going forward, the Evers proposal would leave the state with an estimated general fund balance of just under $650 million in June 30, 2027, plus the assets in the state's rainy day fund. Those total reserves would equal 10.1% of state general fund appropriations in 2027 – a relatively strong level for Wisconsin and other states nationally prior to the pandemic but a large decline over this year.

However, policymakers may wish to consider whether it would be prudent to leave themselves more of a financial cushion. We noted in our budget brief two years ago that even sizable reserves can be exhausted relatively quickly in the event of a sharp economic downturn. In 2009, for example, state general fund tax collections came in roughly $1.5 billion below estimates, or $2.2 billion today after adjusting for inflation. That shortfall doesn't include the additional spending the state had to take on that year in programs like Medicaid health coverage for the newly unemployed, illustrating the huge impact that a recession can have on the state budget.

KEYS TO THE STATE BUDGET

Key #1: Federal funding could see disruptions

Since January, President Donald Trump's administration has frozen or delayed federal funds already awarded to state and local governments, non-profits, businesses, and other entities. At the time of this writing, federal judges have ordered many of these payments to resume, but that has yet to occur in some cases and the issue seems ultimately bound for the U.S. Supreme Court. In addition, the federal Department of Government Efficiency is cutting spending and employees and Congress is debating further funding cuts to federal programs, though it's unclear what the extent of those legislative changes will ultimately be. For now, at least, federal funding comes with greater uncertainty than in the past.

State and local governments in Wisconsin receive much less federal funding than their counterparts in most other states, with Wisconsin ranking 42nd in federal aid in 2022. Still, the governor's proposed state budget would rely on more than $18 billion in federal funds each year to pay for various programs and services. Those include programs such as Medicaid health coverage and food benefits for low-income residents at the Department of Health Services; research, student financial aid, and other priorities at the Universities of Wisconsin; aid for low-income students and students with disabilities in K-12 schools; transportation projects; the Wisconsin Shares child care benefit for low-income working parents; agricultural programs; and a number of other government functions.

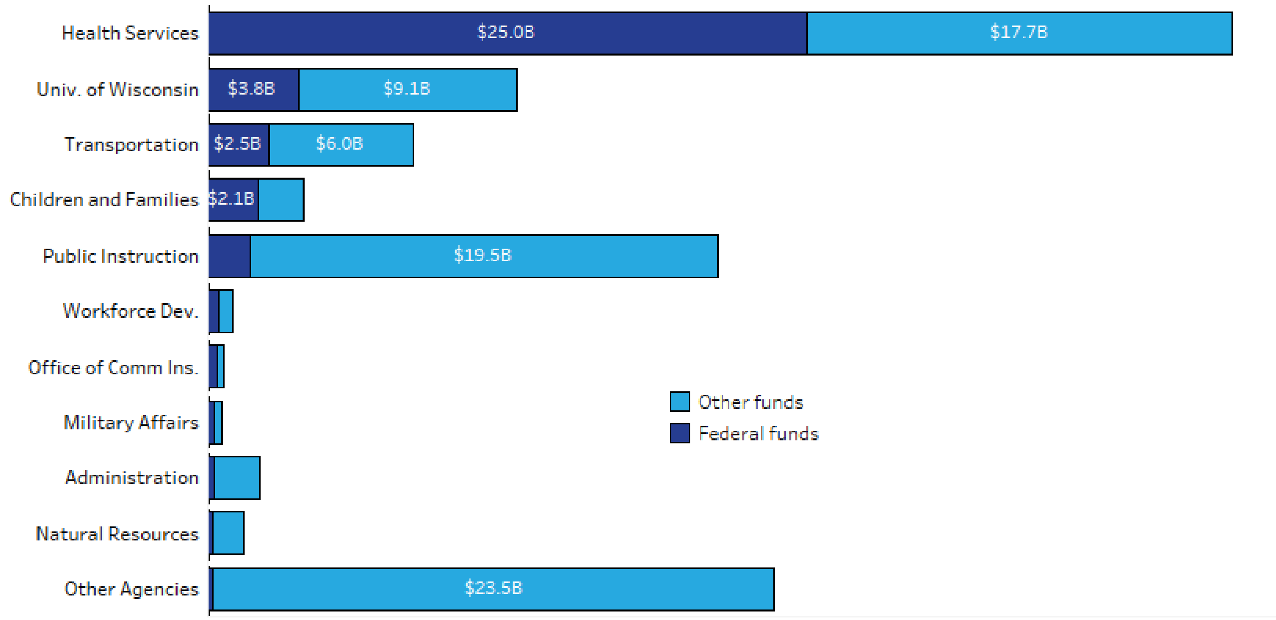
The governor's budget would expand the state's reliance on federal aid significantly by accepting funds available through the Affordable Care Act to expand Medicaid coverage in Wisconsin. That would draw down an additional $2.5 billion in federal aid over two years, cover an additional 96,000 low-income adults, and free up $1.9 billion in state GPR for other priorities. It is worth noting that this proposal comes as Congress debates potential changes or cuts to Medicaid that could affect how much federal funds Wisconsin receives for an expansion or for the program overall.

Figure 9 on the next page shows the estimated amount of federal funds received by the top 10 state agencies under the governor's proposal along with the funds each department would receive from other sources as GPR and segregated and program revenues. The Department of Health Services would receive more federal funds than all other agencies combined – a sign of the size and importance of Medicaid within the state budget and to a lesser extent the FoodShare program (formerly the food stamps program).

When assessing the risk that disruptions to federal funds play for a given agency, it is important to also consider the percentage of total agency or program operations covered by federal funds. Some programs such as FoodShare are almost entirely federally funded and could have no meaningful operations without that support. For example, state data show nearly $1.4 billion in federal FoodShare benefits paid out in calendar year 2024 alone, which would make it very difficult for the state replace them. Other programs and agencies, like the Department of Transportation, rely heavily on federal funds, but could still continue some operations at a greatly reduced level, if federal payments slowed or stopped.

Figure 9: Department of Heath Services Receives the Vast Majority of Federal Funds

Federal and other funds by agency in 2025-27 proposed budget



Source:Department of Administration

Other agencies such as the Department of Corrections are largely state funded and would not be directly affected in any major way by canceled or delayed federal payments. However, even these agencies could face indirect effects if the state's overall finances were impacted by federal funding cuts or delays.

For example, if a large federal payment for Medicaid or other major state program is not made on time, the state might have to consider covering the payments to vendors, contractors, state employees, or individuals using the state's own funds, and then seek reimbursement at a later date. For now at least, Wisconsin has more than $4 billion in its general fund balance and is well positioned to absorb the impact of delayed payments. However, the general fund balance is currently decreasing and there may be cases under state statute in which state funds cannot be substituted for federal money.

Given the uncertainty about federal funding, state officials may wish to leave a larger state general fund balance than they otherwise would keep to cover any disruption in payments and to evaluate the risk of taking on new federal partnerships such as Medicaid expansion. However, if some agencies such as the UW System face federal cuts, Wisconsin officials may also wish to increase state spending in those areas to offset some of the losses. Those two aims of preserving state funds and backfilling lost federal funds might come into tension with one another, since state spending now to make up for any cuts would leave less of a financial cushion for the state in the future.

Key #2: What would it take to slow K-12 referenda?

Budget negotiations for 2025-27 will once again feature a showdown between the governor's longstanding priority to increase support for education and legislative Republicans' desire to control spending and provide tax relief. School districts – and taxpayers – will be watching anxiously to see how the tension resolves after a 2023-25 budget that provided districts with funding increases but did not fully address the effects of recent inflation on district budgets.

This inflationary pressure, in addition to the loss of federal pandemic relief aid and declining student enrollment, has contributed to an explosion of school districts asking local taxpayers for more money via referendum. In calendar year 2024, voters approved a record number of school operating referenda to exceed state revenue limits on schools, which cap the combined amount that districts can raise from state general aid and local property taxes.

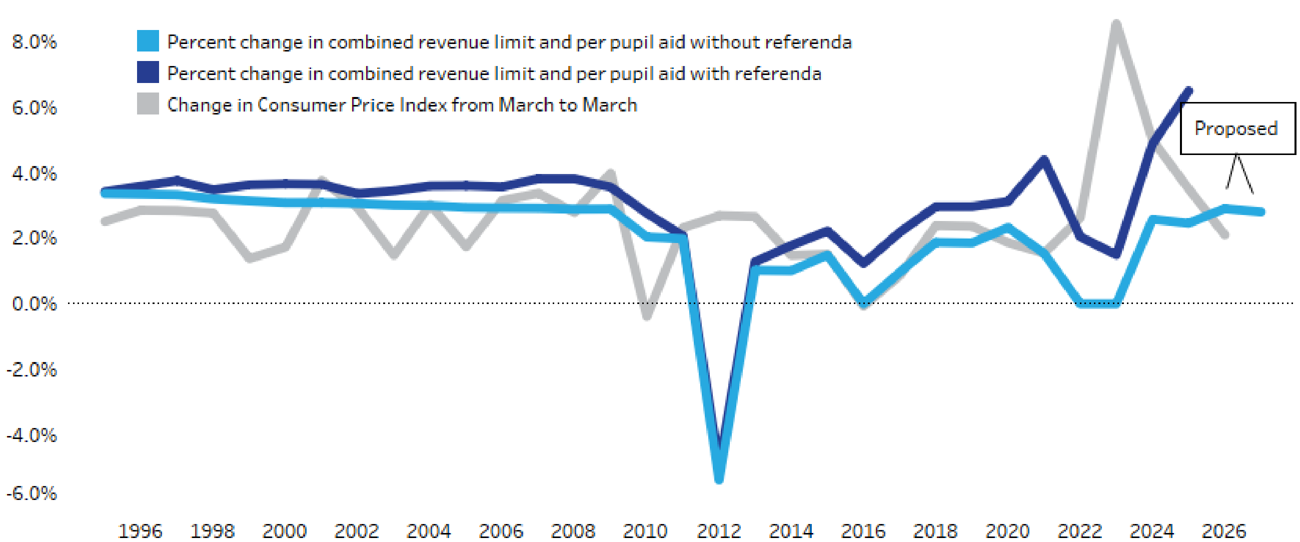
Revenue limits have grown as a result of changes such as the recent operating referenda and the annual $325 per pupil revenue limit increases and bumps to the minimum revenue limit for districts in the current two-year budget. The statewide average revenue limit per student (including a related state payment known as per pupil aid) rose by 4.9% in the 2024 school year (also known as 2023-24) and an estimated 6.5% in 2025 – the largest increases since revenue limits began in the 1994 school year. These increases in turn put upward pressure on local property taxes.

The escalation was due far more to referenda approvals than to revenue limit increases in the state budget and other exemptions. Figure 10 shows the combined percentage increase each year in revenue limits and state per pupil aid, with the light blue line showing the percentage increase without referenda and the dark blue line showing the increase with referenda and other exceptions to the state limits.

Prior to 2016, less than one percentage point separated the combined increase each year in the blue lines. They began to more markedly diverge, however, following the passage in 2020 of major referenda for Milwaukee Public Schools, the Madison Metropolitan School District, and other school districts throughout the state. Over the last five years, there has been a gap of at least two percentage points or more in every year except 2023, and the divergence has grown.

Figure 10: Districts Using Referenda to Start to Catch up with Inflation

Percent change in revenue limit and per pupil aid by school year compared to the change in inflation



Sources: Department of Public Instruction, Legislative Fiscal Bureau, and Bureau of Labor Statistics; the combined amount in additional revenue limit and per pupil aid per year without referenda is divided by the statewide average revenue limit per member. The percent change with referenda represents the annual change in the statewide average revenue limit plus per pupil aid and contains some other revenue limit exemptions besides referenda.

The operating referenda have helped many districts start to catch up with inflation. Under the governor's proposal (discussed below), the gray line showing the annual change in inflation would dip next school year below the change in revenue limits (excluding referenda) for only the fifth time since the state Legislature decoupled the two in 2009. Referenda would raise revenue limits still higher.

In other words, the tight state limits on school district revenue are no longer as effective in controlling the growth in property taxes statewide. This shift is likely welcome for district leaders who have pointed to the disconnect between the budgeted changes in revenue limits and inflation. However, the shift means higher local property taxes and is limited to the districts where voters have approved ballot questions. Not all communities have done so.

The trend is posed to continue, with 94 referenda going before voters in the February and April elections, the most ever between January and April in a non-presidential or midterm election year. This may reflect the accumulated impact of revenue limits and inflation in prior years and perhaps also some districts' desire to avoid further cutting their budgets to absorb the loss of federal pandemic aid and ongoing declining enrollment.

Two important questions for policymakers, therefore, are how aggressively they wish to act in this budget to stem the rise in referenda and property taxes – and what actions might be effective. There is some evidence that voter appetite for referenda is declining, but the sheer number of ballot questions may keep passage rates high even if approval rates drop.

For his part, the governor proposes in his budget to tie the annual increases in revenue limits to inflation such that they would rise by $334 per pupil in 2026 and $345 in 2027. The bill would also increase state equalization aid by $1.2 billion over two years in an attempt to prevent the otherwise inevitable property tax increases. He would also raise the minimum revenue limit for districts and allow districts to claim full-day four-year-old kindergarten students as 1.0 full-time equivalent students for revenue limit and aid purposes instead of the 0.6 in current law.

The governor would further increase state per pupil aid by $58 per student in 2026 and an additional $50 per student in 2027, plus an additional $160 per economically disadvantaged student in 2026 and $170 for each of those students in 2027. Per pupil aid has not historically distinguished between students' household income levels, which has been a benefit to wealthier districts. In recent years, the Legislature and governor have instead channeled more money into equalization aid and revenue limits, which benefit communities with lower property values even if the formulas do not directly account for student poverty. The governor's proposal would return some focus to per pupil aid while also making it a more equitable revenue source for poorer districts.

Finally, the governor's proposed increases to special education aid would effectively increase the resources for districts to teach all students. That is because special education services are mandated by federal law, so when special education revenue lags, districts must draw from their general fund revenues such as the property tax to cover the difference. State reimbursement levels for qualifying special education costs have not exceeded 33% since at least 2016. The governor proposes instead guaranteeing 60% reimbursement at an estimated cost of $1.1 billion over two years (the actual amount could be higher or lower).

If all of these increases came to fruition, they would likely curb referenda and property tax increases. However, they would also sharply increase state spending and are unlikely to pass the Legislature as written. Other big-ticket items within the governor's K-12 education proposal include these funding increases:

- $297.8 million for school mental health systems and staff
- $79.6 million for 2023 Wisconsin Act 20 implementation to help younger students learn to read, including $50 million meant to replace dollars originally allocated in the 2023-25 budget but as yet unreleased
- $53.5 million for a new aid program to support students who are English Learners; previous Forum research has documented the limitations of the state's current bilingual-bicultural aid program
- $22.0 million for various educator pipeline initiatives

Evers also proposes appropriating an additional $23.0 million for independent charter schools in Wisconsin and $151.9 million for the state's four private school choice programs to fulfill current law regarding their per pupil payments. The governor's bill also includes a series of provisions intended to limit the scale of school choice programs and in his view make them more accountable. GOP lawmakers are unlikely to approve these proposals.

Notable for *not* being a big-ticket item in the budget is the governor's proposed $6 million grant to the Graduation Alliance, a national group, to combat chronic absenteeism among students. Such a partnership may indeed make a difference – the Forum previously reported that an earlier one between the Wisconsin Department of Public Instruction and Graduation Alliance had reconnected an estimated 3,000 to 4,000 students to school. Yet given that this proposal is relatively small, lawmakers may wish to consider additional steps to address this critical issue for Wisconsin schools.

Key #3: Solutions sought for child care conundrum

States around the country have been trying new responses to growing concerns about the cost, access, and quality of child care, but Wisconsin officials have yet to approve a permanent, bipartisan approach to this problem. In the budget, the governor puts forward his own preferred solution: a proposal to spend $480 million over two years to fully reinstate the pandemic-era Child Care Counts program.

This initiative paid child care providers with the goal of expanding families' access to affordable care, increasing workers' pay, and improving the quality of care. As the original $650 million in federal pandemic funding began running out at a time of rapid inflation, payments to providers were decreased by 50% starting in May 2023 to allow them to continue through January 2024. The Wisconsin Department of Children and Families (DCF) found in its market survey of licensed providers that, from May 2022 to December 2023, the median price of care increased by more than predicted, which could reflect the impact of the decreased funding. Whatever the reason, there was a sharp drop in the share of child care slots considered affordable for families receiving the Wisconsin Shares subsidy, from 74% in 2022 to 50% in 2024. The governor has used federal pandemic emergency funding to extend the Child Care Counts program at decreased levels past its original January 2024 expiration and through June 2025.

A Look at Demand

A rough estimate of the current unmet demand for child care in Wisconsin provides a sense of the potential impact of a $480 million infusion. According to a 2023 American Community Survey one-year estimate, Wisconsin is home to 263,469 children under the age of six who have all available parents in the labor force and may need paid child care.

As of January 2025, according to DCF, regulated providers in Wisconsin were approved to serve 179,069 children in total. In theory, therefore, approximately 84,000 children cannot currently be served by regulated providers, equating to an unmet demand of 32.0%. This number is not perfect, however, since it does not account for the children being watched by grandparents and other family members, unlicensed home day cares, or the children of parents who might seek employment if child care were more easily available.

In addition, not all regulated providers can offer all of their authorized slots. In fact, recent research from the Institute for Research on Poverty at the University of Wisconsin-Madison found that the majority of licensed group centers in Wisconsin had unfilled slots, which they attributed primarily to not having enough qualified staff. And indeed, a national study by the Bipartisan Policy Center estimated Wisconsin's unmet demand to be materially higher: 40.6%, or 117,090 children using 2019 supply data and 2014-2018 demand data. This was the ninth largest gap out of the 35 states (and D.C.) studied, which had a combined average gap of 31.2%.

These findings are consistent with the fact that women in Wisconsin participate in the labor force at a higher rate than their peers nationally. This greater participation rate also leaves both workers and employers in Wisconsin more exposed to disruptions in the child care market.

For the regulated child care system to serve 84,000 to 117,090 more children at current median provider prices (as reported by DCF's 2024 market survey), it would cost an estimated $655 million to $2.0 billion total, borne primarily by families and the government. (The range reflects differences in median prices based on child age, geographic region, and provider type.) This cost does not include any changes to make child care more affordable, to increase wages for workers, or to otherwise improve the quality and viability of child care businesses.

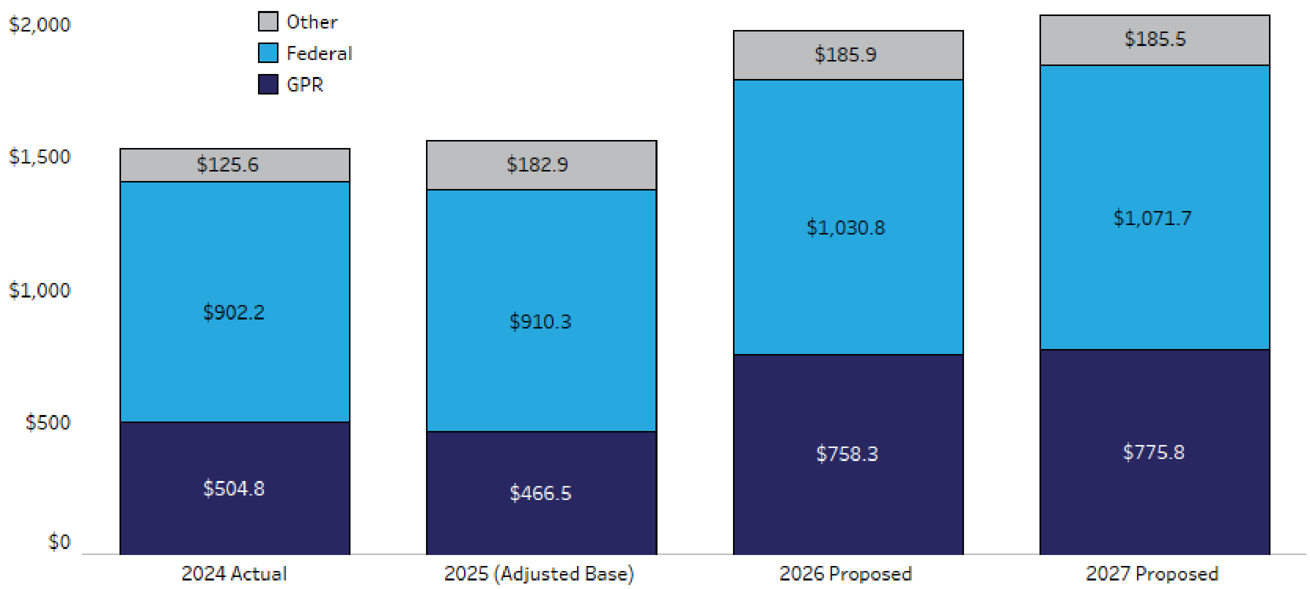
We highlight these sobering figures not to advocate for or against such an investment but to note that child care accounts for a sizable chunk of the overall economy. To make an impact on child care costs, access, and quality that families in particular would notice, policymakers would have to free up substantial resources within the state budget from one of a limited number of revenue options.

The Governor's Proposal

The governor's $480 million proposal would be paid for primarily with newly allocated state GPR: $221 million each in 2026 and 2027, with the remainder covered by federal funds. As Figure 11 shows, the governor's Child Care Counts proposal would be a driving force behind the total DCF budget increasing by nearly one third (a 32.7% increase from 2024 to 2027) and would also increase the share of the department's budget that is financed with state dollars.

Figure 11: Child Care Proposal Would Drive Increase in DCF Agency Budget and State Share

Department of Children and Families budget by revenue source by year in millions



Source: Department of Administration

Beside the Child Care Counts allocation, other notable elements of the governor's proposal for DCF and child care include:

- $21.3 million in federal Temporary Aid for Needy Families (TANF) funds to cover re-estimated costs of the Wisconsin Shares subsidy program and to ensure at least 75% of regulated child care slots could be completely covered by the maximum reimbursement rate for families receiving the subsidy
- Over $20 million in TANF dollars to reduce the copayments that Wisconsin Shares subsidy recipients pay for care
- $10 million in GPR to build new and existing child care providers' capacity through a new online platform for hiring, recruitment, licensure, and business planning, plus additional supports for providers
- $5.5 million in GPR to set up an employer grant program to support employees' child care

In addition, the governor would allocate $116.9 million to expand the Earned Income Tax Credit, as noted earlier in this brief. The credit is not a direct support for child care but is designed to provide tax relief for low-income working parents, thereby increasing their available income for needs including child care.

Direct State Funding by Other States

If the full package were passed, Wisconsin would join a recent spate of at least 11 other states committing millions of state dollars to child care since 2022. Among Wisconsin's neighbors, Illinois approved $100 million for workforce contracts designed to raise wages and stabilize the industry, while Minnesota passed a $575.8 million, two-year child care worker retention payment program, among other funding measures.

This groundswell of new state funding for child care appears tied to years of lobbying from advocates; the specific pressures of inflation, low unemployment, and the pandemic; and potentially the combination of federal pandemic aid and state budget surpluses that made paying for the programs more feasible for now at least. Given the labor-intensive nature and substantial cost of child care, sustaining this state funding could prove challenging over time.

The Use of Federal Funds

Alternatively, Wisconsin might look to further tap its TANF block grant to infuse more dollars (either instead of or in addition to significant state investments). As of 2022, Wisconsin allocated 31.9% ($116.5 million) of its total TANF funds (including both the federal funds and the required state maintenance of effort) to early care and education and to activities related to its main federal child care grant. This was its largest allocation to a single spending category, with services for children and youth in a distant second (16.4%) and basic assistance third (13.4%).

Among other states, Pennsylvania allocated the highest percentage to child care (64.5%), suggesting that it would be possible for Wisconsin to increase its share even further. On the other hand, Wisconsin already ranks 15th highest among all states and D.C. for its proportion of TANF going toward child care, and to increase that allocation would require divesting from other state priorities and spending categories such as employment services and child welfare programs. In addition, TANF dollars have limits on their use and, for example, could not fund programs such as Child Care Counts.

Leveraging Employer Support

Other states have experimented with additional revenue streams for child care that do not solely depend upon additional federal, state, or family contributions. Attempts to engage employers have proven popular across states in recognition of the benefits that businesses receive when workers have dependable, affordable, and accessible child care and can therefore show up to work reliably.

The governor's proposal for a new employer grant program nods to this interest, and it may be the proposal most likely to catch state GOP leaders' eye. A review of these efforts around the country finds a range of interesting options (see Table 1 on the next page). However, it is worth noting that many of them are not operating at the scale that would be required to affect the child care market given its substantial size. In addition, they often target affordability concerns for families without addressing wages for child care worker wages or profit margins for providers, which can also affect access to care and the quality of care.

A small handful of states, including Michigan and Kentucky, have set up direct cost-sharing mechanisms that split the cost of child care between employers, employees, and the state. The scale of these programs remains small, although they may ramp up in future years. Michigan's Tri-Share program began in 2021 with initial funding of $1.1 million and ended its pilot phase with only 52 participating employees. By March 2024, it had expanded to serve 514 families, including 713 children, across 195 participating employers and 351 providers. A five-year plan calls for serving 5,000 families and 7,500 children by 2028 at a cost of $40 million to the state. The program requires participating employers to pay at least one-third of participating employees' child care costs, with the state covering the second third and employees contributing the final third.

Table 1: States Seek Opportunities to Support Child Care

Summary of selected possible approaches to increase child care revenue, in Wisconsin and nationally

State Approach	Description	Current application in Wisconsin	National examples, context
Additional funding from state taxes	State directly increases tax funding for child care efforts	Governor's budget would use $440 million in new GPR to fund Child Care Counts	**In 2023, Illinois** approved $100 million **and Minnesota** passed a $316.1 million, two-year worker retention program
Increased share of TANF funds (federal and state maintenance of effort combined)	State reallocates Temporary Aid for Needy Families funding from other spending categories to child care activities	Of Wisconsin's TANF funds, 31.9% went toward child care activities in 2022	**Pennsylvania** allocated 64.5% of its TANF funds toward child care activities in 2022
Direct cost-sharing with employers	Employers, employees, and state split the cost of employee child care	Not currently in place although both state GOP leaders and the governor have proposed employer grant programs	**Michigan** divides child care cost between employer, employee, and the state **Kentucky** provides a state match for employer contributions to child care
Tax incentives			
Tax credit to employers for supporting child care	Employers receive credit based on expenditures supporting child care facilities, providers, or employees' access to care	Not currently in place or proposed	Nationally, 26 states offer a version of this credit
Child care contribution tax credit	Businesses or households receive credit based on donations to care providers	Not currently in place or proposed	**Colorado** offers a 50% tax credit on donations
Child and dependent care tax credit	Households receive credit based on dependent care expenses incurred	2023 Wisconsin Act 101 expanded existing credit	Nationally, 26 states plus D.C. offer a version of this credit
Child tax credit	Households receive credit based on income, filing status, and size of household	Not currently in place or proposed	Nationally, 16 states offer a version of this credit
Earned income tax credit	Households receive credit based on income, filing status, and size of household	Currently in place. Governor's 2025-27 proposal would expand.	Nationally, 24 states plus D.C. offer a version of this credit
Dependent care flexible savings accounts	Employees may set aside income pre-tax for use on dependent care expenses	Availability determined by employer	Availability determined by employer
Payroll tax	State levies a tax on businesses' payroll, directing resulting revenue to child care activities	Not currently in place or proposed	**Vermont** passed a 0.44% payroll tax in 2023 to fund state child care expenditures, with cost split between employers and employees

Kentucky's Employee Child Care Assistance Partnership Program began in 2023 as a pilot with $15 million. It provides a state match for employer contributions to employees' child care, with the proportion of the match ranging from 100% for employees with a household income equal to or less than 100% of the state's median to 50% for employees with a household income above 180% of the state's median. In the first six months of the program, 35 employers enrolled in the program, supporting a total of 133 children. Multiple other states, including Kansas and Texas, are currently considering bills to establish similar programs.

The Use of Tax Incentives

Tax incentives to engage employers are particularly widespread across the country, with 26 states offering tax credits to businesses that support their employees' child care needs. These are often modeled on the federal employer-provided child care tax credit, which allows employers to receive a credit based on expenditures made to support child care facilities, providers, or employees' access to care. However, their scale can also be quite small, in terms of both the aggregate statewide caps and actual uptake.

For example, Iowa's credit is capped at $2 million statewide each year. Alabama's credit will be capped at $15 million in 2025, its first year of enactment, and will go up to $20 million for 2027. Whether the full amount gets claimed remains to be seen and may depend upon how the credit is targeted; part of Iowa's rationale for setting a low state cap was "very limited use" of the current federal credit, which analysts say is hamstrung by "low credit amounts, limited eligibility, and lack of awareness of the credit."

Colorado offers not only an employer-provided child care tax credit but also a Child Care Contribution Credit. This credit has been in place for over a decade and offers a 50% tax credit on donations to child care providers from individuals or businesses, with a maximum annual credit of $100,000 per tax filer. As of the credit's most recent reauthorization, in 2023, the state's legislative council estimated that it would decrease the state's revenue by $37.3 million to $41.9 million each year, with approximately double that amount accruing to child care providers to establish and operate licensed facilities, offer subsidies to parents, and support child care workers.

Other types of state tax incentives related to child care available in other states include child tax credits and dependent care flexible savings accounts, both discussed in previous Forum research. We have also noted the Evers proposal to expand the Earned Income Tax Credit.

Similarly, in the last legislative session, Wisconsin expanded the state child and dependent care tax credit. State GOP leaders also set up a revolving loan fund for child care providers and established workforce innovation grants that might be applied to child care, among other fields. The revolving loan fund was ultimately amended via the governor's veto, and the funds have not yet been released by the Joint Finance Committee.

According to the Wisconsin Department of Workforce Development, of the 27 workforce innovation grants awarded thus far, seven are related to child care, including $15.3 million awarded across four organizations with a direct focus on child care and another $32.0 million awarded across three organizations whose grant proposals included outcomes related to child care assistance. That equates to one-quarter (24.9%) of all workforce innovation grant dollars going toward organizations at least partially concerned with child care.

For a final idea from other states, Vermont stands out for attempting to both harness the state tax system and reallocate its existing resources in order to address child care needs. In 2023, the legislature passed Act 76 and committed $50 million in an annual appropriation from the state's general fund and an estimated $81.9 million generated by a new 0.44% payroll tax that will continue to fund its implementation in perpetuity. Employers and employees both contribute to the payroll tax, with employers covering at least 75%. The infusion of money has brought promising initial results; as one article summarized, "In its first year, the legislation created 1,000 new child care slots, nearly 50 new family child care programs, over 40 child care centers and 220 new early educator jobs." For a state with just over 3,000 children under the age of five living in poverty, these are meaningful figures.

Still, it is difficult to balance the cost to taxpayers against the goals of maximizing affordability, accessibility, and quality of care for families while also supporting child care providers and workers. The governor's proposal prioritizes direct funding to providers, with potential benefits for workers and families, and the ball now sits in lawmakers' court to give their own answer to this pressing issue.

Key #4: "Domino" proposal seeks to limit prison building

The governor's capital budget is expected to propose building and renovation projects that would transform the state's prison system to modernize 19th-century facilities and address overcrowding and understaffing. These projects would total around $500 million and would involve 10 new and existing institutions around the state.

Amid historic staff vacancies from 2021 to 2023, some state prisons went into lockdown because there were not enough correctional officers to monitor inmates doing their usual activities. This included the Waupun Correctional Institution, the second-largest of Wisconsin's five maximum-security prisons and the oldest of any kind in the state (parts of the prison were built in 1851). Last year, staff from Waupun were charged with the death of multiple inmates due to malnutrition and dehydration. The vacancy issue has improved after a compensation plan was approved that significantly increased starting salaries for correctional officers.

Additionally, the Lincoln Hills School for boys and Copper Lake School for girls – the two largest state institutions for juveniles – have faced ongoing investigations and cases of assault between staff and inmates, leading then-Governor Scott Walker to sign a law to close them. However, an extension on closure was signed by Governor Evers and it has yet to move forward. These institutions continue to hold juveniles, albeit at lower levels: as of February 14, there were 66 boys out of a 519-person capacity at Lincoln Hills (12.7%) and 11 girls out of a 29-person capacity at Copper Lake (37.9%).

The overarching goals of the Evers plan would be to close the Green Bay Correctional Institution – which was also built before 1900 – and convert Lincoln Hills and Copper Lake into a medium-security prison for men. In order to do this, the budget proposes a "domino" series of changes to many institutions:

- First, some youth at **Lincoln Hills** and **Copper Lake** would be moved to a new **"Type 1" facility for youth in Dane County**. The budget estimates costs for the facility at $130.7 million. At the same time, the governor's operating plan would fund staffing for a **Milwaukee County-based "Type 1" facility** that is currently being built at $6.5 million in fiscal year 2026 and $20.9 million in 2027; this facility would also receive youth. There is also reportedly $31.1 million in additions planned for **Grow Academy**, a juvenile institution in Dane County with a current capacity of 12. Lincoln Hills and Copper Lake would become a medium-level adult prison with a 500-bed capacity.

- **Stanley Correctional Institution** would convert to a maximum-security institution at a cost of $8.8 million. **John Burke Correctional Center** in Waupun would add 114 beds for a total of 300 and convert to a women's facility at minimal cost. **Sanger B. Powers Correctional Center** would then add 200 beds and remodel its kitchen at a cost of $56.3 million.
- Finally, Green Bay Correctional Institution would close in 2029, and staff would be guaranteed a job elsewhere. The closure would cost $6.3 million and the institution's 749 beds. Then, **Waupun Correctional Institution** would lose 282 beds but convert into a medium-security "vocational village" prison, offering workforce training programs onsite. After closure for remodeling, it would open in 2031 at a cost of $245.3 million.

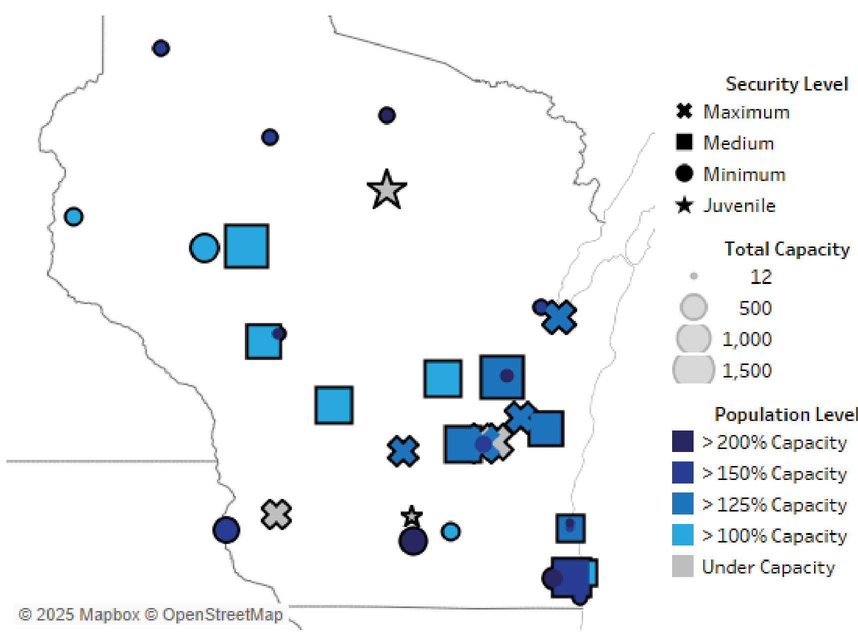
The state would be left with a capacity of around 700 fewer correctional beds than now. The governor's goal is to reduce recidivism and the state's prison population, which currently sits above 23,000, below levels immediately preceding the pandemic. Wisconsin's prison population dipped below 19,400 in May 2021, as court backlogs grew during the pandemic, but has grown by nearly 20% since that time. Prisons in Wisconsin are operating at 30.8% above their intended collective capacity, and as shown in Figure 12, nearly every state institution is above its individual capacity.

Other elements of the governor's operating budget attempt to address overcrowding. The budget would expand the Alternatives to Revocation program, create community reentry centers, provide spending authority for 50 new supportive housing beds, and more. However, many of these elements were removed from the previous budget by the Legislature after the Governor proposed them two years ago.

These latest proposals show creativity in seeking to avoid a massive investment in building a maximum-security prison from scratch to replace Green Bay Correctional. Yet even if approved by lawmakers, these plans would face many challenges. State data show that though rates of reincarceration have declined since 2000, rates of reconviction and re-arrest have not changed significantly. Similarly, after reforms in 2020, revocations – a driver of incarceration in Wisconsin – have begun to return to pre-pandemic levels. Given these factors, reductions in the state's corrections population could take further efforts to achieve.

Figure 12: Most Wisconsin Prisons Over Capacity

Wisconsin correctional institution by security level, capacity, and population level



Source: Wisconsin Department of Corrections

The governor's "domino" plan also requires many steps to fall into place correctly in order to reshape the state's correctional system. If any step fails, the state's prisons could remain overcrowded with even less time to find a solution.

Key #5: Funding for other major state agencies would also rise

Universities of Wisconsin (UW System)

The governor's budget includes a GPR increase of $692 million for the Universities of Wisconsin over the next two years (an increase of 25.7%), which the governor has described as "the largest biennial increase for the state's UW campuses in state history." The proposal comes as the UW System has been closing some of its two-year campuses, cutting its four-year campuses, and contending with potential decreases to research funding from President Donald Trump's administration.

The governor's proposal also would provide the UW with its largest nominal GPR budget ever. After adjusting for inflation, 2009 was the last year in which the UW System's budget was worth more than what the governor is proposing. Recent Forum research found that in 2021, Wisconsin ranked 43rd nationally in total revenue per pupil on four-year campuses. That was down from 24th nationally in 2000. According to the Evers administration, the proposed budget would elevate Wisconsin to just above the national average in per pupil revenue.

In recent years, six UW branch campuses have closed or announced their closure, while several four-year UW System campuses have made cuts to faculty and programming that reflect lower enrollment compared to their peak in 2010, a previous freeze on in-state undergraduate tuition, and previously stagnant GPR funding. The governor's budget says the proposed funding increase is intended to prevent further erosion in the size of the UW System and the quality of its personnel and programs. GOP lawmakers, however, have argued that enrollment is down from a decade ago and the UW does not need an increase of this size to fulfill its mission.

Major proposals included in the budget for the next two years include:

- $305 million for efforts to increase student access to the UW System, including through expanded dual enrollment for high school students and direct admissions and enhanced transfer pathways;
- $203 million for efforts to recruit and retain quality educators and staff, including through wage increases; and
- $129 million for financial aid to students with financial need or who are veterans or members of a tribal nation.

Wisconsin Technical College System

The governor's budget provides a smaller 4.5% increase in GPR for the state's technical colleges over the two-year budget, raising appropriations by $59.3 million to $1.23 billion. Most of that new money would come from an increase of $45 million in general aid.

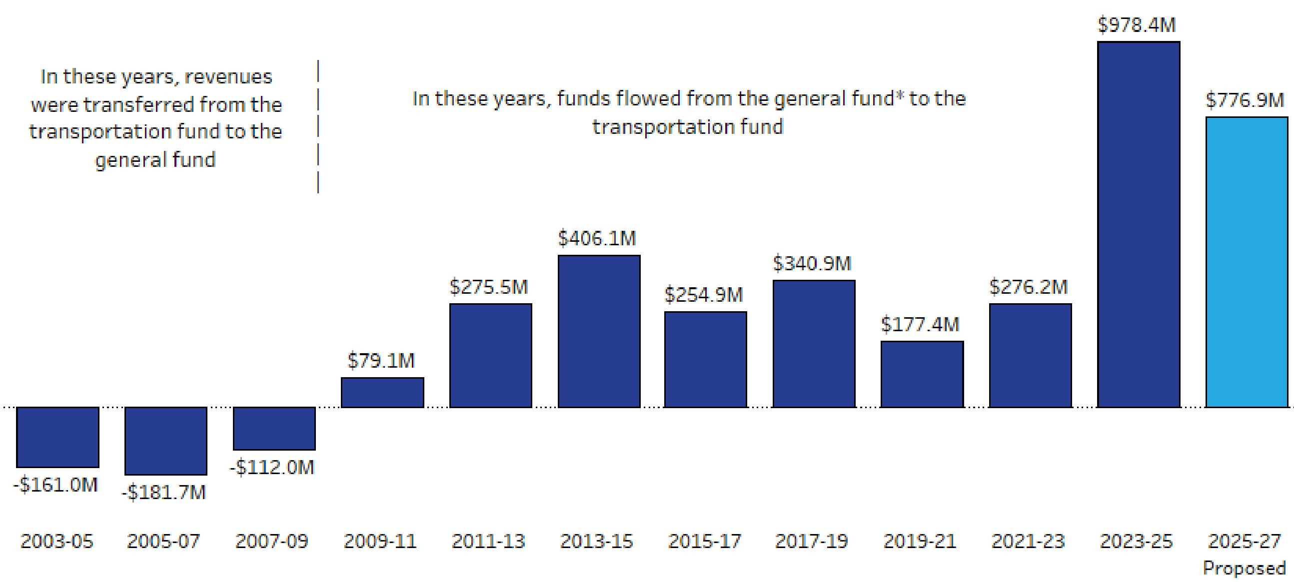
However, the budget includes a few specific initiatives such as roughly $12.4 million over the two years for student financial aid through the Wisconsin Grants program and $10 million for innovation grants to help technical colleges offer artificial intelligence in their courses and curricula and help ensure faculty are able to teach about it.

Department of Transportation

Our previous research has highlighted challenges to finding a long-term financing solution for the state's transportation infrastructure, as recent budgets have relied on one-time transfers from the state's general fund to stay in balance. The governor's budget would still rely on some general tax revenue by transferring an additional $129 million in sales tax revenue to the transportation fund -- an amount associated with growth in taxes on auto parts, tires, and repairs. The bill would also increase the vehicle title fee by $120, which would raise $282.6 million over two years.

The governor's budget also continues the practice of one-time general fund spending on transportation priorities by proposing $100 million in GPR for upgrades to local roads, $25 million for improvements to rural roads, and an additional $60 million so local governments can install traffic calming devices. Figure 13 shows the net impact of general fund support for transportation (and vice versa) over the past 12 budgets.

Figure 13: Substantial General Fund Revenues Would Go to Transportation in Proposal
General fund support of transportation by two-year budget cycle, 2003-05 to 2025-27



Source: LFB and DOA documents. *Includes general fund transfers to the transportation fund, borrowed funds repaid from the general fund for transportation projects, and general fund payments for transit aids, local and agricultural roads, and other agency costs.

Key #6: Budget would make shifts on health insurance, marijuana

The governor's proposal includes policy shifts and sizable amounts of funding for a number of significant initiatives in the areas of consumer protection, infrastructure, workforce development, and environmental cleanup, among other areas.

One such proposal would create a Public Intervenor Office, which the governor says would assist Wisconsinites in dealing with claims disputes with their health insurers. The governor says the new office would help consumers with claim denials to navigate appeals and other actions.

Some of the major proposals in the governor's budget also call for making large expenditures on a one-time basis. While policymakers' views may vary on the merits of each proposal, this approach at least aligns with the one-time nature of the current state surplus.

The largest of these proposals would increase funding for broadband internet infrastructure development in underserved areas of Wisconsin. The governor proposes a $400 million one-time GPR expenditure in fiscal year 2026 for the state's Broadband Expansion Grant program. According to the proposal, this funding would deploy high-speed broadband infrastructure to approximately 31,000 homes and businesses primarily located in remote and difficult-to-serve areas.

Another priority is addressing the various sources of lead contamination throughout the state. The budget would provide $100 million in one-time GPR funding to restart a state lead abatement program initially funded in the 2019-21 budget: the Windows Plus Program, which would support renovations in schools, homes, and child care centers to remove or remediate lead in problematic areas of older buildings such as peeling paint around windows.

Drinking water also flows through tens of thousands of lead service lines in Wisconsin communities. While many have been replaced in recent years, Forum research has documented that a sizable number still remain, particularly in southeast Wisconsin. The budget renews a request the governor made two years ago, rebuffed at that time by lawmakers, to provide $200 million in GPR funding to replace lead lateral service lines throughout the state.

The governor also proposes a $145 million expenditure to address another environmental contaminant: per- and polyfluoroalkyl substances, also known as PFAS. Often called "forever chemicals" because of their resistance to breaking down in the environment and in human bodies, they can be associated with various negative health effects. The governor's proposal would fund efforts to address PFAS contamination in private wells, municipal water supplies, and other sources.

The bill also contains a series of proposals relating to economic and workforce development. The largest of these would provide $145 million to the Wisconsin Economic Development Corp. for various programs relating to Main Street commercial redevelopment, renewable energy, sustainable agriculture, rural development, a business accelerator program aimed at developing research in conjunction with the UW System, and more.

The budget also would provide $140 million in state GPR funding in fiscal year 2026 to continue the Workforce Innovation Grant program that used now-exhausted federal pandemic relief funding to support "locally driven solutions to workforce challenges" across various regions of Wisconsin. Of this total, $25 million would go to address needs in one of the state's most critical workforce sectors, health care. In addition, $15 million out of the total would go to address workforce issues in perhaps the most significant – and potentially disruptive – form of new technology, artificial intelligence (AI).

Evers also proposes giving Wisconsinites the ability to hold a referendum vote on proposed changes to state law or the state Constitution via binding ballot initiatives. If a sufficient number of petition signatures from Wisconsin voters were gathered for a proposed statutory or constitutional change, it could go directly onto the ballot for a binding vote without approval from the state Legislature, as is currently required. Another proposal is a renewed call for lawmakers to legalize, regulate, and tax the sale of marijuana for recreational use. Evers made similar proposals in 2021 and 2023, but lawmakers rejected them.

CONCLUSION

As the 2025-27 state budget debate begins, Wisconsin leaders are looking out at a largely bright picture in the present, with low unemployment and a more than $4 billion surplus that they can draw on to address the needs of the state. The future has some points of concern, however, including drops in the stock market and consumer sentiment nationally, an uptick in recent inflation, and persistent referenda by municipalities and schools that seek to raise local property taxes to balance their budgets. Yet provided the national economy keeps growing, the prospects for the state and its finances seem solid.

In this moment, the governor would expand state spending significantly, increasing state aid for K-12 schools and local governments, making the largest infusion of state dollars into the UW System in a generation, providing state support for private child care, and spending on a range of other priorities such as broadband and lead remediation. To cover these commitments, he would spend more than three-quarters of the state's general fund balance and raise state taxes on net by more than $2 billion over two years, though his plan would lower local property taxes by more than $1 billion.

If adopted in full, the Evers proposal would leave the state with enough reserves to cover about 10.1% of annual spending thanks in large part to a state rainy day fund with a balance of $2 billion. Yet the governor's proposal would also leave a structural deficit of more than $4 billion that would make it a tricky task to balance the 2027-29 budget even if the national economy remains strong. GOP lawmakers have yet to release their own budget, but in 2023 they voted for more than $1 billion a year in income tax cuts alone. Those decreases also would have made the state's budget hard to sustain had Evers signed them all into law two years ago rather than vetoing most of them.

Amid this coming partisan debate over the state's future, elected officials may wish to consider the past as well. Throughout the 2000s, the state carried almost no reserves, leaving it exposed to the terrible fury of the Great Recession. Most of today's lawmakers were not in their current offices during that dark time, and did not face the multi-billion-dollar shortfalls that had to be bridged in both 2009 and 2011 at great cost and sacrifice by taxpayers, schools, local governments, and public workers.

Since then, prudent decisions by leaders of both parties have built up the state's finances and positioned Wisconsin state government to weather a recession much more effectively. Elected officials will have to consider the advantages of retaining these fiscal safeguards and weigh those concerns against priorities such as investing in education and holding down increases in local property taxes.

Striking that balance in a divided state Capitol will require some measure of bipartisan compromise between the governor and the Republicans who control the Legislature. At the moment, the two sides appear sharply divided, but it is worth remembering that they have overcome such obstacles in the past and may yet do so again. We hope this report will contribute to this process by illuminating some of the challenges and opportunities that lie ahead for our state.