



# INSTITUTE FOR REFORMING GOVERNMENT

## First Look at the Legislature's 2023-2025 State Budget: What You Need to Know

### Executive Summary

Over the past few months, the Joint Finance Committee (JFC), the legislature's powerful budget writing committee, has made modifications to Governor Evers' proposed 2023-2025 state budget. Their work has been approved by the full Assembly and Senate, and the modified budget now goes back to Gov. Evers for his consideration. He will sign, veto, or partial veto the document in the coming days.

As approved by the legislature, the budget now contains a historic income tax cut, increased funding for choice and charter schools, and provided the financial backing to upgrade the status quo of how Wisconsin students learn to read. The legislature also reduced the Governor's spending plan by 6.4% and removed provisions that would have hurt the Wisconsin economy.

### Key Takeaways

- The legislature replaced Governor Evers' limited income tax cut with a historic cut for all taxpayers. They did this by restructuring and reducing income tax brackets, returning \$3.5 billion to taxpayers over the biennium. The top rate is cut from 7.65% to 6.5%, the middle two brackets are merged into one new lower rate of 4.4%, and the lowest rate is moving to 3.50%.
- Through [2023 Act 12](#), Wisconsin has abolished the personal property tax, a tax collected from businesses based on the value of equipment, office furniture, and other property. The budget now provides \$173 million to local governments to cover the reduction in revenue.
- In a landmark deal with the Governor, the budget includes major funding increases for private voucher and charter schools, increasing the per pupil payments for a total increase of \$290 million. Public schools will receive an increase of \$1 billion in new funding over the biennium.
- \$50 million has been set aside in the budget to support Right to Read literacy reform, which is moving as separate legislation. This new law will support local schools' efforts to move to phonics, improve how educators teach reading, and alert parents if their child needs help.
- The legislature also removed a number of Governor Evers' initiatives, including a change to the Manufacturing and Agriculture Credit that would have increased taxes on employers by \$650 million, a full expansion of Medicaid, marijuana legalization, an enrollment cap for the school choice program, duplicative broadband spending, and over [500](#) other items.

For more information, contact Alex Ignatowski, IRG Director of State Budget and Government Reform, at [AI@reforminggovernment.org](mailto:AI@reforminggovernment.org).

## Spending

In February, the Governor released his budget and proposed spending \$105.4 billion. The budget approved by the Legislature cut [\\$6.8 billion](#) in spending from the Governor's budget, a 6.4% decrease. In total, the budget approved by the legislature would spend \$98.7 billion over the 2023-2025 biennium. This is still a 11.7% increase over the base budget doubled.

Going into the budget season, the State anticipated having a \$7 billion surplus, a portion of which was considered "one-time" funding. In response to this, the legislature spent these funds on one-time expenses. These include \$1.7 billion spent on capital projects in lieu of bonding and paying down nearly \$400 million in debt. These decisions save the state the added expense of borrowing money in a higher interest rate environment.

## Historic Tax Cut

In his budget, Governor Evers proposed a [10% tax credit](#) for individuals making up to \$100,000 annually and married couples up to \$150,000 annually. Under the plan, taxpayers would have seen an average savings of \$200 annually and amount to \$840 million in savings over the biennium, but not all taxpayers would have felt relief. The plan was paired with other targeted credits, bringing the total cut to \$1.2 billion. However, the Governor's plan would have concurrently raised taxes by almost [\\$1.4 billion](#) on manufacturers and other job creators.

The legislature's plan would deliver a \$4.4 billion tax cut, with [\\$3.5 billion](#) solely devoted to income tax relief. It does this by simplifying the tax brackets and reducing all of the marginal rates. The plan would collapse the two middle brackets of 4.65% and 5.3% down to a new low rate of 4.4%. The lower bracket is reduced from 3.54% to 3.5% and the top rate is lowered from 7.65% to 6.5%.

## Elimination of Personal Property Tax

The legislature voted earlier this session to eliminate personal property tax in Wisconsin as part 2023 Act 12, the bill that also reformed shared revenue and authorized sales tax increases for Milwaukee. The budget now includes \$173 million that will be distributed to local governments for reduced revenue from the elimination of the personal property tax.

## K-12 Education

The legislature and Governor struck a compromise that saw significant investment in schools of all sectors: roughly \$1 billion for public schools and \$290 million for choice schools.

Here are the increases that will occur over the next biennium for district schools:

<i>Revenue limit increase</i>	<i>\$650 per student</i>
<i>General school aid increase of 10%</i>	<i>\$534.3 million</i>
<i>Special needs aid</i>	<i>3% Increase</i>
<i>Mental health aid</i>	<i>\$30 million</i>
<i>High-cost transportation aid</i>	<i>\$2.9 million</i>

<i>Rural sparsity aid</i>	\$630,000
<i>Right to Read</i>	\$50.0 million

Here are the funding changes for private voucher and charter schools for the biennium:

<i>Charter and voucher amount</i>	\$291.3 million
<i>Charter school amount</i>	\$9,264 to \$11,763 per student
<i>Elementary school voucher amount</i>	\$8,399 to \$10,271 per student
<i>High school voucher amount</i>	\$9,045 to \$12,765 per student
<i>Special needs voucher amount</i>	\$13,076 to \$15,443 per student

### **Literacy**

The legislature passed [Assembly Bill 321](#) in June, also dubbed by bill authors as “Right to Read.” If signed by Gov. Evers, the legislation will reform how reading is taught in Wisconsin. The budget allocates \$50.0 million to implement portions of the bill.

### **Healthcare**

The cost of healthcare, and Medicaid more specifically, is a major cost driver every state budget cycle. This budget is no different. In total, the Department of Health Services will receive an increase of \$3 billion (federal and state funds) over the 2023-2025 biennium. Here is a breakdown of the funding increases:

<i>Medicaid cost-to-continue</i>	\$1.67 Billion
<i>Home- and community-based services cost-to-continue</i>	\$225 Million
<i>Increase Medicaid reimbursements to primary care providers</i>	\$132 Million
<i>Disproportionate Share Hospital (DSH) Payments</i>	\$129 Million
<i>Increase Medicaid reimbursements to hospitals</i>	\$68.1 Million
<i>Total <b>Increase</b> to DHS</i>	\$3 Billion

### **Shared Revenue and Milwaukee sales tax option**

Going into the budget, both Governor Evers and the legislature prioritized increasing funding to local governments; however, they differed on how best to ensure accountability for taxpayers. Eventually, they came to an agreement and the Governor signed [2023 Wisconsin Act 12](#), which outlined the details of the new funding mechanisms. The new plan would distribute 20% of sales tax revenue to municipalities and counties using a new formula on top of their existing funding levels. In addition, the City and County of Milwaukee would be able to raise their sales tax 2% and 0.4% respectively. Each will need the approval of their respective Council or Board to implement the increase.

Estimated Annual Increases:

<i>Funding to local governments</i>	\$1.567 Billion
<i>Revenue for the City of Milwaukee</i>	\$184 Million
<i>Revenue for Milwaukee County</i>	\$76 Million

## State Debt

The legislature decided to use \$1.7 Billion to pay cash for some projects rather than borrowing. The budget would also use \$400 million to pay off a portion of outstanding debt. The legislature took the mindset that some of the surplus is “one-time” money and should be used for single-use purposes. In total, the legislature’s budget adds \$635.1 million in new bonding, a \$230.3 million reduction from the Governor’s proposed bonding amount of \$865.4 million.

## Items Removed

Early on in the budget process, the Joint Finance Committee removed over 500 items from the Governor’s budget. Here are some the larger items that were removed:

**Medicaid expansion.** JFC pulled out the Governor’s plan to expand Medicaid and increase the number of Wisconsinites in the program.

**Marijuana legalization.** The Committee removed a provision that would have legalized marijuana in Wisconsin.

**Enrollment caps to school choice.** JFC removed the Governor’s plan to cap enrollment in the school choice programs.

**Broadband.** With Wisconsin set to receive over [\\$1 billion in federal broadband funding](#) over the next couple years, JFC removed the Governor’s duplicative plan to spend an additional \$750 million of state taxpayer dollars on broadband grants.

### **Manufacturer and Agriculture Tax**

**Credit Repeal.** The Committee pulled a provision that would have modified this tax credit, raising taxes by \$655 million on job creators.

**Repeal Act 10.** The Governor proposed to reverse collective bargaining reforms that were included in Act 10. JFC removed this from the budget.

### **Prevailing Wage and Right to Work.**

The Committee removed the Governor’s proposal to require prevailing wage for public works projects and roll back Right to Work legislation.

**Minimum Wage.** The Committee removed the Governor’s proposed increase to the minimum wage.