

THE BOND BUYER

Wisconsin budget taps surplus cash to pay down tobacco bonds, fund capital

By

[Yvette Shields](#)

Published

July 11, 2023, 1:44 p.m. EDT

The Wisconsin biennial budget package taps the state's flush coffers to offset borrowing needed for capital, while also paving the way for a centuries-long hike in local education funding and scaled-down tax relief, reshaped by Gov. Tony Evers through his [veto pen](#).

Evers, a Democrat, had initially [pitched a \\$3.3 billion capital spending](#) plan that relied on \$2 billion in cash with the "remainder coming from a mix of new bonding authority, existing bonding authority, gifts, and federal dollars," said Aaron Heintz, the state capital finance director.

GOP leaders scrapped the governor's proposal and instead pushed through a \$2.3 billion building program for the biennium, which relies on \$1.2 billion of cash from the state's coffers flush with a nearly \$7 billion surplus, with the remainder coming from a mix of new bonding authority, existing bonding authority, gifts, and federal dollars.

"In addition to the critical efforts to expand access to affordable housing statewide, address PFAS in our water, and make historic investments in communities across our state, I am also pleased this budget uses our surplus funds to support our capital budget to reduce the need to authorize new bonding and future debt service costs and includes the resources necessary to continue our work fixing our roads and making sure our infrastructure is built for a workforce and economy of the 21st century," Evers said in signing the package last week.



"I am also pleased this budget uses our surplus funds to support our capital budget to reduce the need to authorize new bonding and future debt service costs and includes the resources necessary to continue our work fixing our roads and making sure our infrastructure is built for a workforce and economy of the 21st century," Wisconsin Gov. Tony Evers said in signing the package. **Bloomberg News**

The budget laid out in Wisconsin Act 19 authorizes \$635 million of new or increased general obligation bonding authority for projects and programs within various agencies, including \$353 million for the Department of Transportation to replace an interstate bridge between Superior Wisconsin and Duluth Minnesota and \$165 million for the University of Wisconsin System.

The package — which covers the fiscal biennium that began July 1 and runs through June 30, 2025 — also grants \$1.7 billion of GO refunding authority according to Heintz.

The budget approves a modest \$46 million increase in revenue-backed borrowing for the environmental improvement revenue bond program while there's no additional transportation-revenue backed borrowing.

The budget earmarks \$400 million in cash to pay down the remaining tobacco settlement bonds from a 2009 issue that carried an annual appropriation pledge.

The state, a frequent issuer, will seek GO new money authorization from the Wisconsin Building Commission at its August meeting with the amount of authorization and the sale/closing dates of the GO bonds still to be determined, Heintz said.

[Ahead of an April](#) sale, [rating agencies](#) affirmed the state's GO ratings. The bonds carry a AAA from Kroll Bond Rating Agency, a Aa1 from Moody's Investors Service, and a S&P Global Ratings rating of AA-plus. The state has about \$7 billion of outstanding GO debt. Fitch Ratings rates the state AA-plus.

While Evers didn't get all he wanted on the building program, he achieved sweeping change in the \$99 billion, two-year budget sent to him by Republicans late last month through his broad veto powers.

Evers signed the budget Wednesday with 51 partial vetoes that pared down a GOP-authored income tax cut and assured public education an annual revenue increase through its local tax levy for 400 years, which should aid districts' fiscal flexibility and health.

The final budget with the partial vetoes made leaves a \$4.2 billion surplus balance in the first fiscal year of the biennium and \$3.96 billion in the second, according to the Legislative Fiscal Bureau.

Evers had sought more funding for high-speed broadband, affordable and accessible child care, more substantial categorical aid increases for schools, fully funded universal school breakfasts and lunches, expanded paid family leave, higher levels of investments in the University of Wisconsin and Wisconsin Technical College systems, and expansion of the state's low-income healthcare program BadgerCare.

"I understand that, in light of these short-sighted decisions, there are those who would have me veto this budget in its entirety — to send the legislature back to the drawing board to start from scratch. Vetoing this budget in full would mean abandoning priorities and ideas that I have spent four years advocating for," Evers said of his use of partial vetoes instead.

Through his use of the partial veto, Evers gave school districts the power to raise per pupil revenue adjustments by \$325 annually over state-imposed caps. The budget provides per pupil revenue limit adjustment authority of \$179 plus \$146 for a total of \$325 in each year from 2023-24 until 2425 with the latter figure extended through Evers' striking of the 20s in 2024-2025.

The change provides "school districts with predictable long-term increases for the foreseeable future," Evers said.

Evers used his partial veto to pare back a \$3.5 billion income tax cut that would have reduced the number of tax brackets to three from four.

Evers reshaped the cut to reduce the individual income tax rates for the bottom income tax brackets to provide \$175 million of individual income tax reductions over the 2023-25 biennium. "By cutting the bottom two tax rates further, this budget continues the governor's responsible individual income tax reductions, which now total nearly \$1.5 billion annually since 2019," a statement read.

Evers' vetoed a cut to the University of Wisconsin System, allowing it to retain 189 full-time positions, which Republican budget writers had altered to trim staff working on diversity, equity, and inclusion.

The vetoes add \$1.4 billion in costs to the first fiscal year of the budget and \$1.3 billion in the second.

The GOP attacked the vetoes. "Vetoing tax cuts on the top two brackets provides hardly any tax relief for truly middle-class families," Assembly Speaker Robin Vos, R-Rochester, said in a statement. "His decision also creates another economic disadvantage for Wisconsin, leaving our top bracket higher than most of our neighboring states, including Illinois. We know that Governor Evers overstepped his bounds, it's our job to figure out ways to ensure this money goes back to you."

Republicans will first try their hand at an override. Republicans hold majorities in the Assembly and Senate but lack a super majority needed to override the governor's partial vetoes without Democratic support in the Assembly. Vos said the GOP would also pass another tax cut bill if the override fails. Evers said he would veto it.

Vos also accused Evers of reneging on a school funding deal. "He has changed the terms of our school funding deal to allow the school revenue limit to increase over the next 400 years. This will result in massive property tax increases as schools will now have a much broader ability to raise them without input from the legislature," Vos said.

"It will be difficult, if not impossible, to ever negotiate with this governor again in the future," Assembly Majority Leader Tyler August, R-Lake Geneva, said in a statement.

The budget package raises local government shared aid by \$275 million, with \$68 million going to counties and a \$207 million increase in aid for municipalities in fiscal year 2024-2025, representing a 36% increase over current entitlements.

Legislation also provides ongoing increases by linking current and supplemental county and municipal aid to the growth rate in the state sales tax and provides up to \$300 million in innovation grants.

The budget also provides \$173.8 million in aid payments to local governments to hold them harmless from a repeal of the personal property tax.

The budget directs \$525 million toward housing initiatives, including \$50 million in one-time funds going to the Wisconsin Housing and Economic Development Authority which, as a result of a partial veto, can be used to support a housing rehabilitation program to offer grants or forgivable loans to low- to moderate-income households to renovate or repair their current home and address hazards, like lead and mold.

Another \$275 million in one-time funds goes to the newly created Residential Housing Infrastructure Revolving Loan Fund to provide low-interest loans that support the creation of affordable and senior housing. Another \$100 million in one-time dollars will fund the newly created Main Street Housing Rehabilitation Revolving Loan fund to provide low-interest loans to improve rental workforce housing on the second or third floor of existing buildings.

Another \$100 million in one-time funding goes to the newly created Commercial-to-Housing Conversion Revolving Loan Fund at WHEDA to provide loans for the conversion of vacant commercial buildings to residential developments for workforce or senior housing.

The package also increases the limit on notes and bonds WHEDA can issue secured by a capital reserve fund — to \$1 billion from \$800 million — to finance projects supported with an allocation of state and federal housing tax credits.

Local governments are in line for a 2% increase in general transportation aids to support local projects and one-time infusions of \$100 million for the Local Roads Improvement Program and \$150 million for the new Agricultural Road Improvement Program. The budget also provides a 2% increase in mass transit aid to assist local transit systems and 4 % increase in paratransit aid.

The state expects to have closed the last fiscal year with \$1.8 billion in its rainy-day fund. Evers had proposed a \$500 million deposit and a hike in automatic transfers, but the budget sent to him didn't include the deposit and doesn't alter the automatic transfer language.

"No additional automatic transfers of excess revenues will be made in future fiscal years until the balance is less than 5% of estimated GPR expenditures in the fiscal year," Heintz said.

A recent Legislative Fiscal Bureau review noted that the National Association of State Budget Officers has reported the average size of state rainy-day funds at 12.4% of expenses, with the median at 11.6%. The state would need to add about \$500 million more to its fund to reach the median.

A \$1.3 billion transfer would increase the "balance to a level that could address a decline in revenues in percentage terms similar to what the state experienced during the recession in 2008-09," the LFB report read.

Smaller local governments voiced disappointment the final budget sent to Evers lacked his proposal to fund the establishment of a special resource team for \$960,000 to help communities apply for federal infrastructure package grants for renewable energy, drinking water, electric buses, and other projects.