

A Cushion, Not a Windfall: Wisconsin's \$3.3 Billion Surplus

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Wisconsin closed fiscal year 2026 on June 30 with an undesignated general fund balance of \$3.307 billion, according to the Annual Fiscal Report (AFR) released on October 15 by the Department of Administration (DOA). This figure was \$349 million more than the budgeted balance reported by DOA. Additionally, the Budget Stabilization Fund, commonly referred to as the “rainy day” fund, ended the year at \$2.07 billion, its largest balance ever.

Gov. Tony Evers noted that the state has ended every year of his tenure with a positive balance. While true, the surplus is easy to misread. Below, we explain what the balance is, five misconceptions about it, and how the latest figures compare with past years.

WHAT IS THE SURPLUS?

An undesignated general fund surplus, on its face, is simple math: The money the state started the year with, plus the year's revenues, minus the year's spending and transfers.

State revenues grew during the last fiscal year. Total tax collections grew 3.4% to \$23.1 billion, beating estimates by \$451 million. Sales and use tax collections increased by 4.2% to nearly \$8.2 billion and corporate income taxes grew 9.2% to just over \$3 billion.

Individual income taxes grew just 1.1% to around \$10.6 billion, driven largely by tax policy implemented as part of the 2025-27 state budget (2025 Wisconsin Act 15). This legislation expanded the second income tax bracket, increasing the amount of taxable income subject to the 4.4% tax rate and reducing the amount subject to the 5.3% rate.

General purpose revenue (GPR) spending increased 5.6% to \$22.3 billion. Additionally, about \$1.59 billion was transferred from the general fund to the local government fund, which is the fund from which shared revenue payments to counties and municipalities are distributed. Other transfers included a \$580 million transfer to the transportation fund and more than \$300 million for the state building program.

The surplus gets a little more confusing when the state ends a particular year with funds left over. This does not mean, however, that the state took in more money than it spent.

HOUSEHOLD EXAMPLE

The remainder of this report uses a household example to illustrate how the state's general fund works. General fund balances are similar to household budgets in various ways – each starts with a balance, collects revenue, spends money, saves, and can carry forward whatever funds are left. Each can spend down past savings, set money aside for emergencies, and delay paying a bill in part or in full.



This analogy has limits, and readers should treat it as illustrative only for several reasons. First, the state can, for the most part, set its own income by raising or lowering tax rates. A household's income is largely set by its collective wages, and, in most cases, is unlikely to change drastically.

Second, the state constitution requires lawmakers to pass a balanced budget, meaning the state cannot just borrow to cover ongoing operating costs in the same way a household might use credit cards to address monthly budget shortfalls.

And third, bigger savings are not automatically better. For a household, more savings is almost always beneficial. For the state, a large balance can mean that taxes were higher than needed or services were underfunded. The tax revenue a state should levy is a matter of policy and cannot be answered by this type of analogy.

MISCONCEPTION 1: THE STATE TOOK IN MORE THAN IT SPENT

In simple terms, a surplus means “extra,” or money left over after bills are paid. Consider a household that earns \$1,000 per month. The first month it spends \$900 and ends with \$100 left over. That is a household surplus.

In the second month, the household again earns \$1,000, so it has \$1,100 available. This time, it spends \$1,050. It ends the month with \$50 in the bank. While still positive, the household spent more money than it earned that month. Under the way the state reports its finances, this \$50 would be considered a surplus, even though the \$50 is not new money; it's what remained of the first month's savings.

If the household continues to spend \$1,050 a month, the cushion will run out, and the household would not be able to pay its bills without cutting back, earning more, or borrowing.

Wisconsin is currently in “month two” of this scenario. The state began FY 2026 with \$4.61 billion in the bank, collected \$23.8 billion and spent or transferred \$25.1 billion.¹ It ended the year with \$3.31 billion in the general fund, which, while positive, is about \$1.3 billion less than it started with. The \$3.3 billion is not this year's extra revenue; it is the remainder of surpluses built up in earlier years, which is being deliberately drawn down in the current budget.

The state spent \$1.3 billion more than it collected. About \$900 million of that went to one-time transfers, such as transportation. The rest reflects an ongoing gap between revenues and spending, often called a structural deficit.



A large balance can mean that taxes were higher than needed or services were underfunded.



MISCONCEPTION 2: IT IS UNEXPECTED MONEY

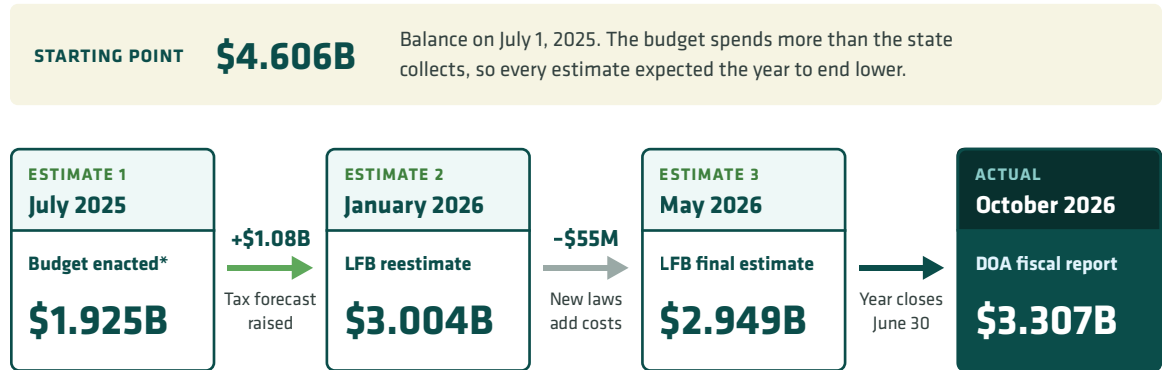
The 2025-27 budget estimated the state would end fiscal year 2026 with around \$1.9 billion. That estimate changed several times over the course of the following year (Figure 1). In January 2026, the Legislative Fiscal Bureau (LFB) projected the state would instead end the fiscal year

1. Spending excludes \$147 million in appropriations carried over from the FY 2025 balance.

with \$3 billion. By May, LFB trimmed that projection to around \$2.95 billion. The actual balance of \$3.307 billion was \$358 million above LFB's final estimate and \$349 million above the budgeted balance in the AFR as published by DOA. In other words, most of the \$3.307 billion was expected and planned for. The only unexpected part of the balance was the additional \$349 million above the DOA figure.

Figure 1: Estimates of the FY 2026 Ending Balance

Projected General Fund balance on June 30, 2026 by date of estimate



HOW THE \$3.307B ACTUAL COMPARES

- +\$349M** vs. DOA's budgeted balance of \$2.958B in the Annual Fiscal Report (AFR)
- +\$358M** vs. LFB's final estimate of \$2.949B (May 2026)
- +\$1.38B** vs. the budget as enacted (\$1.925B)

*2025 Act 15 estimate, updated by DOA for the actual FY 2025 close. The AFR budgeted balance reflects changes made after enactment. Gross General Fund balances, budgetary basis. Sources: DOA; LFB.

MISCONCEPTION 3: IT IS AVAILABLE FOR NEW SPENDING OR TAX CUTS

Most of the balance in the general fund is spoken for in the same way as the previously mentioned household's extra \$50 is spoken for; it is needed simply to keep current commitments funded. In May 2026, LFB estimated that FY 2027 appropriations would exceed revenues by \$582 million, a gap that would be covered by spending down the built-up surplus in the general fund. In other words, the budget was designed to draw down savings; it was designed to spend more than the state collected.

In a sense, the method of spending matters as much as how much there is to spend. One-time uses, such as paying down debt or capital investments in buildings, are like a home repair for the household; the cost ends when the bill is paid. New, ongoing programs or permanent tax cuts are like another household subscription that must be paid for every month or year out of a balance that is already shrinking.



In FY 2026, the state spent or transferred \$1.3 billion more than it collected.



MISCONCEPTION 4: THE RAINY DAY FUND IS PART OF THE SURPLUS

The Budget Stabilization Fund, known as the “rainy day” fund, is a separate account set aside to address major revenue shortfalls and recessions. At \$2.07 billion, the fund has its highest balance in history. No funds were transferred in this year. The \$80 million increase came entirely from the fund’s own investment earnings.

The state is required to contribute to the fund under certain circumstances outlined in statute. If tax revenues exceed budgeted figures, then 50% of the excess must be deposited into the rainy day fund. However, the rule does not apply if the rainy day fund balance already exceeds 5% of estimated general fund expenditures. The balance of the fund already stood well above this threshold so no transfer was required.

MISCONCEPTION 5: EVERY BALANCE MEASURES THE SAME THING

The AFR uses the state’s statutory, or budgetary, accounting. In household terms, that is like the bank account: what came in, what was spent, what was saved. In December, DOA will publish the Annual Comprehensive Financial Report using Generally Accepted Accounting Principles (GAAP), which counts costs that have been incurred but not yet paid.

Go back to the household with \$50 left at the end of the month. Suppose a \$40 bill arrived but isn’t due until the following month. The household still has \$50 left, but after accounting for outstanding bills, only \$10 is actually available. The state’s numbers can diverge in the same way. In FY 2020, for example, Wisconsin’s budgetary balance was \$1.17 billion, but its GAAP balance was just \$1.5 million – marking the first positive GAAP balance since the state began reporting it in 1990.

For FY 2025, the most recent year with both reports, the statutory balance was \$4.61 billion and the GAAP balance \$3.9 billion. The FY 2026 GAAP figures will be published in December.

HOW FY 2026 COMPARES

From 2011 to 2023, Wisconsin’s year-end general fund balances largely grew, reaching a peak of over \$7 billion in 2023. Since then, as federal pandemic aid and inflation-driven sales tax collections eased, the general fund balance has consistently declined, reaching \$3.3 billion at the end of fiscal year 2026. While the 2026 figure is the lowest since 2021, it is still around three times larger than any year before 2020. See Figure 2 on the following page.

BALANCE ACROSS BUDGET SESSIONS

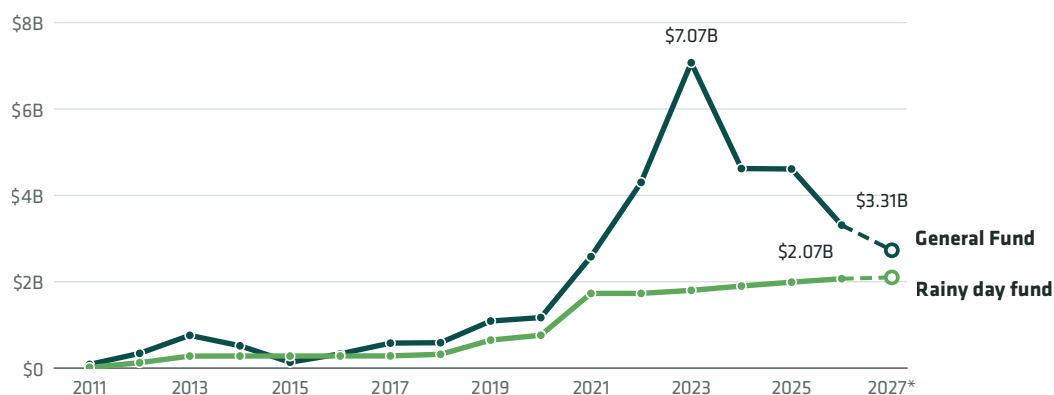
In the 2023-25 session, lawmakers began with a record \$7.1 billion general fund balance. Much of the drawdown from that balance was due to one-time items such as the state building program and retiring remaining tobacco settlement bonds. The balance settled at \$4.6 billion at the end of FY 2025.

The 2025-27 budget cycle, enacted with 2025 Wisconsin Act 15, cut income taxes by around \$1.3 billion over the biennium by expanding the second-lowest tax bracket and excluding up to \$24,000 of retirement income for those 67 and older. The budget also made the sales tax exemption for residential electricity and natural gas year-round.



Figure 2: State General Fund Ending Balances

General Fund and rainy day fund balances at June 30, FY 2011-2027, budgetary basis



*FY 2027 is the Legislative Fiscal Bureau's May 2026 projection (\$2.37B), adjusted for the actual FY 2026 close (+\$358M). Dashed line indicates projection. Sources: Wisconsin DOA Annual Fiscal Reports; LFB.

The budget increased spending, but, buoyed by higher-than-expected tax collections, the projected balance at the end of FY 2027 is higher than original estimates. In May 2026, LFB projected a \$2.37 billion ending balance for FY 2027, but because FY 2026 ended \$358 million above this estimate, that FY 2027 projection could increase to approximately \$2.73 billion, assuming no other changes to state revenues or appropriations.

The pattern across the last few sessions is consistent: revenue forecasts have proven conservative and actual balances have repeatedly beaten projections. Each recent budget has also been purposefully built to spend more each year than the state collects, consistently drawing down on available general fund balances.

WHAT'S NEXT?

Wisconsin's finances remain strong by historical standards: a \$3.3 billion general fund balance, a record-high rainy day fund, and tax collections running ahead of estimates. Yet, in the example of the household, the state is still in month two. It still has money in the bank and is spending more each month than it earns.

A household in that position has to cut back, earn more, or borrow. The state cannot borrow to cover operating costs, but it can, to some extent, set its own income through tax policy, or cut back through deliberate policy choices. Even adjusting for the "extra" \$358 million in the projected FY 2027 ending balance, the general fund balance would decline from \$4.6 billion at the beginning of FY 2026 to around \$2.7 billion at the end of FY 2027.

Put another way, over the two-year budget cycle, the general fund surplus would be reduced by \$1.88 billion, despite the state collecting higher-than-anticipated revenues. Wisconsin has a substantial financial cushion, but it's being drawn down each year.