
State of Wisconsin
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Dated January 25, 2022

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Attached is a report from the Legislative Fiscal Bureau, dated January 25, 2022. This report contains General Fund tax collection projections and an estimated General Fund condition statement for fiscal years 2021-22 and 2022-23.

The State of Wisconsin is providing this Additional/Voluntary Filing with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system. This Additional/Voluntary Filing is also available on the State of Wisconsin Capital Finance Office web site and State of Wisconsin investor relations web site at:

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The undersigned represents that he is the Capital Finance Director, State of Wisconsin Capital Finance Office, which is the office of the State of Wisconsin responsible for providing additional/voluntary filings, annual reports, and Event Filings pursuant to the State's Master Agreement on Continuing Disclosure (Amended and Restated March 1, 2019) and is authorized to distribute this information publicly.

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State of Wisconsin

January 25, 2022

Senator Howard Marklein, Senate Chair
Representative Mark Born, Assembly Chair
Joint Committee on Finance
State Capital
Madison, WI 53702

Dear Senator Marklein and Representative Born:

In January of each year, this office conducts a review of the status of the state's general fund and presents its findings to the Legislature. In the even-numbered years, this analysis includes an examination of economic forecasts and tax collection and expenditure data of the current fiscal year, and projections for each year of the current biennium. We have now completed that review.

Based upon our analysis, we project the closing, net general fund balance at the end of this biennium (June 30, 2023) to be \$3,812.3 million. This is \$2,881.7 million above the net balance that was projected at the time of enactment of the 2021-23 biennial budget, as modified to: (1) incorporate the 2020-21 ending balance (2021-22 opening balance) as shown in the Annual Fiscal Report; and (2) revise 2021-22 individual income tax revenues to reflect the Department of Revenue's decision to adjust tax withholding tables effective January 1, 2022.

The \$2,881.7 million is the net result of: (1) an increase of \$2,509.2 million in estimated tax collections; (2) an increase of \$33.1 million in departmental revenues (non-tax receipts deposited into the general fund); and (3) a decrease of \$339.4 million in net appropriations.

The \$339.4 million reduction in net appropriations is primarily due to the following: (1) an estimated lapse of \$270 million in the appropriation for medical assistance benefits because of an enhanced federal medical assistance (MA) matching rate; (2) a reduction of \$34.2 million in the sum sufficient appropriation of state funding for the Wisconsin Healthcare Stability Plan due to modifications made in the American Rescue Plan Act of 2021 (ARPA); and (3) an estimated reduction of \$23.4 million in the amounts necessary to fund general fund debt service. A further

explanation of the MA and Healthcare Stability Plan appropriations is presented after Table 1. In addition, the status of the state's budget stabilization fund is discussed.

The following table reflects the 2021-23 general fund condition statement, which incorporates our revenue and expenditure projections.

TABLE 1
2021-23 General Fund Condition Statement

	<u>2021-22</u>	<u>2022-23</u>
Revenues		
Opening Balance, July 1	\$2,581,053,000	\$2,838,066,700
Taxes	18,943,300,000	20,884,600,000
Departmental Revenues		
Tribal Gaming Revenues	0	21,729,300
Other	<u>481,661,900</u>	<u>486,219,400</u>
Total Available	\$22,006,014,900	\$24,230,615,400
Appropriations, Transfers, and Reserves		
Gross Appropriations	\$19,306,412,500	\$19,754,023,500
MA Biennial Adjustment	-360,000,000	360,000,000
Sum Sufficient Reestimates	-15,734,000	-28,898,000
Transfers to:		
Transportation Fund	178,869,600	97,289,300
Building Trust Fund	15,000,000	0
MA Trust Fund	174,665,900	527,783,700
UI Trust Fund	60,000,000	60,000,000
Compensation Reserves	41,929,200	105,951,600
Less Lapses	<u>-233,195,000</u>	<u>-552,862,200</u>
Net Appropriations	\$19,167,948,200	\$20,323,287,900
Balances		
Gross Balance	\$2,838,066,700	\$3,907,327,500
Less Required Statutory Balance	<u>-90,000,000</u>	<u>-95,000,000</u>
Net Balance, June 30	\$2,748,066,700	\$3,812,327,500

Table 1 incorporates the fiscal effects of all bills enacted to date in the current legislative session (through 2021 Act 118). It does not reflect the impact of any bills that are pending before the Legislature.

Medical Assistance. As noted in Table 1, it is expected that the biennial appropriation for the MA program will be underspent by \$360 million in 2021-22. Because it is a biennial

appropriation, the \$360 million in 2021-22 will be available in the second year of the biennium. In 2022-23, it is projected that \$270 million of the MA appropriation will lapse (revert) to the general fund. The \$270 million is included in the \$552.9 million lapse figure for 2022-23. The \$270 million biennial surplus results primarily because an enhanced federal Medicaid matching rate, applicable during the federal public health emergency related to the COVID-19 pandemic, will be in effect longer than was anticipated during biennial budget bill deliberations. Under provisions of the federal Families First Coronavirus Response Act of 2020, each states' federal Medicaid matching rate is increased by 6.2 percentage points during any calendar quarter for which the public health emergency related to COVID-19 remains in effect. At the time of passage of Act 58, it was assumed that the higher matching rate would be applicable until the final quarter of 2021. However, the Secretary of the U.S. Department of Health and Human Services has issued two additional 90-day extension orders for the public health emergency, most recently on January 14, 2022. With these extensions, the enhanced matching rate will remain in effect at least until the end of state fiscal year 2021-22, six months beyond the Act 58 assumptions. Due to the uncertain future course of the COVID-19 pandemic, additional extensions of the public health emergency are possible. Any additional extension beyond June 30, 2022, would result in a higher GPR lapse from the MA program.

Wisconsin Healthcare Stability Plan. The sum-sufficient GPR appropriation for the Wisconsin Healthcare Stability Plan has been reestimated to \$0 in 2022-23, a reduction of \$34.2 million from the Act 58 estimate. Federal pass-through funding for reinsurance payments for plan year 2021 (paid in 2022-23) will be higher than the Act 58 estimates due to a provision of ARPA that increases the value of premium tax credits. The pass-through federal funding available to the state is now expected to exceed the amount of reinsurance payments that were made for plan year 2021, so no state funding will be required for the payments.

Budget Stabilization Fund. Under s. 16.518(3) of the statutes, if actual tax collections exceed the amounts estimated in the state's biennial budget act, one-half of such excess is deposited into the budget stabilization fund. However, if the balance in the budget stabilization fund prior to a transfer exceeds 5% of estimated general fund expenditures, as included in the biennial budget act, no transfer is made. Because the current balance in the budget stabilization fund of \$1,730 million is well above the 5% threshold, no transfer will be made even though estimated tax collections for 2021-23 are significantly above those shown in the 2021-23 budget act.

Review of the National Economy in 2021

This office prepared revenue estimates for the 2021-23 biennium in January, 2021, based on the January, 2021, IHS Markit forecast for the U.S. economy. The forecast predicted real gross domestic product (GDP) growth of 4.0% in 2021, 3.9% in 2022, and 2.5% in 2023. IHS Markit forecast that federal stimulus from the Consolidated Appropriations Act of 2021 (CAA) and a successful inoculation campaign against COVID-19 would: (a) release pent-up demand for in-person services in the second half of 2021; and (b) cause payroll employment to increase throughout 2021 and 2022.

The January, 2021, IHS Markit forecast was based on the following assumptions. First, the forecast assumed the seven-day average of COVID-19 infections would peak in January of 2021,

and fall significantly, with widespread inoculation of the population achieved by the summer. Second, the forecast incorporated stimulus spending from the CAA, but did not include further federal stimulus in its forecast. Third, the Federal Reserve was expected to maintain the federal funds rate target near 0% until late-2026 and expand its treasury holdings to another \$1.4 trillion. Fourth, the forecast assumed that the tariffs and trade agreements made between the U.S. and China would remain in effect. Fifth, real, trade-weighted foreign GDP was expected to rebound as the COVID-19 pandemic receded, with 4.4% growth in 2021, after declining by 5.7% in 2020. Finally, the price of Brent crude oil was expected to gradually recover from a low of \$29 per barrel in the second quarter of 2020 to \$50 per barrel by late-2021.

IHS Markit's January, 2021, forecast also included an optimistic and pessimistic scenario. The optimistic forecast scenario was that a more significant decline in COVID-19 cases, hospitalizations, and deaths due to widespread inoculations and observance of social distancing guidelines would result in a faster economic recovery, bolstered by: (a) a quicker than expected resumption of pre-pandemic consumer spending patterns; (b) an improved unemployment rate; and (c) a stronger rebound in 2021 real GDP. The downside risk to the forecast was that containment measures would be re-introduced to combat the surge in COVID-19 cases that was occurring at the time, inhibiting consumer spending and slowing economic recovery.

In June, this office reviewed additional tax collection data and IHS Markit's May economic forecast. The estimates were revised upward, primarily based on significant strength in individual income tax, sales and use tax, and corporate income/franchise tax collections through May, 2021. The economic impact of ARPA, which was signed into law in March, 2021, was not included in the January, 2021, forecast. ARPA provided an additional \$1.9 trillion in stimulus, including \$1,400 stimulus checks to each qualifying person, an extension of emergency unemployment compensation programs (including an enhanced unemployment benefit of \$300 per week) through September 4, 2021, a second round of forgivable paycheck protection program (PPP) loans, and \$1 trillion in aid to states for various purposes. This injection of funds into the economy helped contribute to an 11.5% increase in real disposable income in the first quarter of 2021, compared to the previous quarter, subsequently leading to an increase in consumer spending. Further, the rate of new COVID-19 cases declined rapidly between January and May as more of the population received the vaccine, which contributed to a sooner than expected relaxation of containment measures and an increase in consumer spending.

Finally, the June revisions also incorporated IHS Markit's May, 2021, forecast for the U.S. economy. The forecast for real GDP growth had been increased relative to the January, 2021, estimates from: (a) 4.0% to 6.7% in 2021; and (b) 3.9% to 4.7% in 2022. However, growth expectations decreased from 2.5% to 1.9% in 2023, reflecting the acceleration of the economic recovery under the May forecast. Economic profits were revised up significantly, partly reflecting additional subsidies to businesses provided under ARPA, from a decline of 1.4% in 2021 and 0.2% in 2022 to growth of 20.3% and 6.0%, respectively. Forecasted 2021 growth was revised up in May to reflect changes to the following indicators: (a) nominal personal consumption expenditures (PCE), which was increased by 4.1 percentage points; (b) personal income (up 1.1 percentage points); (c) light vehicle sales (up 5.3 percentage points); and (d) housing starts (up 6.1 percentage points). IHS Markit had still projected that sufficient inoculation against COVID-19 would be achieved over the summer, but had grown more confident that vaccinations would outpace the

spread of new strains of the virus. The Federal Reserve had moved up its expected timeline for beginning to raise the federal funds rate from late-2026 to mid-2024. In May, IHS Markit forecasted the price of Brent crude oil to increase to \$69 per barrel in the third quarter of 2021, rather than to \$50 per barrel by late-2021. Finally, the primary upside and downside risks to the forecast remained generally the same as the January, 2021, forecast, except that the likelihood for the optimistic scenario increased relative to the pessimistic scenario with a more robust consumer response to stimulus provided by ARPA as a contributor.

Overall, IHS Markit now estimates that nominal GDP grew 10.0% in 2021, 0.4 percentage points higher than the May, 2021, forecast of 9.6%. However, after adjusting for inflation, the national economy actually grew less than previously forecasted. IHS Markit estimates that real U.S. GDP grew 5.7% in 2021, which is 1.0 percentage point lower than previously estimated. Despite slower real growth, real GDP surpassed its pre-pandemic level by the second quarter of 2021.

The COVID-19 pandemic, including caseloads, the rollout of vaccines, and federal pandemic-related stimulus, continued to guide economic outcomes throughout 2021. As predicted in the January forecast, the seven-day average of daily new COVID-19 cases peaked at 250,000 cases per day in mid-January, before reaching a low for the year of less than 12,000 cases per day in mid-June, according to the COVID-19 data tracker maintained by the Centers for Disease Control and Prevention (CDC). However, cases began to rise again in July as the new, and more contagious, Delta variant of the COVID-19 virus began spreading across the population. Cases surged to nearly 165,000 per day by early September, before easing until late-October. By November, another new variant, Omicron, had been discovered, with the first confirmed U.S. case being identified on December 1. Cases began increasing again in the final months of 2021, surging to record-highs by late-December. According to available CDC data, it appears that new cases may have peaked at just over 795,000 cases per day on January 13, 2022, more than triple the nation's previous peak. As of January 17, 2022, the seven-day average of new COVID-19 cases had declined somewhat to just under 740,000 cases per day. The Omicron variant, which is believed to spread more easily than Delta, accounted for nearly 90% of new COVID-19 cases by January 1, 2022. As of January 17, 2022, more than 850,000 Americans had died of COVID-19, including more than 11,700 Wisconsin residents. The seven-day average of deaths per day was more than 1,700 in the U.S. and more than 30 in Wisconsin.

In contrast with the May assumptions, U.S. vaccinations had not reached sufficient levels during the summer to outpace the spread of the Delta variant. By July 1, 2021, about 48% of the U.S. population was considered to be fully vaccinated. Children under age 12 were not eligible for any COVID-19 vaccines until eligibility was expanded to children ages five and older in November, 2021. As of December 31, 2021, 61.9% of the population was fully vaccinated, while 21.8% of the total population had received an additional booster shot to enhance their immunity.

As anticipated, consumer spending was the primary driver of the economy, contributing 5.41 percentage points to real GDP growth. Consumer spending surged in the second quarter of 2021 and remained strong in the following quarters, propelled by increased stimulus and the easing of COVID-19 containment measures, which released pent-up demand. IHS Markit estimates that nominal PCE, which is not adjusted for inflation, grew 20.7% in the second quarter of 2021,

compared to the same quarter in 2020, followed by growth of 11.7% and 13.4% in the third and fourth quarters, respectively. Overall, 2021 nominal PCE growth was up 2.0 percentage points compared to the estimate in the May forecast. While consumer spending remained robust throughout the year, the spread of the Delta variant delayed the recovery in consumer spending on services. The shift in consumer spending from goods back to services, which was anticipated to begin during the second half of 2021, has occurred at a slower rate than previously estimated. Nominal PCE on services comprised 65.2% of total nominal PCE in the fourth quarter of 2021, down from 68.6% in the first quarter of 2020.

Nominal consumer spending was also bolstered by consumer prices, which increased more than was expected earlier in the year. In December, 2021, the Bureau of Labor Statistics (BLS) reported that the consumer price index (CPI) was up 7.0% that month compared to a year earlier, the largest growth in 39 years. IHS Markit now estimates the average CPI over 2021 at 4.7%, up from 2.6% in the May forecast. Increased demand for consumer goods and services, paired with supply shortages (inventory and labor) in a wide range of industries, led to price increases for food, energy, vehicles, and houses, among others.

Supply shortages in 2021 were seen across many industries that experienced early-pandemic factory shutdowns that depleted inventories. At the forefront of the discussion on supply shortages was the semiconductor industry. Semiconductor chips are silicon transistors that allow items such as vehicles, computers, smart phones, appliances, and other electrical devices to function. Prior to the pandemic, demand for semiconductor chips was growing in line with increased consumer demand for electrical products that required these chips. At the onset of the pandemic, the shift to remote working and learning further increased demand for personal electronics products that require these chips, while stay-at-home orders decreased demand for other goods, such as vehicles. In response, car manufacturers, predicting that sales of cars would drop, chose to cancel chip orders. At the same time, some chip production factories were reported to have shut down, leading to a depletion of inventory and delays in production of semiconductor chips. Once the chip factories opened back up, production was still constrained by labor shortages and lack of capacity (plant and equipment), and many of the available chips were funneled towards personal electronics manufacturers that continued to order chips. While demand for cars did fall initially, it recovered quickly. Demand for cars surged in the second quarter of 2021, with sales of light vehicles increasing 49.7% compared to the same quarter in the previous year. However, motor vehicle sales declined 13.4% in the third quarter and 20.6% in the fourth quarter as inventory of new cars was depleted. Low inventory significantly increased new and used car prices in the second half of 2021.

Another supply-side hindrance to the recovery was the ongoing congestion at U.S. ports. Beginning in late-2020, and intensifying through much of 2021, container ships began to build up in the waters near major ports in California, waiting to unload their freight. Many factors contributed to this build-up, including a shift in consumer demand from services to goods that increased the overall volume of goods imported into the U.S. (the value of imports increased 22.2% in 2021). In addition, lack of capacity in warehouses and labor shortages, namely among truck drivers, meant that there was nowhere for the arriving goods to go once unloaded. On top of this, COVID-19 outbreaks caused occasional shutdowns at ports and further delayed the unloading of container ships.

Although the national unemployment rate continues to recover from its peak of 13.0% in the second quarter of 2020, it has done so at a slightly slower pace than the May forecast anticipated. IHS Markit reports that the unemployment rate fell to 5.9%, 5.1%, and 4.3% in quarters two, three, and four, respectively. Despite steady gains in nonfarm payrolls throughout 2021, nonfarm payrolls in December, 2021, remained 3.6 million lower than February of 2020. However, increases in job openings indicate that this is not because of a lack of labor demand. In November, there were 1.6 job openings for each unemployed worker nationally. Wisconsin has seen even higher levels of labor demand, with 2.1 jobs available per unemployed worker in October of 2021. The Wisconsin unemployment rate was 2.8% in December, 2021, according to BLS, the lowest rate on record.

Personal income increased 11.9% in the first quarter of 2021, compared to the fourth quarter of 2020. Over this same period, federal transfer payments increased by 78.6%, whereas wage and salary disbursements increased by only 1.0%. Federal transfer payments waned in quarters two, three, and four of 2021, decreasing 33.5%, 7.0%, and 7.1%, respectively, compared to the prior quarter. The large decrease in the second quarter illustrated the absence of one-time stimulus payments from ARPA, while the continued decreases throughout the remainder of the year partly reflected the expiration of enhanced federal unemployment insurance benefits. Wage and salary disbursements, on the other hand, continued to increase 3.0%, 2.7%, and 2.0% over the previous quarter in quarters two, three, and four of 2021, respectively. For comparison, prior to 2020, growth in wage and salary disbursements in a given quarter (compared to the prior quarter) averaged 1.1% over the last decade.

Despite rising wages and record job openings, the labor force participation rate, which measures the labor force (those working or actively looking for work) as a percentage of the civilian population (age 16 and older), has been slow to recover since the onset of the pandemic. The participation rate, which was at 63.4% in February, 2020, dropped to its pandemic-low of 60.2% in April, 2020, then partly recovered to 61.5% by the end of 2020. Since then, the national labor force participation rate has remained relatively stagnant, gradually increasing to 61.9% in November, 2021. According to IHS Markit, the primary contributors to the lagging labor force participation rate in 2021 include: (a) concerns about safety in the workplace; (b) difficulties finding daycare for young children; (c) the shift of schools from in-person to virtual learning, necessitating childcare; (d) early retirement prompted by growth in household net worth (stocks, real estate, and other assets); and (e) high household savings and/or the availability of emergency unemployment benefits that may allow some individuals to delay their return to work. While many of these contributors are temporary, it will likely still take some time for some individuals to rejoin the workforce. However, BLS reports that Wisconsin's labor force participation rate (66.4% as of November) has already surpassed its February, 2020 level (66.2%), suggesting that these factors are having less of an effect in this state relative to other states. Despite this, the labor force participation rate in Wisconsin has generally been trending downward since its peak in late-1997, as a larger portion of an aging population continues to enter retirement.

The savings rate as a percentage of disposable income, which averaged 7.7% in 2019 and increased to 16.4% in 2020, remained elevated at an average rate of 11.9% in 2021. However, the increased savings rate was primarily driven by stimulus early in the year, which boosted the savings rate to 20.5% in the first quarter. As the year progressed, stimulus waned and households

began spending down much of their savings accumulated during the pandemic. By the fourth quarter, the personal savings rate had declined to 6.8%. Real household net worth increased 11.0% in 2021, bolstered by nominal growth in nonfinancial assets (19.2%), such as real estate, and financial assets (13.5%), including equity holdings and money. In particular, the S&P 500 stock index increased by an estimated 32.6% in 2021, which bolstered equity holdings by 25.4%. The average price of new homes and of existing homes increased in 2021, by 16.8% and 11.8%, respectively.

The Federal Reserve announced in December, 2020, that the federal funds rate target would not be increased until three conditions were met: (a) maximum employment is achieved; (b) inflation has risen to 2%; and (c) inflation is on track to rise moderately above 2% for some time. As 2021 progressed, consumer demand became increasingly strong, labor demand gradually returned, and supply chain issues created by the pandemic began to limit supply. These factors contributed to price increases in certain industries. For much of the year, the Federal Reserve characterized the elevated inflation as transitory, meaning that it was expected to be temporary. However, in the latter half of the year, price increases became increasingly more widespread, and it became evident that supply chain issues would take longer to resolve than initially expected. By December, inflation had surged far above the 2% target, and it appeared likely that it would remain elevated in the near term. In addition, labor market conditions had become increasingly tight, as labor demand recovered from the pandemic faster than labor supply, leaving a shortage of available workers.

In response to these new developments, the Federal Reserve indicated in a Federal Open Market Committee (FOMC) statement (on November 3, 2021) that it would begin reducing its purchases of U.S. Treasury securities and mortgage-backed securities later that month, with plans to end new purchases by late-June, 2022. The Federal Reserve had been previously purchasing \$120 billion in securities each month, and the new plan was to reduce future purchases by \$15 billion per month. On December 15, 2021, the Federal Reserve issued another statement indicating that, beginning in January, 2022, it would reduce future purchases by \$30 billion per month, which would end enhanced securities purchases by March, 2022. In addition, the Federal Reserve no longer characterized inflation as transitory, noting that inflation had exceeded 2% for some time.

President Biden signed the Infrastructure Investment and Jobs Act (IIJA) into law on November 15, 2021. Spread out over five years, IIJA enacted \$548 billion of new budget authority, mainly for spending on physical infrastructure that may be one-time funding. The Build Back Better (BBB) bill was passed by the House on November 19, 2021, and was subsequently sent to the Senate for consideration. IHS Markit's baseline forecast does not include any economic effects from BBB, as its passage remains uncertain.

National Economic Forecast

Under the January, 2022, forecast, IHS Markit predicts real GDP growth to slow compared to 2021, but remain strong at 4.1% in 2022 before moderating to 2.5% in 2023. Similar to 2021, the new forecast projects that nominal GDP will increase in 2022 and 2023, relative to the May forecast, while real GDP will be lower in 2022 than previously estimated. The forecast assumes that consumer spending will temporarily weaken for services affected by increased COVID-19 infections this winter. However, as infections decline, IHS Markit predicts that the transition of COVID-19 from pandemic to endemic (in which COVID-19 continues to circulate among the population more predictably), the gradual easing of supply disruptions and labor shortages, and relatively accommodative financial conditions will support continued expansion in 2022.

The new IHS Markit forecast is based on the following key assumptions. First, a winter increase in infections resulting from the Omicron variant temporarily slows consumer spending on certain services. However, COVID-19 resumes its transition from pandemic to endemic by Spring, as more of the population is vaccinated or is naturally immunized, and behavior adjusts to the risks of living alongside repeated variants of the virus. Second, the forecast incorporates all federal 2020 pandemic relief measures, ARPA, and the IJA. The potential effects of BBB are not included in Markit's baseline forecast, as its passage remains uncertain. Third, state and local governments do not experience a fiscal contraction, helped by strong revenues and federal financial support provided under ARPA, the second payment of which is made to states in quarter two of 2022. Fourth, the Federal Reserve is expected to taper its pace of new U.S. Treasury and mortgage-backed security purchases to zero by mid-March of 2022, before beginning to raise the federal funds rate in May of 2022. The Federal Reserve also allows its holdings of securities to diminish over 2023 and 2024. Fifth, it is assumed that the current tariffs and trade agreements made between the U.S. and China remain in effect. Sixth, real, trade-weighted foreign GDP is expected to grow 3.8% in 2022, while foreign measures of inflation are expected to recede from around 3% in 2021 and 2022 to 2.3% in 2023. Finally, the price of Brent crude oil, which is estimated at \$79 per barrel in the fourth quarter of 2021, will ease to \$67 per barrel by 2025, before resuming its gradual rise.

The forecast is summarized in Table 2, which reflects IHS Markit's January, 2022, baseline outlook. Selected baseline projections are presented in more detail below, with alternative optimistic and pessimistic scenarios discussed thereafter.

TABLE 2

**Summary of National Economic Indicators
IHS Markit Baseline Forecast, January, 2022
(\$ in Billions)**

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Nominal Gross Domestic Product	\$20,893.7	\$22,979.5	\$24,869.0	\$26,069.6
Percent Change	-2.2%	10.0%	8.2%	4.8%
Real Gross Domestic Product	\$18,384.7	\$19,425.7	\$20,221.2	\$20,731.2
Percent Change	-3.4%	5.7%	4.1%	2.5%
Consumer Prices (Percent Change)	1.2%	4.7%	4.2%	2.2%
Personal Income	\$19,627.6	\$21,043.2	\$21,326.2	\$22,350.4
Percent Change	6.5%	7.2%	1.3%	4.8%
Nominal PCE	\$14,047.6	\$15,765.7	\$16,922.6	\$17,632.2
Percent Change	-2.6%	12.2%	7.3%	4.2%
Economic Profits	\$2,243.8	\$2,758.5	\$2,794.0	\$2,829.8
Percent Change	-5.2%	22.9%	1.3%	1.3%
Unemployment Rate	8.1%	5.4%	3.7%	3.6%
Total Nonfarm Payrolls (Millions)	142.3	146.1	151.6	153.6
Percent Change	-5.7%	2.7%	3.7%	1.3%
Light Vehicle Sales (Millions of Units)	14.47	14.97	15.44	17.17
Percent Change	-14.7%	3.4%	3.1%	11.2%
Sales of New and Existing Homes (Millions of Units)	6.485	6.923	6.923	6.286
Percent Change	7.9%	6.8%	0.0%	-9.2%
Housing Starts (Millions of Units)	1.397	1.587	1.476	1.332
Percent Change	8.1%	13.6%	-7.0%	-9.8%

Consumer Prices. IHS Markit estimates that consumer prices grew 4.7% in 2021, increased from 2.6% estimated in the previous forecast. Core CPI (which excludes food and energy prices) was up 3.6% from the prior year, compared to the May estimate of 1.9%. Energy prices were a major contributor to overall CPI growth in 2021 (20.9% growth), as the price of Brent crude oil grew beyond the May expectations (\$69 and \$68 per barrel in the third and fourth quarters, respectively), reaching \$73 per barrel in the third quarter, and ending the year at \$79 per barrel.

IHS Markit forecasts that CPI will remain elevated in 2022 (4.2%) and increase more slowly in 2023 (2.2%), well above the previous forecast (1.7% and 1.9%, respectively), as consumer demand moderates and supply chains issues are resolved. Growth in energy prices is expected to slow considerably in 2022 (2.2%) and turn negative (-1.7%) in 2023. Growth in commodities and food prices are expected to remain above 4.0% in 2022 before easing in 2023.

Employment. The U.S. unemployment rate fell to 3.9% by December, 2021, just 0.4 percentage points above the pre-pandemic low of 3.5%. The January, 2022, forecast estimates that the average national unemployment rate was 5.4% in 2021. IHS Markit forecasts that the national unemployment rate will decline to its trough of 3.5% by the third quarter of 2022, earlier than previously forecast, before increasing slightly to 3.7% by the end of 2023. The Wisconsin unemployment rate was 2.8% in December, 2021, according to BLS, the lowest rate on record.

Payrolls are expected to surpass the previous peak in the second half of 2022, after which annual growth in payrolls is expected to fall short of the pre-pandemic trend. Overall, nonfarm payrolls are projected to increase by 3.7% in 2022 and another 1.3% in 2023. Meanwhile, the labor force participation rate is forecast to recover slightly, from an average of 61.6% in 2021 to 62.4% in 2022 and 62.7% in 2023, but still below pre-pandemic levels (63.1%). The labor force participation rate for the population under age 65 is projected to surpass its pre-pandemic peak by the third quarter of 2022, two quarters later than the previous forecast, offset by a larger share of the population over age 65 that is expected to permanently leave the workforce.

Personal Income. Personal income grew by more than previously expected (6.1% in the May forecast) in 2021 at 7.2%, stemming from growth in wages and salary disbursements (9.0%) and federal transfer payments (7.4%). Going forward, personal income is forecast to grow at a slower rate in 2022 (1.3%), as growth in wage and salary disbursements is mostly offset by the decline in federal transfer payments, and is projected to increase by 4.8% in 2023. IHS Markit forecasts that wage and salary disbursement will continue to grow by 8.2% in 2022 and by 5.3% in 2023. Compared to the previous forecast, growth rates were revised upward for personal income and wage and salary disbursements in each year of the forecast period. Despite the growth in personal income in 2021, real disposable income only grew 2.1% over the same period, and is projected to decline by 3.5% in 2022 before recovering to grow by 2.8% in 2023.

Personal Consumption. IHS Markit projects a gradual "renormalization" of consumer spending patterns in the coming years, as consumers shift away from spending on goods and towards spending on services. The current forecast projects that this shift will occur more slowly than anticipated in May, with spending on services making up 66.4% of total nominal PCE in 2022 and 67.8% in 2023, which is up from 65.1% in 2021, but still short of the pre-pandemic level (69.0%).

Amid rising wages, strong household net worth, and a tight labor market, IHS Markit projects that consumers will have money to spend. The savings rate is expected to decline from 11.9% in 2021 to 5.6% in 2022 and 6.1% in 2023, as individuals begin spending down their excess savings accumulated during the pandemic. Overall, nominal PCE is expected to be higher than the previous estimates, with growth of 7.3% in 2022 and 4.2% in 2023. Sales of consumer items generally subject to the state sales tax (such as most durable goods, clothing, restaurant meals, accommodations, and certain services) grew by an estimated 9.3% in 2021, and are forecast to grow by 13.9% in 2022 and 4.6% in 2023. The estimate for real PCE growth, which accounts for inflation, was increased in 2021 compared to the previous forecast, but is now forecast to grow more slowly in 2022 and 2023 than estimated in May. Lower real PCE growth reflects a decrease in consumer buying power because of higher inflation.

Despite supply chain issues that disrupted new vehicle sales during the second half of the year, sales of light vehicles grew an estimated 3.4% in 2021. IHS Markit forecasts modest growth in light vehicle sales in 2022 (3.1%), followed by stronger 2023 growth (11.2%), as chip shortages are resolved and producers have had time to replenish their inventories. Annual sales of light vehicles are not expected to reach their pre-pandemic peak (17.5 million in 2016) until 2024.

Housing. Housing starts were up 13.6% in 2021, the highest level in 15 years, yet still 23% below the 2005 peak. Although sales of existing houses peaked in the fourth quarter of 2020, the U.S. still saw its highest number of homes sold in 2021 since 2006, with year-over-year growth of 8.9% in 2021. On the other hand, new house sales declined 8.2% in 2021, reflecting inventory shortages, after peaking in the third quarter of 2020. According to the Federal Housing Finance Agency House Price Index, which began tracking housing price data in 1991, housing prices rose with a record high growth rate of 18.5% in the third quarter of 2021, compared to the third quarter in the previous year.

Going forward, IHS Markit forecasts that housing starts will decline 7.0% in 2022 and another 9.8% in 2023. Sales of existing homes are projected to increase by only 0.4% in 2022, before declining 9.6% in 2023, while growth in sales of new homes is projected to continue its decline by 3.3% in 2022 and 5.5% in 2023. Home prices are expected to grow at a slower rate in 2022 and 2023, due to: (a) an expanding housing stock; (b) homes with delinquent mortgage payments that are currently protected by forbearance being put up for sale; (c) more aspiring homeowners being priced out of the single-family home market; and (d) a rise in mortgage rates, which would reduce demand and help stabilize price growth. The average price of existing homes is projected to grow 4.7% in 2022 and 3.4% in 2023. Growth in average new home prices is expected to remain elevated in 2022 (11.0%), before slowing considerably in 2023 (1.7%).

Overall, current estimates for growth in housing starts are similar to the May forecast. Growth in sales of existing homes has been increased for 2021 and 2022, relative to the previous forecast, but decreased in 2023. Growth in new home sales was revised down significantly in 2021, but increased in 2022 and 2023, compared to previous estimates.

Monetary Policy. In response to rising inflation, the Federal Reserve is expected to tighten monetary policy more quickly than assumed in the May forecast. As noted previously, the Federal Reserve announced at its December FOMC meeting that it would end its purchases of U.S. Treasury and mortgage-backed securities by March, 2022. IHS Markit anticipates that the Federal Reserve will begin raising the federal funds rate in May of 2022, with two more increases expected by the end of the year. IHS Markit notes that the first interest rate increase could occur as early as March, 2022, but expects that additional guidance from the Federal Reserve will be forthcoming after its FOMC meeting on January 25-26, 2022. As the rates increase, it is estimated that the average commitment rate for a 30-year, conventional, fixed mortgage will increase from 3.0% in 2021 to 3.4% in 2022 and 4.1% in 2023.

Business Investment. IHS Markit estimates that growth in nominal nonresidential fixed investment recovered 9.1% in 2021, more quickly than previously estimated, after declining by 4.7% in 2020. Growth in 2021 was led by investment in equipment (13.2%), with the strongest growth in industrial equipment (17.6%). As a result of strength in consumer demand and the

continued recovery of the U.S. economy, businesses have profit incentives to expand capacity to keep pace with sales. The forecast anticipates that nominal nonresidential fixed investment will continue to grow by 9.1% in 2022 and 5.7% in 2023. Reflecting the projection that oil prices will remain high in the coming years, IHS Markit forecasts that investment on mining and petroleum structures will increase 32.9% in 2022 and 12.7% in 2023.

The January, 2021, forecast projected that inventories would increase by \$96.9 billion in 2021, after falling \$59.6 billion in 2020. Instead, inventories fell by another \$52.3 billion in 2021, due largely to increased demand for goods and ongoing supply chain issues that had been drawing down inventories. IHS Markit expects businesses to rebuild inventories in the coming years, with total inventories increasing by \$143.0 billion in 2022 and \$153.1 billion in 2023. While IHS Markit reports that many industries had already begun restocking inventory in the fourth quarter of 2021, it predicts that inventories for motor vehicles and parts will not begin rebuilding until the second quarter of 2022.

International Trade. Overall, net exports reduced real GDP growth by 1.37 percentage points in 2021, as the rebound in nominal imports (22.2%) outpaced growth in nominal exports (16.4%). However, growth in imports is expected to slow to 8.0% in 2022 and 2.6% in 2023, as consumers shift from purchasing goods to purchasing services. This, along with stronger growth in exports as global demand increases (9.8% in 2022 and 6.8% in 2023), is expected to improve the U.S. balance of trade in the coming years. Net exports are forecast to reduce GDP only modestly in 2022 (-0.04 percentage points), before contributing 0.35 percentage points in 2023.

Overall, the estimates for total imports and total exports were increased in each year compared to May. However, a larger upward revision was made to imports, resulting in a reduction in the U.S. balance of trade compared to previous estimates.

Corporate Profits. Corporate before-tax book profits grew by an estimated 36.0% in 2021, higher than the 24.6% growth forecast in May, 2021, and up significantly from the 0.6% growth forecast in January, 2021. IHS Markit now forecasts before-tax book profits to decline by 2.4% in 2022, before recovering 2.4% in 2023. Economic profits, which are adjusted for inventory valuation and capital consumption at current cost (and thus are not affected by federal tax laws), increased by 22.9% in 2021, slightly above the May forecast. IHS Markit forecasts more modest increases in economic profits of 1.3% in 2022 and 2023. The January, 2022, forecast assumes that the effective federal corporate tax rate for all industries was 12.4% in 2021, and is expected to increase to 12.9% in 2022 and 13.0% in 2023, a lower effective rate than projected for each year in May.

Fiscal Policy. The federal budget deficit is expected to decline from \$2.77 trillion in federal fiscal year 2021 to \$1.27 trillion in 2022 and \$0.81 trillion in 2023, lower than was forecast in May. Although the IIJA provides \$548 billion in new budget authority, these expenditures will be spread out over five years, so its impact on annual GDP growth in any given year is relatively modest. IHS Markit estimates that spending by the federal government contributed just 0.04 percentage points to GDP growth in 2021, and will detract 0.11 percentage points from GDP in 2022 and 0.01 percentage points in 2023. By contrast, state and local government spending is

forecast to contribute 0.31 percentage points to GDP growth in 2022 and 0.27 percentage points in 2023.

As noted, the forecast assumes that state and local governments will not experience a fiscal contraction due, in part, to financial support provided by the federal government. To date, \$58.2 billion in federal funds have been awarded to the State of Wisconsin, local units of government, and individuals, businesses, and nonprofit entities in the state, from federal acts responding to the COVID-19 pandemic.

Alternative Scenarios. IHS Markit's January, 2022, forecast also includes an optimistic scenario and a pessimistic scenario. Under the optimistic scenario, IHS Markit assigns a 20% probability that a quicker recovery in consumer spending and stronger productivity than assumed in the baseline forecast will occur. A more robust consumer and business response to IJJA and an effective response to the Omicron variant helps support the stronger recovery. This scenario assumes that much of household spending in 2022 occurs early in the year, as a result of: (a) consumers spending down additional excess savings accumulated in 2020 and 2021; and (b) a COVID-19 environment that is less threatening and infection rates that dissipate quickly from current infection levels. Under the optimistic scenario, CPI increases at a faster rate than under the baseline, at 4.4% in 2022 and 2.5% in 2023. This scenario also assumes that firms continue to capitalize on productivity gains they achieved during the early stages of the pandemic, leading to a quicker rise in business fixed investment. The national unemployment rate quickly falls below 4.0% by early 2022. Real GDP grows at a 7.8% annual rate in the fourth quarter of 2021, rather than the 6.8% rate assumed under the baseline forecast, and rises to 5.7% (rather than 4.1%) in 2022.

Under the pessimistic scenario, to which IHS Markit assigns a 30% probability, recovery in consumer spending is weakened by an alarming rise in COVID-19 cases and hospitalizations that leads to a reduction in socially-dense consumer activities. Ongoing supply-chain issues worsen under this scenario, leading to prolonged delays in the production and shipment of consumer durable goods and growth in consumer spending being 1.3 percentage points lower than the baseline forecast in 2022 and 2023. These factors prompt businesses to scale back investment plans, leading to weaker business fixed investment growth of 5.0% in 2022. The pessimistic scenario assumes a slower increase in consumer prices (3.6% in 2022 and 1.1% in 2023) as compared to the baseline. The unemployment rate is expected to continue declining, though at a slower pace, to 4.2% by mid-2023, before rising slightly in the following years. Real GDP growth is weaker in the fourth quarter of 2021, compared to the baseline, and slows to 2.7% in 2022.

General Fund Taxes

Table 3 shows general fund tax revenue estimates for 2021-22 and 2022-23. The previous estimates are the general fund tax estimates included in Act 58, adjusted to reflect the Department of Revenue's decision to adjust tax withholding tables effective January 1, 2022 (the first such adjustment since April 1, 2014).

TABLE 3**Projected General Fund Tax Collections
(\$ in Millions)**

	2020-21 <u>Actual</u>	<u>Previous Estimates</u>		<u>Revised Estimates</u> January, 2022	
		<u>2021-22</u>	<u>2022-23</u>	<u>2021-22</u>	<u>2022-23</u>
		Individual Income	\$9,283.4	\$7,970.7	\$9,115.6
General Sales and Use	6,373.5	6,639.6	6,844.5	6,925.0	7,230.0
Corporate Income/Franchise	2,560.1	1,910.0	2,160.0	2,420.0	2,585.0
Public Utility	356.3	354.0	352.0	369.0	371.0
Excise					
Cigarette	509.8	494.0	483.0	498.0	487.0
Tobacco Products	92.7	96.0	100.0	95.0	99.0
Vapor Products	1.5	1.7	2.0	3.6	4.0
Liquor and Wine	64.6	60.0	61.0	61.0	62.0
Beer	9.2	8.9	8.8	8.7	8.6
Insurance Company	202.1	209.0	217.0	211.0	220.0
Miscellaneous Taxes	<u>119.6</u>	<u>117.0</u>	<u>114.0</u>	<u>132.0</u>	<u>128.0</u>
Total	\$19,572.8	\$17,860.9	\$19,457.9	\$18,943.3	\$20,884.6
Change from Prior Year		-\$1,711.9	\$1,597.0	-\$629.5	\$1,941.3
Percent Change		-8.7%	8.9%	-3.2%	10.2%

In total, these amounts are \$2,509.2 million greater than the previous estimates. The percentage difference is 6.7%. The majority of the excess revenue (97% of the excess revenue) is from increased projections for: (a) corporate income/franchise tax revenues, which are \$935.0 million higher than the previous estimates; (b) individual income tax revenues, which are \$823.7 million higher; and (c) sales and use tax revenues, which are \$670.9 million higher. The remaining 3% (\$79.6 million) of the excess revenue is primarily comprised of higher estimates for taxes on public utilities and the real estate transfer fee.

The new estimates are based on the most recent national economic forecast and tax collections data through December. They reflect all state and federal law changes enacted, to date, that impacted state tax collections.

Individual Income Tax. Total individual income tax collections were \$9,283.4 million in 2020-21, an increase of 6.2% over the prior year. Actual revenues in 2020-21 were 0.4% (\$33.4 million) higher than this office's previous estimate. Based on preliminary collections information through December, 2021, total year-to-date income tax collections are higher by 13.7% (\$562.3 million) than such receipts during the same time period one year ago.

However, revenues are projected to decline over the rest of 2021-22 by \$1,626 million (31.4%) relative to the same time period in the prior year. This estimated revenue decrease over the rest of the year is driven primarily by: (a) the income tax rate reduction included in 2021 Act

58, which lowered the rate in the third income tax bracket from 6.27% to 5.30%, beginning in tax year 2021; and (b) the Department of Revenue's decision to update the income tax withholding tables beginning January 1, 2022, to reflect the income tax rates, brackets, and sliding scale standard deduction (SSSD) in effect under current law for tax year 2022. Together, these two provisions are estimated to reduce income tax collections by \$1,729 million in 2021-22. On a year-over-year basis, total income tax revenues are estimated to decline by 11.5% to \$8,220 million in 2021-22 (\$249.3 million higher than the previous estimate).

On January 6, 2022, it was announced that a winning Powerball ticket was purchased in Ashwaubenon. Assuming the winner elects to receive the cash option, this is estimated to result in additional income tax revenues of \$17.2 million on a one-time basis. Though recent news reports indicate that the individual has not yet come forward to claim their prize, this amount is nonetheless included in the income tax revenue projection for 2021-22.

In 2022-23, income tax collections are estimated to increase year-over-year by 17.9% to \$9,690 million (an increase of \$574.4 million relative to the prior estimate for 2022-23). This is due, in part, to a currently-tight labor market and resultant wage inflation. The revenue increase is estimated to persist even while the estimate projects a continued increase in the CPI, on which the income tax rates, brackets, and SSSD for each tax year are based. All else equal, an increase in the CPI serves to reduce income tax collections, because relatively more income is subject to tax at lower rates. The estimate also reflects the anticipation that income tax refunds will be significantly lower in 2022-23 relative to 2021-22, which is principally caused by the withholding table update described above. Because lesser amounts of tax will be over-withheld from each paycheck beginning in tax year 2022, this will reduce the refund payments taxpayers would otherwise receive, beginning in 2022-23.

General Sales and Use Tax. State sales and use tax revenues totaled \$6,373.5 million in 2020-21, which was an increase of 9.2% over the prior year. Sales tax revenues are estimated at \$6,925.0 million in 2021-22 and \$7,230.0 million in 2022-23, constituting annual growth of 8.7% in 2021-22 and 4.4% in 2022-23. These estimates represent revenue increases relative to the prior estimates of \$285.4 million in 2021-22 and \$385.5 million in 2022-23. The increased estimates are based on sales tax collections to date and IHS Markit's projections for: (a) increased inflation in 2021 and 2022, which requires consumers to spend more money to maintain the same level of consumption; and (b) increased personal income and higher accumulated savings to date. IHS Markit's current projections for annual inflation were revised up from the May, 2021, forecast by 2.1 percentage points in 2021 and 2.5 percentage points in 2022.

Sales tax collections through December, 2021, are 13.2% (\$332 million) higher than the same period in the prior year. The strong year-to-date growth in collections reflects growth over months in the previous year in which COVID-19 vaccines were not yet available and consumers engaged in less in-person economic activity. It is estimated that, over the rest of 2021-22, sales tax revenue will increase at a slower rate of 5.7%.

Prior to the start of the pandemic, it was estimated that Wisconsin would collect \$146.3 million in 2020-21 in sales tax from remote sellers and marketplace providers. Actual sales tax collections from these sellers amounted to \$401.4 million in 2020-21, which is \$255.1 million

more than the 2020-21 estimate. It is believed that the pandemic resulted in a large and continuing shift in consumer spending from physical stores to online stores, which is reflected in this data. Year-to-date sales tax collected by marketplace providers and remote sellers in 2021-22 has increased 31.2% (\$42.2 million) compared to the same period in the previous year. If sales tax collections were adjusted to exclude the increased collections from marketplace providers and remote sellers, year-to-date growth in collections would have been 11.5%.

Corporate Income/Franchise Tax. Corporate income/franchise tax collections were \$2,560.1 million in 2020-21, which grew 59.2% above the previous year. Strong growth in 2020-21 was attributable to: (a) 22.9% growth in economic profits in 2021; (b) strong corporate audit payments; and (c) a one-time enhancement of \$155 million due to the shifting of estimated and final payments resulting from the extension of tax filing deadlines in 2020 to July 15 (this revenue would have otherwise been collected in 2019-20). Corporate tax revenues are projected to decline by \$140.1 million to \$2,420.0 million in 2021-22 and then increase by \$165.0 million to \$2,585.0 million in 2022-23, reflecting a contraction of 5.5% in 2021-22 and growth of 6.8% in 2022-23.

Compared to the corporate tax revenues forecast in June, 2021, actual collections were \$230.1 million higher in 2020-21, and the current estimates are \$510 million higher in 2021-22 and \$385 million higher in 2022-23. This is so for two main reasons. First, based on information from the federal Small Business Administration on the timing of loan forgiveness, as well as corporate tax refunds paid year-to-date, \$58.3 million of the estimated fiscal effect of providing state tax benefits for certain loan forgiveness and economic support programs (including forgiven PPP loans) under 2021 Act 1 is now projected to occur in 2021-22, rather than 2020-21 as initially estimated. Second, strong year-to-date collections (22.6% over the same period through December in 2020-21) were likely affected by tax planning activities in tax year 2021, in anticipation of the potential passage of BBB. Although not yet enacted, several of the proposed provisions include certain changes to the tax treatment of foreign-derived profits, an alternative minimum 15% corporate tax rate for corporations reporting more than \$1.0 billion in annual profit, and a 1% corporate stock buyback excise tax. Because corporate tax filers had a strong incentive to realize profits before such changes may go into effect, it is assumed that payments made in the first half of 2021-22 include tax revenues from profits that might otherwise have been realized later in the biennium.

Despite the strong growth in collections in the first half of 2021-22, several factors account for the forecasted decline compared to collections in 2020-21. First, tax filing deadlines for corporate filers were not extended in 2021, and thus no revenues were thrown forward from 2020-21 into 2021-22 (resulting in a decline of \$155 million compared to the previous year). Second, according to the Department of Revenue, the sharp increase in corporate audit payments in recent years reflects economic activity from prior years and is unlikely to repeat in 2021-22 and 2022-23, relative to 2020-21. Third, IHS Markit forecasts that growth in economic profits will moderate to 1.3% in 2022 and 2023. Fourth, strong year-to-date collections were likely affected by tax planning activities that are not anticipated to continue during the remainder of the biennium. Fifth, the majority of the revenue reduction estimated under 2021 Act 1 is now estimated to occur in 2021-22, rather than 2020-21.

Public Utility Taxes. Revenues from public utility taxes totaled \$356.3 million in 2020-21 and are estimated at \$369 million in 2021-22 and \$371 million in 2022-23. Year-over-year, these amounts represent an increase of 3.6% in 2021-22 and 0.5% in 2022-23. Relative to the previous estimates, these estimates reflect an increase of \$15 million in 2021-22 and \$19 million in 2022-23.

The higher estimates are primarily attributable to strong demand for electricity and natural gas services, which experienced accelerated growth as the economy returned to pre-pandemic patterns in 2021. Data reported by Wisconsin utilities through September 30, 2021, show year-over-year growth of 13.3% for natural gas sales, and 4.0% for electricity sales. These trends are anticipated to continue in 2022, with the U.S. Energy Information Administration forecasting 2022 growth of 8.4% for natural gas sales nationally and 2.9% for electricity sales in the Wisconsin region.

Estimated tax payments from the next largest taxpayer group, telecommunications companies, are anticipated to decline during the biennium as the exemption enacted under 2019 Act 128 for property providing broadband internet service in rural areas phases in. The exemption first affects public utility tax collections in 2021-22, and is estimated to reduce collections by \$1.6 million in 2021-22 and \$8.3 million in 2022-23, growing further as it phases in fully by 2025-26. Collections for other ad valorem utility taxpayers are anticipated to decline as the statewide net property tax rate is expected to decline over the biennium. Overall, the estimated declines in telecommunications and other ad valorem company collections are offset by strong growth in electricity and natural gas sales, resulting in modest growth in utility tax revenues over the 2021-23 biennium.

Excise Taxes. General fund excise taxes are imposed on cigarettes, liquor (including wine and hard cider), other tobacco products, vapor products, and beer. Total excise tax revenues in 2020-21 were \$677.8 million, of which \$509.8 million (75.2%) was from the excise tax on cigarettes. Despite strong growth in liquor (17.9%) and beer (8.2%) tax collections, total excise tax collections in 2020-21 declined 0.2% from the prior fiscal year. This decline was driven by a 2.6% decrease in cigarette tax revenues. Total excise tax revenues are estimated to decrease by 1.7% to \$666.3 million in 2021-22 and by 0.9% to \$660.6 million in 2022-23. Compared to the previous estimates, these amounts are \$5.7 million higher in 2021-22 and \$5.8 million higher in 2022-23.

Cigarette tax revenues are estimated at \$498.0 million in 2021-22 and \$487.0 million in 2022-23, constituting annual revenue declines of 2.3% and 2.2%, respectively. These estimates are higher than previously forecast by \$4.0 million each year. This increase was partly in response to higher than anticipated 2020-21 cigarette tax revenues (\$2.8 million above the previous forecast). In addition, year-to-date growth in 2021-22 cigarette tax revenues is -2.9% compared to the same period in the prior year. However, after adjusting for the estimated reduction in revenues resulting from the federal law raising the legal age for purchasing cigarettes and tobacco products to 21, year-to-date revenues are only down 2.3% compared to the prior year. Based on this, the estimate has been revised up now that the fiscal effects of the federal law change have been fully realized, and future revenue declines are expected to be smaller than those seen in recent months.

Insurance Premiums Taxes. Insurance premiums tax collections were \$202.1 million in 2020-21, \$1.1 million above the previous estimate. Revenues are projected to increase to \$211.0 million in 2021-22 and to \$220.0 million in 2022-23 (growth rates of 4.4% and 4.3%, respectively). The estimates are \$2.0 million higher each year from the previous estimates, and are based on growth in year-to-date insurance premiums tax collections (4.2%), trends in historical collection growth, and projected growth in consumer spending on insurance.

Miscellaneous Taxes. Miscellaneous taxes include the real estate transfer fee, municipal and circuit court-related fees, and a small amount from the occupational tax on coal. Miscellaneous tax revenues were \$119.6 million in 2020-21, of which 88.7% was generated from the real estate transfer fee. Total miscellaneous tax collections in 2020-21 represented an increase of 30.4% from the prior fiscal year, in part due to strong housing demand fueled by low mortgage rates, which led to rising prices. Miscellaneous tax revenues are estimated at \$132.0 million in 2021-22 and \$128.0 million in 2022-23, which is higher than the previous estimate by \$15.0 million and \$14.0 million, respectively.

The revised estimates reflect much higher than expected year-to-date growth in collections from the real estate transfer fee (18.0%) and improved housing market indicators. At the time of the June, 2021, forecast, this office projected relatively flat growth in the first half of 2021-22, based on a number of IHS Markit indicators. These indicators are now showing: (a) a larger amount of existing and new home sales during the second half of 2021 and into 2022, compared to IHS Markit's May, 2021 forecast; and (b) significantly higher house prices, particularly for new houses.

This office will continue to monitor state revenues and expenditures and new economic forecasts, and notify you and your colleagues of any further adjustments that may be necessary.

Sincerely,



Robert Wm. Lang
Director

RWL/ml

cc: Members, Wisconsin Legislature