State of Wisconsin
Additional/Voluntary Filing #2019-05
Dated January 30, 2019

This Additional/Voluntary Filing does not concern an event described in Securities and Exchange Act Rule 15c2-12, as amended. The State of Wisconsin provides this information as it may be material to financial evaluation of one or more obligations of the State of Wisconsin.

Issuer: State of Wisconsin

CUSIP Numbers:

977055 Prefix (All)	977056 Prefix (All)
97705L Prefix (All)	97705M Prefix (All)
977087 Prefix (All)	97709T Prefix (All)
977092 Prefix (All)	977100 Prefix (All)
977109 Prefix (All)	977123 Prefix (All)

Type of Information: Financial/Operating Data Disclosures; Additional/Voluntary Disclosure; Budget

Attached is a report from the Legislative Fiscal Bureau, dated January 30, 2019. This report contains General Fund tax collection projections for the 2018-19 fiscal year and the 2019-21 biennium. In addition, this report includes an estimated General Fund condition statement for the 2018-19 fiscal year.

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 at:

doa.wi.us/capitalfinance

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 December 1, 2010), and is authorized to distribute this information publicly

/S/ DAVID R. ERDMAN

David R. Erdman, Capital Finance Director
State of Wisconsin Capital Finance Office
Wisconsin Department of Administration
101 East Wilson Street, FLR 10
Madison, WI 53703
Phone: (608) 267-0374
Fax: (608) 266-7645
E-mail: DOACapitalFinanceOffice@wisconsin.gov
Website: doa.wi.us/capitalfinance

Legislative Fiscal Bureau

Robert Wm. Lang, Director

One East Main, Suite 301 • Madison, WI 53703
Email: Fiscal.Bureau@legis.wisconsin.gov
Telephone: (608) 266-3847 • Fax: (608) 267-6873

State of Wisconsin

January 30, 2019

Senator Alberta Darling, Senate Chair
Representative John Nygren, Assembly Chair
Joint Committee on Finance
State Capitol
Madison, WI 53702

Dear Senator Darling and Representative Nygren:

Annually, this office prepares general fund revenue and expenditure projections for the Legislature.

In odd-numbered years, our report includes estimated revenues and expenditures for the current fiscal year and tax collection projections for each year of the next biennium. This report presents the conclusions of our analysis.

Comparison with the Administration's November 20, 2018, Report

On November 20, 2018, the Departments of Administration and Revenue submitted a report to the Governor and Legislature that identified general fund revenue and expenditure projections for the 2018-19 fiscal year and the 2019-21 biennium. That report, required by statute, identifies the magnitude of state agency biennial budget requests and presents a projection of general fund tax collections.

Our analysis indicates that for the three-year period, aggregate general fund tax collections will be $282.0 million lower than those of the November 20 report (-$142.1 million in 2018-19, -$45.2 million in 2019-20, and -$94.7 million in 2020-21).

Based upon the November 20 report, the administration's general fund condition statement for 2018-19 reflects a gross ending balance of $622.5 million and a net balance (after consideration of the $75.0 million required statutory balance) of $547.5 million.

Our analysis indicates a gross balance of $691.5 million and a net balance of $616.5 million. This is $69.0 million above that of the November 20 report. The 2018-19 general fund condition statement is shown in Table 1.

TABLE 1

Estimated 2018-19 General Fund Condition Statement

	2018-19
Revenues	
Opening Balance, July 1	$588,472,000
Taxes	16,673,900,000
Departmental Revenues	
Tribal Gaming	26,139,600
Other	473,673,200
Total Available	$17,762,184,800
Appropriations, Transfers, and Revenues	
Gross Appropriations	$17,829,835,700
Sum Sufficient Reestimates	-146,290,600
Biennial Appropriation Adjustment	-1,100,000
Transfers to Transportation Fund	41,597,100
Compensation Reserves	52,081,600
Less Lapses	-705,416,300
Net Appropriations	$17,070,707,500
Balances	
Gross Balance	$691,477,300
Less Required Statutory Balance	-75,000,000
Net Balance, June 30	$616,477,300

The factors that cause the $69.0 million difference are as follows. First, based on economic forecasts and tax collections to date, our estimated tax collections for 2018-19 are $142.1 million lower than the projection of the November 20 report. The $142.1 million is offset by increased estimated departmental revenues (non-tax receipts deposited into the general fund) of $17.4 million and a reduction of net appropriations of $193.7 million. The additional general fund balance of $69.0 million for 2018-19 is displayed as follows (-$142.1 million + $17.4 million + $193.7 million = $69.0 million).

The net appropriation reduction of $193.7 million is primarily due to two items. First, the November 20 report estimates that $82.6 million will transfer from the general fund to the budget stabilization fund. We believe that this transfer will not occur. Second, our analysis projects that lapses to the general fund will be $103.7 million greater than those of the administration.

Pursuant to s. 16.518 of the statutes, if actual general fund tax collections in any year exceed amounts listed in the biennial budget act, one-half of the additional amount is transferred to the budget stabilization fund. Under the 2018-19 tax collections estimate of the November 20 report, the administration projects a transfer to the stabilization fund in that year of $82.6 million. There are two reasons why our analysis indicates that there will be no transfer to the stabilization in 2018-19. First, our tax estimate for 2018-19 is lower than the November 20 report, which reduces the amount of any potential transfer. Second, under 2017 Act 368 (enacted after publication of the November 20 report), any amounts attributable to increased sales tax collections under the *Wayfair* decision are to be excluded from the determination of transfer to the stabilization fund. When these two factors are considered, the 2018-19 tax estimate is below the amount estimated when the 2017-19 budget was enacted. Thus, no amounts are projected to be transferred.

Under our analysis, lapses to the general fund in 2018-19 will exceed those of the November 20 report by $103.7 million. The primary reasons for the additional lapse amount are as follows. First, the updated fund condition statement reflects an estimated GPR lapse from the Department of Health Services' medical assistance appropriations of $212.7 million, which is $63.7 million more than the lapse amount included in the administration's November 20 report. The current estimate is based on the Department of Health Services' MA quarterly status report to the Joint Committee on Finance from December, 2018. According to that report, MA GPR expenditures in the 2017-19 biennium are projected to be lower than the Act 59 budget by 3.5%.

Second, 2017 Act 370 (enacted subsequent to the November 20 report) directs that any unencumbered amount in the Fast Forward continuing appropriation of the Department of Workforce Development lapse to the general fund in 2018-19. It is estimated that $21.7 million will lapse under this provision.

General Fund Tax Revenues

The following sections present information related to general fund tax revenues for 2018-19 and the 2019-21 biennium. This includes a review of the U.S. economy in 2018, a summary of the national economic forecast for 2019 through 2021, and detailed general fund tax revenue estimates for the current fiscal year and the next biennium.

Review of the National Economy in 2018

This office prepared updated revenue estimates for the 2017-19 biennium in January, 2018, based on the January, 2018, IHS Markit forecast for the U.S. economy. The forecast predicted real gross domestic product (GDP) growth of 2.7% in 2018 and 2.6% in 2019. The main drivers of growth were expected to be consumer spending and business investment. On the other hand, IHS Markit expected the trade deficit to be a drag on economic growth, due to an appreciating U.S. dollar and rising incomes boosting demand for foreign goods.

The January, 2018, IHS Markit forecast was based on the following assumptions. First, the federal Tax Cut and Jobs Act of 2017 (TCJA) was projected to generate a modest boost to real GDP growth of approximately 0.1 percentage points in 2018 and 0.2 percentage points in 2019. Second, the Federal Reserve would increase the federal funds rates by 75 basis points to 2.25% by the end of 2018, and by 50 basis points to 2.75% by the end of 2019. Third, the Brent oil price was projected to decrease from $61 per barrel in the fourth quarter of 2017 to $55 per barrel by the fourth quarter of 2018. Fourth, the inflation-adjusted, trade-weighted value of the dollar for the broad index of U.S. trading partners would increase 1.5% throughout 2018 and reach a peak value in the first quarter of 2019, although still 1.3% below the 2016 average value. Finally, the real GDP of major-currency and other important U.S. trading partners would grow by 2.0% and 3.2%, respectively, in 2018.

The national economy grew slightly more than estimated. Real growth in U.S. GDP in 2018 is now estimated at 2.9%, which is 0.2 percentage points higher than previously estimated. Drivers of growth in 2018 included nonresidential fixed investment, which contributed 0.9 percentage points to real GDP growth, and consumer spending, which contributed 1.8 percentage points to GDP growth. Both grew by more than the January, 2018, forecast. National real GDP has now grown in 19 consecutive quarters, and in 35 of the 38 quarters since the 2008-2009 recession. If growth continues through July, 2019, the current economic expansion will have lasted ten years without an economic recession, which would be the longest period of economic expansion in U.S. history.

Consumer spending in 2018 grew by 4.8% (0.6 percentage points higher than previously estimated), supported by gains in personal income and the labor market. As forecast, nonfarm payroll employment grew by 1.6% and the unemployment rate for the year averaged 3.9%. Due to a strong employment market and growth in wages and salaries (4.4%), personal income grew as forecast by 4.4%. Consumer confidence remained high throughout the year as the University of Michigan's consumer sentiment index averaged 98.4, which is the highest measurement since 2000. Although predicted to decrease, overall light vehicle unit sales are now estimated to have remained flat. For the fourth straight year sales of trucks (7.2%) grew while sales of cars (-13.1%) declined. Light truck sales, including sport utility vehicles, vans, and pickup trucks, comprised 69% of total light vehicles sales.

Nonresidential fixed investment grew by 6.9% in 2018, comprised of growth in spending on equipment (7.3%), intellectual property products (7.3%), and structures (5.4%). Spending on equipment, including information processing equipment (9.3%) and transportation equipment (7.2%), was bolstered by immediate expensing provisions of the TCJA that provide additional tax incentives for investment. IHS Markit estimates that the TCJA will increase equipment spending by an average of 0.4 percentage points per year until the end of 2022 (when the expensing provisions begin to phase out, until they are scheduled to expire after 2026).

Business investment on structures spiked in the first half of 2018 (13.9% annualized growth in the first quarter and 14.5% in the second quarter) due to spending on mining and petroleum structures, which grew at an annual rate of 31.0% and 95.7% in the first and second quarters, respectively. IHS Markit had projected oil prices to decrease throughout 2018, however the opposite occurred. The average Brent spot price climbed from $61.57 per barrel in the fourth quarter of 2017 to $74.41 in the second quarter, before falling back to $67.54 in the fourth quarter (which was slightly higher than the previous year). The increase in oil prices led to heavy investment in energy-related drilling structures in the first half of 2018, which supported business investment.

The housing market was somewhat disappointing in 2018 compared to the growth that had been forecast. The nominal dollar value of overall residential construction (5.4%), including construction of single family homes (5.6%) and multi-family units (-0.2%), grew by less than anticipated. Overall, the market for single-family housing tightened, with the homeowner vacancy rate dropping to an 18-year low of 1.5%. The average prices for 1996-style houses increased 3.1% and new homes increased 0.8%. It is estimated that the number of sales of new homes and existing homes decreased by 0.6% and 3.5%, respectively. One factor slowing residential construction and sales may have been that homes were less affordable as interest rates increased throughout the year. The average 30-year fixed, conventional mortgage rates increased from 4.0% in 2017 to 4.5% in 2018. Further, several provisions of the TCJA reduced the tax preferences associated with home ownership, which may have impacted the market. These provisions include the $10,000 deductibility limit on state and local taxes, such as property taxes, the $750,000 limit on the mortgage amount for which interest payments may be deducted, and doubling the standard deduction, which erodes the value of itemizing deductions based on home ownership.

Trade policy diverged significantly than assumed in the baseline January, 2018, IHS Markit forecast. The Trump administration announced a series of tariffs and trade policies, including tariffs on solar panels, washing machines, steel, and aluminum imports from most countries, a 25% tariff on $50 billion of goods from China, a 10% tariff on another $200 billion of goods from China, and a renegotiation of the North American Free Trade Agreement. The 10% levy currently in place on $200 billion of Chinese imports was set to rise to 25% effective in January, 2019, but the Trump administration announced in December, 2018, that the step-up would be delayed until early March, 2019, in order to allow for trade talks. Large shifts in the timing of sales of affected products occurred throughout the year, as buyers sought to complete their purchases prior to tariffs coming into effect. This caused large swings in imports, exports, and inventories. For example, on an annualized basis, real net exports declined $103.7 billion in the third quarter following a second quarter surge of $89.4 billion (of which a significant portion was due to soybean buyers changing the timing of their purchases to avoid impending tariffs). Overall, the real trade-weighted value of the dollar appreciated 2.4% in 2018 as trade tensions escalated.

Monetary policy tightened as the Federal Reserve raised its target for the federal funds rate four times in 2018 to a range of 2.25–2.50% (which is 25 basis points more than forecast in January, 2018). Further, the Federal Reserve began to unwind its "quantitative easing" program of purchasing large quantities of treasuries and mortgage-backed securities in order to drive down the term premium for holding a longer-term bond compared to the yield on a shorter duration bond. In 2018, the Federal Reserve's new policy is to allow up to $50 billion worth of mortgage securities and treasuries it holds each month to mature without reinvesting the proceeds back into the marketplace. This is effectively the opposite of quantitative easing because bonds that mature enter the private market instead of being retained on the Federal Reserve's balance sheet. The new policy is expected to raise the yields demanded by buyers of longer-term bonds because additional bonds will be available for purchase in the marketplace. Thus the new policy has a similar effect to tightening interest rates.

In contrast to the relatively strong underlying economic indicators throughout 2018, financial conditions weakened by the end of the year. The stock market sharply declined in the fourth quarter, causing household holdings of corporate equities to decrease 16.8%, household financial assets to decrease 2.4% overall, and household real net worth to decrease by 1.9%. The University of Michigan's consumer sentiment index fell from 98.3 in December, 2018, to 90.7 in January, 2019, the lowest monthly reading in more than two years. Various factors may also be affecting markets, including a slowdown in global growth, ongoing uncertainty about trade policy, and the partial federal government shutdown.

National Economic Forecast

Under the January, 2019, forecast, IHS Markit predicts real GDP growth of 2.5% in 2019, 2.0% in 2020, and 1.5% in 2021. The recent declines in equity values, wider corporate risk spreads, and the general strengthening of the dollar on a broad, trade-weighted basis have translated into less favorable financial conditions for growth in 2019. However, a recession is not part of the baseline forecast. Consumer spending and nonresidential fixed investment are expected to continue driving growth, although at a slower pace than in 2018.

The 2019 forecast is based on the following key assumptions. First, the forecast assumes that the 2018 tariffs will be maintained in 2019 and 2020 at the current levels on solar panels, washing machines, steel, aluminum, and on Chinese goods. That is, it is assumed that the 10% tariff on $200 billion of Chinese imports will not increase to 25% in March, 2019. Second, the Federal Reserve will raise the target range for the federal funds rate by 25 basis points in both May and October, 2019, and in June 2020, bringing the upper end of the range to 3.25%. Third, global growth slows as the real, broad, trade-weighted growth of foreign GDP slows from 3.1% in 2017 to 2.7% in 2018, then averages 2.4% through 2022. Fourth, the price of Brent crude oil is projected to fall from $71 per barrel in 2018 to $65 in 2019, before rising to $73 in 2022. Fifth, the impact of the federal government shutdown is not reflected in this forecast, which was developed assuming a shutdown would be avoided or brief in duration. Due to government services not being produced by furloughed employees, IHS Markit estimates that each week of the shutdown would have a negative impact on real GDP of $3.5 billion, as measured by the estimated real compensation of furloughed employees.

The 2019 forecast is summarized in Table 2, which reflects IHS Markit's January, 2019, 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, 2019
($ in Billions)

	2018	2019	2020	2021
Nominal Gross Domestic Product	$20,502.9	$21,476.7	$22,430.7	$23,341.5
Percent Change	5.2%	4.7%	4.4%	4.1%
Real Gross Domestic Product	$18,574.1	$19,034.9	$19,410.2	$19,699.3
Percent Change	2.9%	2.5%	2.0%	1.5%
Consumer Prices (Percent Change)	2.4%	2.0%	2.5%	2.5%
Personal Income	$17,564.9	$18,341.2	$19,174.7	$19,988.2
Percent Change	4.4%	4.4%	4.5%	4.2%
Nominal Personal Consumption Expenditures	$13,956.4	$14,569.8	$15,230.3	$15,870.5
Percent Change	4.8%	4.4%	4.5%	4.2%
Economic Profits	$2,266.8	$2,374.2	$2,424.3	$2,481.0
Percent Change	8.0%	4.7%	2.1%	2.3%
Unemployment Rate	3.9%	3.6%	3.7%	3.9%
Total Nonfarm Payrolls (Millions)	149.0	151.0	152.5	153.3
Percent Change	1.6%	1.4%	1.0%	0.5%
Light Vehicle Sales (Millions of Units)	17.15	16.77	16.60	16.48
Percent Change	0.0%	-2.2%	-1.0%	-0.8%
Sales of New and Existing Homes (Millions of Units)	5.952	6.030	6.437	6.494
Percent Change	-3.2%	1.3%	6.8%	0.9%
Housing Starts (Millions of Units)	1.262	1.275	1.380	1.430
Percent Change	4.4%	1.1%	8.2%	3.6%

Business Investment. IHS Markit forecasts that growth in nominal, non-inflation adjusted, nonresidential fixed investment peaked in 2018 at 8.2% and will continue to grow by 5.7% in 2019, 4.5% in 2020, and 4.1% in 2021, albeit at a slower pace than the previous two years. The financial stress from the fourth quarter of 2018 and the elevated trade-policy uncertainty are expected to weigh on business expansion plans in the short term. Growth in nominal investment in nonresidential structures is expected to decline from 9.0% in 2018 to 5.9% in 2019, and show relatively stable growth of 5.7% in 2020 and 5.9% in 2021, mostly because recent declines in domestic oil prices are expected to reduce nominal investment in petroleum and mining structures from a peak of 32.1%

growth in 2018 to 5.2% in 2019, 1.4% in 2020, and 4.1% in 2021. Growth in nominal investment in equipment is expected to slow from 7.4% in 2018 to 4.5% in 2019, 3.4% in 2020, and 3.0% in 2021 for similar reasons. Likewise, nominal investment in intellectual property products is expected to slow from 8.5% growth in 2018 to 7.1% in 2019, 5.1% in 2020, and 4.5% in 2021.

Corporate Profits. Corporate before-tax book profits grew 0.3% in 2018. IHS Markit forecasts growth of 5.3% in 2019, 3.6% in 2020, and 3.1% in 2021. 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 8.0% in 2018 and are forecast to increase by 4.7% in 2019, 2.1% in 2020, and by 2.3% in 2021.

The forecast reflects that the TCJA reduced the federal statutory corporate tax rate from 35% to 21%, extended bonus depreciation by five years (followed by a three-year phase-out period), and provided additional tax deductions for certain pass-through business income. The 2019 forecast assumes that the effective federal corporate tax rate for all industries dropped from 13.4% in 2017 to 7.3% in 2018, before rising to 10.5% in 2019, 10.6% in 2020, and 10.8% in 2021.

Personal Income. Personal income is forecast to grow by 4.4% in 2019, 4.5% in 2020, and 4.2% in 2021, supported by strong employment levels, greater hours worked, and wage and salary gains (4.2% in 2019, 4.6% in 2020, and 4.4% in 2021). Household real net worth is expected to rebound (5.9%) in 2019 as household holdings of corporate equities recover (20.5%) from their sharp fall in the fourth quarter of 2018. IHS Markit estimates that real disposable income growth will slow from 2.8% in 2018 to 2.7% in 2019, 2.3% in 2020, and 1.9% in 2021 as job growth slows and the fiscal stimulus of the tax cuts under the TCJA fade. Because projected income growth is in line with projected consumption expenditures, the personal savings rate is expected to hold steady at 6.5% in 2019 and 2020 and slightly decrease to 6.4% in 2021.

Personal Consumption. Despite recent turmoil in financial markets, IHS Markit estimates that nominal personal consumption expenditures (PCE) will grow 4.4% in 2019, 4.5% in 2020, and 4.2% in 2021, supported by growth in wages and salaries and disposable income. Sales of consumer items generally subject to the state sales tax (such as most durable goods, clothing, restaurant meals and accommodations, and certain services) grew by an estimated 4.8% in 2018 and are forecast to grow by 4.3% in 2019, 4.1% in 2020, and 3.3% in 2021. After growing by 12.7% in 2018, spending on gasoline and other energy goods is expected to decline by 1.2% in 2019 as oil prices fall in the near term and rebound by 6.0% in 2020 and 3.9% in 2021. Purchases of light vehicles are expected to decline 2.2% in 2019, 1.0% in 2020, and 0.8% in 2021, with sales of cars (-6.9% in 2019, -1.6% in 2020, and -0.5% in 2021) falling at a faster rate through 2020 than sales of light trucks (-0.1% in 2019, -0.8% in 2020, and -0.9% in 2021).

Consumer Prices. The consumer price index (CPI) increased by 2.4% in 2018, which was higher than predicted. Wage increases from a tight labor market and higher oil prices than previously estimated contributed to increased prices. IHS Markit expects the CPI to grow by 2.0% in 2019 and by 2.5% in 2020 and 2021. Continued tightness in the labor market is expected to lead to more wage gains, providing upward pressure on prices. However, lower oil prices in 2019 are expected to trim near-term inflation. Although tariffs are expected to increase the price of imports, strong dollar appreciation is expected to offset the effect on import prices as the inflation-adjusted, trade-weighted value of the dollar for the broad index of U.S. trading partners is forecast to gain 9.2% in 2019 and decrease 2.0% in 2020 and 1.0% in 2021.

Monetary Policy. Because of the tight labor market, inflation near two percent, and strong consumer demand, IHS Markit anticipates that the Federal Reserve will raise the target range for the federal funds rate two times in 2019 by 0.25 percentage points each, once more in 2020, and remain flat in 2021. This would bring the upper end of the target range to 3.25%. Further, it is expected that the Federal Reserve will continue to unwind its balance sheet by allowing its holdings of treasuries and mortgage-backed securities to mature each month without reinvesting the proceeds. As explained above, this is expected to drive up the term premium for longer-term bonds. As interest rates rise, it is estimated that the average commitment rate for a 30-year, conventional, fixed mortgage will increase from an average of 4.5% in 2018 to 4.8% in 2019, 5.0% in 2020, and 5.1% in 2021. The average annual yield on the 10-year U.S. treasury note is expected to increase from an estimated 2.91% in 2018 to 3.02% in 2019, 3.26% in 2020, and 3.41% in 2021.

Housing. Average housing prices now exceed their pre-recession peaks. However, sales of new and existing homes have not come close to their previous highs (8.4 million sales in 2005 compared to only 6.0 million in 2018). For example, according to the Wisconsin Realtors Association, the median value Wisconsin home price in December grew 5.3% year-over-year, whereas the total number of sales in 2018 fell 2.4% compared to 2017.

IHS Markit forecasts slow growth in total housing starts (1.1%) and sales of existing homes (0.7%) in 2019, leading to further price increases for a 1996-style home (2.7%). This is expected in part due to increased mortgage costs and U.S. Census data suggesting slower growth in household formation (from 1.5 million in 2018 to 1.3 million in 2019). On the other hand, IHS Markit estimates that growth of sales of new homes (6.4%) will rebound and that the average price of new homes will remain unchanged from last year. IHS Markit forecasts that growth in 2020 will pick up as the housing market adapts to higher interest rates and reduced tax benefits under the TCJA. The average price of a 1996-style home is expected to increase by 3.1% in 2020 and by 3.0% in 2021. Growth in sales of new and existing homes is expected to increase by 6.8% in 2020 and 0.9% in 2021, while new housing starts are expected to increase by 8.2% in 2020 and 3.6% in 2021.

International Trade. As the trade deficit increases due to an appreciating dollar and uncertain trade policy, net exports are expected to continue to detract from GDP growth (-0.41 percentage points in 2019, -0.20 percentage points in 2020, and -0.22 percentage points in 2021). Continued trade friction between the United States and China has raised uncertainty regarding demand for U.S. exports, cost pressures, and global supply chains. Nonetheless, although growth in foreign markets is forecast to slow, foreign demand is expected to remain supportive of growth in U.S. exports. As a result, real exports of goods and services are forecast to grow 4.1% in 2019, 5.6% in 2020, and 3.2% in 2021. However, real imports of goods and services are expected to grow by even more than exports (6.0% in 2019, 5.8% in 2020, and 4.0% in 2021), contributing to the increasing trade imbalance.

Notably, real exports of petroleum and petroleum products are forecast to grow significantly (17.1% in 2019, 25.0% in 2020, and 12.5% in 2021), whereas growth in imports of such products is expected to remain relatively flat over the period (-3.6% in 2019, 1.1% in 2020, and -3.4% in 2021).

As a result, net exports of petroleum are forecast to be positive in 2020 and continue growing thereafter. This would be the first time that petroleum exports exceed petroleum imports in the history of the U.S. Energy Information Administration's data set (which begins in 1991). At present, the U.S. already produces more crude oil than any other nation on a day-to-day basis. If current trends continue, the U.S. could soon become the largest national supplier of oil as measured by total annual production capacity.

Fiscal Policy. The federal budget deficit is expected to grow from $779.0 billion in 2018, to $1,006.4 billion in 2019, $1,061.9 billion in 2020, and $1,133.3 billion in 2021, primarily caused by tax reductions enacted under the TCJA and 2018 federal budget acts that raised spending limits on defense and nondefense discretionary spending through federal fiscal year 2019. Overall, federal, state, and local government fiscal policies are estimated to contribute 0.30 percentage points to real GDP growth in 2018. This is expected to increase to 0.46 percentage points in 2019 and fall to 0.13 percentage points in 2020 and 0.03 percentage points in 2021 as the stimulative effect of the tax reductions enacted under the TCJA and deficit spending from recent federal budget bills dissipates.

After the continuing resolution for funding the federal government expired on December 22, 2018, portions of the federal government closed for 35 days until an agreement to provide three weeks of funding was enacted on January 25, 2018. The partial government shutdown resulted in furloughs to approximately 380,000 federal employees and approximately 420,000 workers being forced to work without pay. Although unpaid employees are expected to have curtailed their spending temporarily, IHS Markit expects the overall effect on nominal PCE to be minor because recently enacted legislation provides back pay to those employees. Instead, the direct impact of the partial federal government shutdown is expected to come from government services not being produced by furloughed employees. As noted, it is estimated that each of the five weeks of the shutdown reduced real GDP by $3.5 billion, which is estimated to be more than three-tenths of a percentage point of first quarter GDP. According to IHS Markit, if the federal government were to close again after the current funding resolution expires on February 15, 2019, it is anticipated that additional government programs may be affected and the effects on real GDP may exceed $3.5 billion per week.

Employment. IHS Markit forecasts that the employment market will remain strong in the short term, with total nonfarm payrolls expanding 1.4% in 2019, 1.0% in 2020, and 0.5% in 2021. The unemployment rate is expected to fall from 3.9% in 2018 to an average of 3.6% in 2019 and remain at an average of 3.7% in 2020 before creeping back up to an average of 3.9% in 2021. The labor participation rate for adults under 65 is projected to increase from 72.2% in 2018 to 73.0% in 2021. Thus, going into the next biennium, it is likely that it will be more challenging for employers to find workers than for job seekers to find job openings.

Alternative Scenarios. IHS Markit's 2019 forecast also includes an optimistic scenario and a pessimistic scenario. Under the optimistic scenario, IHS Markit assigns a 15% probability that strong productivity growth and less inflation will yield GDP growth 1.1% higher in each year than predicted in the baseline forecast. The key assumptions are that a lower natural rate of unemployment keeps core PCE inflation below its baseline level while faster productivity growth allows wages to grow more quickly without triggering inflation. Growth in the rest of the world increases due to faster productivity gains, although more slowly than in the U.S. In response to better income and job prospects, consumers increase their spending. The Federal Reserve holds off from rate increases as a response to low rates of inflation until early 2020, and does not raise the federal funds rate up to a target range of 3.25-3.50% until 2022. Household formation accelerates due to improved employment and household finances, spurring a sharp rise in housing starts.

Under the pessimistic scenario, to which IHS Markit assigns a 25% probability, a broad-based loss of confidence and risk aversion causes a three-quarter recession in 2020. In this scenario, the real-estate market declines as prices correct downwards, causing consumer confidence to plunge. Declining confidence, along with an inverted yield curve, sets off a deep drop in asset values and broad-based declines in business fixed investment. The declining stock and housing markets cause negative wealth effects which, along with employment declines, cause households to curtail their spending in early 2020. Foreign growth also slows. The result is a three quarter recession starting in the first quarter of 2020. Unemployment spikes up to 6.0% in 2021, and GDP declines 2.8%, 2.2%, and 2.0% over the first three quarters of 2020 on an annualized basis. The recovery after the recession is expected to be weak, in part, due to lack of capacity by the federal government or the Federal Reserve to use fiscal or monetary policy to offset the effects of the recession.

General Fund Taxes

Table 3 shows general fund tax revenue estimates for 2018-19 and for each year of the 2019-21 biennium. Over the three-year period, these estimates are $282.0 million (0.5%) lower than the projections released by the Department of Revenue (DOR) last November. By year, the new estimates are lower than DOR's projections by $142.1 million in 2018-19, $45.2 million in 2019-20, and $94.7 million in 2020-21. Compared to the November 20 report, the estimates are significantly lower for individual income tax collections, but are higher for general sales and use taxes and corporate income/franchise taxes in each year. The new estimates are based on the most recent national economic forecast and year-to-date tax collections data. The estimates incorporate all law changes enacted to date, including the 2017 Wisconsin Act 368 provisions regarding the election for pass-through entities to be taxed at the entity level and the automatic individual income tax rate reductions, beginning in tax year 2019, equal to the amount of increased sales and use tax collections following the U.S. Supreme Court decision *South Dakota v. Wayfair, Inc.* DOR's November projections were released prior to enactment of Act 368 and did not include the fiscal effects of the entity level tax or the individual income tax rate reductions.

TABLE 3

Projected General Fund Tax Collections
(Millions)

	2017-19 Biennium		2019-21 Biennium	
	2017-18 Actual	2018-19 Estimated	2019-20 Estimated	2020-21 Estimated
Individual Income	$8,479.2	$8,640.0	$9,020.0	$9,330.0
Sales and Use	5,448.1	5,715.0	5,955.0	6,000.0
Corporate Income/Franchise	893.9	990.0	1,050.0	1,075.0
Public Utility	365.3	368.0	369.0	371.0
Excise				
Cigarette	538.9	532.0	527.0	523.0
Tobacco Products	80.2	86.0	90.0	94.0
Liquor and Wine	52.0	54.0	55.0	56.0
Beer	8.9	8.9	8.9	8.9
Insurance Company	186.3	189.0	195.0	200.0
Miscellaneous Taxes	91.4	91.0	97.0	102.0
Total	$16,144.2	$16,673.9	$17,366.9	$17,759.9
Change from Prior Year		$529.7	$693.0	$393.0
Percent Change		3.3%	4.2%	2.3%

Individual Income Tax. Individual income tax revenues are estimated to total $8,640.0 million in 2018-19, which represents a 1.9% increase relative to income tax collections in 2017-18 of $8,479.2 million. Individual income tax revenues are estimated at $9,020.0 million in 2019-20 and $9,330.0 million in 2020-21. These amounts represent increases of 4.4% in the first year and 3.4% in the second year.

The January, 2019, IHS Markit forecast projects national personal income growth of 4.4% in 2018, 4.4% in 2019, 4.5% in 2020, and 4.2% in 2021. However, personal income includes both taxable components, such as wage and salary disbursements, and nontaxable components, such as employer contributions for employee fringe benefits and government transfer payments to individuals. The taxable components of personal income are estimated to increase at slightly lower rates than for personal income as a whole. Since the economic recovery began, Wisconsin's personal income growth rates have lagged the rates for the United States. Personal income, as measured by the U.S. Bureau of Economic Analysis, does not include income from capital gains realizations, which are subject to state and federal taxation.

Through November, 2018, year-to-date growth in individual income tax collections equaled 6.5%. In December, collections decreased 19.8%, compared to December, 2017, and year-to-date collections were at roughly the same level as for 2017-18. The December decrease is due to lower estimated payments and pass-through withholding, and preliminary data indicates that January collections in those categories will decrease relative to January, 2018. According to DOR, similar decreases are occurring in other states.

The cause of the decrease in estimated payments and pass-through withholding may be attributable to at least four factors. First, some taxpayers accelerated payments in December, 2017, and January, 2018, in response to the federal TCJA. As a result, these taxpayers may have been able to claim larger than normal tax year 2017 itemized deductions for federal tax purposes, before the $10,000 state and local tax deduction limitation took effect in tax year 2018. Due to these higher payments, some decrease in estimated payments in December and January of 2018-19 was anticipated, but the actual decrease exceeded expectations. Second, there is some evidence that pass-through entities subject to the individual income tax changed their tax filing status in 2018 to take advantage of certain federal tax treatments enacted under the TCJA, and are now taxed as C corporations. Third, some pass-through entities, previously taxed under the state individual income tax, are electing to be taxed under Act 368 at the entity level. The entity level tax is available to tax-option corporations in tax year 2018 and to other pass-through entities in tax year 2019. A provision in the Act delays the imposition of interest and penalties on underpayments by tax-option corporations until 2019. As a result, tax-option corporations making the election were not required to make a January estimated payment. Finally, the stock market "correction" in the last quarter of 2018 caused some taxpayers to realize either diminished capital gains or capital losses. Besides their effect on estimated payments and pass-through withholding, these factors are expected to add volatility to final payments and refunds during the 2018 tax filing season.

While these factors are expected to dampen the growth rate for individual income tax collections in 2018-19 (1.9%), they contribute to a "bounce" in the growth rate for 2019-20 (4.4%). The growth rate in 2020-21 of 3.4% is consistent with the average annual growth for the post-recession recovery and reflects a continuation of economic expansion, as forecast by IHS Markit.

General Sales and Use Tax. State sales and use tax revenues totaled $5,448.1 million in 2017-18, and are estimated at $5,715.0 million in 2018-19. The estimate represents growth of 4.9% over the prior year. Sales tax revenues in the next biennium are estimated at $5,955.0 million in 2019-20 and $6,000.0 million in 2020-21, reflecting growth of 4.2% and 0.8%, respectively. The lower growth projected in 2020-21 incorporates the repeal, beginning July 1, 2020, of the state's taxation of internet access services, pursuant to 2017 Wisconsin Act 59. The Act 59 provision reflects the federal prohibition on taxation of internet access services beginning on that date, and is estimated to reduce sales tax revenues by $166 million annually beginning in 2020-21.

Sales tax collections through December, 2018 are 5.0% higher than the same period in 2017. Adjusting for law changes since the January, 2018 estimate (including additional revenues resulting from the June, 2018 U.S. Supreme Court decision in *South Dakota v. Wayfair, Inc.* and the August, 2018 sales tax holiday), year-to-date growth is approximately 4.5%. Growth is projected to be 4.9% for the 2018-19 fiscal year.

Corporate Income/Franchise Tax. Corporate income/franchise taxes are estimated to increase from $893.9 million in 2017-18 to $990.0 million in 2018-19. Corporate income/franchise tax revenues are forecast to increase to $1,050.0 million in 2019-20 and $1,075.0 million in 2020-21. This represents an increase in revenues of 10.8% in 2018-19, 6.1% in 2019-20, and 2.4% in 2020-21.

The forecasted 10.8% growth for 2018-19 over 2017-18 collections and continued growth over the 2019-21 biennium is primarily based on two factors. First, year-to-date collections are 23.1% higher compared to the same period in 2017-18. As noted above, some pass-through filers appear to have changed their filing status to C corporations in response to the TCJA, and others have elected to pay state taxes at the entity level under Act 368. According to DOR, tax-option corporations that elect entity-level taxation will have their income reported under the corporate income/franchise tax, as opposed to the individual income tax. As a result, it is expected that corporate income/franchise tax collections will increase by more than previously expected. Further, economic profits grew by 8.0% in 2018, which was a higher growth rate than was included in the prior forecast. Going forward, IHS Markit expects growth in economic profits and adjusted before-tax book profits to slow over the course of the 2019-21 biennium. Thus, corporate income/franchise tax revenue is forecast to continue to grow, albeit more slowly than in 2018-19.

Public Utility Taxes. Public utility taxes are estimated at $368.0 million in 2018-19, $369.0 million in 2019-20, and $371.0 million in 2020-21. On a year-over-year basis, these estimates represent increases of 0.7% in 2018-19, 0.3% in 2019-20, and 0.5% in 2020-21. The gross revenues tax group comprises almost 70% of estimated collections, and gross revenues taxes are estimated to increase 0.6% in 2018-19, 0.5% in 2019-20, and 1.3% in 2020-21. Private light, heat, and power companies are the largest taxpayer group among gross revenues taxpayers, and collections from these companies are estimated to increase 0.3% in 2018-19, 0.6% in 2019-20, and 1.3% in 2020-21. Companies subject to a state ad valorem tax comprise the other group of taxpayers with public utility tax liabilities. Collections from these taxpayers are estimated to increase 1.2% in 2018-19 and decrease 0.6% in 2019-20 and 0.5% in 2020-21. The decreases result from falling ad valorem tax rates and the loss of tax base due to depreciation and obsolescence.

Excise Taxes. General fund excise taxes are imposed on cigarettes, liquor (including wine and hard cider), other tobacco products, and beer. In 2017-18, excise tax collections totaled approximately $680.0 million, of which $538.9 million (approximately 79.3%) was from the excise tax on cigarettes. Total excise tax collections in 2017-18 represented a decrease of 3.6% from the prior fiscal year, primarily driven by a decrease in cigarette tax collections of 4.5% from the prior year. Excise tax revenues are estimated at $680.9 million in 2018-19, which represents increased revenues of 0.1%. Excise tax revenues are estimated to remain flat in 2019-20 at $680.9 million and increase by 0.1% to $681.9 million in 2020-21.

Insurance Premiums Taxes. Insurance premiums taxes are projected to increase from $186.3 million in 2017-18 to $189.0 million in 2018-19, $195.0 million in 2019-20, and $200.0 million in 2020-21. This reflects projected year-over-year growth of 1.4%, 3.2%, and 2.6%, respectively. The estimates are based on a decline of 0.1% in year-to-date insurance premiums tax collections, historic collections growth trends, 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 $91.4 million in 2017-18, of which 83.8% was generated from the real estate transfer fee. Based on the economic forecast for the housing sector, as well as collections through December, 2018, miscellaneous taxes are projected to decrease to $91.0 million in 2018-19, which represents a

0.4% decrease from 2017-18 collections. Miscellaneous taxes are estimated to increase by 6.6% to $97.0 million in 2019-20 and by 5.2% to $102.0 million in 2020-21, primarily due to projections by IHS Markit of strong growth in housing starts and sales of new and existing homes in 2020 and continued growth in housing prices over the forecast period.

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,

Bob Lang

Robert Wm. Lang
Director

RWL/bh
cc: Members, Wisconsin Legislature