State of Wisconsin
Additional/Voluntary Filing#2021-16
Dated June 8, 2021

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.

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

Attached is a report from the Legislative Fiscal Bureau, dated June 8, 2021. This report contains updated General Fund tax collection projections for the 2020-21 fiscal year and the 2021-23 biennium and an estimated General Fund condition statement for the 2020-21 fiscal year.

The report also includes an estimated deposit into the State's Budget Stabilization Fund for the 2020-21 fiscal year based on the updated General Fund tax collection projections for that fiscal year.

Finally, while the report includes an estimated General Fund condition statement for the 2021-23 biennium, such condition statement is potentially misleading in that it only reflects actions on the 2021-23 biennial budget completed by the Legislature's Joint Committee on Finance as of June 7, 2021.

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:

doa.wi.gov/capitalfinance

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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

June 8, 2021

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

Dear Representative Born and Senator Marklein:

In January, this office prepared estimates of general fund tax collections for 2020-21 and the two years of the 2021-23 biennium. The estimates were subsequently modified with the enactment of 2021 Acts 1 and 2, and certain tax law changes included in the federal American Rescue Plan Act (ARPA).

Typically, in May of each odd-numbered year, this office reviews year-to-date tax collections and current economic forecasts to determine if adjustments to the earlier estimates should be made. This year, the review was conducted in June due to the delayed individual income tax filing deadline from April 15 to May 17. This report is based upon actual collection data through May, 2021, and IHS Markit's forecast of the national economy for May, 2021.

The increase in general fund tax collections in 2021, particularly in the months of April and May, is unprecedented. Based upon the strength of collections and the vastly improved economic forecasts for the remainder of this year and the next two years, our analysis indicates that for the three-year period, aggregate general fund tax collections will be $4,427.4 million above those of the previous estimates ($1,447.9 million in 2020-21, $1,543.7 million in 2021-22, and $1,435.8 million in 2022-23).

2020-21 General Fund Condition Statement

Prior to this analysis, it was projected that the gross balance in the general fund at the end of the 2020-21 fiscal year would be $1,794.2 million. It is now estimated that the balance will be $2,610.3 million, an increase of $816.1 million. The 2020-21 general fund condition statement is shown in Table 1.

TABLE 1

Estimated 2020-21 General Fund Condition Statement

	2020-21
Revenues	
Opening Balance, July 1	$1,172,354,000
Taxes	19,253,800,000
Departmental Revenues	
Tribal Gaming	0
Other	537,412,700
Total Available	$20,963,566,700
Appropriations, Transfers, and Reserves	
Gross Appropriations	$18,859,960,900
Transfers to:	
Transportation Fund	44,095,000
Budget Stabilization Fund	807,906,000
Compensation Reserves	94,545,400
Less Lapses	-1,453,295,400
Net Appropriations	$18,353,211,900
Balances	
Gross Balance	$2,610,354,800
Less Required Statutory Balance	-85,000,000
Net Balance, June 30	$2,525,354,800

The factors that make up the $816.1 million are as follows. First, tax collections are estimated to be $1,447.9 million above the previous projection. In addition to the increase in tax collections, general fund expenditures are estimated to be below appropriated amounts by $92.2 million due to: (a) a reduction in claims for the earned income tax credit ($53.5 million); (b) a lapse of $20.0 million in the appropriation for the office of the State Public Defender; and (c) an increase of $18.7 million in amounts available in the police and fire protection fund, which can be used in lieu of GPR funding for the county and municipal aid program. The above amounts are offset by an increased transfer of $724.0 million from the general fund to the budget stabilization fund.

Budget Stabilization Fund

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. The estimated 2020-21 tax collections of this report are $1,615.8 million above the amount contained in 2019 Act 9 (the 2019-21 biennial budget). Thus, one-half of that amount ($807.9 million) is projected to transfer to the budget stabilization fund.

Currently, the balance in the budget stabilization fund is $762.4 million. With the estimated 2020-21 transfer of $807.9 million, the balance in the fund would increase to $1,570.3 million. (This does not include the $350 million that the Finance Committee recommended for transfer to the budget stabilization fund in 2022-23 as shown in Table 2.)

2021-23 General Fund Condition Statement

Previously, based upon actions through June 7, 2021, by the Joint Committee on Finance on the state's 2021-23 budget, it was estimated that the gross balance in the general fund at the end of the 2021-23 biennium would be $2,082.3 million. The tax collection projections of this analysis indicate that the balance would now increase by $3,788.2 million to $5,870.5 million. This is reflected in Table 2, which displays the 2021-23 General Fund Condition Statement.

TABLE 2

2021-23 General Fund Condition Statement

(Incorporates the June 8 tax collection estimates and the
Joint Finance Committee's decisions on the 2021-23 budget through June 7)

	2021-22	2022-23
Revenues		
Opening Balance, July 1	$2,610,354,800	$3,963,471,900
Taxes	19,610,600,000	20,482,800,000
Departmental Revenues		
Tribal Gaming Revenues	0	29,160,700
Other	534,005,600	527,293,300
Total Available	$22,754,960,400	$25,002,725,900
Appropriations, Transfers, and Reserves		
Gross Appropriations	$19,044,320,000	$19,082,023,000
Transfers to:		
Transportation Fund	49,026,500	51,207,000
Budget Stabilization Fund	0	350,000,000
Compensation Reserves	0	0
Less Lapses	-301,858,000	-350,969,300
Net Appropriations	$18,791,488,500	$19,132,260,700
Balances		
Gross Balance	$3,963,471,900	$5,870,465,200
Less Required Statutory Balance	-90,000,000	-95,000,000
Net Balance, June 30	$3,873,471,900	$5,775,465,200

General Fund Tax Revenues

IHS Markit's May economic forecast projects a stronger economic recovery than the January forecast, which was used in preparing the earlier tax revenue estimates. Personal income, personal consumption expenditures (PCE), employment, housing starts, nominal gross domestic product (GDP), real GDP, and economic profits are expected to improve in 2021 through 2023, compared to the January forecast. Specifically, the growth rates for 2021 have improved significantly since January.

The primary factor in the increased estimates is ARPA, the $1.9 trillion stimulus bill enacted in March. ARPA included stimulus checks of $1,400 per qualifying person, an extension of emergency unemployment programs through early September, an enhanced unemployment benefit of $300 per week, funding for a second round of paycheck protection program (PPP) loans and economic injury disaster loan advances, and more than $1 trillion in aid to states for various purposes. It is estimated that $2.5 billion in funds will be allocated to Wisconsin. At the time of the January forecast, this stimulus package was not incorporated into the estimates.

Further, at the time of the January estimate, COVID-19 cases were rising across the country and containment measures were increasing. There was uncertainty surrounding the effectiveness of newly-introduced vaccines against new strains of the COVID-19 virus, and the speed at which such vaccines could be distributed to the population. Since that time, new COVID-19 cases have declined rapidly, containment measures have relaxed, and inoculation efforts have accelerated.

Table 3 outlines the May, 2021, economic forecast by IHS Markit. Table 4 shows the revised general fund tax collection estimates for 2020-21 and the two years of the next biennium. It should be noted that the revenue estimates reflect current state and federal law and do not incorporate any of the tax law changes proposed by the Governor in his 2021-23 budget recommendations.

TABLE 3

Summary of National Economic Indicators
IHS Markit Baseline Forecast May, 2021
($ in Billions)

	2020	2021	2022	2023
Nominal GDP	$20,936.6	$22,944.2	$24,514.3	$25,486.9
Percent Change	-2.3%	9.6%	6.8%	4.0%
Real GDP	$18,426.1	$19,663.3	$20,588.5	$20,969.4
Percent Change	-3.5%	6.7%	4.7%	1.9%
Consumer Prices (Percent Change)	1.2%	2.6%	1.7%	1.9%
Personal Income	$19,691.0	$20,890.6	$21,062.7	$21,888.9
Percent Change	6.1%	6.1%	0.8%	3.9%
Nominal PCE	$14,145.3	$15,588.1	$16,570.4	$17,286.5
Percent Change	-2.7%	10.2%	6.3%	4.3%
Economic Profits	$2,120.3	$2,551.2	$2,705.4	$2,710.8
Percent Change	-5.8%	20.3%	6.0%	0.2%
Unemployment Rate	8.1%	5.3%	3.8%	3.5%
Total Nonfarm Payrolls (Millions)	142.3	146.8	152.1	154.0
Percent Change	-5.7%	3.2%	3.6%	1.3%
Light Vehicle Sales (Millions of Units)	14.44	16.76	16.77	16.86
Percent Change	-14.9%	16.1%	0.1%	0.5%
Sales of New and Existing Homes (Millions of Units)	6.483	6.884	6.593	6.279
Percent Change	7.8%	6.2%	-4.2%	-4.8%
Housing Starts (Millions of Units)	1.395	1.590	1.444	1.342
Percent Change	7.7%	14.0%	-9.2%	-7.0%

TABLE 4

Projected General Fund Tax Collections
($ in Millions)

	2019-21 Biennium		2021-23 Biennium	
	2019-20 Actual	2020-21 Estimated	2021-22 Estimated	2022-23 Estimated
Individual Income	$8,742.3	$9,250.0	$9,720.0	$10,140.0
Sales and Use	5,836.2	6,325.0	6,640.0	6,845.0
Corporate Income/Franchise	1,607.9	2,330.0	1,910.0	2,160.0
Public Utility	357.2	356.0	354.0	352.0
Excise				
Cigarette	523.5	507.0	494.0	483.0
Tobacco Products	91.3	93.0	96.0	100.0
Vapor Products	1.3	1.3	1.7	2.0
Liquor and Wine	54.8	65.0	60.0	61.0
Beer	8.5	9.5	8.9	8.8
Insurance Company	217.4	201.0	209.0	217.0
Miscellaneous Taxes	91.8	116.0	117.0	114.0
Total	$17,532.2	$19,253.8	$19,610.6	$20,482.8
Change from Prior Year		$1,721.6	$356.8	$872.2
Percent Change		9.8%	1.9%	4.4%

Based on our review of collections data and the economic forecast, general fund taxes will be higher than previous estimates by $1,447.9 million in 2020-21, $1,543.7 million in 2021-22, and $1,435.8 million in 2022-23. The three-year increase is $4,427.4 million, or 8.1%.

To date, collections data show significant strength in individual income tax, sales tax, and corporate income/franchise tax, compared to the January estimates. Over the three-year forecast period, the individual income tax estimates have increased by $2,578.2 million, the sales and use tax estimates have increased by $990.0 million, and the corporate income/franchise tax estimates have been increased by $861.6 million ($4,429.8 million total). The sections below present additional information on each of these tax types.

Among the other general fund taxes, collections show strength in liquor, beer, tobacco, and miscellaneous tax collections relative to the January estimates. However, weaker than estimated collections data and assessments for insurance premiums tax collections and public utility taxes partly offset this growth. On balance, the revisions made to these tax types will reduce estimated tax revenues by $2.4 million over the three-year period, relative to the previous forecast.

Individual Income Tax. Total individual income tax collections are estimated at $9,250.0 million in 2020-21, which represents growth of 5.8% over the prior fiscal year. Total income tax revenues are estimated to increase to $9,720.0 million in 2021-22, and $10,140.0 million in 2022-23, which represents annual growth of 5.1% and 4.3%, respectively. Relative to the previous income tax revenue estimates, these estimates are higher by $771.5 million in 2020-21, $953.1 million in 2021-22, and $853.6 million in 2022-23 ($2,578.2 million higher in total). These estimates include the anticipated effects of previously enacted law changes, such as 2021 Act 1 (described in greater detail under corporate income/franchise taxes), and adjustments for the estimated impact of enhanced federal unemployment insurance benefits for 2021.

One factor influencing these higher estimates is the projected growth in estimated payments over the 2021-23 biennium, relative to the January estimates. In January, 2021, the national forecast for the associated economic indicators suggested that estimated payments would contract sharply in 2022, and would post only modest growth thereafter. However, the projection for these same indicators now suggests strong year-over-year growth in estimated payments in 2022 and 2023.

Year-to-date growth in individual income withholding taxes (by far the largest component of the individual income tax) has grown at a formidable 6.02%. At the time of the January, 2021, revenue estimates, year-to-date growth in withholding taxes was about 2.2%. Since that time, actual withholding collections grew by nearly 7% in the first quarter of 2021, relative to the same time period in 2020. The relevant economic indicators predict that growth in withholding will remain relatively strong throughout the 2021-23 biennium, as the economy continues to rebound.

Moreover, year-to-date final payments are considerably larger than previously anticipated. Historical data regarding final payments made during prior economic recessions suggested that these payments might decline precipitously in 2020-21. However, this trend has not materialized in actual collections through May. This is likely due, in part, to the unprecedented level of federal economic assistance provided in response to the pandemic, which has bolstered incomes for many individuals during tax year 2020 and 2021.

General Sales and Use Tax. State sales and use tax revenues are estimated at $6,325 million in 2020-21, which represents growth of 8.4% over the prior year. Sales tax revenues are estimated at $6,640 million in 2021-22, and $6,845 million in 2022-23, reflecting growth of 5.0% and 3.1%, respectively. The estimates have been increased by $410 million in 2020-21, $330 million in 2021-22, and $250 million in 2022-23, relative to the previous estimates ($990 million total).

In January, it was estimated year-over-year growth in sales tax revenues of 1.4% in 2020-21 based, in part, on year-to-date growth of 1.3% through December, as well as tax law changes that were projected to partially offset growth in sales tax collections (primarily the sales tax exemption for internet access services). Through May, year-to-date collections growth is now 8.6%. Collections in February through April (representing January through March taxable sales) were considerably stronger than anticipated, up 17.8% over the same period in 2020. This growth was significantly larger than estimated taxable PCE growth that was included in IHS Markit's January forecast (1.56% for the first quarter of 2021). Strong collections during this period were driven by near historic year-over-year growth in April collections, compared to the same month in the prior year, which were fueled by stimulus payments distributed in March. Specifically, year-over-year collections grew by more than 36% in April and 32% in May, the highest rate of growth over a two-month period in more than 35 years.

In addition to stronger than anticipated growth in collections, other factors contributing to the increase in estimated 2020-21 sales tax revenues include the easing of COVID-19 containment measures, progress in vaccinations, and improving consumer attitudes toward resumption of social activities, all of which are expected to improve collections in the final months of 2020-21 (and early 2021-22). Compared to the January forecast, the May forecast for taxable PCE growth estimates an accelerated recovery in consumer spending in the remaining months of 2021, with slightly slower growth rates in 2022 and 2023.

Corporate Income/Franchise Tax. Corporate income/franchise tax revenues are now projected to be $2,330.0 million in 2020-21, $1,910.0 million in 2021-22, and $2,160.0 million in 2022-23, which reflects annual growth in collections of 45% in 2020-21, reduced annual collections of 18% in 2021-22, and growth of 13% in 2022-23. Compared to the previous estimates, the reestimates represent increased revenues of $259.1 million in 2020-21, $262.4 million in 2021-22, and $340.1 million in 2022-23 ($861.6 million total). These estimates include the effects of previously enacted law changes, including 2021 Acts 1 and 2.

Collections year-to-date have already exceeded the previous estimate for 2020-21 due to unexpectedly strong March and April estimated payments. Although year-to-date collections are 64% over the previous year, this growth rate is obfuscated by the delayed filing date for corporate taxpayers in the prior year, and is expected to decline over the remainder of the year. In addition, the short term growth outlook has improved relative to January, in part, from the progress of the COVID-19 inoculation campaign and the enactment of ARPA.

It is anticipated that revenues will decline in 2021-22 due to two main factors. First, because state income and franchise tax filing deadlines for estimated payments and net final payments due in April, May, and June of 2020 were extended to July 15, 2020, $183 million of estimated payments received in July, 2020, were thrown forward and attributed to 2020-21 under DOR's accounting principles, which was $155 million more than was thrown forward compared to the previous year. Because corporate payments were not extended this year, collections in 2021-22 will not be similarly boosted.

Second, based on information from the Small Business Administration regarding PPP loans, as well as year-to-date corporate income/franchise tax revenue collections, it is anticipated that a significant portion of the fiscal effect of 2021 Act 1 for 2020-21 will be delayed into 2021-22. Act 1 updated state tax law for the changes in federal law under the Consolidated Appropriations Act of 2021. Act 1 also exempted from taxation income received from certain COVID-19 relief programs, including those funded through the Coronavirus Relief Fund created by the federal Coronavirus Aid, Relief, and Economic Security Act. Tax benefits under Act 1 that were previously expected to be utilized in 2020-21 are now anticipated to be used to offset tax liability during 2021-22 based on: (a) the pace of loan forgiveness sought for PPP loans; and (b) actual revenue collections in the first quarter of 2021, which have not declined.

This office will continue to review revenue and expenditure estimates as well as tax collection data and economic forecasts, and notify you and your colleagues of any further adjustments that may be necessary.

Sincerely,

Bob Lang

Robert Wm. Lang
Director

RWL/SE/lb
cc: Members, Wisconsin Legislature