



# WISCONSIN POLICY FORUM

**For more information:**

Rob Henken  
President, Wisconsin Policy Forum  
(414)276-8240 or (414)708-4392 (c)  
rhenken@wispolicyforum.org

Dale Knapp  
Research Director, Wisconsin Policy Forum  
(608)241-9789  
dknapp@wispolicyforum.org

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## **Two State Reports Show Wisconsin Ran a Surplus in 2017 However, They Disagree on Ending Balances**

MADISON - Although they employ different methods and measurements, two recent state reports agree that the state ran a surplus in 2017, but disagree on the state's ending balance. One reports a positive balance of \$569 million, while the other reports a negative balance of \$1.6 billion. A new analysis by the Wisconsin Policy Forum (WPF) reconciles the difference.

WPF researchers examined both the Annual Financial Report (AFR) and the Comprehensive Annual Financial Report (CAFR) for insights into state finances. The AFR is a state budgetary document that uses fund definitions set in state law and cash accounting; the CAFR is more like a corporate annual report and uses generally accepted accounting principles (GAAP).

The AFR showed that in 2017, general fund revenues of \$16.1 billion exceeded expenditures of \$15.9 billion, creating a \$116.0 million surplus. The CAFR, which includes revenues and expenditures from other sources such as federal aids and segregated funds, reported \$25.5 billion in revenue and \$25.4 billion in spending, for a surplus of \$96.7 million.

For Wisconsin, running a surplus is somewhat unusual, the WPF researchers note. Between 2001-17, the state reported an AFR surplus in just seven years and a CAFR surplus in six. In years of deficit, the state pays for spending by drawing down balances accumulated from prior surpluses.

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The Wisconsin Policy Forum was created on January 1, 2018 by the merger of the Madison-based Wisconsin Taxpayers Alliance and the Milwaukee-based Public Policy Forum. Throughout their lengthy histories, both organizations engaged in nonpartisan, independent research and civic education on fiscal and policy issues affecting state and local governments and school districts in Wisconsin. WPF is committed to those same activities and that spirit of nonpartisanship.

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It is in the balances that the two documents part ways. The AFR reports a \$579 million cash balance in the state's budgetary general fund, the third highest amount since 2000. The CAFR reports a negative balance totaling \$1.6 billion. A large part of the gap is due to accounting differences; in particular, when does spending occur?

When income tax withholding is greater than the amount of tax owed, Wisconsin's GAAP balance worsens. The refunds paid the following spring are counted as spending in the year the income is earned under GAAP, rather than when they are paid under cash accounting. Similarly, when the state increases property tax credits on December tax bills, but reimburses municipalities in July (the next fiscal year), the GAAP balance erodes. These two factors accounted for more than half of the erosion in GAAP balances between 2000 and 2011.

Since 2011, Wisconsin's ending balance under GAAP has improved from -\$3.0 billion to -\$1.6 billion. About 56% of that shift was due to higher budgetary balances (from \$86 million in 2011 to \$579 million in 2017) and additions to the state's rainy day fund.

WPF researchers note that Wisconsin's negative GAAP balance is akin to the amount owed on a credit card. It represents spending the state has committed to, but will fund in the next fiscal year. Like one's personal credit card, the balance is manageable if future revenue growth is sufficient to support it and new spending commitments are controlled.

The easiest way to improve the GAAP balance is to increase budgetary balances and add to the state's rainy day fund. However, the 2017-19 state budget approved last summer uses about \$250 million of these balances to pay for ongoing spending. An improved revenue outlook reported in January could reduce that draw-down, but lawmakers appear poised to spend much of the additional revenue

The WPF analysis, "AFRs & CAFRs, Surpluses & Deficits," is available now by visiting [www.wistax.org](http://www.wistax.org); emailing [publications@wispolicyforum.org](mailto:publications@wispolicyforum.org); or calling 608.241.9789. □

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