

Gwyn Guenther, President, The Wheeler Report

LEGISLATURE FAILS TO PASS SPECIAL SESSION FUNDING AGREEMENT

According to an [LFB Memo](#) on the Special Session proposals:

- Special Education Aid: The bill would increase the dollar amounts in the sum certain special education aid appropriation by \$85,000,000 General Purpose Revenue (GPR) in 2025-26 and \$230,000,000 GPR in 2026-27. The total amounts in the appropriation would equal \$867,408,800 GPR in 2025-26 and \$1,101,826,900 GPR in 2026-27. Based on costs as of March 2026, it is estimated that this additional funding would reimburse costs at a rate of 42.7% in 2025-26, and 50.0% in 2026-27. The actual reimbursement rate could be higher or lower, depending on final prior year aidable costs.
- Choice, Charter, Special Need Scholarship, and Open Enrollment Program Indexing: As a result of the increase in special education aid, the per pupil payments for pupils participating in the choice, charter, special needs scholarship, and open enrollment programs would increase by \$108 in 2025-26, and an additional \$186 in 2026-27. The estimated net GPR increase as a result of the increased payments for these programs would be \$4,300,000 GPR in 2025-26, and \$12,000,000 GPR in 2026-27.
- General School Aid: The bill would create a new first draw school aid that would be paid from the existing general school aids appropriation, and increase that appropriation by \$302.5 million GPR beginning in 2026-27. Aid would be distributed using a formula under which 25% of the amount allocated would be divided by the average number of pupils enrolled statewide in the previous three school years and distributed to school districts proportionately based on the district's average number of pupils enrolled in the previous three school years. The remaining 75% of the amount allocated would be divided by the average number of pupils enrolled statewide in the current and previous two school years and distributed to school districts proportionately based on the district's average number of pupils enrolled in the current and previous two school years.

The bill specifies that the count for the aid distribution would include pupils enrolled in independent charter schools authorized by entities given that authority under 2015 Act 55 or later (currently, the Director of the Office of Educational Opportunity, the Lac Courte Oreilles Ojibwe College, and the Waukesha County Executive), which would increase aid for the school districts in which these pupils live, but would not affect payments to independent charter schools. Payments from the general aid appropriation are under revenue limits, so the additional aid would provide property tax relief but not additional resources for school districts. Based on current enrollment, it is estimated that the payment would be equal to approximately \$387 per pupil.

- Wisconsin Technical College System Property Tax Relief Aid: The bill would increase expenditures for property tax relief aid for WTCS by an additional \$50,000,000 GPR beginning in 2026-27. Property tax relief aid is counted under each district's revenue limit, and therefore each district's property tax relief aid reduces its operational levy by an equal amount.
- State Income Tax Exclusion for Overtime Compensation: Beginning in tax year 2026, the bill would provide an annual exclusion equal to the amount of overtime compensation that the claimant may deduct for federal tax purposes in the same tax year. As a result, any subsequent federal law changes to the overtime deduction would automatically apply for state tax purposes under the bill. However, unlike the federal deduction, the state exclusion would not expire after tax year 2028. Instead, claimants could continue to claim the exclusion based on the amounts that would have otherwise applied had the federal deduction been extended beyond tax year 2028. The overtime exclusion is estimated to reduce individual income tax collections by a minimal amount in 2025-26, \$179,900,000 in 2026-27, and \$148,100,000 in 2027-28.
- State Income Tax Exclusion for Tip Income: Beginning in tax year 2026, the bill would provide an annual exclusion equal to the amount of tip income that the claimant may deduct for federal tax purposes in the same tax year. As a result, any subsequent federal law changes to the tips deduction would automatically apply for state tax purposes under the bill. However, unlike the federal deduction, the state exclusion would not expire after tax

year 2028. Instead, claimants could continue to claim the exclusion based on the amounts that would have otherwise applied had the federal deduction been extended beyond tax year 2028. The tips exclusion is estimated to reduce individual income tax collections by a minimal amount in 2025-26, \$52,900,000 in 2026-27, and \$48,900,000 in 2027-28.

- Income Tax Rebate: The bill provides that an individual who filed an individual income tax return for tax year 2024 would be eligible to receive a payment equal to \$300 (\$600 married-joint), or their tax year 2024 net tax liability, whichever is less. The payments would increase state GPR expenditures by an estimated \$870,000,000 on a one-time basis in 2026-27. However, it is possible that a portion of the fiscal effect could be realized in 2025-26, depending upon the timing of passage of the bill and the timing of payments to eligible individuals. It is estimated that 3.06 million individuals (including spouses) would be eligible for the payment.
- Combined Fiscal Effect of the Bill: The bill is estimated to reduce the state general fund balance by \$89.5 million in 2025-26 and \$1,724.5 million in 2026-27. This estimate includes an estimated reduction to interest earnings on the balance in the general fund of \$0.2 million in 2025-26 and \$27.2 million in 2026-27.

On Wednesday, May 13th, the Legislature went to the floor in Special Session to act on the Special Session bills. The Assembly added an amendment which according to the LFB memo added:

- Expand Veterans and Surviving Spouses Property Tax Credit Disability Rating: The amendment would extend eligibility for the veterans and surviving spouses property tax credit to otherwise eligible veterans with a service-connected disability rating of at least 80%, and to the unremarried surviving spouses of such veterans. The credit amount for veterans with a service-connected disability rating of less than 100% (or the eligible surviving spouse of such veterans) would be calculated by multiplying the disability rating by the amount of property taxes the claimant could otherwise claim. These provisions would first apply beginning in tax year 2026, and are estimated to increase GPR expenditures for the veterans and surviving spouses property tax credit by \$1,300,000 in 2026-27, offset by a reduction in nonrefundable PTRC claims that would increase individual income tax revenues by \$100,000 in 2026-27.
- Disaster Assistance Grants: The amendment would create two grant programs and two corresponding biennial GPR appropriations under the Department of Military Affairs (DMA) as follows: (a) \$6.6 million GPR in 2025-26 to provide disaster assistance for individuals adversely affected by a disaster-related state of emergency declared by the governor under DMA on or after January 1, 2025, for the purpose of meeting the individuals' disaster-related expenses [s.20.465(3)(bf)]; and (b) \$13.4 million GPR in 2025-26 to provide disaster assistance for businesses adversely affected by a disaster-related state of emergency declared by the Governor on or after January 1, 2025, for the purpose of meeting the businesses' disaster-related expenses for a single location in the state [s. 20.465(3)(bg)]. The effective date of the program provisions would be 30 days after publication.