

First look “under the hood” (I): New 2017-19 state budget

After a summer-long delay, Wisconsin has a new biennial budget. Before vetoes, it increases general fund spending 8.5% from an estimated \$31.32 billion (b) in 2015-17 to \$34.0b in 2017-19. The budget devotes about \$2b in new revenues principally to three areas: school aids, Medicaid, and property tax relief. However, it spends \$246.6 million more next year than estimated revenues.

As September began, only Wisconsin and Connecticut were without state budgets. After a 12-week delay, however, the Wisconsin legislature passed a budget in mid-September, nipping the Constitution State at the tape. After 99 partial vetoes, Gov. Scott Walker (R) quickly signed the 2017-19 budget.

Understanding delay

State budgets are often sidetracked when the major parties share power. That was the case in Connecticut where the senate is evenly split—but not here where the GOP controls both executive and legislative branches.

Budgets are also delayed when deficits loom. That is Connecticut's problem, but Gov. Scott Walker (R) had about \$2 billion (b) in new revenue with which to work. Usually, extra money eases budget passage.

For the second straight biennium, however, the budget was stalled when the governor and GOP lawmakers sparred over road funding. A long-term solution was shelved in favor of continued borrowing and construction delays (see *Focus* #18). Some Capitol leaders already predict that unaddressed transportation debt costs, now claiming 20% of fund revenues, will derail the 2019-21 budget.

Budget's big numbers

Other than transportation, differences between budgets proposed by the governor and passed by the legislature were not major.

■ **"All-Funds" Budget.** The legislature's version (discussed here before vetoes) appropriates \$75.6b from all revenue sources, including federal dollars. The governor requested \$76.2b.

■ **General Fund Budget.** This budget is part of the larger all-funds budget but dominates debate because it relies on general purpose revenue (GPR), mainly income and sales taxes. Net GPR spending OK'd by legislators is \$16.6b for this year and \$17.4b for next (see table). The two-year total of \$34.0b is 8.5% more than 2015-17 spending estimated by the governor at \$31.32b.

Fiscal problems created?

The general fund summary (below) offers further insights into the new budget and the state's fiscal health. The state begins 2017-18 (FY 18) with a carryover surplus of \$467.1m and ends with a gross balance of \$196.9m

2017-19 General Fund Budget (\$m)
As Passed by Legislature (Before Partial Vetoes)

| Budget Item | Fisc. Yr. Ends | |
|------------------|----------------------|-----------------------|
| | 2018 | 2019 |
| Carryover | \$467.1 ^a | \$443.5 |
| Taxes | 16,077.9 | 16,638.8 |
| Other Rev's | 519.1 | 469.1 |
| Tot. New Rev's | 16,597.0 | 17,108.0 ^d |
| Total Available | 17,064.2 | 17,551.5 |
| Net Approp's* | 16,620.6 | 17,354.6 ^e |
| Gross Balance | 443.5 | 196.9 ^a |
| - Req. Reserve | -70.0 | -75.0 ^c |
| Net Balance | 373.5 | 121.9 |
| G. Bal. % App's | 2.7% | 1.1% ^b |
| Rev's-Approp's | -23.6 | -246.6 ^f |
| *Memo: Gr. App's | 16,876.1 | 17,692.2 |

(footnotes a). That amount is equal to 1.1% of net spending (b)—or enough to fund state spending for about four days.

The gross balance in some ways overstates the state's budget "cushion": \$75m (c) of it must be held in reserve by state statute. In addition, the balance is artificially inflated by an \$87m "accounting trick" that will deliver property tax credits in this budget but not fund them until 2019-21. The question becomes: Is the "spendable" balance actually closer to \$35m than to \$197m?

The small size of budget reserves is only one indicator of fiscal stability. A related one concerns use of surplus. Because the FY18 carryover is \$467.1m and the ending balance is, at best, \$196.9m, the budget devotes \$270.2m in one-time surplus to ongoing programs.

Spending from surplus rather than permanent revenue results in a "structural imbalance." In FY19, new revenues total \$17.11b (d), but net appropriations are \$17.35b (e). In other words, Wisconsin will spend \$246.6m (f) more heading into the 2019-21 budget than it has in revenues. Either spending will have to be cut or taxes grow by that amount to start the next budget.

New budget's priorities

Students of government budgets often say they reflect public priorities. How Wisconsin divvies up about \$2b in new revenues over the next two years reveals what is most important to state leaders

at the moment. In this budget, increased spending, including "buying down" property taxes, is favored over state tax cuts.

Three areas are receiving about nine of every 10 dollars of new money available. The lead beneficiary is the Department of Public Instruction and over \$11.4b in school aid it will pay in the next two years. In second position are various forms of property tax relief.

Medicaid help for the poor and disabled is the third budget "winner." As usual, it claims a larger percentage of new spending growth than its share of past spending. That is why Medicaid has, since 2009, expanded from 9% to

18% of GPR expenditures. If other agencies or programs have seen reductions or limited growth, a good place to look for an explanation is Medicaid.

Tax relief: Good—and bad

The governor had initially proposed \$100m per year in income tax cuts and small back-to-school sales tax holidays. The legislature scrapped both in favor of property tax relief.

In addition to tax credits mentioned earlier, other forms of relief include ending the only state property tax levy (for forestry purposes) and a move toward phasing out the personal property tax,

now riddled with 150 years of exemptions. If continued, these changes could contribute to one of the most significant tax reforms in decades, even though their meaning has so far gone unnoticed (*Focus* #19 will explore this).

The last part of the legislature's property tax plan involves homeowner tax credits paid from state lottery profits. Ticket sales always covered lottery expenses and prizes, with the remainder going to tax credits. By using \$48m in sales and income taxes to pay lottery ticket sellers, lottery expenses are reduced. This provides more money for tax credits and—for the first time—breaks the firewall between the general and lottery funds. □

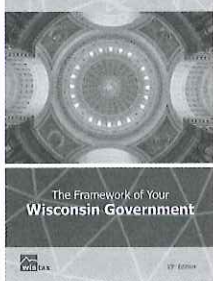


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Capital Notes

■ *State Rep. Peter Barca (D-Kenosha) has resigned as Assembly Democratic minority leader, a position he held since 2011. Rep. Gordon Hintz (D-Oshkosh) was elected to replace him. Elected to the state assembly in 2006, Hintz serves on the budget-writing Joint Committee on Finance.*

■ *Wisconsin's right-to-work (RTW) law was upheld in mid-September by the state's 3rd District Court of Appeals. The state AFL-CIO and*

two other unions had challenged the statute. The appellate court found that "the law merely prohibits anyone from conditioning a person's employment on the payment of monies designed to cover the costs of performing the duty of fair representation." Enacted in 2015, the RTW law was overturned by a Dane County judge; that decision is now set aside. Earlier, a U.S. district judge and then a three-judge panel from the U.S. 7th Circuit also upheld the law.

■ *State Attorney General Brad Schimel (R) is establishing a Human Trafficking Bureau in his agency. The bureau will develop a coordinated statewide strategy to combat human trafficking and aid survivors.*

■ *Former State Rep. Dean Knudson (R-Hudson) has been named to the Wisconsin Elections Commission by Speaker Robin Vos (R). While a lawmaker, he also served on the Joint Committee on Finance.*