

WCA Legislative Update

Wisconsin State Budget: History and What's to Come

Intergovernmental Relations Committee - December 17, 2012 - Milwaukee, WI



Overview

- State Finance
- State Budget Priorities Change Over-Time
- State Budget Also Affects Local Finance Decisions
- 2013-15 State Budget
- What Can We Expect?

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Why the State Budget Matters to You

Relationship between state government and local governments in Wisconsin is unique nationally.

- Only seven (7) states provide a higher share of local govt. revenues than does Wisconsin.
- Local governments here do more than 55% of state and local spending, a higher percentage than all but fifteen (15) states.

With local governments dependent on the state for revenue, state budget problems are often “passed on” to locals. Counties are forced to provide state-mandated services without adequate state funding.

Tax and spending decisions made at the state level significantly impact county finances



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State Finance Overview

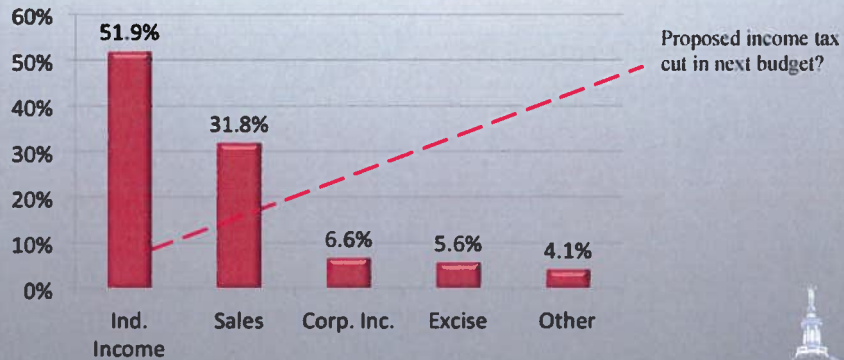


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State General Fund

The majority of county aid is derived from general purpose revenue (GPR) in the state's general fund. Tax-related changes to general fund revenues can impact county budgets.

General Purpose Revenue (GPR)



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State Transportation Fund

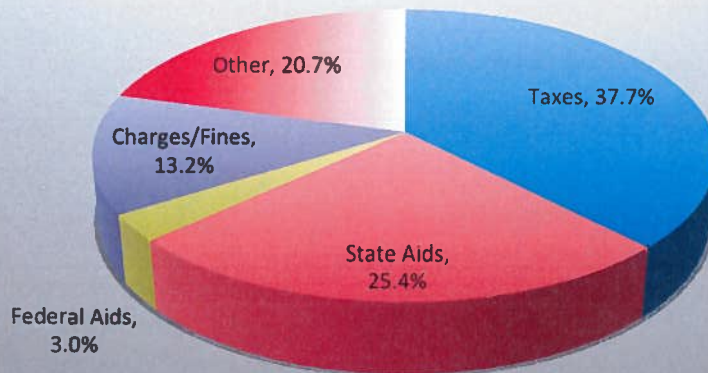
County transportation aids are funded from the state Transportation Fund. Transportation Fund revenues have increased slowly in recent years. The 2013-15 state budget will likely include proposals for "new" transportation-related revenues (e.g., VMT, gas tax indexing, tolling, general fund transfer, etc.)

Year	Transp. Fund Rev's.	Change from Prior Year
2005-06	\$1,523,307,400	2.7%
2006-07	\$1,612,853,600	5.9%
2007-08	\$1,681,301,900	4.2%
2008-09	\$1,693,611,600	0.7%
2009-10	\$1,714,109,000	1.2%
2010-11	\$1,739,924,200	1.5%
2011-12	\$1,792,163,400	3.0%

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State aids = ¼ of County Budget



Source: Wis. Dept. of Revenue, 2010 figures.

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County Aids Declining

	2000	2005	00-05 Avg. Chg.	2010	05-10 Avg. Chg.
Revenues					
Taxes	\$1,471	\$1,944	5.7%	\$2,262	3.1%
<i>Prop. Taxes</i>	1,225.2	1,617.2	5.7%	1,912.2	3.4%
Pub. Charges/Fines	397.9	628.6	9.6%	792.7	4.7%
State Aids	1,483.1	1,639.0	2.0%	1,524.1	-1.4%
Federal Aids	115.9	152.5	5.6%	178.0	3.1%
Other	310.1	329.7	1.2%	335.8	0.4%
Subtotal	3,776.2	4,693.5	4.4%	5,092.5	1.6%
Other Financing	402.0	512.5	5.0%	908.4	12.1%
Total	4,178	5,206	4.5%	6,001	2.9%

Source: Wis. Dept. of Revenue. (\$ Millions)

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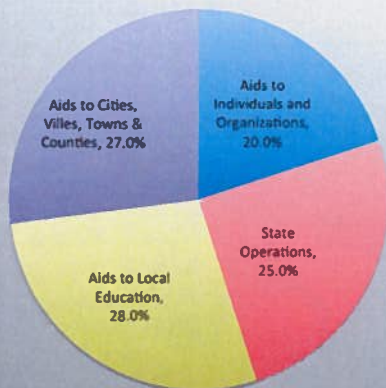
State Budget Priorities Change Over-Time



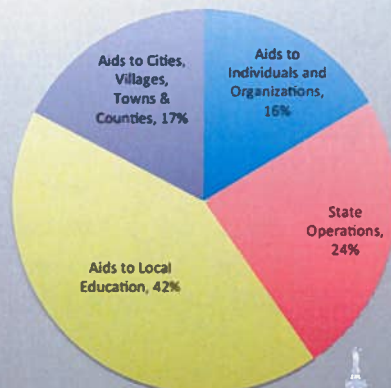
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State Budget Priorities

1989-91

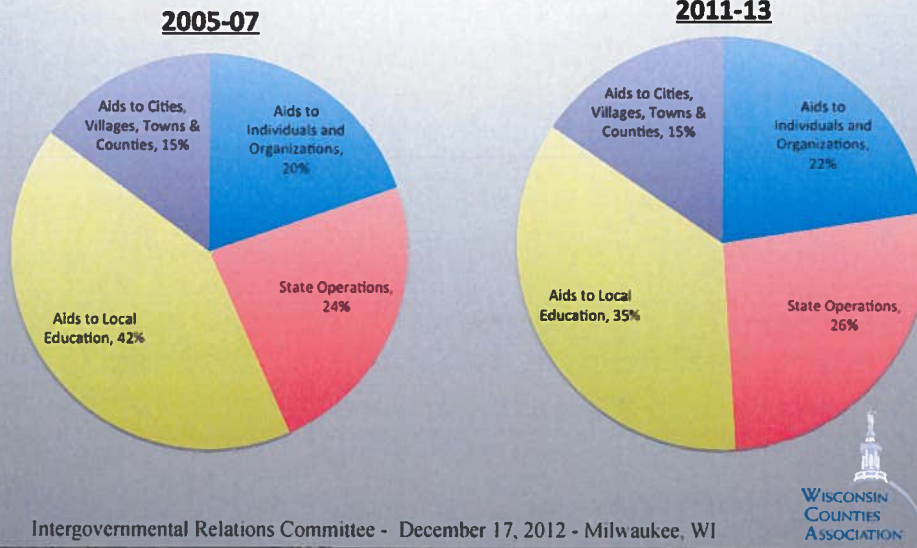


2001-03

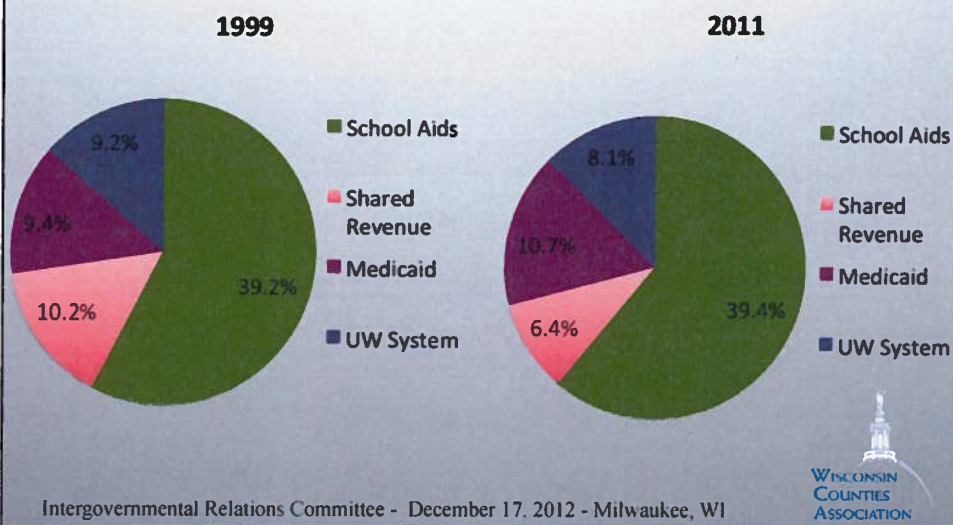


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State Budget Priorities, Cont.



State Budget Priorities, by Program



Local Shared Revenues* Declining

Year	Base Payment	% Change
2007	\$157.2 Million	0%
2008	\$157.2	0%
2009	\$157.2	0%
2010	\$151.7	-3.5%
2011	\$151.7	0%
2012	\$122.6	-19.2%

*Table only includes county aid.

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State Budget Also Affects Local Finance Decisions

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Property Tax Controls: County Tax Rate Limit

COUNTIES APPROACHING TAX RATE LIMIT

County	1992 Operating Rate Limit	2011 Operating Rate	2011 % Below Rate Limit	% Change In Equalized Values (2011-2012)
Columbia	\$3.80	\$3.80	0.0%	-3.2%
Douglas	4.64	4.62	0.4%	-2.5%
Kewaunee	6.91	6.87	0.6%	-1.6%
Winnebago	4.71	4.65	1.3%	-2.0%
La Crosse	3.24	3.10	4.3%	1.3%
Rock	5.89	5.61	4.6%	-2.3%
Waupaca	4.57	4.36	4.6%	-1.4%
Marathon	5.31	4.97	6.4%	-3.4%
Manitowoc	5.05	4.66	7.7%	-3.5%

Source: Wisconsin Department of Revenue/WCA calculations



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Property Tax Controls: Levy Limits Tightened

Property Tax Year	Minimum Guaranteed Levy Increase
2007-08	3.86%
2008-09	2.0%
2009-10	3.0%
2010-11	3.0%
2011-12	0%
2012-13	0%



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Property Tax Controls: Comparing Property Tax Changes

% change in property tax levy from prior year

Year	Municipal	County	Tech. College	School
2007	3.5%	3.2%	4.6%	5.4%
2008	4.8%	4.5%	4.6%	7.4%
2009	4.4%	3.1%	5.0%	5.2%
2010	3.2%	3.2%	3.9%	6.0%
2011	2.1%	1.9%	2.0%	3.4%
2012	1.6%	1.1%	1.8%*	-1.0%

*2012 statewide technical college tax levy would be down from 2011 if Madison Area Tech. College levy was excluded

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Major Property Tax Changes in 2011-13 State Budget

- Changed minimum levy limit increase from 3% to 0%. County operating levies can only rise with growth in net new construction (0.7% statewide in 2012)
- Changed “base” levy from prior year’s allowable levy to prior year’s actual levy. Counties that do not levy to maximum allowable under state law will lose levy capacity in future years.
- Suspended county tax rate limit for property tax years 2011-12 (taxes levied in December 2011, collected in 2012) and 2012-13. Rate limit is scheduled to return in 2013-14.

County property tax controls tightened at the
same time county shared revenue was
reduced by 19%

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2013-15 State Budget

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Looking Ahead: 2013-15 Budget

← Timeline →

- August 2012: Governor Releases Budget Instructions to Agencies
- September 17: Agency Budget Requests Submitted
- November 20: DOA Required to Publish Agency Requests; Preliminary Revenue Estimates Released
- Early/Mid-February 2013: Governor's Budget Introduced

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Budget Begins in Rare Territory

- The 2013-15 budget is not expected to have a structural carry-over, according to state estimates.
- “Some people might argue the cuts on the local aid payments were more than local governments could handle, that it pushed the problem down to them,” said Rob Reinhardt, program supervisor tax policy at the Fiscal Bureau. “But there is no question about that, (the budget decisions) had a very large impact in balancing the state structural deficit.”

– *Wisconsin Reporter, September 27, 2012*

Counties received significant cuts to balance the 2011-13 budget.
The state should use the 2013-15 budget as an opportunity to
renew its partnership with county government.

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Hypothetical Structural “Deficit” Example



Estimated GPR taxes for the next budget total only \$27 Billion. The state can either raise taxes, cut spending, or use “other” (non-GPR) revenues to fund general fund programs (e.g., school aids, UW System, Shared Revenue, Corrections, Medicaid, etc.)

Assuming the state does not raise taxes and does not want to cut spending, it needs to find “other” revenues. In the past, those revenues included transfers from the segregated transportation fund and one-time federal stimulus dollars

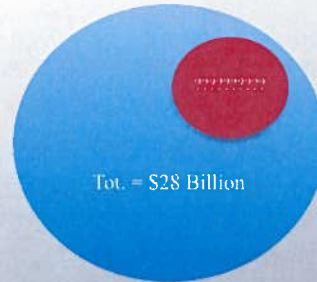


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Hypothetical Structural “Deficit” Example

By using one-time stimulus dollars to fund GPR programs, the state avoided having to cut spending. However, the next budget now incurs a structural deficit because the stimulus money is no longer available.



If the state again wanted to not cut spending, it would need to find an additional \$1 billion to fill the hole left by the stimulus funds. In past years, all new revenues generated from economic growth was NOT used to increase spending on programs, but instead to fill “holes.” In other words, the state is spending more GPR money in this budget than the prior budget, but no programs receive additional dollars.

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Structural Deficit (\$ Millions)

Budget	1 st Year	2 nd Year	Total
2013-15	-\$119	-\$6	-\$125
2011-13	1,232	1,279	2,511
2009-11	800	882	1,682
2007-09	653	846	1,499
2005-07	701	845	1,546
2003-05	1,340	1,527	2,867
2001-03	693	1,026	1,719
1999-01	589	914	1,503
1997-99	624	908	1,532

All figures indicate amounts necessary to produce a balanced budget. A surplus is shown for 2013-15

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What Can We Expect?

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Revenue Projections

- Estimated Revenue Growth (GPR):
 - FY14: 3.8%
 - FY15: 3.5%
 - Total Biennial Growth: **\$1.52 Billion**
 - But . . .
 - Revenue estimates assume a return of the estate tax. If the federal estate tax (and corresponding state credit) does not return, total revenue growth is revised downward to **\$1.30 Billion**
 - Estimated revenue growth does NOT account for potential law changes (e.g., tax cut)

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Revenue Projections, Cont.

- All state agencies submitted budget requests on September 17th.
 - *Requests:*
 - *FY14: 3.6% increase in GPR spending*
 - *FY15: 3.5% increase in GPR spending*
- If agency requests were fully funded, the state would need an additional **\$390.4 million** in revenue above the projection over the next biennium¹.

¹Assumes federal estate tax and state credit does not return.

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What to Expect . . . ?

- **Proposed Income Tax Cut**
 - Governor has spoke recently about his desire to lower the tax burden on Wisconsin families. Some assume this would occur through a proposed income tax cut.
 - Legislative Council Committee currently studying income tax reform. Committee Chair has said he'd like to have a proposal for the Governor by the end of the year.
 - Income tax cut/reform would likely reduce GPR taxes. GPR taxes primarily fund local aids (e.g., shared revenue).

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What to Expect . . . ?

- **Proposed Income Tax Cut, Continued**

Reducing income taxes comes at a cost . . .

- Reduce Income Taxes by 10% = **\$715 million**
- Reduce Wis. Income Tax Rank From 12th to 20th = **\$966 million**
- Reduce Wis. Income Tax Burden to Nat'l Avg. = **\$1.9 billion**



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What to Expect . . . ?

- **“New” Transportation Funding**

- WI Commission on Transportation Finance and Policy created in 2011-13 state budget. Commission is studying transportation-related options and will recommend new revenue sources for transportation.
- Those revenues may include a vehicle miles travel (VMT) assessment, a return of gas tax indexing (adjusting for inflation), or a general fund transfer.
- 2011-13 state budget permanently transferred 0.25% of general fund taxes to the transportation fund annually.
- Commission may also suggest transferring sales tax revenues related to transportation purchases from the general fund to the transportation fund.



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What to Expect . . . ?

Continued Property Tax Controls

- A priority of the Governor is to continue limiting growth in local property taxes
- Levy limits made permanent in 2011-13 budget, will likely continue throughout 2013-15.
- Property taxes currently limited to growth in net new construction (0.7% statewide in 2012)

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What to Expect . . . ?

More Medicaid \$

- State GPR spending on Medicaid was increased in last budget to fill holes left by retiring stimulus dollars
- Medicaid was expecting a more than \$500 million shortfall to end the 2011-13 biennium, though the shortfall is now estimated at less than \$40 million
- Although the reduced shortfall is good news, the 2013-15 DHS budget request seeks an additional \$658 million in GPR funding
 - DHS budget request does not include funds for FamilyCare expansion

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What to Expect . . . ?

“Rainy Day” Fund Deposit

- Legislature has made consecutive deposits to state’s rainy day fund (\$109 Million in 2012)
 - Accounts for less than 1% of annual spending
- The governor and legislative leaders have called for additional appropriations to fund
- Wisconsin has historically held less in reserve than nearly every other state
 - Among all states, only Arkansas had less reserve (relative to spending) than Wisconsin heading into the 2008 recession



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What to Expect . . . ?

Mining & Venture Capital Bills

- Both bills were considered and debated in current legislative session
- Similar bills will be reintroduced, though likely separate from the 2013-15 state budget



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Questions? Comments?

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