UPDATE

Wisconsin’s economy and finances . . .

Tough challenge ahead?

UW Retirees 5.18.10
Overview

- Background: WISTAX...
- Current economic indicators, longer view
- Larger context: Wisconsin as firm, product?
- State finances: past, present, future
- Budget trends, a second look
- What lies ahead . . . in Madison, DC?
The economy: First snapshot

- March unemployment WI (US)
  - ‘10 ► 8.8% (9.7%)
  - ‘09 ► 8.2%
  - ‘08 ► 4.3%

- Job growth (Mar over prior Mar)
  - ‘10 ► -2.7%
  - ‘09 ► -3.6%

- Personal income growth (Q over same Q prior yr)
  - 2009:Q4 ► +0.6%
  - Q3 ► +0.2%
  - 2009:Q2 ► +1.2%
  - Q1 ► -2.9%
  - 2008:Q4 ► -0.2%
  - Q3 ► +0.2%
The economy: Jobs over time (US vs. WI)

Total Nonfarm Empl (sa): Chg. From Prior Yr., Same Mo.
“The canary in the mineshaft”
## Economic long view: Employers

<table>
<thead>
<tr>
<th>State</th>
<th>No. Estab'ments (000)</th>
<th>Pct. Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001</td>
<td>2006</td>
</tr>
<tr>
<td>IL</td>
<td>311.8</td>
<td>336.7</td>
</tr>
<tr>
<td>IA</td>
<td>88.0</td>
<td>86.2</td>
</tr>
<tr>
<td>MI</td>
<td>257.9</td>
<td>249.8</td>
</tr>
<tr>
<td>MN</td>
<td>148.1</td>
<td>159.5</td>
</tr>
<tr>
<td>WI</td>
<td>139.8</td>
<td>155.9</td>
</tr>
<tr>
<td>US (m)</td>
<td>7.67</td>
<td>8.20</td>
</tr>
</tbody>
</table>
Larger economic context: “Product Wisconsin”
State finances in perspective — past

$2.71 billion

Other states?
State finances in perspective — 2009-11 (All $)

<table>
<thead>
<tr>
<th>All Funds</th>
<th>Base</th>
<th>Request</th>
<th>Act 28</th>
<th>+/- Base</th>
<th>% Ch/Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Inst.</td>
<td>$12,729.4</td>
<td>$13,731.3</td>
<td>$12,969.2</td>
<td>$239.7</td>
<td>1.8%</td>
</tr>
<tr>
<td>Sh. Rev./Tax Relief</td>
<td>4,229.8</td>
<td>4,559.6</td>
<td>4,719.3</td>
<td>489.5</td>
<td>10.4%</td>
</tr>
<tr>
<td>Health Services</td>
<td>13,664.7</td>
<td>15,166.3</td>
<td>15,943.4</td>
<td>2,278.6</td>
<td>14.3%</td>
</tr>
<tr>
<td>UW System</td>
<td>9,435.4</td>
<td>9,732.0</td>
<td>9,447.7</td>
<td>12.3</td>
<td>0.1%</td>
</tr>
<tr>
<td>Corrections</td>
<td>2,492.2</td>
<td>2,676.9</td>
<td>2,566.3</td>
<td>74.1</td>
<td>2.9%</td>
</tr>
<tr>
<td>Administration</td>
<td>1,905.3</td>
<td>1,901.4</td>
<td>2,048.6</td>
<td>143.3</td>
<td>7.0%</td>
</tr>
<tr>
<td>Children and Families</td>
<td>2,261.7</td>
<td>2,137.0</td>
<td>2,241.9</td>
<td>-19.8</td>
<td>-0.9%</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>46,718.6</strong></td>
<td><strong>49,904.5</strong></td>
<td><strong>49,936.4</strong></td>
<td><strong>3,217.8</strong></td>
<td><strong>6.4%</strong></td>
</tr>
<tr>
<td>All Other</td>
<td><strong>11,840.2</strong></td>
<td><strong>12,503.0</strong></td>
<td><strong>11,904.6</strong></td>
<td><strong>2,978.0</strong></td>
<td><strong>25.0%</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>58,558.8</strong></td>
<td><strong>62,407.5</strong></td>
<td><strong>61,841.0</strong></td>
<td><strong>6,195.8</strong></td>
<td><strong>10.0%</strong></td>
</tr>
</tbody>
</table>

Can you say stimulus? + 11.1%
The new budget challenge: Now and forever (?)

Medicaid:
’98: 1/13
’08: 1/5

Participants (000)
Crowding out UW: Corrections, then schools, then Medicaid
State finances in the future: Structural issue

![Bar chart showing state finances from 1997 to 2011. The chart indicates a significant increase in the years 2003 and 2011.](chart_image)
Wis. economy — near future (DOR, 5/09)

- Employment growth resumes, spring ’10
- Personal income growth resumed late ’09
- Personal income growth:
  - ’10 3.0% 3.2%
  - ’11 4.6% 4.6%
  - ’12 4.4% 5.2%
  - ’13 4.4% 5.2%

Why this matters
Why ‘structural deficits’ are a problem

- GPR tax revenues (2010-11) $12.88 billion
- Pers. income growth ’11 (3.8%) ’12 (5.0%)
- 12.88 x 5% = $644 million [?!
- Structural ‘deficit’ ~ $1.1 billion
Guessing about 2011 and beyond

- Politics? Nat’l tide > 1 house R? Gov, too?
  - Does it matter? UW biggest cut? Schools first cut?
  - Larger drivers: Medicaid, school aids
  - Predictable differences? New taxes vs. retrenchm’t

- Past as prologue: More ‘tricks’, ‘raids’, limping along

- Continued structural, GAAP deficits
“If I were . . .”  Be real, disciplined; plan

- **Budget past:** 90’s overcommitment in boom (too much $)
- **Economy:** Wis. economy underperforming, “dog” ?!
- **Severity:** State financial statements, bond ratings
- **Time out:** Realignment of rev’s/exp’s, create safeguards
- **Long-term solution:** Growth economy (UK lesson?) Planned restraint, targeted investment in growth: growth-friendly tax system, higher ed. redone, effective K12 investment, fewer/freer local gov’t, part-time legislature?
The **BIG** picture: Don’t expect outside help.

*The alternative fiscal scenario deviates from CBO’s baseline projections, beginning in 2010, by incorporating some changes in policy that are widely expected to occur and that policymakers have regularly made in the past.*
Quibbles, questions?

The Wisconsin Taxpayers Alliance
To teach and inform Wisconsin students, citizens, public officials, and the press about their state and local governments.

www.wistax.org