Wisconsin’s *Annus Horribilis*

Trying to understand 15 years of fiscal and political dysfunction.
Is there anything we can do to cure fiscal stupidity, political polarization, partisan extremism, institutional dysfunctionality — not to mention mean, nasty behavior?
Overview

- About WISTAX
- *Annus horribilis?* Dysfunction/incivility
  - Budget/bargaining battles, legislative dysfunction, recalls
- Roots of fiscal dysfunction: old and recent
- Cards dealt, cards played: 2011-13
- Reason for optimism
- Recent dysfunction and incivility: Cures for both?
Roots of fiscal dysfunction
Wisconsin’s different approach

- Tension: Local-state, state-local
- Citizen confusion
- Spending-revenue linkage?
Different approach, II (Money!)

‘Berry funnel theory’

Federal $  
User fees  
\begin{itemize}  
  \item Taxes  
  \item Sales  
\end{itemize}
- Income  
- Property

Ind. Income  
Property  
+25%
State budget reflects approach

- ‘Non-state’ budget
- Dominant programs

80%
Roots II: History of boom, splurge . . .

Boom, overcommit

← Med-arb / Tax run-up
School $aits; sch. $pledge

$1b school tax ‘buy-down’

+ Wildlife reform / Medicaid expansion

90 95 00 05 10

(99-01): Sales tax rebate, inc. tax cut

RRR
then deny and defer

Boom, overcommit

Deficits and denial

← Med-arb / Tax run-up

School $ lts;
sch. $ pledge

$1b school tax ‘buy-down’

+...

Welfare reform / Medicaid expansion

(99-01): Sales tax rebate, inc. tax cut ▲

RRR 1-time fed. stimulus

1-time transfers acctg. tricks, debt

RR 1-time transfers

Tob. bonds

05

00

95

90
Result: Years of ‘structural deficits’

First-yr. gaps (bars) and max/min new revenue (line) available

- $287m 09-11
- $570m 01-03
Example: 2011

2011 as example of last 15 years

- New state tax money for 2011-13 (01/31)  
  $1.5 billion

- Structural ‘deficit’, IOUs from 2009-11  
  $1.4 billion

- Always running to catch up
Roots III: Recession mischief

- Recession comes early: More deny, defer
- Reserves? Wis. (poster child) vs. other states
- Spending? Growth topped most states (NASBO)
- Taxes? Among largest hikes in US ($3bn 08-11)
- Federal stimulus pays for ongoing state programs
  - $7.0b - $7.5b, 05-08
  - $12.2b, 10-11
  - $9.5b, 12-13
- A recession . . . and 10+% spending growth?
Medicaid — New budget tap root?

Medicaid (MA):
’98: 1/13
’08: 1/5

Fed stimulus no more; now $1.8b bill to pay
Don’t believe me. Ask bond raters & CPAs.

Wis. Fin. Stmts ($b), GAAP

GAAP Deficit in $ Billions

Deficit as % of Spending

% Spending

Don’t believe me. Ask bond raters & CPAs.
Playing the cards dealt
2011-13: The cards dealt

- $1.4b structural carryover of IOUs (backfilling MA, K12 for stimulus)
- $1.8b Medicaid demand (10 yrs. growth)
- So . . . any new 11-13 est. rev’s committed
- Revenue growth from recovery?
- Tricks? Transfers?
- New tax revenue?
- Remaining option? Pain and difficulty

Voter choices, political choices . . . but also options used?
Little choice in ‘cards played’

- New revenue for carryover IOUs
- Increased Medicaid ($1.4b+ vs. $1.8b)
- Cut all other major appropriations: Schools, UW, local aids, prisons
- Fringes trimmed; modest comp. increase
  [Aside: State vs. local; collective bargaining]
- Some debt restructuring
- Winners? MA, small tax cuts, transportation
Final score? Cut and spend.

2011-13 State Budget (Act 28)
Comparisons to Prior Fiscal Years, All Dollars in Billions

<table>
<thead>
<tr>
<th>Program</th>
<th>Fisc. Years 01-02</th>
<th>02-03</th>
<th>Total 01-03</th>
<th>Fisc. Years 09-10</th>
<th>10-11</th>
<th>Total 09-11</th>
<th>Fisc. Years 11-12</th>
<th>12-13</th>
<th>Total 11-13</th>
<th>and % Ch. vs. 01-03</th>
<th>09-11</th>
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</thead>
<tbody>
<tr>
<td>Tot. All-Funds</td>
<td>26.16</td>
<td>25.66</td>
<td>51.82</td>
<td>30.58</td>
<td>31.59</td>
<td>62.17</td>
<td>31.76</td>
<td>32.56</td>
<td>64.32</td>
<td>24.1</td>
<td>3.5</td>
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<tr>
<td>Medicaid</td>
<td>1.07</td>
<td>1.06</td>
<td>2.13</td>
<td>1.30</td>
<td>1.45</td>
<td>2.75</td>
<td>2.09</td>
<td>2.05</td>
<td>4.14</td>
<td>93.8</td>
<td>50.7</td>
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<tr>
<td>Corrections</td>
<td>0.82</td>
<td>0.85</td>
<td>1.67</td>
<td>1.08</td>
<td>1.15</td>
<td>2.23</td>
<td>0.00</td>
<td>0.00</td>
<td>2.25</td>
<td>34.6</td>
<td>1.1</td>
</tr>
<tr>
<td>K-12 Educ.</td>
<td>4.55</td>
<td>4.76</td>
<td>9.31</td>
<td>5.09</td>
<td>5.28</td>
<td>10.38</td>
<td>4.86</td>
<td>4.93</td>
<td>9.78</td>
<td>5.1</td>
<td>-5.7</td>
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<tr>
<td>Shared Rev's</td>
<td>1.02</td>
<td>1.02</td>
<td>2.05</td>
<td>0.83</td>
<td>0.88</td>
<td>1.71</td>
<td>0.89</td>
<td>0.82</td>
<td>1.71</td>
<td>-16.4</td>
<td>0.0</td>
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<tr>
<td>UW System</td>
<td>0.98</td>
<td>1.06</td>
<td>2.05</td>
<td>1.03</td>
<td>1.15</td>
<td>2.18</td>
<td>0.99</td>
<td>1.11</td>
<td>2.10</td>
<td>2.4</td>
<td>-3.8</td>
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</table>
## Close-up: UW System

### State-Local Expenditures on Higher Education

<table>
<thead>
<tr>
<th>State</th>
<th>Amount Per $1,000 of Personal Income</th>
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<tbody>
<tr>
<td>Wisconsin</td>
<td>$9.03</td>
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<tr>
<td>+/- U.S. Avg.</td>
<td>10.3%</td>
</tr>
<tr>
<td>Illinois</td>
<td>$5.51</td>
</tr>
<tr>
<td>Iowa</td>
<td>10.26</td>
</tr>
<tr>
<td>Michigan</td>
<td>11.86</td>
</tr>
<tr>
<td>Minnesota</td>
<td>12.89</td>
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### Major Programs as Share of GPR Budget, 1980 -

<table>
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<tr>
<th></th>
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<tbody>
<tr>
<td>UW</td>
<td>18.0%</td>
<td>12.4%</td>
<td>12.0%</td>
<td>10.9%</td>
<td>8.5%</td>
<td>8.4%</td>
<td>8.0%</td>
<td>7.5%</td>
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<tr>
<td>K-12</td>
<td>33.0%</td>
<td>24.6%</td>
<td>27.9%</td>
<td>31.5%</td>
<td>37.0%</td>
<td>40.4%</td>
<td>39.7%</td>
<td>33.1%</td>
</tr>
<tr>
<td>Medicaid</td>
<td>9.4%</td>
<td>10.1%</td>
<td>10.8%</td>
<td>8.6%</td>
<td>13.6%</td>
<td>10.0%</td>
<td>13.2%</td>
<td>na</td>
</tr>
<tr>
<td>Corrections</td>
<td>3.2%</td>
<td>3.1%</td>
<td>4.3%</td>
<td>6.3%</td>
<td>7.6%</td>
<td>8.4%</td>
<td>6.9%</td>
<td></td>
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<tr>
<td>Sh. Rev's.</td>
<td>15.8%</td>
<td>13.9%</td>
<td>12.5%</td>
<td>8.9%</td>
<td>6.3%</td>
<td>6.3%</td>
<td>6.1%</td>
<td></td>
</tr>
</tbody>
</table>

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37 58 53
Recap budget: Good and bad

- Spending growth
- Reserves
- Financial statements (GAAP deficit)
- Accounting tricks and transfers
- Debt and debt “maneuvers”
- Structural carryover (13-15)

Wis. Fin. Stmts ($b)

- Deficit in $ Billions
- Deficit as % of Spending

Spending growth
Reserves
Financial statements (GAAP deficit)
Accounting tricks and transfers
Debt and debt “maneuvers”
Structural carryover (13-15)
Necessary tangent #1: Spring agony

- Aid cuts inevitable (Doyle & Walker)
- Loc. gov’t reality: personnel, contracts
- More reality: WI vs. US: No’s? salaries?
- fringes?
- Cost relief with 3000 units of gov’t?
- Choice: Cut compensation vs. people
- Collective bargaining left to you . . .
Necessary tangent #2: Summer agony

- Purpose of recalls
- Political analysis of summer results
- Past the spin . . . voter message?
- Hindsight: What was accomplished?
- Looking forward, consequences?
- Fundamental questions (later).
- Irony: Fiscal hope? Political despair?
Thinking about the future . . . finally
New opportunities, leftover problems

- Fiscal maturity: reserves, GAAP
- Ignored issues: Tax reform, school finance, hi. educ. (again), state-local relations, job creation
- But . . . political dysfunction remains
  Polarization and partisan overreach; end of healthy disagreement . . . and governing?
- Summer exacerbated
  Aug vs. Nov; incumbents, party matter; punish all?
Thinking about institutional problems

If the playing field matters, change the field?

- Wisconsin one of 10 to 12; behavioral implic’s?
- Insanity defined? Then . . .
- Budget: Revenue bill? GAAP? Spread power? Fixed deadline? Gov’t shut down?
- Independent redistricting: foxes and crazies
- Legislature: Session limits? Salary/staff cut?
- One larger house?
- One long term? Sup. Court? Senate? Gov?
A bigger problem?

Madison, the *Federalist* and the ‘mischiefs of faction.’

Complaints are everywhere heard . . . that our governments are too unstable, that the public good is disregarded in the conflicts of rival parties, and that measures are too often decided, not according to the rules of justice and the rights of the minor party, but by the superior force of an interested and overbearing majority . . . These must be chiefly, if not wholly, effects of the *unsteadiness and injustice with which a factious spirit has tainted our public administrations.*

By a faction, I understand a number of citizens, whether amounting to a majority or a minority of the whole, who are united and actuated by some common impulse of passion, or of interest, advered to the rights of other citizens, or to the permanent and aggregate interests of the community . . .

The *latent causes of faction are thus sown in the nature of man* . . . A zeal for different opinions concerning religion, concerning government . . . an attachment to different leaders ambitiously contending for pre-eminence and power; or to persons of other descriptions whose fortunes have been interesting to the *human passions, have, in turn, divided mankind into parties, inflamed them with mutual animosity, and rendered them much more disposed to vex and oppress each other than to co-operate for their common good.*”
“Can we cure the mischiefs of faction”

- Career politics *via* two parties and interest allies
  (It’s not *just* the R’s or *just* the D’s)
- Redistricting reform and partisan polarization
- Nonpartisan? Unicameral? (Nebraska)
- Ending the ‘fence-me-in’ oligopoly?
  Independent and third-party restrictions, e.g., filing dates, fusion, party lines, guaranteed ballot status . . .
- Instant run-off?
- Three-member districts with minority assured?
Questions, critique, good jokes?

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