Checking in on the new state budget

What it did . . . And what it didn’t do
Overview

- Context: State-local finances; state economy
- Review: State budget history & habits
- New budget: Revenues, spending
- Major issues
- Nagging questions
- Final thoughts

▷▷ WISTAX: 80+ years of research & education
Context: State-local finances

State vs. Local: Spending Trends

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<td>WI</td>
<td>$4,249</td>
<td>$5,769</td>
<td>$7,259</td>
<td>$8,383</td>
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<td>$5,385</td>
<td>$7,568</td>
<td>$8,351</td>
<td>108.6</td>
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<td>% ch</td>
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<td>35.8</td>
<td>25.8</td>
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Recession "recap": Were we different?

Winners & Losers?

Revenues from Other Gov's

What Happened? State-local Finances During the Recession
Context: State economy (PCPI)

PCPI vs. US: Stalled “catch-up” with US

vs. HH median income
Understanding income trend

- Why PCPI important?
- What contributes to the problem? (left)
- Why PCPI $\rightarrow$ HHI? (right)

**Avg. Wis. wage < US**

- 2000: -6.8%
- 2007: -13.4%
- 2008: -13.5%
- 2009: -12.9%
- 2010: -12.4%
- 2011: -12.1%

**Avg. Wis. HHI > US?!**

- 1985: -1.6%
- 1990: 7.4%
- 2000: 2.6%
- 2007: 2.1%
- 2008: 2.9%
- 2009: 2.2%
- 2010: 4.0%
- 2011: 5.0%

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The cycle of stupid: Boom, splurge, crash, deny

1995-2010: Dig a hole, file a hole, dig . . . Tricks, transfers, gimmicks, borrowing

2011-13: Inherited deficit, big Medicaid hole; Cut everything, add $1b+ to Medicaid

Now: No ‘deficit carryover’, surpluses

2013-15? State finances at a crossroads
Budget: Revenue trends

Avg. = 6.8%
Avg. = 5.0%

1.8
3.3
3.1
1.6 3.6 (Bud.)

Gov. Proposed

3. Gov’s 2013-15 requests & final (GPR)

Final $15,386

GPR Spending ($ Mill.)

-8% 0% 8% 16% 24%


-5.8% 0% 1.3% 3.3% 4.0%

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Basic numberzzzz: Final biennial budget

- **Total 13-15 spending:** $68.3b = $33.7b + 33.6b
  - vs. $64.3b *budgeted* in 11-13, +6.2%
- **$2.05b bonding ($1.80b pre-veto) vs. $1.73b (11-13)**
- **Gen’l fund net spdg:** $30.24b (13-15)
  - $14.84b (13-14) vs. est. $14.30b (12-13), +~3.8%
  - $15.39b, +3.7%
- **Winners? Losers?**
- **Surplus:** Begin $670m, end $156m-$65m = $91m
- **On-going rev’s vs. exp’s:** -$206m, then -$307m
Issue: Medicaid

- Reconciling Wis. Medicaid and US ACA
- Choice: Save money now? Face fed. problems later?
- Backdrop: Medicaid ‘crowdout’—schools, UW, etc.
- Where we are (l.), where we’re going (rt.)

Wis. Medicaid Eligibility by Group, 2013
Income Levels vs. Federal Poverty Level

Wis. Medicaid Eligibility, 2013 vs. 2014:
Wis. and Federal ACA vs. Poverty Levels

*All children eligible, premiums above 2x poverty level. **Premiums above 1.33x poverty level. ***Small number childless adults, expires 12/13.

*Small number of childless adults receive MA in Wisconsin; expires 12/13. **Parents/caregivers eligible to 2x poverty level; premiums may be due over 1.33x poverty level.
Issue: Transportation

Problem:

Road condition (% two highest categories)

0% 20% 40% 60%
95 00 07 08 09 10 11

39.4 50.1 57.7 49.2 40.6

Details:

- Old prob’s: gas tax indexing, ‘raids,’
- Narrow/out-of-date funding system
- Stop gaps: Borrowing, GPR subsidy
- Long-term choice
Issue: K-12 and delay of the inevitable

K-12 Spending/Pupil: WI vs US

Sources of Growth? WI vs US

Implications?

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K-12: Cuts and after

- **Aid** programs specifically (after -8.1% and +1.4%)
  - +1.5% ($75m), +2.8% ($140m); 2-yr = +$290m
  - Total growth:
    - +$276m (K12); +$87m (Total choice/charter, but only $14m is from aid appropriation)

- **Revenue limits** – recall tightening/5.5% cut/freeze
- New revenue limits, 2013-15
  - +$75/year under caps + $75/year in categorical
- Careful: Net +$100/student in ‘14 and $150 in ‘15.
What do you say about higher ed??

- ‘Dirty nat’l secret’: Higher ed. as recession escape
- Tech. college ‘secret’: prop. taxes, mission creep
- UW System: What do you say?!
  - Approx. ‘flat’ funding for yrs, decline GPR share
  - 2013-15: Gov. proposed growth, then ‘blowup’
- Issue remains: Money vs. control
- If money is problem, tough questions:
  - Four-year college? Low-return majors?
  - Stagnant grad rates?
  - Remediation and first year retention
Issue: Tax reform, cut

- Background: How high?
  - Gov. $343m - marginal rates
    [Not Doyle’s 7.75%]

- Missed opportunity?
  - Cash as ‘political grease’
  - Tax law as regulation

- Broader base/cut rates

- JCF response/Final ($650m)
  - All rates, brackets reduced
  - Streamline: credits, checkoffs, Fed-state differences.

- How done? Increased May rev.
  - $215m 12-13, but $180m?, $180m?

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<th>% All</th>
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<td>5.90</td>
<td>17.8</td>
<td>0.2</td>
<td>6.49</td>
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### Who gets tax cut?

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<th>AGI</th>
<th>Filers</th>
<th>2011 $AGI</th>
<th>$ Tax</th>
<th>2014 $ Cut</th>
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<tr>
<td>0-50</td>
<td>68.5%</td>
<td>25.0%</td>
<td>14.4%</td>
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<td>50-100</td>
<td>21.1%</td>
<td>30.8%</td>
<td>30.4%</td>
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<tr>
<td>100+</td>
<td>10.4%</td>
<td>44.2%</td>
<td>55.2%</td>
<td>54.5%</td>
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#### Tax Cut Comparison:
- **2011 Tax Cut**
  - $0-50K: 14.4%
  - $50K-$100K: 30.4%
  - $100K+: 55.2%
- **2014 Tax Cut**
  - $0-50K: 14.6%
  - $50K-$100K: 30.9%
  - $100K+: 54.5%
Key questions: Surpluses and deficits

% Spdg ▶ 0.4% → 0.6% 3.4% 0.7% 1.0%

GPR Surplus
(Left axis)

$49.2 70.9 487.7 108.1

Gov: Final-$156.3 (1.0%)

FY ends 06 07 08 09 10 11 12 13e 14b 15b
Question: Structural imbalance? (IOUs)

Return of the ‘structural deficit’?

None +!

JCF/Fin.

$326e

$202m

11 rev

Gov

'15e

JCF

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Question: Bonding/debt

State Debt
CAFR (through 6/12)$ Billions

2013-15 Proposed/Final

- $1.03b in budget
  ($0.99b transpt’n)
- $1.15b in capital bud.

\[ \text{\$2.18b total prop.} \]
\[ \text{\$2.05b final} \]
Final question: GAAP deficit (TBD)

Political incapacity to save, and the **value of saving** in today’s economy & the GAAP world

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Thoughts

- Why decades of fiscal mischief?
  - Career politics = short-term thinking
  - = GAAP deficits, low bond ratings
  - = Painful cuts and tax increases, little or no planning

- Cures for partisan political dysfunction?
  - Campaign finance?
  - Redistricting?
  - Election law change?
Wisconsin Taxpayers Alliance
81 years of nonpartisan policy research and citizen education

www.wistax.org