

FOCUS

In brief

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The proposed 2009-11 state budget appears to limit general fund spending increases to about \$0.2 billion (b): \$27.7b in 2007-09 and \$27.9b in 2009-11. However, \$4.5 billion in federal funds means total spending from all sources would grow from \$56.7b to \$62.7b. Structural and official deficits would recur in 2011.

Capitol notes

Tax hikes estimated to total \$2.50b:

Tax changes (\$ mill.)	FY09	FY10	FY11
<i>Business</i>			
Combined reporting	27.7	75.6	111.7
Affiliated entities combined for sales tax	0.0	19.8	21.0
Nonres. pass-through withholding	0.0	38.5	0.0
Fed. prod'n activities deduction disallowed	0.0	38.2	33.5
Tax "throwback sales"	0.0	57.7	37.5
Oil co. profits tax	0.0	100.3	171.5
Air carrier definition	0.0	4.0	4.0
Dairy/meat proc. cr's	0.0	-0.9	-1.4
Eliminate film co. cr's	0.0	0.5	0.5
Delay med. records cr.	0.0	4.5	10.0
Subtotal	27.7	338.2	388.3
<i>Individual Income</i>			
New tax rate @ 7.75%	0.0	175.6	136.2
Cut cap. gains exclus'n	0.0	85.1	95.5
Angel/early seed inv. cr.	0.0	0.0	-7.0
Incr. R & D - inv. cr.	0.0	0.0	-5.0
Subtotal	0.0	260.7	219.7
<i>Sales & Use</i>			
Streamlined sales	9.4	30.3	31.0
Tax digital downloads	0.0	4.2	6.7
Define as retailer Internet business w/nexus	0.0	1.5	1.5
Subtotal	9.4	36.0	39.2
<i>Excise</i>			
Cig. tax +\$.75/pk	0.0	127.4	130.3
Tobacco prod. tax	0.0	15.2	18.0
Subtotal	0.0	142.6	148.3
<i>Other</i>			
Int. Rev. Code update	0.0	-40.6	-5.5
Hospital "assessment"	275.4	310.0	339.7
Subtotal	275.4	269.5	334.2
Total	313	1,047	1,130

First look at proposed 2009-11 state budget

"L'essentiel est invisible pour les yeux, répéta le petit prince, afin de souvenir."—A. de St. Exupéry

What is essential is invisible to the eye is the lesson of a French children's classic. And so it has become with state budgets in recent decades.

Budget transparency?

Part of the reason budgets are impenetrable to the public is their length. The 2009-11 budget bill (AB 75) unveiled by Gov. James E. Doyle (D) last week is 1,743 pages long. His *Executive Budget* book matches the thickness of a volume of the *Encyclopaedia Britannica*, and the "Budget in Brief" runs 94 pages.

State budgets also lack transparency because, since the 1970s, they contain proposals once debated in separate bills. For example, the new budget proposes:

- three years of high school math and science to graduate;
- a statewide smoking ban;
- union rights for university faculty;
- regional transportation authorities;
- repeal of state limits (about 4%) on school compensation growth ("QEO"), while deemphasizing revenue limits and local economic conditions as factors an arbitrator may consider;
- domestic partner coverage for state employees and faculty; and
- expanding the state prevailing wage law.

Ephemeral money

A more recent factor in reducing budget transparency has been increased use of funds and accounts other than the general fund to pay for general fund programs. The general fund is where the taxes we pay—income, business, sales, and excise taxes—are deposited. These general purpose revenues (GPR) support most state services (e.g., aid to schools

and local governments, Medicaid and other welfare programs, prisons, universities, and state agencies). Traditionally, the so-called GPR budget was the state budget as far as legislators, reporters, and citizens were concerned.

Now that is less true. In recent years, one-time proceeds from tobacco bond sales and transfers from other funds, most notably the segregated transportation fund, have propped up GPR spending. In the governor's 2009-11 budget, temporary revenues from Washington play the same role.

The table below recaps the budget's shift in revenues from ongoing GPR to temporary funds, federal or otherwise. In 2007-09, the state budget included \$14.5b in federal funds; in 2009-11, that would grow to \$19.0b. As a result, while general fund spending is up less than 1% from 2007-09 (\$27.7b) to 2009-11 (\$27.9b), expenditures from all revenue sources, especially the federal government, are slated to rise 10.7%, from \$56.7b in 2007-09 to \$62.7b in 2009-11.

Winners, losers

In any budget in a recession, the impacts are bound to be uneven, yielding both winners and losers.

■ *Revenues.* On the revenue side of the ledger, net tax increases total \$312.5 million (m) this year, \$1.05b next

State Budget Funded in Multiple Ways Spending by Fund Source (\$ billions)

Type	08a	09b	07-09	10g	11g	09-11
GPR	13.5	14.2	27.7	13.7	14.2	27.9
Fed'l	7.1	7.4	14.5	10.1	8.9	19.0
Other	6.8	7.6	14.4	7.8	8.0	15.8
Fed+O	13.8	15.1	28.9	17.9	16.9	34.8
Total	27.4	29.3	56.7	31.6	31.1	62.7

Notes: a = actual, b = adj. base, g = governor proposal

year, and \$1.13b in 2010-11, for a combined total of \$2.50b over three years. The majority of the increases fall on businesses (approx. \$754m), hospitals (\$929m), and high-bracket investors (\$480m net). Proposed tax changes are summarized in the Capitol Notes section (reverse side).

Tax hikes on smokers, corporations, and hospitals were somewhat expected. However, an increase in the top individual income tax rate to 7.75% on filers with joint incomes over \$300,000 (\$225,000 single)—the first hike in the top rate since the early 1970s—was a surprise. So was a reduction in the capital gains exclusion from 60% to 40%. Together, these changes would more than outweigh proposed investment tax credits.

■ *Expenditures.* When talk of multibillion dollar state deficits began last fall, many in state government braced for spending cuts. However, the tale of the table to the right is mixed. Six agencies or programs that claim the bulk of general fund revenues are listed. For each, proposed appropriations are shown from two sources, first from GPR and second from all funds, including federal dol-

lars and various program fees and charges. Also shown are grand totals for all proposed expenditures, regardless of source—GPR, federal, or other.

Of the six major GPR areas, the governor recommended that five receive less GPR funding than requested (col. 6). However, four of them received at least 5.5% more GPR dollars in 2009-11 than estimated for 2007-09 (col. 7). The latter includes actual spending for 2007-08 and “base” spending for 2008-09.

Including funds from all sources (“All”), however, all six areas received increases, ranging from 3.4% for the Department of Children and Families to

16.1% for Health Services (DHS). In half the all-funds cases shown, the budget grants more than was requested.

The seeming conflict between GPR and all-funds budgets is noteworthy. In GPR terms, both DHS and the Department of Public Instruction (DPI) appear to be facing cuts vs. 2007-09 of 14.9% and 2.4%. However, federal stimulus monies ensure that, from all sources, both DHS (16.1%) and DPI (6.3%) are slated for biennial increases.

And then the fall?

With President Obama (D) turning his attention to record post-war federal deficits, it is likely that temporary U.S. aid to states will end. Then, according to state budget documents, Wisconsin’s long-term structural imbalances due to using one-time monies to pay for permanent programs return. These are projected to be \$396.3m in 2011-12 and \$431.9m in 2012-13.

It appears little progress is likely on the deficits reported by the state controller in the state’s official financial statements. According to the governor’s budget staff, deficits are projected for 2008-09 (\$2.42b), 2009-10 (\$2.46b), and 2009-10 (\$2.28 b).

Major Dept’s and Programs: Current Levels, Agency Requests, and Governor’s Recommendations (By Fund Source, \$ billions)

Agency/ Program	Fund	07-09	09-11 Request	09-11 Gov.	Gov vs Req	Gov vs 07-09
Children & Families	GPR	604.0	721.6	660.3	-8.5%	9.3%
	All	2,118.2	2,137.0	2,190.2	2.5%	3.4%
Corrections	GPR	2,175.9	2,366.4	2,300.3	-2.8%	5.7%
	All	2,463.3	2,676.9	2,608.1	-2.6%	5.9%
Health Svcs.	GPR	4,783.8	5,616.7	4,071.0	-27.5%	-14.9%
	All	13,457.1	15,166.3	15,627.8	3.0%	16.1%
Pub. Instr’n	GPR	11,009.3	12,118.6	10,745.5	-11.3%	-2.4%
	All	12,518.4	13,731.3	13,305.0	-3.1%	6.3%
Shared Rev. & Tax Relf	GPR	3,825.2	4,255.1	4,301.6	1.1%	12.5%
	All	4,145.1	4,559.6	4,657.7	2.2%	12.4%
UW System	GPR	2,223.9	2,438.8	2,346.8	-3.8%	5.5%
	All	9,155.0	9,732.0	9,614.7	-1.2%	5.0%
Total	GPR	27,725.5	31,160.5	27,932.2	-10.4%	0.7%
	All	56,644.5	62,406.5	62,724.0	0.5%	10.7%

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