

State Finances: What Would Our Forebears Say?

A guest column by Todd A. Berry, President, Wisconsin Taxpayers Alliance

As the proposed 2007-09 state budget has worked its way through the legislature, it is readily apparent that our elected officials, regardless of title or party, have said little or nothing about the fundamental condition of state finances. By contrast there have been countless press releases focusing on detail—specific tax increases, individual program changes, and so on.

Nevertheless, the people have a right to know. According to Wisconsin's Comprehensive Annual Financial Report, or CAFR, the state ended the most recent fiscal year with a \$2.15 billion deficit. Unlike state budgets that do not account for all future commitments, thus masking our true financial condition, the CAFR prepared by the state controller's office must follow generally accepted accounting principles (GAAP) from the nation's Governmental Accounting Standards Board and recognize these obligations.

This explains why state budget officials said the 2006 general fund balance was \$49.6 million, while the controller put the deficit at \$2.15 billion. Last year, Wisconsin was one of only three states with a GAAP deficit and, relative to population, it had the largest deficit in the nation.

The state controller reported a second figure regarding the state's net assets that also merits attention. Accounting lingo can be confusing; but, in household terms, net assets are simply savings and investments, plus the value of cars, housing, and other property, less any loan debt.

According to the controller, the state's unrestricted net assets for governmental purposes were -\$8.23 billion. According to the CAFR, "a positive balance in unrestricted net assets would represent the amount available to be used to meet a government's ongoing obligations to citizens and creditors." Wisconsin cannot now do that without selling roads, buildings, parks, and campuses.

Much of the reason for the large negative asset amount is the state government's growing debt load. In 2002, general obligation, revenue, tobacco, and related bond debt for government activities equalled \$4.13 billion. By 2006, the total was \$8.99 billion, up 117% in four years.

These large negative numbers may not concern state officials, but they do impact Wisconsin's fiscal reputation. The simplest evidence comes from the nation's three leading bond-rating firms. On average, 34 states have bond ratings higher than the Badger State; only three states have lower ratings. The figures from one firm, Standard and Poor's (S&P), are even worse, with 40 states rated higher than us and only two lower.

Wisconsin was settled mainly by Yankee, German, and Scandinavian farmers who fervently believed in hard work, not in spending what they did not have. I don't think that today we are much different from our forebears.

Then why do the official financial reports tell us year after year that state government is running mounting deficits, as our bond ratings fail to improve and our debt continues to grow?

Certainly, governors and legislators of both parties, past and present, deserve much of the responsibility. But, as citizens, taxpayers, and voters, we are not blameless. We have not done our homework. We have not insisted that our elected officials manage state finances like our forebears led their own lives.

The state budget has not yet been enacted. Whatever your individual opinion on these issues, you have a responsibility to communicate your expectations to your state officials. If you don't, your children and grandchildren will face even more troubling state finances in the years to come. And the hard-earned legacy of our Badger ancestors will be lost.