

Focus

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In brief

Just like GM or Microsoft, Wisconsin state government produces official financial statements every year. The 2006-07 Comprehensive Annual Financial Report (CAFR) was released just before Christmas. Prepared by the state controller's office using generally accepted accounting principles, the CAFR reported the state ended the 2007 fiscal year with a \$2.44 billion (b) deficit in its general fund. That is 13.7% more than last year's \$2.15b deficit, and the largest increase in five years.

Capitol notes

■ The State Historical Society's top "history-making" news events of 2007 were: sending more Wisconsin troops to Iraq; UW-Madison research that created embryonic stem cells from human skin cells; and Packer Brett Favre's new NFL records for passing yardage and number of quarterback victories.

■ The state Department of Revenue (DOR) is closing 19 of its 26 offices as part of an effort to cut 200 employees from its authorized staff of 1,100. Critics question whether free taxpayer assistance and tax collections will both suffer. DOR officials say streamlining and technology can minimize impacts.

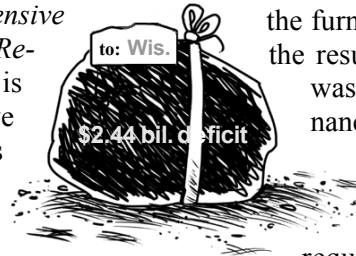
■ Former State Rep. Dale Bolle (D-Whitelaw) passed away on 12 Dec. He served in the lower house from 1983 to 1993.

State gets \$2.44 billion lump of coal

Santa dropped a \$2.44 billion (b) chunk of coal in Wisconsin's stocking just before Christmas, but it went largely unnoticed.

Alphabet soup: CAFR, GAAP

The \$2.44b figure was the general fund deficit as reported in Wisconsin's 2006-07 Comprehensive Annual Financial Report (CAFR). This is the fifth consecutive year Wisconsin has neared or exceeded the \$2b deficit threshold.



A summary of CAFR general fund deficits over the past decade is shown in the chart below. The fiscal 2007 deficit was 13.7% more than the 2.15b reported for 2005-06. The increase was the largest since 2002-03.

The CAFR is state government's version of the glossy financial reports that major companies, like GM or Microsoft, release each year to shareholders and analysts. According to the state controller, who issues the CAFR, the report is "prepared in accordance with generally accepted accounting principles (GAAP) for governments as promulgated by the Government Accounting Standards Board (GASB)."

Surplus or deficit?

Because the state does not budget using GAAP, the press and public are often confused by political leaders who claim balanced budgets while the award-winning CAFR shows otherwise. The reason is due to GAAP accounting—a forbidding phrase that obscures a commonsense idea.

Simplified, the issue is somewhat akin to the Jones family buying new

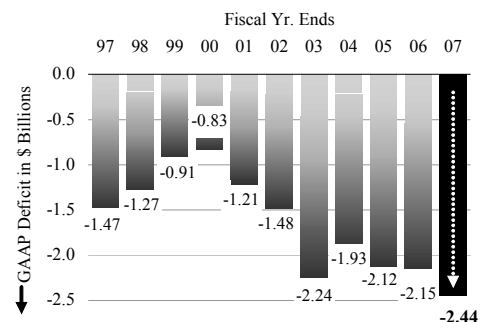
furniture, paying for it with a credit card, and taking it home to enjoy.

Did the Joneses spend money? State budgeters and politicians would say "no"; there was no expenditure until credit card charges were actually paid. The state controller would say "yes"; the Joneses bought, owned, and used the furniture. They spent money, and the resulting payment by credit card was an expense that left family finances somewhat more vulnerable.

This distinction allows state officials to keep the general fund "in balance," as required by law, even though their official financial statements show a deficit.

The best-known example of the governor and legislature spending money for which they do not immediately budget relates to state-funded property tax credits. These credits are subtracted from local tax bills each December. They reduce property taxes in one fiscal year; however, because the state does not reimburse local governments for the lost revenue until the following July, it does not budget for any new credits until the next fiscal year. The CAFR ignores this, recognizing the credits as a state expenditure in the fiscal year that they reduced property taxes.

State General Fund Deficits (\$b)
State Comprehensive Ann. Financial Rep'ts



Source: State Controller using GAAP.

Useful information

The latest edition of Wisconsin's CAFR is an inch thick and 242 pages long. It is available on the web at ftp://doafp04.doa.state.wi.us/doadocs/2007CAFR_Linked.pdf. There is much information about the state to be gleaned from the document other than the size of the state's GAAP deficit.

Some of the information is good news. For example, compared to many other states, Wisconsin is unusual in that its public-employee retirement fund is virtually fully funded (99.6% of liabilities). And, as of last year, the Badger State had the fourth-highest rate of health insurance coverage in the nation (90.6%).

Other information is simply useful. In fiscal 2007, the state's Medicaid program (health care for low-income people) covered an average of 849,532 people. The average adult prison population was 23,094. And, in 2005, of the 2.77 million (m) state income tax filers, those with incomes of \$10,000 or less were 25.0% of filers and paid 0.2% of income taxes. Meanwhile, filers with incomes over \$1m made up 0.1% of filers but paid 8.3% of taxes.

Uncomfortable truths

Aside from interesting facts, buried in pages of financial schedules and footnotes, the CAFR also contains

much information about state finances beyond deficits.

□ *Fund transfers.* In recent years, the general fund would not have been in balance—at least for budgeting purposes—had it not been for transfers from other funds to the general fund. The CAFR lists transfers that are considered “nonroutine or inconsistent with the fund making the transfer” (p. 101).

Transfers into the general fund during 2006-07 included \$88.7m from the transportation fund, \$12.5m from the recycling fund, \$16.9m from the utility public benefit fund, \$20.1m from the petroleum inspection fund, and \$2.4m in miscellaneous transfers. Other transfers to the general fund tied to specific purposes exceeded \$18m, for a grand total of about \$160m.

□ *Net unrestricted assets.* The CAFR's “Statement of Net Assets” (p. 37) shows that Wisconsin had total assets due to government activities of \$20.6b and total liabilities of \$15.2b. However, the bulk of those assets consisted of infrastructure (e.g., building and roads) that would be hard to convert to cash in times of crisis.

What net assets did the state have that were unrestricted and, according to the state controller, available “to meet a government's ongoing obligations to citizens and creditors?” The CAFR fig-

ure for governmental activities totalled negative \$8.17b. Comparable figures at the start of the decade were -\$3.6b in 2001-02 and -\$4.8b in 2002-03.

□ *Debt.* Why are our net unrestricted assets negative and growing? Much of the reason has to do with debt.

Bonds payable for government purposes totalled about \$9.0b (p. 104). Of that, \$4.1b was for various general obligation (GO) bonds, and another \$3.1b was for revenue bonds, the majority of which was to cover transportation fund debt. Equivalent bonds-payable figures in 2001-02 and 2002-03 were \$4.1b and \$4.4b respectively.

GO bonds are backed by the “full faith and credit” of the taxpayers of the state, while revenue bonds have specific income tied to their repayment. An example of the latter would be gas taxes and transportation fees that historically were earmarked to pay off highway bonds.

How big is big?

The \$2.44b deficit and the \$8.99b debt figure are sufficiently large that it is difficult for the public to appreciate their size. The CAFR offers some comparisons that put the amounts in context. Last year's state income tax collections were \$7.37b, while sales taxes equalled \$4.52b. Total personal income for the entire state was \$192.82b.

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