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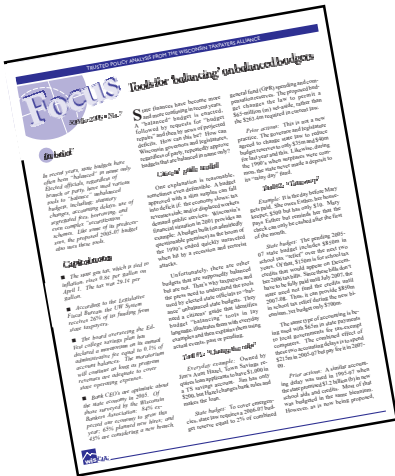
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A monthly review of Wisconsin government, taxes and public finance

The Wisconsin Taxpayer



Also in this issue:

Wisconsin Notes: Wisconsin bond rating among lowest; more...

WISTAX Focus: All's not quiet on the fiscal front; more...

The Tax-Rank Game

Federal Spending in Wisconsin

IN BRIEF

The fiscal presence of the federal government in Wisconsin has traditionally been small. This study explores federal spending here in 2003 and examines the state's return on federal taxes paid. Among the key findings:

- Per capita federal spending in Wisconsin totalled \$5,525 in 2003, ranking the state 48th nationally. Wisconsin's ranking has changed little since 1993, when it was 49th.
- Two categories accounted for nearly 75% of the difference between spending here and nationally. Nearly half of the difference was from lower procurement-contract spending; about one quarter was from less wage and salary spending.
- The average Medicare recipient here received 21.1% less than the national average. That was the main reason federal direct payments were lower here compared to the nation.
- Wisconsin received 84¢ in federal spending for every \$1 of federal taxes and fees paid. The state ranked 39th on this measure.

Wisconsin Notes

■ **Wisconsin Bond Rating.** Current ratings on Wisconsin's long-term bonds reflect the uncertainty in the state's finances. Moody's issuer rating for Wisconsin's bonds is Aa3. Only five other states are rated lower. Wisconsin is also one of five states for which Moody's has a negative outlook.

■ **State Lotteries.** Wisconsin's lotteries ranked 28th in 2003 per capita sales, but were 14th in revenue kept by the state. A recent report from the Washington-based Tax Foundation found that Wisconsin's 2003 sales were \$79.74 per person, nearly \$100 below the national average of \$176.93. Approximately 32.5% of lottery revenues were kept by the state here, slightly more than the national average of 31.1%.

■ **Unemployment Fund Falls.** Equity in Wisconsin's unemployment reserve fund fell \$615.2 million from \$1.586 billion on June 30, 2002, to \$971.0 million on June 30, 2004. A recent audit from Wisconsin's Legislative Audit Bureau points to increased benefit payments caused by higher unemployment rates. Employer contributions rose in both fiscal 2003 and 2004 due to higher rate schedules. Unemployment insurance contribution rates depend on the balance in the fund on the previous June 30. Smaller balances over the last two years triggered moves to higher rate schedules. Despite the rate increases, larger benefit payouts reduced the balance in the fund.

WISTAX Focus

■ **Governor's Budget.** Governor James E. Doyle (D) recently outlined his proposed biennial budget in an address to the state legislature. A new issue of *Focus* (#3-05) titled "All's not quiet on the fiscal front" provides an overview of the budget and the state's fiscal condition. It notes that Wisconsin's budget deficit using generally accepted accounting principles (GAAP) would increase slightly from \$1,944.5 million on June 30, 2005, to \$2,003.0 million in 2007.

■ **Changing Legislature?** While there are some new faces in the Wisconsin legislature this year, in many ways, it looks much like the previous one. In "Legislature changes, but slowly," the 2005 legislature is compared with its 2003 and 1955 counterparts. This *Focus* (#2-05) pays particular attention to changing partisan fortunes over the last 50 years.

■ **Correction.** The December 2004 issue of *The Wisconsin Taxpayer* contains an error. On page 10, in the second paragraph in the second column, Wisconsin Dells and Lake Delton were transposed. Wisconsin Dells collected \$510,471 in 2003 resort taxes, while Lake Delton collected \$1.2 million.

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Federal Spending in Wisconsin

Historically, the fiscal presence of the federal government in Wisconsin has been relatively small. The state has consistently ranked among the bottom 5 states in per capita federal spending.

Wisconsin is not alone in the lack of federal presence. The Badger State was one of 11 states (see map below), including all its neighbors, that received less than \$6,000 per capita in federal spending in 2003.

Because there is less federal spending in Wisconsin than in most other states, its “balance of payments,” or dollars received relative to those paid in federal taxes and fees, also ranks fairly low. In Wisconsin and other “donor” states, an unfavorable balance of payments can place greater fiscal pressures on state and local governments.

OVERVIEW

The federal government spent \$30.2 billion in Wisconsin in 2003, up 4.8% from 2002. On a per capita basis, federal spending here was \$5,525 in 2003, placing the state third lowest nationally (see table on page 4). The Badger State was 18.8% below the national average of \$6,804.

Changes

Total federal dollars have increased significantly in recent years. From 1998 to 2003, they climbed 38.7%, or 6.8% per year. During the previous five years, federal expenditures rose at less than half that rate, 3.1% per year.

The Wisconsin experience has been similar. From 1998 through 2003, federal spending here rose 38.0%, or 6.7% annu-

ally. That was only slightly below the national average. In the 1993 through 1998 period, expenditures in Wisconsin climbed 2.9% per year, or two-tenths of a percentage point less than the U.S. total.

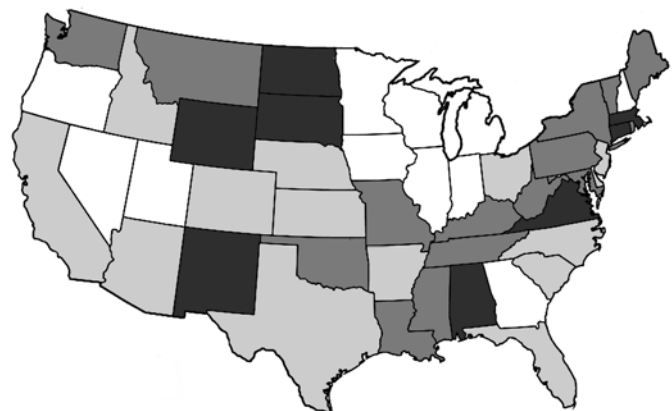
Despite the rapid increase in total spending in recent years, Wisconsin still received about the same share of federal dollars in 2003 that it did a decade earlier. The Badger State received 1.53% in 2003, down from 1.56% in both 2002 and 2001 (see table on page 4). In 1993, its share was 1.56%. Had 2003 federal expenditures here been proportional to the state’s population share, an additional \$7.0 billion would have been spent in the state.

Wisconsin was 48th in 2003 per capita federal spending.

Balance of Payments

Due to relative scarcity of federal dollars spent in the state, Wisconsin’s return on the federal taxes paid by its residents and businesses is low.

Midwest Low in Federal Spending
Per Capita Federal Spending by State*, 2003



□ Less than \$6,000 ■ \$7,000 - \$7,999
 ■ \$6,000 - \$6,999 ■ \$8,000 or more

* Hawaii and Alaska both \$8,000 or more.

According to the Washington-based Tax Foundation, Wisconsin received 84¢ in federal spending for every dollar in federal tax and fee revenues in 2003. That figure placed Wisconsin 39th nationally.

Wisconsin received 84¢ in federal spending for each \$1 of federal taxes paid.

The state has improved its “balance of payments” from 1995 when it received 80¢ for every dollar of taxes paid. Wisconsin’s return rose each year through 2000, when the state received 91¢ cents for every dollar. However, it has fallen each year since.

To understand why Wisconsin ranks low on federal spending measures, a breakdown of expenditures into several components is necessary.

SPENDING BY CATEGORY

Federal spending can be broadly divided into four categories. Direct payments are primarily dollars paid to individuals for social security and Medicare. Grants are federal funds distributed to states, schools or other entities and are usually based on congressionally designed formulas. Procurement contracts are monies spent on purchases in the state. Finally, wages and salaries are payments to federal employees who work in the state.

Fewer federal contract dollars account for about half of Wisconsin’s below-average federal dollars.

The chart on page 5 (top) shows 2003 federal spending by type. Direct payments

accounted for more than 60% of all federal spending here, while procurement contracts and wages and salaries were both less than 10% of the total.

The bottom chart shows how each spending category contributed to Wisconsin’s below-average federal spending. The lack of federal procurement contracts accounted for nearly half of the difference between federal spending nationally and in Wisconsin. Fewer dollars spent on wages and salaries accounted for slightly more than a quarter of the difference.

Direct Payments

Direct payments comprise the largest part of federal spending in Wisconsin and elsewhere (see chart on page 5). Here, \$18.9 billion, or 62.5% of all federal monies, was spent on direct payments. The Badger State received \$3,454 per capita.

Disability and Retirement. In 2003, federal disability and retirement payments to Wisconsin residents totalled \$11.6 billion, or 38.4% of total federal spending here. Adjusting for population differences, Wisconsin received \$2,123 per person in these payments, which ranked 39th among the states. The state’s ranking has changed little over the past decade. Even though it ranked fairly low, its payments were only 1.9% below the national average.

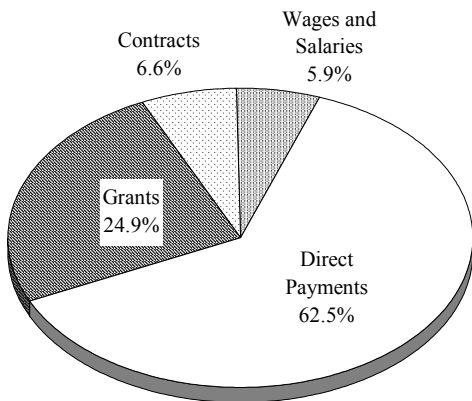
Most of the retirement and disability spending was for social security. In 2003, Wisconsinites received \$9.7 billion in social security payments from three of its programs: retirement, survivors insurance and disability.

Retirement benefits totalled \$6.6 billion, or more than two-thirds of social security spending in the state. Survivors’ benefits for widows and children were \$1.8 billion (18.9% of the social security total) and disability payments were \$1.3 billion (13.3%).

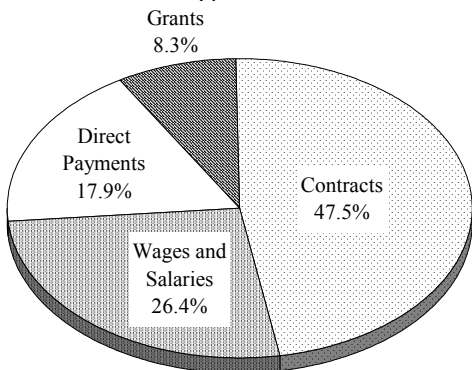
Wisconsin Low in Federal Spending
Total and Per Capita Federal Expenditures in Wisconsin, 1993 - 2003

Year	Amt. (\$ mil.)	% Chg	Per Capita	Rk.	% U.S. Total
1993	\$19,013	-	\$3,887	49	1.56
1994	19,635	3.3	4,014	49	1.57
1995	19,839	1.0	3,904	50	1.52
1996	20,095	1.3	3,954	50	1.50
1997	21,167	5.3	4,102	50	1.54
1998	21,913	3.5	4,195	49	1.54
1999	22,757	3.8	4,334	50	1.53
2000	24,308	6.8	4,532	48	1.54
2001	26,681	9.8	4,974	49	1.56
2002	28,845	8.1	5,301	49	1.56
2003	30,237	4.8	5,525	48	1.53

Direct Payments Are Majority of Federal Spending . . .
Federal Spending in Wis. by Type, 2003



. . . But Lack of Federal Contracts Is Nearly Half of Wis.-U.S. Difference
Difference in Wis.-U.S. Federal Spending by Type, 2003



Wisconsin's average payments for all these benefits were above the national norms. The average retirement benefit here was \$9,796, or 3.9% above the national norm; survivor's benefits averaged \$14,794, or 8.9% higher than the U.S. average; and disability payments were \$11,072, or 3.0% higher.

Wisconsin residents also received \$424.3 million in supplemental security income (SSI) payments to low-income aged, blind, and disabled persons in 2003. In 2002, over 87,100 persons received SSI in Wisconsin. Of these, nearly 90% were disabled or blind.

The remaining retirement and disability spending was primarily for payments to various types of federal and other retirees and disabled persons.

Medicare. In 2003, state residents received \$4.2 billion from two Medicare direct payment programs—hospital insurance and supplemental medical insurance. Hospital insurance totalled \$2.3 billion and supplemental medical insurance, \$1.9 billion. These two programs accounted for 22.4% of all direct payments in Wisconsin.

Wisconsin receives significantly lower Medicare benefits than other states. In 2003, the average Medicare recipient here received benefits averaging \$5,339, or 21.1% below the U.S. average of \$6,769.

Medicare reimbursement rates vary by locale. In fact, they vary within states. The situations in Iowa and Minnesota are similar to Wisconsin's in that their reimbursement rates are relatively low. In 2003, Iowa averaged \$5,342 per Medicare recipient; Minnesota averaged \$5,306. Illinois, by contrast, received \$7,308. Had Wisconsin received federal Medicare spending at the national average, \$1.1 billion more federal dollars would have been spent in the state.

Other Payments. Other direct payments received by Wisconsin included: unemployment compensation (\$1.1 billion); excess earned income tax credits (\$392.9 million); food stamps (\$233.5 million); and Pell educational grants (\$152.9 million).

Grants

Most federal grants are distributed to states based on congressionally designed formulas, that are, in some cases, based on population and income data gathered from the decennial census. Because income and population growth vary by state, many of these data are outdated by the next

Average retirement benefits here are above the national norm.

Medicare reimbursement is below average here, resulting in lower direct payments.

census. Congressional delegations in states with fast-growing populations and incomes have attempted to address these funding lags.

In 2003, Wisconsin received over \$7.5 billion in grants from 611 different program areas. Medical Assistance (MA) was the largest grant program, totalling \$3.0 billion in Wisconsin in 2003, or 40.0% of all grants. Other major areas included highway planning and construction (8.9%), temporary assistance to needy families (4.4%), "Section 8" housing vouchers (3.7%) and special education grants (2.2%).

As shown in the table below, Wisconsin received \$1,379 per person in grants, 33rd highest among the states and 7.1% below the U.S. average (\$1,484). The state's ranking rose each year from 1995 (42nd) to 2003 (33rd).

Health and Human Services. Of all federal grant dollars received in Wisconsin in 2003, 60.6% came from the U.S. Department of Health and Human Services (DHHS). MA grants are funded through DHHS. Wisconsin received \$4.6 billion in DHHS grants, or \$835 per capita. The Badger State was only slightly below the national average (\$863) in federal DHHS grants.

Transportation. The federal Department of Transportation provided the second-largest amount of grant dollars, totalling

\$809.7 million, or 10.7% of Wisconsin's 2003 total. These grants averaged \$148 per person here, just below the U.S. average of \$156.

The average Medicare recipient received \$5,339 here in 2003, compared to \$6,769 nationally.

Education. Among the major grant programs from the U.S. Department of Education are those that fund the No Child Left Behind Act and the Individuals with Disabilities Education Act, among other programs. A total of \$635.7 million, or \$116 per capita, was provided to Wisconsin. Funding was 7.8% less than the national norm of \$126.

Research. While Wisconsin tended to rank low on per capita grants from many federal agencies, it received an above-average share of dollars from the National Science Foundation (NSF) and the National Endowment for the Humanities (NEH). This is reflective of the presence of the University of Wisconsin System and other research institutions in the state. Wisconsin ranked 12th in per capita NSF funding and 14th in NEH grants.

The NSF, which accounts for about one-fifth of the federally funded research conducted by U.S. colleges and universities, provided \$110.3 million to fund Wisconsin projects, or \$20 per capita. The NEH provided \$3.0 million, or 56¢ per capita.

Contracts

Historically, Wisconsin has not fared well compared to other states in terms of the amount of federal business conducted in the state. One factor is the relatively low level of federal defense spending here.

Wisconsin received \$2.0 billion in federal contracts in 2003 (see table, page 7).

Wisconsin received an above-average amount of NSF grants due partially to the UW System.

Wisconsin 33rd in Grants Per Capita
Fiscal Year 2003

Agency	Amt.	Per Capita		
	(\$ mil.)	Amt.	Rk.	U.S.
Health and Human Services	\$4,571	\$835	25	\$863
Transportation	810	148	36	156
Education	636	116	35	126
Housing and Urban Dev.	438	80	34	106
Agriculture	330	60	39	79
Other	759	139	30	154
Total	\$7,544	\$1,379	33	\$1,484

State Among Lowest in Contracts

Fiscal Year 2003

Area	Amt. (\$ mil.)	Per Capita		
		Amt.	Rk.	U.S.
Defense	\$1,244	\$227	38	\$621
Postal Serv.	249	46	28	46
Energy	4	1	35	72
NASA	62	11	23	40
General Serv.	11	2	46	45
Other	437	80	37	149
Total	\$2,008	\$367	46	\$974

Of this amount, \$1.2 billion, or 61.9%, was from the Department of Defense. Postal service contracts totalled \$249.3 million, or 12.4% of the total, while contracts with all other federal agencies were \$514.6 million, or just over a quarter of all contracts.

On a per capita basis, Wisconsin's procurement contracts were \$367, more than 60% below the U.S. average of \$974. Of the Wisconsin total, \$46 per capita was from U.S. Postal Service contracts. That amount was only 2.0% below the U.S. average.

Defense. Nationally, an average of \$621 per person was awarded in defense contracts in 2003. However, eight states got a disproportionate amount. Alabama, Alaska, Arizona, Connecticut, Hawaii, Maryland, Missouri and Virginia averaged \$1,669 per person in defense contracts. The rest of the U.S. averaged \$482 per person. Wisconsin was even lower at \$227.

While defense was a significant reason for Wisconsin's low ranking on federal contract spending, it accounted for only about 65% of the difference in per capita contracts. The remaining 35% was in other contracts.

Other Contracts. In nondefense, non-postal contracts, Wisconsin trailed the U.S. by \$212 per person. Among the federal departments where Wisconsin lagged the most were General Services Administration (-\$34), NASA (-\$38) and Energy (-\$72).

Wages and salaries

The final major category of federal spending is wages and salaries for federal employees. In 2003, federal employees in Wisconsin received \$1.8 billion in salaries and wages. That amounted to \$326 per person, or about half the U.S. average of \$663. Wisconsin ranked last among the states in federal payroll per capita each year from 1993 to 2003.

As a share of federal spending in the state, wages and salaries have generally fallen over the past decade. In the early 1990's, they accounted for more than 7.0% of Wisconsin's federal spending. By the end of the decade, they had fallen to less than 6.0%.

By Type. Over half of the federal payroll in the state went to postal employees (\$920.6 million, or 51.6%). Wages and salaries for defense employees totalled \$271.3 million, or 15.2% of the federal payroll in the state, while Coast Guard employees received \$13.7 million, or 0.8%. The remaining federal employees in the Badger state received \$579.4 million, or 32.5% of the total.

Federal Employment. Wisconsin's relative lack of federal spending on wages and salaries is due to the general lack of federal employees here. Wisconsin ranked 50th among the states in federal civilian employees per capita in 2002, according to census figures.

The state had almost 29,200 federal employees in 2002, or 5.4 per 1,000 residents, compared to a national average of 9.2 per 1,000.

In general, midwestern states ranked fairly low on this measure. Michigan was 49th at 5.7 per 1,000. Other states and their ranks include: Illinois (7.3, 34th), Iowa (5.3, 46th); Minnesota (6.3, 47th); and Michigan (5.7, 49th).

Spending on procurement contracts here was more than 60% below the U.S. average.

The Badger State is last in federal employment relative to population.

DEFENSE SPENDING

The lack of federal defense spending here is a major factor in Wisconsin's below-average total. As mentioned previously, federal defense contracts were significantly less than the national average. In 2003, per capita defense procurements here were \$394 below the U.S. norm.

Defense department wages and salaries were also below average. In 2003, Wisconsin's amount (\$50) was \$225 below the U.S. (\$275). Taken together, defense department payroll and purchasing in Wisconsin were \$619 below average. Total federal spending here was \$1,279 below the national average. Thus, differences in defense department spending accounted for nearly 50% of Wisconsin's lower federal spending.

STATE COMPARISONS

The table below lists per capita federal spending for the top- and bottom-five states, and Wisconsin's neighbors. Each of the top five states ranks among the top six in at least two spending categories. With one exception, the bottom five states rank among the bottom half in all categories.

Lower federal defense spending here was about half of the Wisconsin-U.S. difference.

Wisconsin's neighbors also rank low in federal spending.

Wisconsin's highest ranking is 33rd in grants per capita.

In assessing the distribution of federal spending, population matters: Small states tend to receive more per capita across many federal programs. In addition, although states with the highest spending tended to be geographically dispersed, two patterns emerge: Southeastern states did fairly well and midwestern states, including Wisconsin, tended to fare poorly.

By Size

Among the major factors affecting per capita federal spending, population is somewhat important. While some federal money is distributed based on population, some is based on other factors. When these dollars are distributed over a smaller population base, per capita spending rises.

Seven of the 10 states with the smallest 2003 populations were among the top 20 in spending per person. These states included Alaska, Hawaii, Montana, North Dakota, Rhode Island, South Dakota and Wyoming.

Among the 10 largest states, seven were in the bottom 20 in per capita spending:

Per Capita Federal Spending in the States
Selected States, Fiscal Year 2003

State	Dir. Payments		Grants		Contracts		Salary/Wages		Total	
	Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank
Alaska	\$2,504	50	\$4,658	1	\$2,590	4	\$2,492	1	\$12,244	1
Virginia	3,923	18	1,068	48	4,175	1	1,998	3	11,163	2
Maryland	4,078	11	1,567	17	2,944	3	1,875	4	10,464	3
New Mexico	3,557	35	2,306	5	3,104	2	1,027	6	9,995	4
North Dakota	4,850	1	2,425	4	627	31	1,131	5	9,033	5
Iowa	3,884	20	1,317	39	377	44	384	47	5,961	42
Illinois	3,558	34	1,242	44	453	40	518	37	5,771	43
Michigan	3,730	28	1,287	41	385	43	339	49	5,741	44
Indiana	3,643	31	1,180	47	533	37	377	48	5,734	46
New Hampshire	3,242	42	1,449	25	573	34	444	44	5,707	47
Wisconsin	3,454	39	1,379	33	367	46	326	50	5,525	48
Minnesota	3,190	44	1,366	35	476	39	419	46	5,451	49
Nevada	3,118	46	872	50	657	28	545	35	5,193	50
U.S. Avg.	\$3,683		\$1,484		\$974		\$663		\$6,804	

California, Georgia, Illinois, Michigan, New Jersey, Ohio and Texas.

By Region

Geography also plays a role. The U.S. Census Bureau divides the U.S. into nine regions. Wisconsin is in the East North Central region along with Illinois, Indiana, Michigan and Ohio.

Based on these regional definitions, patterns of federal expenditures appear. The South Atlantic states of Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia and West Virginia averaged \$8,589 in per capita federal spending in 2003. The East North Central region, which includes Wisconsin, averaged only \$5,875, or 31.6% less.

Other regions with above-average federal spending included New England (\$7,560) and East South Central (\$7,437) states. Other below-average regions included West South Central (\$6,551) and West North Central (\$6,650).

RETURN ON FEDERAL DOLLARS

In addition to examining federal spending, it is important to examine Wisconsin's "return" on federal taxes paid. This is a measure of federal spending in the state for each dollar of federal taxes and fees paid by state residents and businesses.

According to the Tax Foundation, Wisconsin received 84¢ in federal spending for every dollar in federal tax and fee revenues in 2003 (see table above). That figure was down 7¢ from its most recent peak of 91¢ in 2000.

In recent years, Wisconsin's return has been as low as 80¢ for every dollar in 1995. That figure rose each year through 2000, when the state received 91¢ cents for every dollar. It has fallen each year since.

Wisconsin's ranking among the states followed the trend. The state ranked 43rd

Return Per Federal Dollar Paid
Wisconsin and Neighbor States, 1999 - 2003

State	1999	2000	2001	2002	2003
Illinois	\$0.79	\$0.81	\$0.80	\$0.77	\$0.73
Rank	46	44	46	45	45
Iowa	\$1.17	\$1.11	\$1.21	\$1.22	\$1.06
Rank	20	24	21	21	29
Michigan	\$0.85	\$0.88	\$0.91	\$0.89	\$0.86
Rank	44	38	37	38	38
Minnesota	\$0.83	\$0.84	\$0.81	\$0.76	\$0.70
Rank	45	43	44	46	47
Wisconsin	\$0.88	\$0.91	\$0.90	\$0.87	\$0.84
Rank	39	37	39	39	39

in 1995 and 1996. Its ranking rose to 37th in 2000. The Badger State remained 39th through 2003.

Rankings for return on federal taxes differ from federal spending rankings. For example, Wisconsin is 48th in per capita federal spending, but 39th in return. Because average incomes in Wisconsin are below national averages, the Badger State pays fewer federal taxes than average. This helps in Wisconsin's rate of return.

Illinois and Iowa illustrate this concept. The two states are similar in per capita federal spending; Iowa is \$190 higher. However, Iowans, like Wisconsin's, pay less in federal income taxes than Illinois residents. Thus, Iowa's return on federal taxes paid was \$1.06 in 2003, while Illinois' was only 73¢.

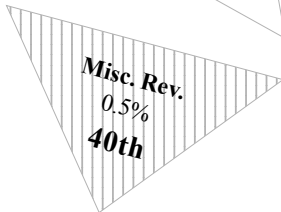
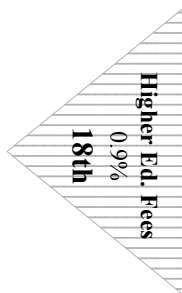
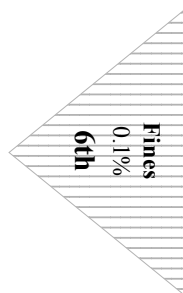
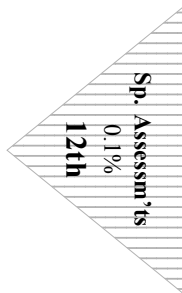
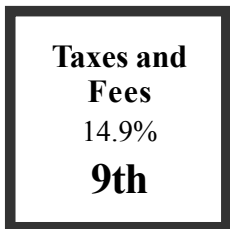
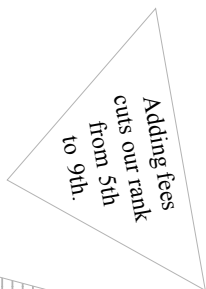
Nationwide, 31 states received more in federal spending than they paid in taxes in 2003. New Mexico ranked first at \$1.99 for every dollar paid to Washington, followed by Alaska (\$1.89) and Mississippi (\$1.83). New Jersey was last at 57¢, followed by New Hampshire's 64¢ and Connecticut's 65¢. □

DATA SOURCES:

Centers for Medicare and Medicaid Services; Tax Foundation; U.S. Bureau of Economic Analysis; and U.S. Census Bureau.

Wisconsin is 39th in return on federal taxes and fees paid.

Wisconsin was one of 19 states with a return below \$1.



Continued from back cover

Tax-Rank Game

Taxes: The Census View

If the state is ranked using only its four principal taxes—individual and corporate income, property and sales—its burden is 10.0% of personal income, or 3rd highest in the U.S. If the goal were to obtain the highest possible tax ranking from Census data, this would be the approach to use.

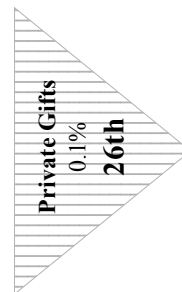
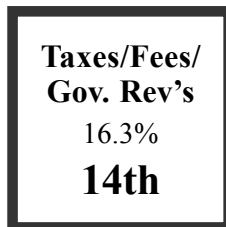
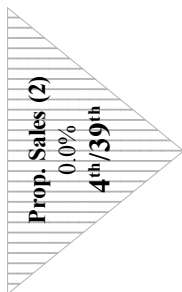
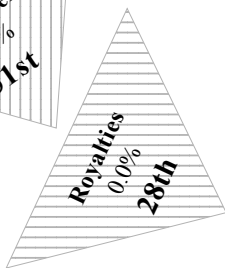
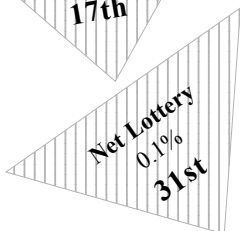
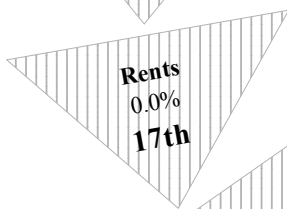
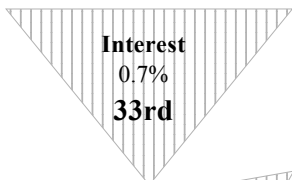
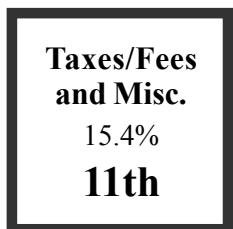
In its own definition of taxes, the Census Bureau adds taxes other than the four already mentioned, including gas and excise taxes. Wisconsin's combined take from these minor taxes accounts for 1.5% of personal income, the 35th highest in the U.S. The Bureau also adds a few fees to its tax category, most notably li-

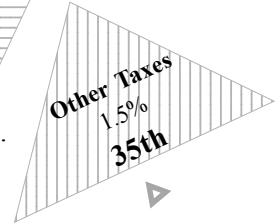
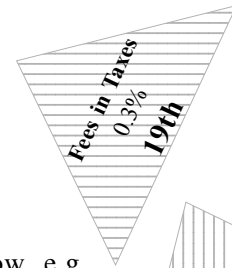
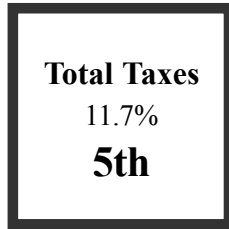
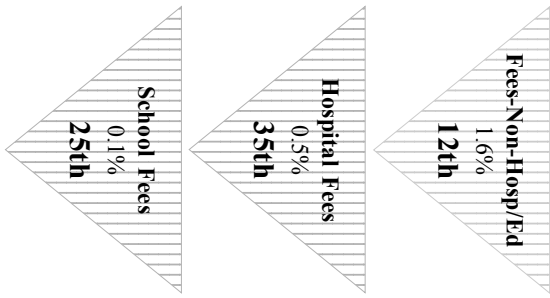
cense fees, such as those for vehicle registration. As a group, these “fees as taxes” are also small here. Ranked 19th in the U.S., they account for only 0.3% of personal income.

When minor taxes and these few fees are added to the four major taxes, the result is what the Census Bureau calls “taxes.” Adding two relatively low-ranked categories—minor taxes and fees included in the tax group—to the four major taxes where the state ranks 3rd, lowers Wisconsin's rank to its official 5th (11.7% of income). When most researchers speak of Wisconsin's tax rank, they are usually referring to the latter figure.

Modest Fees Lower Rank

To further cut the state's ranking requires inclusion of revenues other than taxes. A variety of fees charged for public services are shown in the game board above. Each triangle displays the personal income share of the fee category and its national rank. For example, with fewer





public hospitals, Wisconsin's hospital fee revenue is relatively modest (0.5% of income and 35th highest in the nation). Because the other fee groups also rank below Wisconsin's #5 tax position, including them in a ranking exercise increases government's claim on income to 14.9%, but reduces the state's position from 5th to 9th.

Some include these fees in calculating a tax rank in order to reduce it. Although these monies are paid by state citizens to various units of government, they are not truly taxes. Their payment is discretionary, rather than being mandatory like taxes. A better name for this category is simply "taxes and fees."

Things You Don't Pay Help, Too

Moving further around the game board, now top to bottom and left to right, other sources of revenue can be added that further reduce our rank. Including various miscellaneous revenues (0.5% of income, rank 40th) ups the claim on income to 15.4%, but trims the ranking to 11th.

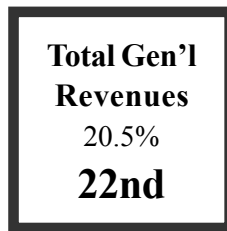
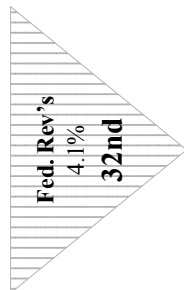
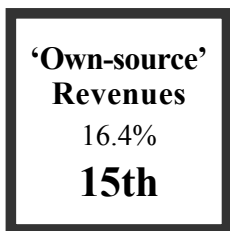
The revenues that follow, e.g., investment interest (0.7%, 33rd), further drop the state's rank to 14th. Adding private donations (0.1% of income) moves it to 15th. This total is comprised of taxes and fees paid by state citizens, as well as revenues not generally paid by people, but received by state and local governments from other sources. The Census Bureau refers to this as "own-source revenue," rather than "taxes," but some cite this rank to suggest that Wisconsin taxes are not 5th, but 15th.

Little Help from Your Feds

Although not often done, it is possible to move this rank even lower if the relatively small amounts (32nd) of federal aid this state receives are included. The bottom line is simple. If a variety of low-ranking fees and auxiliary revenues are added to Wisconsin's high tax total, it is possible to claim lower "tax" rankings. □

From back cover

Adding low-ranking U.S. aid and user fees to high taxes leads to claims that Wisconsin "taxes" aren't high.



The Tax-Rank Game

A frequent question asked about taxes is: “How does Wisconsin compare with other states?” The official answer

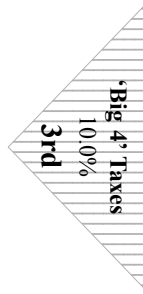
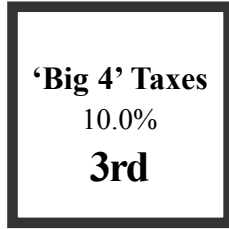
sin, WISTAX has not found major differences between the two, other than timing.

To do rankings, researchers combine state and local revenues to

avoid problems associated with aid flows between governments.

They then rank states based on taxes relative to either personal income or population. Here,

we use personal income.



To page 11

The definition of “taxes” can be played with to change tax rank.

from the U.S. Bureau of the Census is 5th highest relative to personal income. More creative answers can vary from 3rd to 22nd, depending on the point being made.

RANKING 101

Census Bureau figures are used most often by tax researchers to do interstate financial comparisons. But data from the Washington-based Tax Foundation can also be helpful. The former is widely accepted as reliable but lags a few years—2001-02 data are used here. The latter are current but are based on estimates, rather than actual tax collections. Regardless, for Wisconsin,

THE TAX-RANK GAME

The confusion over contradictory rankings arises from the definition of “taxes,” and the “games” played with Census information. The accompanying game board illustrates how the game works. The citizen starts on page 12 and proceeds to pages 10 and 11.

As revenue sources used little by the state are added to our comparatively high taxes, the rank drops. Whether these lower rankings suggest a more modest state-local tax burden, however, is arguable.

Continued on page 10



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