2013-15 Budget Overview: How Wisconsin Goes From a Solid Surplus to a Sizeable Deficit

Wisconsin is expected to begin the 2013-15 budget period with a solid General Fund surplus, estimated to be about $420 million, but the Governor's budget proposals would leave the state with a potential deficit of more than $600 million in the following biennium. This overview of the budget bill examines how the current surplus and anticipated revenue growth would be used for tax cuts and spending, and why the Governor's recommendations would put lawmakers in a substantial hole when they start the 2015-17 budget process.

A Relatively Healthy Starting Point

The Legislative Fiscal Bureau (LFB) estimates that Wisconsin will finish the current biennium with a balance of about $485 million, which is $420 million more than the required reserve. The improved budget picture is not the result of robust revenue growth, but can be attributed instead to modest increases in 2011-12 and 2012-13, which are better than predicted about a year ago when a downward revision in the projections led to an additional round of budget cuts and lapses.

Looking ahead to the next two fiscal years, the LFB projects the following changes:

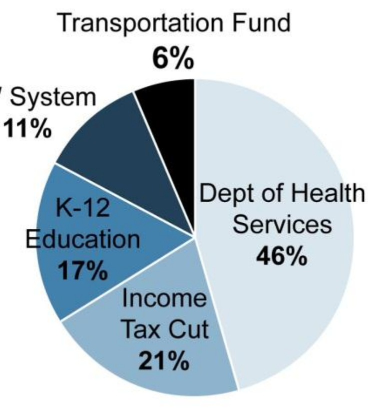
- State General Fund tax revenue is expected to grow 2.4% in 2013-14 and 3.6% the next year.
- Although those are lackluster rates of growth, they are nonetheless expected to yield a total increase of nearly $1.2 billion in 2013-15 (if the sequester doesn't suppress growth).
- The combination of anticipated tax growth and the net balance provides roughly $1.6 billion of new or carried-over revenue at the disposal of state budget writers in the coming biennium.

The projected tax growth would have been higher, but tax cuts enacted in previous years, which are just now taking effect, remove about $300 million from the anticipated revenue increase in 2013-15.

Where the Revenue Balance and Growth Would Be Used

The pie chart illustrates how the total of about $1.6 billion of new and "surplus" General Fund revenue would be used in the 2013-15 budget. More than a fourth is used either for an income tax cut ($343 million), or to increase the amount of General Fund dollars shifted to Transportation Fund spending. There's a net increase of $103 million of general purpose revenue (GPR) for transportation, which includes a $23 million transfer from the General Fund to the Transportation Fund, and a shift in the funding source for state support of transit systems from the Transportation Fund to the General Fund, beginning in 2014-15.

How the Surplus and Revenue Growth is Divided



Obviously, not all areas of the budget are shown in the pie chart. The portions not shown are essentially cost neutral – with modest increases in some areas being matched by cuts in others.

Most of the new spending in the budget is in the Department of Health Services (DHS), which is getting a total increase of $763 million GPR. As we explain in another paper, none of that amount is being used to expand Medicaid because the Governor's plan to cover more childless adults is paid for by eliminating BadgerCare eligibility for about 88,000 parents. About $660 million of the additional GPR funds is simply for the cost of maintaining the status quo in Medicaid and BadgerCare – which is increased by factors such as changing demographics and a lower federal share of total costs (because of a formula that accounts for improvements in state income).

The proposed budget for the Department of Public Instruction would grow by close to $277 million GPR in 2013-15, but only 39% of that amount will be distributed to schools as general or categorical aid. A larger portion of the total increase, 42%, would be used to expand choice and charter schools, and close to 19% would be used for increased assessment of students and schools. Despite the modest increase in school aid, the bill does not increase the cap on school district budgets, which means that many districts will need to cut property taxes to stay under the revenue limits.

The University System would get an additional $181 million GPR, which is a biennial increase of 8% (compared to the base year doubled). The Technical College System doesn't fare nearly as well – getting no increase the first year, but a 4.6% GPR boost ($5 million) in 2014-15.

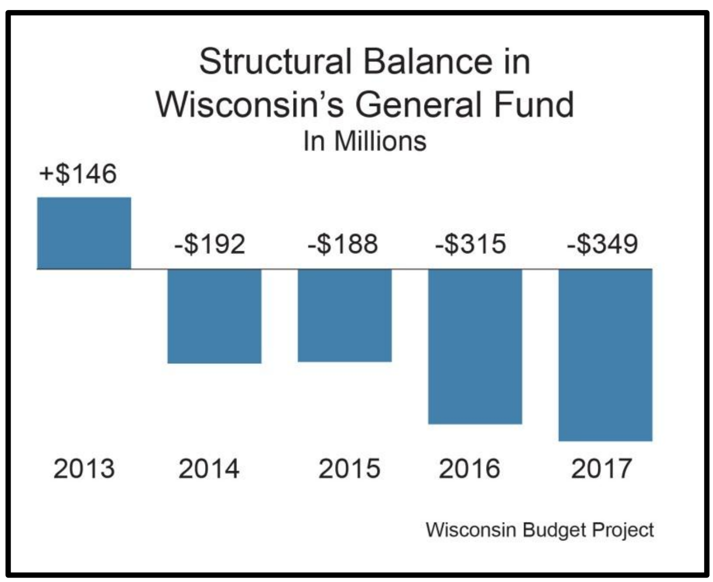
Another Very Challenging Budget for Local Government

The Governor proposes freezing other major sources of state GPR support for local governments for the next two years. State aid to counties and municipalities in the form of Shared Revenue has fallen by 32% over the last 10 years, when adjusted for inflation.

The challenge for local officials is compounded by the proposal to continue strict controls on the amount of property taxes that local governments can raise. Counties, municipalities, and technical colleges must limit levy increases to the growth in property values due to new construction.

The Return of the Structural Deficit

The combination of tax cuts and cost shifts means that the state's spending will likely outstrip revenues in future years. This year, the state had a structural balance of $146 million in the General Fund, not counting the carryover from the previous year. However, because the budget would use a one-time balance for a permanent tax cut and ongoing spending increases, GPR expenditures would surpass new revenue by $380 million over the next two fiscal years. Lawmakers would start the 2015-17 biennium with a budget hole or "structural imbalance" of more than $600 million.



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