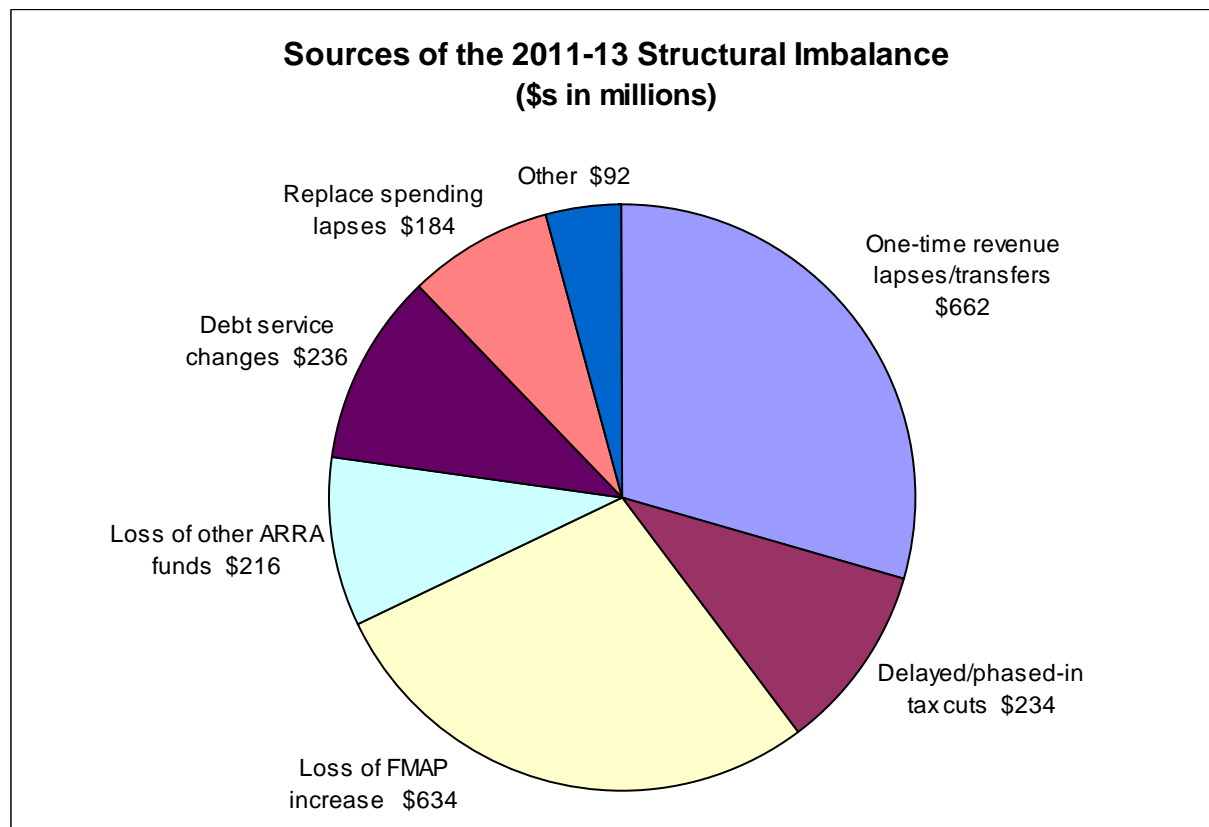




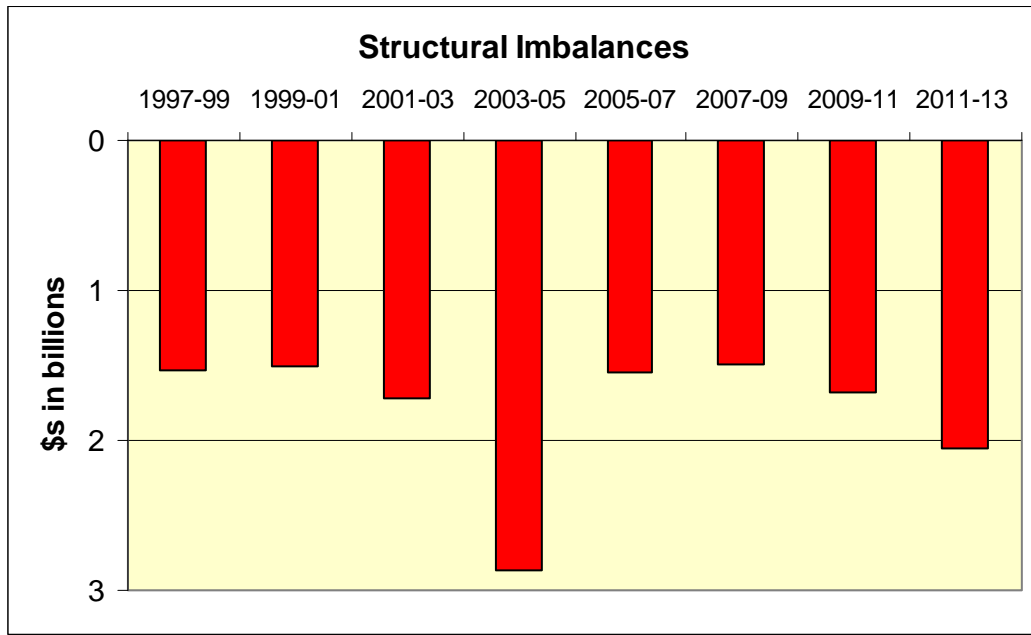
What's Passed Is Prologue – for Future Budget Difficulties

Despite the deep cuts and the tax increases in the biennial budget bill, lawmakers will have to make difficult choices again in the 2011-13 biennium, and possibly again in the current biennium if state revenues continue to drop.

A [Legislative Fiscal Bureau memo](#) calculates that the “structural imbalance” for the 2011-13 biennium will be \$2.05 billion. That figure represents the amount of revenue growth that will be needed in the next biennium simply to maintain 2010-11 spending levels, without any adjustments for inflation or caseload growth. It is largely a reflection of the use of a number of short-term budget solutions (including federal stimulus funds) that help balance the budget now, but leave holes to fill two years from now.



The pie chart shows the major factors contributing to the structural deficit. The loss in the next biennium of federal stimulus funds for Medicaid (the FMAP increase) and other purposes accounts for \$860 million of the total structural imbalance. One-time lapses or transfers of revenue contribute \$662 million. A smaller but still quite significant portion, \$234 million, comes from delaying certain previously-approved tax cuts that phase in new tax breaks.



Two billion dollars is an extremely daunting figure for the structural imbalance, but the bar graph illustrates that it isn't the worst the state has ever faced. That distinction belongs to the \$2.9 billion deficit Doyle confronted going into the 2003-05 biennium, after he first became Governor. On the other hand, the actual figure for 2011-13 could grow much higher for the following reasons:

- The 2011-13 structural imbalance will be \$219 million higher than the LFB calculated if the state estate tax is not restored in 2011. Under current state and federal law, that tax is scheduled to be reinstated in 2011, but it's likely that federal legislation that prevents the federal estate tax from lapsing in 2010 will also prevent state estate taxes like Wisconsin's from automatically being reinstated in 2011.
- The school aid that districts receive in 2010-11 includes \$194 million of federal stimulus funds that is not likely to be continued in subsequent years. Because that aid goes directly to school districts, it is not considered as an offset to state aid and isn't included in the LFB's calculation of the 2011-13 structural imbalance; yet for all practical purposes the discontinuation of that aid will add \$388 million to the structural imbalance.
- If the recession proves to be deeper or longer than anticipated when the last revenue projections were made, shrinking tax collections will reduce the base level of revenue going into the next biennium and might add significantly to the structural imbalance. Higher-than-anticipated growth in safety net programs could have a similar effect on the spending side.

Even assuming that state revenue does not decline more than anticipated, the first two factors noted above could increase the structural imbalance to more than \$2.6 billion. To put that figure in perspective, that is more than the state General Fund share of Medicaid and BadgerCare Plus spending in the 2009-11 biennium. Or to put it another way, filling a \$2.6 billion hole would require General Purpose Revenue growth of a little over 6 percent each year, simply for a budget that freezes all of the spending levels at the 2010-11 level.