



## The Wisconsin Deficit: \$652 Million (and Growing?)

February 28, 2008

On February 13, 2008, the Legislative Fiscal Bureau (LFB) issued new revenue estimates projecting the state will have a deficit at the end of the current biennium (June 30, 2009) of \$652 million. While that news is worrisome on its own, the LFB warned that several pending court cases could add significantly to the state's red ink.

The shortfall results primarily from the effect of the economic downturn on state tax collections, which are projected to fall by \$586.5 million. In addition, the LFB projects a \$35 million decrease in departmental revenues and another \$33.6 million net cost from re-estimates of spending and lapses.

### Initial Steps to Close the Deficit

The Department of Administration (DOA) took a couple of actions in early February to reduce spending in this biennium by about \$236 million, but that still leaves a deficit of \$416 million. Those actions were:

- Directing agencies to find an additional \$111 in savings in their budgets (and directing that savings from segregated or program revenue funds be accrued to the General Fund).
- Reducing debt service costs by about \$125 million by rolling over some short-term debt (into longer-term debt).

The Governor is expected fairly soon to propose a budget repair bill laying out a broader plan for closing the deficit. An attempt will presumably be made to pass such a bill before the regular session of the Legislature ends in mid-March. However, unless the governor is able to enlist bipartisan bill support for the bill from the outset, it seems likely that the work on remedying the deficit will require a special session lasting into the spring.

### How Much Money is That?

It is very difficult to comprehend the magnitude of a state deficit of \$650 million, or even of just \$100 million. To try to put the deficit in perspective, here are a couple of examples of state spending in the current biennium:

- Eliminating health care coverage for a year for 100,000 of the children in BadgerCare Plus and for all 107,000 seniors expected to participate in the SeniorCare drug program would save less than \$120 million in state funds.
- Eliminating the state's Earned Income Credit, which helps roughly 230,000 low-income working families, would save only about \$91 million GPR in 2009.
- \$400 million is roughly the equivalent of the savings from eliminating two-thirds of the state prison beds and freeing about 14,000 prisoners for a year.

Elsewhere on the WCCF website we have a list of what various revenue changes could generate. [[http://www.wccf.org/pdf/revenue\\_options\\_022108.pdf](http://www.wccf.org/pdf/revenue_options_022108.pdf)] One of the challenges of filling the budget hole is that by the time the Governor and Legislature can pass a budget repair bill, it will be nearly half way through the biennium. Thus, most of the cuts or revenue increases will only be in place for one fiscal year, whereas the revenue shortfall stems from two years of lower economic growth.

### **Further Problems on the Horizon**

The focus of legislative attention in the coming weeks will be the \$652 million figure, or the new net deficit of \$416 million after the DOA actions are taken into account. However, the state's fiscal problems could soon be considerably worse. The February 13 LFB paper cited three court cases that could soon turn the state's current fiscal headaches into a full-blown migraine:

- Injured Patients and Families Compensation Fund transfer – The transfer of \$200 million from the fund authorized in the biennial budget has been challenged in court by the WI Medical Society.
- Tribal Gaming Revenues – The budget is counting on payments from the Ho-Chunk tribe, including a payment originally due in 2004-05, but the timing and amount of payments could be affected by the outcome of pending litigation.
- “Menasha” Decision – An Appeals Court ruling last year, which is currently under review in the State Supreme Court, might require the state to pay back sales taxes that corporations have been paying on their purchases of customized computer software. The Supreme Court is expected to rule this spring in the case initiated by the Menasha Corporation, and that decision could cost the state \$293 million in the current biennium if the higher court agrees with the Court of Appeals ruling.

Another fiscal challenge that the memo does not mention is a likely setback in funding for Medicaid and child welfare services coming from various new federal rules that will limit federal reimbursement for a number of types of Medicaid services. Among those rule changes is a restriction on federal funding for targeted case management (TCM). Some of those rules are still on the drawing board, but the TCM rule change is slated to take effect in March 2008, and it could have very negative consequences for the state and local governments.

You can find the LFB memo at:

<http://www.thewheelerreport.com/releases/Feb08/feb13/0213lfbrevenue.pdf>

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