

Wisconsin Council on Children and Families
555 W. Washington Ave., Suite 200
Madison, WI 53703
Phone (608) 284-0580

Revenue Matters – 2008 Issue #3

Wisconsin Budget Project – WCCF
Jon Peacock (jpeacock@wccf.org)
March 13, 2008

Please feel free to forward messages to any other interested parties, and encourage others to sign up for this and/or other WCCF mailing lists at <http://capwiz.com/wccf/mlm/signup/>

NOTE: This issue focuses on the deficit repair bill, which was amended and passed last night in the Assembly.

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1. ASSEMBLY PASSES ALTERNATIVE BUDGET REPAIR BILL

In a surprise move, the Assembly wasted no time taking up the budget repair bill. In fact, they got the Governor to change the call for the Special Session so it could begin Wednesday evening, instead of Thursday. Assembly Republicans then unveiled their own version of the budget, which passed late last night by a vote of 51-46. Only two legislators crossed party lines in the vote: GOP Rep. Steve Nass voted against the bill, and Dem Rep. Bob Ziegelbauer voted for it.

Unlike the Governor's bill (described briefly in item #3), the Assembly GOP plan does not contain the hospital assessment and does not transfer funding from the Department of Transportation (DOT). In fact, it would require any amounts lapsed from DOT pursuant to the biennial budget bill to be returned. In lieu of the measures the Governor recommended, the Assembly GOP bill would balance the budget in the following ways:

- Direct the executive branch to make \$250 million in GPR cuts in this biennium and again in the next (on top of the increased cuts ordered by the Governor last month);
- Delay \$125 million in school aid payments to the next biennium; and

-- Take \$55 million out of the budget stabilization fund and reduce the statutory balance by \$45 million, thereby reducing state reserves to \$22.5 million.

A 2-page Fiscal Bureau summary of the Assembly GOP plan can be found at:
http://www.wispolitics.com/1006/Republican_Budget_Fix_Plan.pdf

An article in today's Journal Sentinel reports on last night's Assembly action:
<http://www.jsonline.com/story/index.aspx?id=727811>

2. WCCF LAUNCHES WEBPAGE WITH RESOURCES ON THE BUDGET DEFICIT

This week WCCF launched a new portion of our website - a webpage that pulls together a number of resources relating to the current budget deficit and proposed solution. It links to a number of short WCCF papers that review the deficit, summarize the Governor's budget repair bill, and explain some alternative ways to rill the state's budget hole (such as closing corporate tax loopholes and restoring the state's estate tax).

http://www.wccf.org/budget_resources_deficit2007-09.php

One of the other things you can find there is a link to a WCCF column about closing the deficit, which ran in the Journal Sentinel:

<http://www.jsonline.com/story/index.aspx?id=721107>

3. GOVERNOR PROPOSES BUDGET REPAIR BILL, & CALLS SPECIAL SESSION

For the last couple of weeks we have been waiting with trepidation to see what the Governor would propose for closing the state's very substantial 2007-09 deficit. Late last week he announced that he was calling a special session to address the deficit, beginning on Thursday, March 13. Then on Monday of this week he introduced his budget repair bill.

A 2-page synopsis of the bill can be found on our new webpage at the URL listed under item #2. These are the major elements:

-- **Transportation project bonding** - The bill authorizes the Department of Transportation (DOT) to issue \$190 million in new bonds for transportation projects, thereby freeing up segregated Transportation Fund dollars to transfer to the General Fund. In addition, DOT would issue \$67 million in bonds that had previously been authorized. The new debt would be in the form of general obligation bonds, which means that the principal and interest would be repaid from general tax dollars.

-- **Agency budget cuts and lapses** - It directs agencies to lapse \$330.4 million to the general fund, and that comes on top of \$200 million of cuts that agencies were already required to make by the biennial budget bill. Much of the \$330 million that would be lapsed is from the funds that would be freed up by the increased bonding for transportation projects. A smaller chunk would come from 3 percent cuts to cabinet

agencies.

-- **Hospital assessment** - The Governor's plan calls for a 0.7% assessment on hospitals' gross revenue. Most of it would be used to increase the Medicaid reimbursement rate for hospitals - thereby capturing federal matching funds - but \$125 million would be used to help balance the budget. Because of the federal matching funds, most hospitals would come out ahead, which helps explain why the Wisconsin Hospital Association endorsed the plan. The assessment would sunset at the end of the current biennium, though it's not clear if that would also be the case for the rate increase.

-- **Tobacco bond refinancing** - The tobacco bond refinancing proposal authorized under the budget law will be modified to generate \$30 million in addition to the \$50 million initially anticipated in the budget.

-- **Reducing reserves** - The bill reduces the states budget reserves to \$100 million, a \$22 million reduction.

-- **Public library funding** - Public library aid will be financed by \$11.3 million transferred from the Universal Service Fund, replacing general purpose revenue funding in FY 2009.

-- **Corporate tax avoidance** - Transactions between a corporation and a real estate investment trust (REIT) that it owns or controls would be disregarded. Closing this loophole is expected to generate \$6 million in revenue.

-- **REAL ID law** - Delays at the federal level in the development of rules relating to the federal REAL ID law will permit a \$5 million savings.

A Journal Sentinel article about the Governor's proposal can be found at:

<http://www.jsonline.com/story/index.aspx?id=726615>

A March 1 article in the Capital Times discusses the political divisions that may make reaching an agreement on the budget very difficult.

<http://www.madison.com/tct/news/275110>

4. SENATE PASSES ECONOMIC DEVELOPMENT PLAN CLOSING CORPORATE TAX LOOPHOLES

On Wednesday, the State Senate passed a bill intended to promote economic development bill - SB 510. It was approved by a vote of 18-15, with all the Democrats voting for it, and all the Republicans opposed.

The Senate Democrats' plan is considerably different than the economic development packages offered by the Governor and legislative republicans. First, SB 510 is the only one of the three initiatives that contains a funding source - closing a corporate tax loophole - to cover the cost. Second, it does not rely primarily on tax breaks to promote economic development. Third, it makes a large investment in the state's infrastructure and workforce. A longer explanation of all of the competing packages will be posted soon on the Wisconsin Budget Project portion of the WCCF website.

With the regular session of the 2007-08 Legislature coming to a close today, there doesn't appear to be any chance that any of the economic development packages will be approved by both houses of the Legislature - thanks in large part to the fact that the budget deficit has reduced the Legislature's options. However, in light of that deficit, perhaps the most significant thing about SB 510 is that it signals a continued willingness among Senate Democrats to close corporate tax loopholes by adopting combined reporting. That change would bring in an estimated \$90 million a year that would help close the state deficit. You can read more about combined reporting on our website at: http://www.wccf.org/pdf/combined_reporting_022008.pdf

5. DEALING WITH STATE DEFICITS - CBPP RESOURCES

The Center on Budget and Policy Priorities recently initiated a new webpage that pulls together a number of useful papers about how states can respond to deficits. You can find it at:

<http://www.cbpp.org/pubs/sfp.htm#series>

The most recent CBPP paper on this topic - "Four Helpful Hints for Dealing with State Deficits" - can be found at: <http://www.cbpp.org/policy-points3-12-08.htm>

Another recent CBPP analysis - "Fiscal Stimulus at the State Level?" - can be found at: <http://www.cbpp.org/2-29-08sfp.htm>

6. LEGISLATURE APPROVES BILL TO SHORE UP UNEMPLOYMENT INSURANCE FUND

Even before the national economy began sliding into recession, Wisconsin's unemployment insurance fund was declining steadily - dropping from \$1.8 billion in 2000 to less than \$600 million now. To its credit, the state's UI Advisory Council developed a bill to address the problem, by requiring employers to pay unemployment insurance taxes on more of their employees' wages. The taxable amount of wages will be ratcheted up over the next 5 years, from \$10,500 now to \$14,000 in 2013. The bill was approved by both houses of the Legislature in late February.

A good article about the bill appeared in the March 1 Journal Sentinel:

<http://www.jsonline.com/story/index.aspx?id=723554>

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