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Revenue Matters - 2008 Issue # 5
Wisconsin Budget Project - WCCF
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<http://capwiz.com/wccf/mlm/signup/>

Notes: The U.S. Senate may vote this week on a highly unusual and rather illogical proposal to discourage increases in property tax rates (see item #4). Also, the second round of Wisconsin Way forums began this week (item #3).

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1. WI NOW AVERAGE IN PER CAPITA TAXES AND SPENDING

Most people think Wisconsin is a high spending state, but new statistics released in May by the US Census Bureau show otherwise. Using the raw data, we crunched the numbers and calculated Wisconsin's tax and spending rankings in a wide range of categories. The key findings include the following:

- Wisconsin was 0.4% BELOW average in total state and local spending per capita.
- Total state and local revenue in Wisconsin from all general revenue sources, including federal revenue, was 6% below the national average.
- Total state and local taxes per capita were virtually identical to the national average.
- In state and local taxes relative to income, which has generally been the most watched measure, Wisconsin went from 5th in 2004 to 11th in 2006.
- Wisconsin fell to 42nd in per capita federal revenue.

You can find our 2-page report at:

http://www.wccf.org/pdf/tax_publications_census_figures_state_local_finances.pdf

Nearly all of the press attention regarding the new figures focused on the state's 11th place ranking in taxes relative to income, and the fact that WI finally fell out of the top 10 for that much-watched measure. While that particular ranking is an important one, the spotlight on it has obscured the other stats showing that WI is average in per capita taxes and spending. See for example, this June 13 column in the Appleton Post Crescent : <http://www.postcrescent.com/apps/pbcs.dll/article?AID=/20080613/APC0602/806130548/1531/APC06>

Although rankings of taxes and spending draw a lot of attention, focus on those measures misses the more important point - what kind of value are we getting for our money. A Dave Zweifel column in the Capital Times on June 11 elaborates on that point and others regarding the rankings: <http://www.madison.com/tct/opinion/column/zweifel/290775>

2. NEW FIGURES FROM DOR SHOW 2.4% REVENUE GROWTH SO FAR IN FY'08

Late last week the WI Dept. of Revenue (DOR) issued a brief update about general purpose revenue collections through May of this year. After adjusting the collections for differences in the timing of payments, general fund tax collections were up 1.7% in May 2008, compared to May 2007. For the first 11 months of FY 2007-08, revenue collections were up 2.4% compared to the same period in 2006-07. That isn't great news - but it's better than I had feared.

When the Legislative Fiscal Bureau issued its estimate of the budget shortfall back in February, it projected general purpose revenue (GPR) would grow by 2.0% in the current fiscal year. Thus, it looks like the state should meet or surpass that projection - barring a very sharp drop in June or a significant drop over the year in non-tax general fund revenue (which isn't shown in these DOR reports). You can find the May DOR update at: <http://www.revenue.wi.gov/news/080619.html>

The more difficult fiscal challenge is in the new fiscal year that starts in July. The state's efforts in the budget repair bill to eliminate the deficit are premised upon an estimated increase in GPR funding of 3.1% in 2008-09. That increase could be very difficult to attain. It was based on an assessment of national and state economic conditions that included an assumption that oil prices would decline to about "\$73 per barrel by the fourth quarter of 2008, and then remain between \$70 and \$75 per barrel throughout the rest of that year and 2009." The fact that the cost of energy is now far above that level is very important economically and fiscally - both because it tends to depress the economy and because it reduces state revenue by shifting spending away from goods subject to sales taxes.

A DOR quarterly report released on June 12 provides a more recent assessment of national and state economic conditions. It contains a little good news, as well as the expected gloomy news about the economic slowdown. On the positive side, the DOR report projects a "return to stronger growth after 2009, with personal income expanding

4.9% in 2010 and employment growth rising above 1%." It also includes a special section on Wisconsin exports, which showed an increase of nearly 12% in 2007, the 4th consecutive year of double-digit increases.

<http://www.thewheelerreport.com/releases/Jun08/jun12/0612reveconoutlook.pdf>

3. "WISCONSIN WAY" BEGINS 2ND ROUND OF MEETINGS

The Wisconsin Way initiative has just begun a second phase with a new round of public forums throughout the state. Wisconsin Way is a grassroots project engaged in a collaborative search for solutions to control property taxes while maintaining the superior public services and quality of life that all Wisconsinites value.

Join your neighbors and colleagues to build on the momentum from the first forums for the second phase of the Wisconsin Way effort. Attend one of the forums being held this summer to: hear what priorities and issues were raised in the first forums; learn what economists, private sector policy analysts and UW-Madison public affairs experts have discovered in their research about property taxes, public services and Wisconsin's long-term economic viability; and, most importantly, weigh in as the workable blueprint for the state's future takes shape.

The first forum of the second round was held in Eau Claire yesterday. The others will be: Oshkosh, July 10; Green Bay, July 17; Waukesha, July 21; Wausau, July 23; Kenosha, July 24; Columbus, July 28; La Crosse, July 29; Janesville, Aug. 4; Platteville, Aug. 5; Superior, Aug. 7; Milwaukee, Aug. 11; Rhinelander, Aug. 12; Appleton, Aug. 14; and Madison, Aug. 19.

Registering ahead of time is encouraged, but not required. To register or learn more, go to:

<http://www.wisconsinway.org/Template0.aspx?pid=1&lif=1>

4. U.S. SENATE VOTES SOON ON LOCAL PROPERTY TAX CAP

The U.S. Senate began debate Tuesday (6/24) on its version of the bill to address the foreclosure crisis (H.R. 3221). The Senate will be working from a substitute amendment developed by Senators Dodd and Shelby that includes a provision that would get Congress into the business of creating local property tax caps or disincentives.

Both the House and Senate versions of the bill include a measure that would allow people who do not itemize property taxes to get a deduction of up to \$500 for an individual and \$1,000 for a married couple. The Dodd-Shelby substitute amendment would make people ineligible for that new deduction if they live in a locality in which the rate of tax for residential property is increased. That restriction is not part of the House bill.

The amendment is based on the logic that the new tax break might give some local governments an opportunity to increase property taxes. However, there are several reasons why that logic is flawed. Among those is the fact that most homeowners itemize and deduct property taxes already and wouldn't be affected by the new deduction. Thus, future increases in property tax rates would still generate plenty of local opposition, just as they do now.

The proposed restriction on eligibility for the deduction is also likely to be inequitable between different jurisdictions. An area that is growing and has a rising property tax base would be able to freeze its rates and still enjoy an increase in the total levy. On the other hand a community that isn't growing or one that lost a big chunk of its tax base because of a natural disaster would be penalized because it might not be able to raise property tax rates to maintain the current levy, much less keep up with inflation in energy and health care costs. Assuming that local government has to increase its rates anyway, we would deny the deduction to people in disadvantaged communities that need them the most.

For more info about the issue, see this paper by the Center on Budget and Policy Priorities:

<http://www.cbpp.org/6-23-08sfp.pdf>

If you have an opinion about the issue, call the offices of Senator Kohl and Senator Feingold this week and talk with their tax staff.

5. PROPERTY TAXES UP ABOUT 3.8% FOR THE AVERAGE HOMEOWNER

Early this month the Legislative Fiscal Bureau issued a short memo to legislators with preliminary information on property taxes for 2007 (payable in 2008). The LFB reports that the median value of a home increased by a little over \$6,000 last year, or 3.8%, to \$170,305. The average net tax on a median value home also increased by 3.8%, to \$2,838.

Total gross property tax levies for 2007(08) were up by 6.3%, but a \$79 million increase in school levy tax credits helped reduce the net increase in tax levies to 6.0%. However, because more than a third of the increase in levies was from new construction, the net increase for the typical homeowner (3.8%) was well below the total net increase in the levies.

The LFB paper shows that 71% of net property taxes for 2007(08) fall on residential property owners, compared to 21% for commercial property, 3.3% for manufacturing, 2.5% for agricultural property, and 2% for undeveloped land and forest.

You can find the LFB paper at:

http://www.legis.state.wi.us/lfb/Misc/2008_06_02Property%20Information.pdf

6. AUDIT SUGGESTS POSSIBLE CHANGES REGARDING UNCLAIMED PROPERTY

The Legislative Audit Bureau recently issued a report that suggests the Legislature may want to look at depositing proceeds from unclaimed property into the state's General Fund and consider designating unused gift cards, gift certificates and other gift obligations as unclaimed property.

As of March 2008, the Office of the State Treasurer's Office held an estimated \$354.2 million in unclaimed property on behalf of rightful owners. During FY 2006-07, the State paid \$22.0 million in claims, primarily to individuals, and deposited \$50.0 million in unclaimed property to the Common School Fund. If only unclaimed property that reverted to the state had been deposited, it would have totaled just \$57,000.

The Common School Fund provides low-interest loans to municipalities and provides support to school libraries. Changing the disposition of proceeds from gift cards would probably be challenged by retailers and other card issuers.

You can find the audit at:

http://www.legis.state.wi.us/lab/reports/08-unclaimedproperty_ltr.pdf

7. CONGRESS STUGGLES WITH TAX LEGISLATION BEFORE RECESS

From the June 24 issue of OMB Watch:

"In the dwindling days before the July 4 congressional recess, the House and Senate will try to break the longstanding logjams on three critical pieces of tax legislation: a proposal to approve a "patch" to hold constant the number of taxpayers liable to the Alternative Minimum Tax (AMT), a bill to renew dozens of tax provisions collectively referred to as the "extenders," and the tax title of Rep. Barney Frank's (D-MA) Federal Housing Administration (FHA) foreclosure guarantee bill."

For the full article, go to:

<http://www.ombwatch.org/article/articleview/4282/>

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