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Revenue Matters -- 2009 Issue # 5

Wisconsin Budget Project -- WCCF
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1. BUDGET BILL INCREASES REVENUE BY MORE THAN \$2 BILLION

A [Legislative Fiscal Bureau memo](#) issued last month said the biennial budget bill (Act 28) includes net tax and fee increases totaling \$1.92 billion. That total includes \$1.61 billion in increased tax revenue in the 2009-11 biennium, plus \$60.5 million in new tax revenue recorded in 2008-09. The fee increases total \$242 million in 2009-11. In addition, the bill contains measures to enhance tax collections that are expected to generate an additional \$130 million over the biennium - bringing the total additional revenue to \$2.05 billion.

Wisconsin certainly isn't the only state to raise taxes. A July 9 report from the Center on Budget and Policy Priorities ([Tax Measures Help Balance State Budgets](#)) says that 30 states have responded to the recession by enacting tax increases, and that number has probably grown by now. Another 7 states were considering revenue-raising options.

The report notes that historically, increasing taxes is a common response for states during economic downturns. It also explains why "tax increases can be less harmful to families and less damaging to state economies than the likely alternative: deep cuts in services."

2. STATE TAX REVENUE FALLS 7% IN 2009-09

The latest state revenue figures issued by the Dept. of Revenue on July 17 had some bad news and some good (or at least okay) news. The bad news is that June tax collections were down 6.0% compared to June 2008, and more importantly, taxes for the full 2008-09 fiscal year were down by \$838 million, or 7.0%. The decline for the full year would have approached \$1 billion if it hadn't been for a \$114 million increase in excise taxes, resulting from the cigarette tax approved in the 2007-09 budget bill.

The somewhat better news is that the decline was in line with the Fiscal Bureau's last projections, released in mid-May. While that's a bit of a relief, it doesn't necessarily mean that the state won't find itself later this year with another revenue shortfall that creates a large hole in the 2009-11 budget. It's too soon to say, but the depth of the recession and concerns about the length of time it could take for employment and incomes to recover could mean more budget problems ahead - even before the state turns its attention to a huge structural deficit in 2011-13 (see item # 3).

You can find the July 17 report at: <http://www.revenue.wi.gov/news/090723.pdf>

Of course, WI isn't the only state suffering from a sharp drop in tax revenue. According to a recent [Rockefeller Institute report](#), first quarter 2009 state tax collections showed the sharpest decline on record, dropping 11.7% overall (as shown in the following table). The drop in personal income tax was particularly steep, as the weakened economy continued to hammer state budgets. Early figures for the second quarter reveal continued worsening of fiscal conditions for states.

3. LFB ESTIMATES \$2 BILLION STRUCTURAL DEFICIT, BUT IT COULD BE MUCH MORE

Another [recent Legislative Fiscal Bureau memo](#) calculates that the "structural imbalance" for the 2011-13 biennium will be \$2.05 billion. That figure, which is based on the JFC version of the budget, 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's largely a reflection of the use of short-term budget solutions (including federal stimulus funds) that help balance the budget now, but leave holes to fill two years from now.

\$2 billion is an extremely daunting figure, but isn't quite the worst the state has ever faced - which was 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 isn't 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, that will reduce the base level of revenue going into the next biennium and might add significantly to the structural imbalance.

4. BUDGET BILL FULLY INDEXES HOMESTEAD TAX CREDIT

The budget bill contains an amendment that WCCF has been seeking for years with respect to the Homestead Tax Credit. The credit provides well-targeted property tax relief for taxpayers with income below \$24,500 per year, but one longstanding flaw in the program's design has been that it was one of the only significant parts of the state tax code not automatically indexed for inflation. The new budget bill, Act 20, will prospectively index the credit for inflation, starting in 2010.

The Governor and the Joint Finance Committee (JFC) had recommended indexing the upper income limit but not the maximum credit, which hasn't changed since 1991. However, the budget conference committee accepted an Assembly amendment that indexes the full Homestead formula. For more about his topic, see the [May 11 memo](#) that WCCF and groups representing the elderly sent to JFC members.

The final budget bill also approves a welcome change made by JFC relating to how the credit is calculated for households with children. That change will increase the credit for such households by a total of \$1 million in FY 2011 (by raising the deduction from household income to \$500 per dependent, instead of \$250).

5. LFB PROJECTS 3.3% INCREASE IN PROPERTY TAXES FOR AN AVERAGE HOME

[Another July memo issued by the LFB](#) estimates the effects of the final budget bill (Act 28) on total property tax levies and on the property taxes on a median-valued home. Thanks in large part to decreases in local aid and changes in levy restraints, the LFB projects that gross property tax levies will increase by 6.0% in 2009 (for taxes due in 2010) and by 4.9% in 2010(11). However, increased funding for the First Dollar Credit reduces the change in net levies to 5.8% for 2009(10).

The increase in property taxes for the owner of a typical home is generally less than the increase in the net levy - primarily because some of the levy increase is borne by new construction, and to a lesser extent because the First Dollar Credit is more targeted to homeowners. The LFB estimates that the owner of a median-valued home (assessed in 2009 at \$166,685) will increase by \$93, or 3.3%, to \$2,949 in 2009 (payable in 2010). For the following year, property tax increases for a typical home are expected to increase by another \$123, or 4.2%.

The largest increase in gross levies is for school districts. Their levies are expected to grow by 8.1 % (\$345 million) in 2009(10) and by another 5.5% the following year. County levies are expected to increase by 3.7% each year, and municipal levies by 5.1% per year. These figures obscure the fact that most local governments are going to have to make substantial cuts, thanks to reduced state aid.

6. BUDGET & BUDGET REPAIR BILLS USE \$3.45 BILLION IN FEDERAL STIMULUS FUNDS

A brief [July 7 Fiscal Bureau memo](#) tallies up all the federal funding from the American Recovery and Reinvestment Act (ARRA) that is used in the budget repair bill (Act 2) and the budget bill (Act 28). The total over three fiscal years is \$3.45 billion, including \$1.26 billion in 2008-09, \$1.58 billion in 2009-10, and \$613 million in 2010-11. A little over \$2.2 billion over three years is used to offset state General Purpose revenue.

The largest appropriations of ARRA funds are for Medical Assistance (\$1.127 billion), general school aids (\$789 million - mostly in 2008-09), and Shared Revenue (\$426 million).

Unless there is a second stimulus bill, all of the federal relief will end before the 2011-13 biennium, although it now appears highly unlikely that state revenue will have had a strong rebound by then. Calculations of the state's structural deficit for that biennium have to take into account that the state isn't expecting the continuation of the \$416 million of ARRA funds budgeted in 2010-11.

7. BILL WOULD REDUCE LOCAL GOVERNMENT INSURANCE COSTS BY \$20 MILLION FOR ONE YEAR

The co-chairs of the Legislature's Joint Audit Committee said last month they will introduce legislation to suspend for a year the premiums paid by localities to the Local Government Property Insurance Fund, which provides property insurance to counties, towns, villages, school districts, and other local units of government.. Rep. Barca and Sen. Vinehout said the moratorium would produce a one-time savings for local governments of about \$20 million.

A recent report by the Legislative Audit Bureau said the fund has targeted a \$20 million reserve, but the reserve had grown to about \$40 million at the end of March. Payouts over the past few years have averaged about \$20 million a year. For additional information on the fund and the Legislative Audit Bureau report, go to:

<http://www.legis.state.wi.us/lab/reports/09-6full.pdf> .

8. OTHER REVENUE ISSUES IN THE NEWS

-- "[As state aid declines, local school levies rise](#)" - Aug. 9, Journal Sentinel - "More than a month after the state shocked school districts with its predictions of dramatic losses in aid for the 2009-'10 school year, taxpayers are getting their first glimpse of the effects at annual meetings throughout the metro area.

For some, the news is not good. The Waukesha School Board already has approved a preliminary 10.51% increase in its property tax levy, to counter a nearly 12% loss in state aid. Residents of the Menomonee Falls School District will be asked to agree to a property tax increase of more than 9% in the coming school year at their annual meeting Monday."

-- "[Nearly \\$80M in stimulus funds directed to Brown Co. projects](#)" - Aug. 11, Green Bay Press gazette - "About \$78 million of federal stimulus money has been allocated to Brown County, its municipalities and agencies. That doesn't include all of the federal money that will benefit county residents, such as tax credits on income taxes and those for first-time homebuyers as well as the cash-for-clunkers program."

-- "[Eau Claire city wheel tax gaining council favor](#)" - Aug. 7, Eau-Claire Leader-Telegram - "Nine months after putting the brakes on a \$10 per vehicle registration fee, the Eau Claire City Council appears ready to reconsider the controversial measure because of budget struggles projected to worsen in future years. Council members discussed the fee, commonly known as a wheel tax, during a budget work session Thursday. While it's preliminary to say the fee will garner council approval and be included in the 2010 city budget, some council members who opposed the measure last year conceded they're willing to reconsider their stances this time around."

-- "[Property tax levies up 5.1% in region](#)" (SE WI) - Aug. 7, Journal Sentinel - "Property tax collections rose by 5.1% this year in southeastern Wisconsin, coming on the heels of a 6.1% increase in 2008 that was the highest jump in a half-decade, a Public Policy Forum report to be released Friday shows. And property tax rates in the region increased 2.8% in 2009 after just a slight 0.15% increase in 2008. The increase in 2008 followed several successive years of rate decreases, the forum study shows. The report says the higher tax rates are due in part to a dramatic slowdown in property value growth."

-- "[School funding error leaves taxpayers holding the bag](#)" - July 15, Appleton Post Crescent - "Public education - the cherished piece of our state fabric that Gov. Jim Doyle said would be protected from budget cuts - is going to take a substantial hit in 2009-2010. More than 90 school districts are facing state funding cuts of more than 15 percent. And this is after lawmakers said no school district should experience more than a 10 percent cut under the newly adopted state budget."

-- "[Wisconsin lawmakers ponder options after oil tax plan killed](#)" - July 8, WI Public Radio - "With an oil company tax out of the picture, state legislators are considering ways to fund transportation

in the future. They removed Governor Jim Doyle's proposal to tax oil company profits before he signed off on the final budget. Now, the state must decide how it will go about paying for improvements to Wisconsin's roadways. Rep. Mike Huebsch of West Salem says the first thing they need to do is set money aside specifically for transportation, then look at diversifying and taking a portion of the sales tax revenue gleaned from car sales and parts for the transportation fund. He also proposes "serious consideration" of tolling the major highways in Wisconsin, including from the state border up to Milwaukee and possibly Madison."

9. READING ROOM

-- [Facing Deficits, More States Considering Taxing Services](#) - A recent report by the Center on Budget and Policy Priorities says most states could improve their tax systems by taxing more services. Doing so would make state tax systems fairer, more stable and easier to administer. It would also help states reduce the size of cuts they are making to schools, universities, health care and public safety due to declining revenues brought on by the recession.

-- "[New York's 'Amazon Law'](#)" An Important Tool for Collecting Taxes Owed on Internet Purchases" - The inability to collect all sales taxes that are legally due on purchases made over the Internet costs states billions of dollars a year in lost revenue. In 2008, New York State enacted an innovative law that helps to address this problem. Rhode Island adopted a similar measure this year. This recent CBPP report suggests that other states with sales taxes should give serious consideration to doing so as well.

-- "[A Report on the Massachusetts Film Industry Tax Incentives](#)" - Governor Doyle generated controversy by proposing elimination of Wisconsin's film tax credit in the budget bill, and he used his veto power to essentially accomplish that objective. His concerns about the WI credit are echoed in a July 2009 report by the Massachusetts' Dept. of Revenue, which raised serious questions about that state's film tax incentives. According to the report, the Commonwealth paid out a total of \$166 million in film tax credits between 2006 and 2008, but the new revenue resulting from film production activity was just \$26 million.

-- "[Excise Tax On Insurers Offering High-Cost Plans Can Help Pay For Health Reform](#)" - The federal government provides substantial tax subsidies for health insurance, especially for high-cost insurance plans for people with high incomes. This Aug. 7 CBPP report says an excise tax on insurance companies that offer very high-cost plans would provide a significant source of funding for subsidies to enable families of modest means to afford health insurance. It would also help slow the rate of growth of health insurance and health care costs.

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