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Revenue Matters -- 2010 Issue # 3

Wisconsin Budget Project -- WCCF  
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Note: The U.S. House is trying this week, potentially tonight, to pass legislation extending a number of portions of the Economic Recovery Act, including fiscal relief for Medicaid -- although that particularly piece might get pushed aside. This newsletter looks at those measures, as well as a wide variety of other significant fiscal issues.

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### 1. HOUSE MAY VOTE TONIGHT ON FISCAL RELIEF AND OTHER ARRA EXTENSIONS

As legislators look forward to a week-long Memorial Day recess, House and Senate Democratic leaders have been struggling to round up support for a large package that includes extensions of unemployment and COBRA benefits that are set to expire at the beginning of June. Wednesday night House leaders announced plans to scale back parts of the bill (HR 4213) to attract votes of moderate Democrats worried about the budget deficit.

The biggest reduction in the price tag would result from extending through 2011, rather than 2013, a provision blocking scheduled cuts in Medicare payments to doctors. In addition, the new compromise would continue through Nov. 30, rather than Dec. 31, extended unemployment benefits and health insurance subsidies for jobless workers.

The total 10-year cost of the new package would be reduced from nearly \$200 billion to about \$144 billion, of which about \$50 billion is offset (by closing tax loopholes for example), and the other \$84 billion would be designated as emergency spending without offsets or is already exempt from the pay-as-you-go law.

Late today there was some talk that lining up the votes might require further reducing the price tag by removing a key piece for states -- the 6-month extension of the Recovery Act's enhanced federal match rate for Medicaid (aka the FMAP increase). As of late April, 30 states reported that their budgets (proposed or enacted) assume the six-month extension of FMAP. In Wisconsin,

failing to get that enhanced funding extended would lead to another round of cuts in Medicaid reimbursement rates for health care providers, which could severely limit the number of physicians who are willing to see MA enrollees.

The 6-month extension of the FMAP increase is expected to yield about \$376 million for WI. Our state would also benefit substantially from a one-year extension of the TANF Emergency Fund, which would offset state costs for growth in W-2 and EITC spending, and possibly also for short term "public benefits" spending for fuel assistance and weatherization.

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## 2) UPDATE ON EDUCATION JOBS FUND

Democratic leaders are very interested in extending the fiscal relief for schools contained in the American Recovery and Reinvestment Act (ARRA). Although that relief prevented crippling educator layoffs over the last year, it is running out while the recession continues to suppress state and local revenue, resulting in deep deficits in education budgets.

A proposal known as the Keep our Educators Working Act (S. 3206) would provide \$23 billion in emergency funding to prevent massive education job cuts. It would yield about \$415 million for Wisconsin.

The best vehicle for passing that measure appears to be the \$59 billion war and disaster supplemental bill. As I understand it, Rep. Obey intends in committee to add the \$23 billion of education job funding to that bill. Finding sufficient votes in the House and then rounding up 60 votes in the Senate will be extremely challenging.

A [recent paper by the Center On Budget and Policy Priorities](#) (CBPP) discusses the consequences of not continuing the fiscal relief for education.

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## 3) NEW ESTATE TAX PROPOSAL WOULD HURT STATES

There continues to be a stalemate in Congress over the estate tax. The tax temporarily lapsed this year, but is scheduled to return next year at the much higher rate and lower exemption that was in place in 2001, before President Bush and the GOP Congress began to phase it down.

In an attempt to resolve the impasse and to have a much smaller estate tax over the long haul, Senator Kyl (R-AZ) has been working with some Senate Democrats to gain support for a proposal to reinstate the estate tax but phase in a \$10 million exemption (compared to \$7 million per couple in 2009) and gradually reduce the top rate to 35%. While negotiations have stalled for now, this issue isn't going away.

The proposal would erode federal revenue for domestic spending, which is likely to hurt future prospects for federal aid to the states. In addition, one way that the Kyl proposal would offset some of the very substantial cost is by eliminating the deductibility of state estate and inheritance taxes. That would put pressure on state lawmakers to repeal state-level estate taxes (in the 21 states that still have them), and the Kyl proposal would make it far more difficult in the other states, including WI, to restore the estate tax.

A [May 20 paper by CBPP](#) paper explains the issue and says: "In the states that have retained an estate or inheritance tax, the federal deduction has played an important role in keeping these taxes politically viable. Without the deduction, the survival of this state revenue source would be in question."

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## 4. WISCONSIN'S TAX COLLECTIONS IMPROVE IN APRIL

April is always a very important month for tax collections, and I was worried about what the Dept. of Revenue (DOR) would report regarding the April figures this year - particularly since the total taxes through March were down 3.7% compared to the first three-fourths of the 2008-09 fiscal year. Fortunately, the April tax collections jumped by 14% compared to April 2009, and the 2009-10 total is now just 1% below the prior year's.

According to the tax reestimate in late January, total General Fund taxes in the current fiscal year are expected to be just a little (0.2%) above the FY 2008-09 level. Nevertheless, it's disappointing that the actual total to date is down 1% compared to the same period a year earlier. However, the upturn in April suggests that the state may be able to close that gap over the last couple of months of the fiscal year.

The [DOR figures and press release](#), show that individual income tax collections are down 3.4% so far this year, and sales tax revenue is off 5.1%. On the other hand, corporate income taxes are up by 34% thus far in 2009-10, and excise taxes are up 16.5%. Both of those taxes were increased by the 2009-11 budget bill.

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## 5. ASSEMBLY REPUBLICANS PROPOSE CONSTITUTIONAL AMENDMENT TO LIMIT SPENDING

Rep. Mark Gottlieb and 20 other members of the Assembly Republican Caucus announced after the end of the legislation session that they will propose a constitutional amendment that would cap state General Fund tax spending at 6.5% of the statewide personal income, with any excess going into a rainy day fund. Called the **FIRST** program, the proposed amendment would be introduced during the 2011 legislative session. If approved during that session, it would need approval by the 2013 Legislature and a statewide vote before it could become effective.

The proposal appears to be less onerous than the Taxpayer Bill of Rights proposed a few sessions ago, but like that proposal FiRSt would entrench inflexible spending restraints into the state constitution, which creates a potential straightjacket for future lawmakers. We will take a closer look at the proposal in the coming months.

If the amendment were in effect for fiscal year 2009-10, General Fund spending would be limited to \$13.65 billion, based on 6.5% of the \$210 billion in statewide personal income. That is roughly equivalent to the net General Fund appropriation for 2010-11 in the biennial budget bill. Any General Fund revenues in excess of the 6.5% level would be placed in a "Fiscal Responsibility Fund." According to Gottlieb, that fund would do three things:

- Control state spending by forcing the state to save some of the taxes collected in good economic times and not spend on new programs.
- Create a guaranteed rainy day fund to stabilize the budget without raising taxes during future economic downturns.
- Provide future property tax relief by requiring fund balances above a specific amount be returned to taxpayers as direct property tax relief.

You can read more in [Gottlieb's newsletter](#) about the proposed amendment:

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## 6. WISCONSIN WAY TO PARTICIPATE IN ECONOMIC SUMMIT SERIES

The Wisconsin Way initiative, which has been exploring ways to modernize the financing of state and local government in Wisconsin, announced today that it will participate in "an important statewide effort to revitalize Wisconsin's economic future."

Over the coming months the UW System, Competitive Wisconsin, the Wisconsin Higher Education Business Roundtable and the Wisconsin Way are co-hosting the **2010 Wisconsin Economic Summit Series** - "a series of three major summits dedicated to helping Wisconsin forge dynamic strategies for a stronger economic future."

- **Tues. June 29, Appleton** -- The first of the summits is focused on new strategies for economic development and will highlight, among other things, the findings and recommendations from a recent study commissioned by Competitive Wisconsin, the Wisconsin Economic Development Association and the Wisconsin Counties Association.
- **Thursday, Aug. 26, La Crosse** -- The second summit will focus on the critical strategic choices that will have to be made as the new administration and legislature begin their 2011-13 state budget deliberations.
- **Tues., Oct. 5, Milwaukee** -- The third summit will concentrate on building on the results of the first two summits to develop a set of strategic briefing papers and recommendations for the incoming administration and legislature.

To read more, go to [www.wiroundtable.org/summit](http://www.wiroundtable.org/summit) . Note that in contrast to the WI Way meetings, which were free, these are not. The registration fees range from \$150 for the first one, to \$300 for the third one, or \$500 for all three. That will obviously affect who's at the table to help develop the recommendations.

## 7. FEINGOLD HOLDS HEARING ON OBAMA'S "LINE ITEM VETO" PROPOSAL

Senator Feingold held a public hearing Wednesday of the Senate Judiciary Subcommittee on the Constitution to consider a bill proposed by the President Monday, referred to as the Reduce Unnecessary Spending Act. The proposed law is sometimes referred to as a form of line-item veto, although that's not technically correct.

As *Roll Call* reported Tuesday, the bill "would allow the president to submit a package of rescissions shortly after a spending bill is passed. Congress would have to consider the recommendations as a package, without amendment, and hold an up-or-down vote within a specified time frame."

Various presidents have been trying for the last 2 or 3 decades to get authority for a line item veto or spending rescissions that can be used to selectively cut pork or other spending they don't like from large appropriation bills, but without going through the cumbersome process of amending the Constitution. President Clinton was granted that power by a bill passed in 1996, but it was ruled unconstitutional in 1998.

Senator Feingold has pushed a similar plan in the Senate (in conjunction with Senator McCain and Rep. Paul Ryan) and he supports the Obama proposal. However, many other members of Congress are highly critical of the plan, arguing that it would strip the legislative branch of its power of the purse.

An interesting [editorial in the May 25 NY Times](#) presents arguments on both sides of the issue, but comes down against the Obama proposal:

*"Presenting new rescission procedures as a tool for imposing fiscal responsibility reinforces the wrongheaded notion that the deficit is caused by out-of-control discretionary spending, especially on pork-barrel projects. ... The discretionary spending singled out has actually been trending downward..."*

Senator Feingold's initial comments about the Obama proposal, including his assessment that it appears to be constitutional, can be found in [a May 24 post on Politico](#).

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## 8. STUDY OF HEALTH CARE LAW REBUTS STATE CONCERNS ABOUT COSTS

On Wednesday, May 26, the Kaiser Family Foundation released a study on health care reform and the states. It concludes that the federal government will bear nearly the entire cost of expanding Medicaid under the new health care law. The Kaiser study predicts that the increase in state spending will be relatively small when weighed against the broad expansion of health coverage for their residents and the huge influx of federal dollars to cover most of the cost.

The report has tables that show for each state the expected decrease in the number of uninsured, the expected cost to the state, and the estimated federal share. For WI, the report estimates that the Medicaid expansion would add a total of \$314 million or 1.4% to the state's share of MA spending over the 6-yr period from 2014 through 2019. The federal share is expected to increase by more than \$4.9 billion, or 14.7%.

As [the Journal Sentinel reported Wednesday](#), DHS officials think that WI will actually save \$745 million to \$980 million over that period. I don't have enough details to critique either analysis, but the DHS estimate appears to be based on a broader analysis of the new law, and DHS is in a much better position to determine the specific implications of the law for our state. In an upcoming WCCF blog, I'll take a closer look at the reasons why DHS expects the savings to exceed the state costs of expanding Medicaid eligibility.

You can find the Kaiser report and related resources at: <http://kff.org/healthreform/8076.cfm>  
For just the report, go to: <http://kff.org/healthreform/upload/Medicaid-Coverage-and-Spending-in-Health-Reform-National-and-State-By-State-Results-for-Adults-at-or-Below-133-FPL.pdf>

See also the [May 26 Washington Post article](#) summarizing the Kaiser report:

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## 9. PLEASE SUPPORT WCCF

If you value this newsletter and the work WCCF is doing to help find ways to fill holes in the state budget, we could really use your help in filling a hole in the WCCF budget. You can contribute on the following portion of our website:

<https://payments.auctionpay.com/ver3/?id=w043832>

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