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Revenue Matters -- 2010 Issue # 4
Wisconsin Budget Project -- WCCF
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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: The Wisconsin Budget Project recently initiated a [blog](#), which provides regular updates on the issues below. In fact, for many of the following items you can find additional analysis and commentary in our blog posts. Check it out, and sign up there to follow our blog - either by e-mail or RSS feed.

<http://wisconsinbudgetproject.blogspot.com/>

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1. WILL CONGRESS APPROVE FISCAL RELIEF FOR STATES?

Congress finally acted this week to extend unemployment insurance (UI) benefits for the long-term unemployed, which is one of a number of parts of the American Recovery and Reinvestment Act (ARRA) that Democrats have been trying to extend.

The bill that was passed and signed into law yesterday is a welcome relief for nearly 3 million people who have seen their checks cut off since the extended benefits expired June 2, including about 66,000 jobless Wisconsin workers who had lost this vital economic lifeline. According to many economists, it is also a very important bill for the economic recovery because federal spending for UI benefits has a very high multiplier effect in communities across the nation.

However, the bill is also noteworthy for all the important measures that it does not include. In order to pick up the votes needed to break a filibuster, Senate Democratic leaders had to shelve, at least for now, efforts to extend numerous other Recovery Act measures.

A [July 22nd post on the WI Budget Project blog](#) outlines some of the measures that aren't in the bill and discusses the dimming prospects for Congressional approval of fiscal relief.

In an [op-ed column that ran in the Journal Sentinel](#) a couple of weeks ago, I made the case for extending ARRA relief for the unemployed and for states. That column was written before the state's fiscal challenges were compounded by the Supreme Court decision relating to the transfer of \$200 million from the medical malpractice fund (item # 5), and before DHS publicly acknowledged the state's Medicaid deficit. Those developments make the need an extension of federal Medicaid relief all the more pressing.

2. NEW DATA SHOW WI BELOW AVERAGE IN TAXES & SPENDING PER CAPITA

The U.S. Census Bureau released data last week on state and local revenue collections and spending in fiscal year 2007-08. Our analysis of those volumes of figures reveals that **the average Wisconsinite paid \$40 less in state and local taxes than the average for the nation as a whole** in fiscal year 2008. Our state ranked 17th in per capita taxes (with #1 being the highest), compared to 8th in 2000.

For state and local spending per capita, WI is much further below the national average. Using the most commonly referenced measure ("direct general spending") **Wisconsin was \$345 per person, or 4.4%, below the national average for spending.** (The difference grows to \$570 per person, or 6.1% below average, if one uses the broadest measure of state and local spending, which also includes things like public utility spending and state-owned liquor stores; however, I don't think that's a good measure for state comparisons.)

Wisconsin moves up the ladder in the national rankings when revenue and spending are measured relative to personal income, because the income of the average Wisconsinite is almost 6 percent below the national average. As a result, even though Wisconsin's state and local taxes per person are below average, the share of income that is used for taxes in Wisconsin is 5 percent above the national average. Wisconsin ranks 13th in taxes as a percentage of income, which is the most widely watched measure, and 21st in total "own source" revenue relative to income.

More of the highlights of Budget Project's analysis can be found in a [new issue brief](#) on our website.

3. A LITTLE BIT OF GOOD NEWS ON REVENUE !!

Wisconsin has gotten a string of bad news about its fiscal situation over the last two weeks (see items # 4 & 5), so I need to report on one bit of somewhat positive revenue news. The Dept. of Revenue released [June tax collection data](#) this week, and their figures show that last month's tax collections were 3.9% ahead of June 2009.

For much of the 2009-10 fiscal year, which ended on June 30, tax collections trailed the 2009 level. However, the state closed the gap over the last few months. According to the latest DOR numbers, which aren't quite the last word on the 2009-10 tax collections, the state finished the fiscal year \$1 million below the previous year, a miniscule difference in state budget terms.

The last LFB projections from January of this year had assumed General Fund tax growth of about \$19 million in 2009-10, so the state might be about \$20 million short of the projection, but we'll probably need to wait a month or so weeks before we get a firmer picture of that. A difference of \$20 million might sound like a lot, but in the context of estimating \$12 billion per year in taxes during very turbulent times, that's about as close to a bull's-eye as one can reasonably expect.

The upward trend over the last few months is a positive sign for the 2010-11 fiscal year. But keep in mind that the state needs 5.5% tax growth this year to reach the tax collections assumed in the budget bill. I have some doubts about whether the shaky economic recovery will allow the state to achieve that, but the fact that the 2009-10 projections were almost dead on target makes me much more optimistic about the state's chances of finishing the biennium pretty close to the estimate.

4. FISCAL BUREAU'S \$2.5 BILLION DEFICIT FIGURE UNDERSTATES THE PROBLEM

The Legislative Fiscal Bureau (LFB) issued a [July 9 memo](#) that provides an overview of the state's budget situation. In a [July 15 blog post](#) I analyzed the LFB figures and noted that although the picture the LFB painted wasn't pretty, they spared us from describing the ways in which it was likely to get uglier. Over the last two weeks we have gotten some of the additional bad news that further complicates the job of lawmakers to fill a hole in the budget in the next

The LFB memo should be very sobering news for anyone who believes that the next legislature and next governor can begin cutting taxes or funding new initiatives as soon as they take office. The LFB concluded that General Fund revenue needs to grow by a little over \$2.5 billion in the next two years to be able to maintain current GPR appropriations for all agencies and programs - without making any adjustments for inflation or increased need for services. However, their memo assumes that the state estate tax will automatically be restored (assuming current state and federal law aren't changed). My blog post explains why that's technically the assumption the LFB needs to make, but there's almost no chance that Congressional action or inaction will enable it to happen. If it isn't revived, the "structural imbalance" grows by an additional \$219 million over the next two years.

In addition, the Supreme Court ruling described below and the recent announcement by DHS that there's roughly a \$300 million GPR deficit in Medicaid could both add greatly to the structural deficit, unless the state responds by slashing spending in the current fiscal year to fill those holes.

5. SUPREME COURT RULING ADDS TO LARGE MEDICAID DEFICIT & BROADER HEADACHES

The Wisconsin Supreme Court ruled Tuesday that the state must pay back the \$200 million it transferred from the medical malpractice fund to help balance the 2007-09 budget. The 5-2 [court ruling](#) sided with the arguments by the Wisconsin Medical Society that taking the money from the fund was unconstitutional. The ruling adds to the very substantial challenge Wisconsin will have in bringing the 2009-11 biennial budget back into balance.

The case now goes back to a lower court, which will implement the ruling. The lower court will determine how much interest the state must pay on the \$200 million and will determine the repayment timetable, which some expect to be a gradual schedule of payments.

In a [July 22nd blog post](#), I took a look at the implications of the court ruling, and at a statement by the DOA Secretary suggesting that the state may have to cut Medicaid reimbursement rates for providers. As I noted in the [blog post](#), there are no painless solutions for rebalancing the state budget, but during a deep recession the state should exhaust all other options before weakening programs that provide such a vital lifeline for struggling families, the elderly and people with disabilities. And in times like these, policymakers should strive to avoid cutting spending that puts so much federal matching funds into circulation in the Wisconsin economy.

6. WI LEADS THE NATION IN RATIO OF MANUFACTURING TO GOVERNMENT JOBS

On a number of occasions this year, Wisconsin Manufacturers and Commerce (WMC) has lamented that Wisconsin now has fewer manufacturing jobs than government jobs. A [WMC report](#) implies that this recent development is a calamitous turn of events and reflects badly on Wisconsin's business climate. A [new analysis by the Wisconsin Budget Project](#) compares the ratio of manufacturing to government jobs in every state, and those statistics put Wisconsin in a much different light than the WMC report.

Our [analysis](#) of the job sector data reveals the following:

- In 2009 Wisconsin was the only state with more manufacturing jobs than government jobs, and only Indiana was even close.
- At no time in the last 20 years has the national ratio of manufacturing to government jobs exceeded the current ratio in Wisconsin.
- That ratio was almost twice as high in Wisconsin last year as it was for the United States as a whole (1.03 vs. 0.53).
- Wisconsin and Indiana have a larger percentage of their total jobs in manufacturing than any other states.
- The size of Wisconsin's state and local government workforce is 8.2 percent below average, relative to the state population, and only 9 other states have fewer state and local jobs as a ratio of the state population.

If the ratio of manufacturing to government jobs is a good measure of a state's economic vitality, WMC and all of us should celebrate the fact that Wisconsin is number one.

7. IWF PAPER ON REVENUE POTENTIAL FROM CLOSING THE TAX GAP

Wisconsin is losing \$1.2 billion every year in revenue due to the tax gap, according to [a report by the Institute for Wisconsin's Future](#). The tax gap, which refers to the difference between the amount of tax due and the amount that is actually paid, amounts to 10 percent of state tax collections. This gap contributes to the state budget shortfall and reduces the level of resources available to our communities.

The report suggests several courses of action to address the tax gap. First, the Legislature should invest additional resources in the Department of Revenue to support tax collections activity. Second, policymakers should streamline the state tax code by reducing the number of exemptions, deductions, and credits. This simplification would reduce the number of honest mistakes made by taxpayers and make it easier for the Department of Revenue to detect taxpayers who are not paying taxes due. Finally, the tax gap should be monitored on a regular basis so as to identify new trends or reasons for noncompliance, and to provide information to policymakers trying to close the gap.

8. LEVELING THE PLAYING FIELD FOR RETAILERS

Ever notice that you don't pay sales tax when you make a purchase from Amazon.com? The owner of your local bookstore has noticed, especially because the sales tax puts his or her business is at a competitive disadvantage with online retailers.

The Milwaukee Journal Sentinel ran a recent [article](#) and then a follow-up [editorial](#) about the tax advantage online retailers enjoy over Main Street businesses. The [Wisconsin Budget Project](#) also recently released a [paper](#) on this topic, which includes information about how much money is at stake, why there are different rules for different retailers, and what Wisconsin can do to level the playing field and to make a modest dent in the state's deficit.

9. PLEASE SUPPORT WCCF AND THE WISCONSIN BUDGET PROJECT

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

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