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Revenue Matters -- 2010 Issue # 7  
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: a) The WI Budget Project is taking a big hit in our foundation funding, just as we enter a period when our work will be more important than ever. We badly need your help to enable us to continue analysis and public education relating to state budget issues. (See item # 10.)

b) We'll follow up this newsletter soon with additional analysis of some of the portions of the tax and unemployment benefit deal negotiated by the President, and with a brief summary and some commentary on the state agency budget requests for 2011-13. See item # 3 for some preliminary comments about the tax deal, and see also our blog posts on that topic.

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## 1. JOINT FINANCE COMMITTEE MEETS TODAY

The composition of the Joint Finance Committee (JFC) will switch from 8 Democrats and 4 Republicans to exactly the opposite of that next year. In the meantime, the current JFC has its usual quarterly meeting today, Dec. 14, when the committee will review and act on a broad range of agency requests. The meeting is supposed to begin at 10:00 a.m. in Room 412 East in the Capitol.

Some of the more interesting things on the agenda include the following:

- A request for approval of its five-year sustainability plan for the child care quality rating and improvement system (QRIS) called YoungStar.

( [http://legis.wisconsin.gov/lfb/Section1310/2010\\_12\\_14\\_DCF\\_QRIS\\_3.pdf](http://legis.wisconsin.gov/lfb/Section1310/2010_12_14_DCF_QRIS_3.pdf) )

- A Public Service Commission proposal to increase the amount that utility companies pay for energy efficiency and renewable resource programs. (Click [here](#) for the LFB memo.)
- A DHS proposal relating to how much of about \$28 million of federal "income augmentation" funds will use be used to fill holes in the DHS or to lapse to the General Fund. (Here's the [LFB memo.](#))

You can find the full JFC agenda at: <http://legis.wisconsin.gov/lfb/jfc/schedule.htm>

A recent [WI Budget Project Blog post](#) lists all of the 16 legislators who will serve on the JFC next year.

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## 2. HOW BIG IS THE STATE DEFICIT?

DOA ESTIMATES A \$2.2 BILLION DEFICIT IN 2011-13; REPUBLICANS CONTEND IT'S \$3.3 BILLION, AND BOTH SIDES UNDERSTATE THE PROBLEM

New estimates were released Nov. 19 on the size of the budget deficit Wisconsin faces over the next biennium. As is often the case, the figure has generated controversy, but this year the parties have reversed roles; Republicans are criticizing the Doyle Administration for using agency requests that the Governor-elect says are too low, thereby underestimating the difficulty the incoming Administration will have in balancing the budget.

The traditional but imperfect way the deficit is calculated at this stage of the budget process is to compare the new revenue estimates for the coming biennium with the agency budget requests. In past years fiscal conservatives have typically argued that those requests are too high and cause the size of the estimated deficit to be inflated. Thus, I think it's ironic for Republicans to make the opposite argument this year. Nevertheless, I believe their higher estimates are a more accurate assessment, though I don't share their opinion that the outgoing Administration was crunching the numbers any differently than they would have if the outcome of the elections had been different.

According to the [Nov. 19<sup>th</sup> DOA document](#), the agency budget requests are \$1.5 billion above the 2011-13 revenue estimate. However, the DOA conceded that a couple of things the Dept. of Health Services request didn't take into account would bring the deficit to \$2.2 billion. Nevertheless, the Governor-elect's Transition Director, John Hiller, complained that the figure should actually be \$3.3 billion because:

- the DHS request assumes \$300 million in new MA cuts or provider taxes that shouldn't be considered as part of a cost-to-continue budget estimate; and
- the DOA document assumes the continuation of \$400 million per year in agency lapses that will have to be administered by the Walker Administration.

Hiller's [press release](#) concludes, "When all of these measures are fully accounted for, we believe the true budget shortfall to be in excess of \$3.3 billion."

I agree with Hiller regarding the additional \$1.1 billion, but he neglected to add in another \$100 million per year item that brings the budget hole to at least \$3.5 billion. The DOA document assumes that Congress won't block a scheduled change in federal law that, if it takes effect, would allow state estate taxes to automatically return next year. However, Congress will almost certainly act to keep that from happening. In fact, the tax package recently negotiated by the President keeps those state estate taxes from being restored next year (unless a state enacts legislation to restore its estate tax by decoupling from the federal law).

People on all parts of the political spectrum should be able to agree that Wisconsin faces immense fiscal challenges in the next biennium. It's a shame, though, that there isn't an agreed-upon method of calculating the next deficit. If GOP leaders are genuine in expressing a desire for a better accounting of the size of the hole, I hope they will reach out to Democrats and come to an agreement for how a nonpartisan entity, such as the Fiscal Bureau, should calculate the deficit for the next biennium.

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## 3. THE FEDERAL TAX CUT CONUNDRUM -- A PRELIMINARY OVERVIEW

A week ago, when the President first unveiled the compromise that he negotiated with Republicans on tax issues and unemployment benefits, the initial reaction from many Democrats was quite hostile. In some camps that's still the case, but as different lawmakers and others take a closer look at the proposal and the political alternatives, there has been at least a little bit of thawing in the opposition from the left side of the political spectrum.

A new [Wisconsin Budget Project blog](#) post links to a [short analysis of the plan](#), which was issued Friday by the Center on Budget and Policy Priorities (CBPP) and sheds some light on why the number of liberals and moderates supporting the plan has gradually been growing. It also links to a piece written last week by NY Times columnist Gail Collins, who provides an amusing and insightful analysis of the reaction of liberals to the proposed deal. The gist of her column is that the deal is probably the best that the President could strike, given the very weak bargaining position that Congress put him in by ducking the tax issue before the election.

The Wisconsin Budget Project has written a couple of blog posts about the proposed compromise. One describes the Recovery Act [enhancements to the refundable tax credits](#), which would be extended for two years by the compromise. Another post explains the [proposed continuation of federal unemployment insurance benefits](#), which could revive benefits for about 2 million unemployed Americans losing them this month, including about 40,000 Wisconsinites. And that post addresses the misconception that the compromise would lengthen the benefit period beyond the current 99-week maximum. We'll soon examine other aspects, such as the estate tax and how the plan could be VERY expensive for states.

Regardless of how the debate on these intertwined issues plays out, I think Collins is right that the current debate "puts the drama in Obama."

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#### 4. RICK'S TAX MIX NIXED -- WALKER QUICKLY REJECTS TAX SWAP PLAN

At a public forum shortly before Thanksgiving, Rick Chandler, a member of the Governor-elect's transition team, floated the idea of increasing the sales tax by at least two cents – as part of a plan to pay for significant reductions in income and property taxes. Within less than 24 hours the idea had been trashed by liberals and conservatives, and most importantly by the Governor-elect, and it was declared dead almost before the public even got wind of the proposal.

Because such a change would result in a substantial shift in taxes to lower income Wisconsinites, I wrote a critical [op-ed column](#) a couple of months ago, soon after the general idea first surfaced. So perhaps I ought to be celebrating the proposal's speedy demise, but instead I'm concerned that any idea to raise a tax – even as part of a revenue-neutral proposal – is immediately denounced, before there's a chance to examine the proposal's merits and debate it in a rational way

Read more in the [Nov. 30 Wisconsin Budget Project blog post](#).

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#### 5. WILL WALKER CUT TAX CREDIT FOR THE WORKING POOR?

Ronald Reagan called the Earned Income Tax Credit (EITC) "the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress." Wisconsin's EITC, like the federal credit, has enjoyed broad bipartisan support, and it was signed into law by Governor Thompson. Nevertheless, Steve Walters speculates in a [Milwaukee Journal Sentinel column](#) on December 5<sup>th</sup> that Governor-elect Walker may propose cutting this popular tax credit for the working poor.

I think it's a good column, but I'm not objective about that because it quotes several of my arguments against cutting the state EITC. A recent [Wisconsin Budget Project blog post](#) examines the issue.

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## 6. SALES TAX LOOPHOLE MEANS STATE LOSES REVENUE

The holiday shopping season is here! Unfortunately, a loophole in federal tax law means that states are unable to collect the sales tax that is due on some online purchases. That hasn't stopped them from trying, though, and a recent New York court decision may help smooth the way.

Sales tax is due on online purchases, but states haven't yet found successful methods of legally compelling internet-only retailers to collect the tax. A lot of money is at stake – in 2011 alone, Wisconsin will lose an estimated \$127 million in uncollected sales tax on purchases made online. In addition, Internet retailers get an automatic price advantage over bricks-and-mortar businesses.

Internet retailers have done the math too, and so far have been successful in thwarting state efforts to collect the sales tax, with Amazon.com leading the way by using economic threats against states that use the New York strategy to enable the collection of the tax. States will have to work together if they are to successfully resolve this issue.

Learn more about sales tax on internet purchases by reading this [Wisconsin Budget Project publication](#) or our [November 29<sup>th</sup> blog post](#).

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## 7. MANY SCHOOL REFERENDUMS PASS

Despite being in a conservative mood on November 2<sup>nd</sup>, voters approved tax increases in more than half the school districts that were seeking increased school spending.

Of the 21 school referendums on the ballot, 11 passed and 10 failed. (One additional question was cancelled). In total, voters approved more than \$55 million in school spending, the largest of which was in Pewaukee for \$16.5 million to remodel existing facilities and add new classroom space. The Wisconsin Education Association Council has a [complete list of the referendums here](#).

In addition, voters in south central Wisconsin overwhelmingly approved a \$133 million referendum by Madison Area Technical College to build new education centers for health sciences, protective services, and manufacturing, among other improvements.

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## 8. REVIEW GIVES TWO THUMBS DOWN TO STATE FILM PRODUCTION SUBSIDIES

No matter how delicious the popcorn, state subsidies for film production are bad policy, says a [recent report by the Center on Budget and Policy priorities](#). These subsidies are costly to states, reward companies for production they might have done anyway, and do not create much in the way of jobs for local residents.

Filmmaking subsidies in Wisconsin were cut last year after an in-state analysis showed the rapidly rising tax subsidies to be an ineffective form of economic development spending. Still, some newly-elected lawmakers would like to give the film subsidies a new run.

Read more at [Wisconsin Budget Project's November 18<sup>th</sup> blog post](#).

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## 9. BUDGET BLOG AND FACEBOOK

Budget season is coming, which means it's the perfect time to visit the [Wisconsin Budget Project blog](#) for timely updates on important revenue issues. While you're there, subscribe to get the posts by email, so you never miss an update.

If subscribing to the blog still leaves you hungry for more revenue news, visit the [Wisconsin Budget Project on Facebook](#) and “like” us to keep up to date with revenue-related developments.

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## 10. THE WISCONSIN BUDGET PROJECT NEEDS YOUR HELP!

It's that time of year when many of us start thinking about end-of-the-year contributions. Please consider supporting the Wisconsin Budget Project as you make your tax-deductible contributions.

The Budget Project is losing a big chunk of its foundation funding in 2011, and that comes at the worst possible time. Given the tremendous fiscal challenges the state faces next year and the potential implications for vulnerable people in our state, we are fighting to fill that hole and to avoid paring back our staff capacity to track and analyze budget developments.

If you value this newsletter or our blog, as well as our analysis of state budget issues, we badly need your help in filling a very large hole in the WCCF budget. You can contribute on the following portion of the WCCF website: <https://payments.auctionpay.com/ver3/?id=w043832>

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