



Unanswered TPA Questions Pose Dangers for Wisconsin's Farmers

The Taxpayer Protection Amendment and its Potential Impact on Wisconsin's Agricultural Industry and Farming Families

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Executive Summary

The Taxpayer Protection Amendment (TPA) is a far-reaching constitutional limit on the authority of Wisconsin state and local governments to raise revenue. This specific proposal has only recently been introduced and policy-makers, the media, and the public are still trying to interpret its provisions and determine its likely impacts. All agree that the TPA would significantly reduce spending over time at both the state and local levels.

Through the Department of Agriculture, Trade, and Consumer Protection (DATCP), the University of Wisconsin – Extension service, and other efforts, state and local governments make a number of investments in farming operations and in other agribusinesses, funded in large part by tax revenue. The state's farming families and others employed in this industry (over 419,000 Wisconsinites statewide) will not be immune to the resulting cuts mandated by the TPA's flawed formula. Existing state and local efforts to assist this, perhaps the state's most critical industry, and those employed in it will come under pressure, as will other areas of spending.

DATCP, for instance, with a notably lean staff, helps protect agricultural producers against catastrophic financial defaults by agricultural contractors, including grain dealers, grain warehouse keepers, milk contractors, and vegetable contractors. It monitors animal health and disease threats such as chronic wasting disease, "mad cow" disease, tuberculosis, and others. It regulates and inspects Wisconsin's multi-billion dollar livestock and poultry industry to protect it and the public from devastating diseases. And it works to control serious pests that threaten Wisconsin crops, forests, and plants. These are just a few of the critical functions DATCP staff carries out.

Likewise, the UW-Extension serves farmers and others in rural communities around the state in a number of ways. Through Extension agents in the counties, its research facilities, and many other educational services, the Extension service works closely with farmers and agribusiness professionals, teaching them more efficient and productive practices. The Extension also provides assistance to many in rural communities through its other programs that include, Family Living, 4-H Youth Development, and Community, Natural Resource and Economic Development.

Not only will the TPA squeeze current investments in agriculture, but also the most critical challenges faced by Wisconsin's farmers will actually be harder to solve because of it. Most

notable is the fact that significant numbers of farmers – engaged in one of the most dangerous professions – go without any form of health insurance. A solution must be found to this very real problem, whether it is through the extension of existing Medicaid programs or through new approaches. The revenue clamps applied by the TPA would make the health care crisis on Wisconsin's farms more difficult to solve.

Colorado has lived under a cap system for years and its farmers and ranchers have paid a high price for it in the form of decreased assistance from the state and increased fees for a number of things. For example:

- The Colorado Department of Agriculture's total General Fund appropriation fell from \$8.3 million in fiscal year 2002 to \$4.2 million in fiscal year 2004. Largely hit was the Agricultural Services Division, the division responsible for inspection and certification of Colorado produce, pest control, and management of noxious weeds.
- In 2002, the state cut Colorado State University's budget for Agricultural Extension Service by more than \$1.6 million, or approximately 18 percent. In early 2005, the Extension Service announced it would begin charging fees for such popular programs as statewide 4-H clubs, Master Gardener accreditation, and agricultural technical assistance for ranchers and farmers.
- Before fiscal year 2002, Colorado state government contributed funding to help farmers with the cost of agricultural inspection fees. With the loss of state support, farmers are burdened with the entire cost of these inspections. As a result, the actual costs of these fees to producers increased dramatically.

Due to the complexity of the TPA, the apparent rush to bring the proposal up for a vote, and the experience of Coloradoans with a similar cap system, a number of serious questions remain unanswered regarding the impacts it would have on Wisconsin's thousands of farming families, and on the agricultural industry in general. For example:

Unanswered Questions About TPA's Impact on Investments
in Wisconsin's Farming and Agricultural Industry

1. How would the proposal impact efforts to assist farmers in identifying new products that can act to diversify our agricultural base and protect our farming jobs?
2. What impact would the proposal have on future attempts to increase access to health care for our farming families (whether through extension of existing M.A. or related programs or new efforts)?
3. How would the state, under TPA, be able to meet its responsibilities to inspect meat and poultry plants and ensure a safe supply of such products for the consumer?
4. How severe an impact would the proposal have on the ability to assist farmers with non-point source pollution and other environmental regulations?
5. Which fees are most likely to increase for farmers under the proposal in response to the reduced state and county funding, and what will that mean for their profitability?
6. What impact will the likely reduction of county Extension service agents have on the dissemination of critical information on more efficient and productive farming practices have on the state's farmers?
7. Has the Colorado experience been studied sufficiently to ensure that the severe impacts felt there by farmers and ranchers are not duplicated here in Wisconsin?

TPA proponents have largely ignored these questions to date, and have instead insisted that residents, including farmers, are solely interested in tax relief. Wisconsin farmers, particularly farming families, are primarily concerned about *property* tax levels. It is ironic, then, that the latest version of the TPA – passed by the Assembly on April 28th – does not apply to property taxes, and it could indirectly increase them by making it difficult for the state to provide aid to local governments. While the taxes that farmers are most concerned about will not be restricted by that version of the TPA, the state programs they count on will certainly be affected. These most recent events cast even more doubt on proponents' reasons for rushing ahead with the TPA, and only raise more unanswered questions.

Introduction

The Wisconsin Legislature is in the midst of debating the Taxpayer Protection Amendment (TPA), a far-reaching proposal that would place constitutional limits on the authority of state and local governments to raise revenue. While this latest version of TABOR (the Taxpayer Bill of Rights) appears at first blush to only address the revenue side of budgets, it is well understood and widely accepted that it would effectively limit state and local governments' *expenditures* as well.

Only recently released after months of development behind closed doors, the lengthy provisions of the TPA – and their inevitable impacts on Wisconsin's economy and residents – are only now beginning to be understood. It is fair to say that many questions about the TPA and how its provisions will specifically impact residents have yet to be answered. This is certainly the case regarding the TPA's impacts on agriculture and Wisconsin's farming families. In fact, there has been no public discussion to date about the TPA's impact on this, one of the state's largest and most important industries.

The importance to Wisconsin of agriculture and thriving family farms is well documented. Agriculture provides jobs for over 419,000 Wisconsin citizens. It contributes \$16.8 billion to the state's total income, and it accounts for \$51.5 billion in total economic activity.¹ In many counties and several regions in the state, agriculture is the leading economic driver. While the state's economy has become more diverse in recent years, it is still fair to say that as a whole it is largely dependent on the well being of our agricultural industry and on the success of our farming families.

Because of the complexity of the TPA proposal and the limited discussion that has taken place to date regarding its likely impacts, there is growing concern about multiple unintended consequences stemming from the TPA for our farmers and their families.

The agricultural industry and the well being of the thousands of Wisconsin farming families are too important to leave the many lingering questions about the TPA unanswered.

What is Known About the TPA?

One thing both opponents and proponents of the TPA agree on is that it would significantly curtail spending over time. Analysis of the original TPA version (Assembly Joint Resolution 77 and Senate Joint Resolution 63) has shown that if it had been in effect since 1985, state revenue in 2005 would have been over 30 percent below actual revenue in that year – equating to \$5.2 billion less revenue to fund programs and services.²

County governments would be impacted as well, both directly in how the TPA formula impacts their revenue raising authority as well as in reduced aid from the state for many of the programs administered by counties. By 2004, counties would have raised about half of what was actually raised that year in revenue. Municipal governments would have had their revenue capped at 43 percent less than actual revenue raised in 2004.³

TPA proponents argue that the limits would merely slow the growth in services, and would not result in actual cuts to the quantity or quality of programs and services that residents have come

to expect. The fact is, because the TPA formula uses inadequate measures of growth (the Consumer Price Index and general population growth for the state, for example), cost increases for the existing level of services will easily outstrip allowable revenue growth, and we will see significant service declines, in the quality or quantity of services provided, or both.

To understand the real impacts that will be felt by residents, however, it's important to go beyond the "macro" level and to estimate the impact on specific services and programs. For a number of reasons, not every state-funded program, to continue the example, would have been equally effected by the state having 30 percent less total revenue available in 2005.

Many programs and services are mandated by the federal government (wastewater treatment, special education), and budget writers would generally not be able to reduce funding in those areas. Other spending captures federal matching dollars (Medicaid), and there will be pressure to retain high levels of spending on those items in order to capture the additional funds. Other costs are fixed (pension fund contributions) and little can be done to adjust those costs even if they rise faster than allowed by the formula. Still other spending areas (K-12 education) are supported by significant political pressure, and legislators and governors will find it difficult to cut spending in those areas.

What remains then, under a cap system, is a category of unprotected, discretionary spending items that are especially vulnerable and that end up competing against each other for the significantly reduced available revenue. Many of the programs and services aimed at assisting farmers and others involved in agriculture fit into this last category.

What Would Happen to Farming and the Ag Industry in Wisconsin Under TPA?

While it is impossible to estimate a precise fiscal impact on any specific state or local department, program, or service under the TPA, a look at the existing agricultural-related programs, their sources of funds, and how "protected" they are can begin to show us what the real, practical impacts would be under a TPA-type scheme.

The programs and services that assist farmers and others involved in the agricultural industry are funded and administered primarily by the Department of Agriculture, Trade, and Consumer Protection (DATCP), the University of Wisconsin – Cooperative Extension, and counties.

DATCP

The Department administers a number of specific programs meant to assist farmers, protect the public by ensuring food safety, ensure healthy livestock, assist with the development of new agricultural products and tap into new markets for those products. Its annual budget is about \$72 million, with \$25 million coming from the state, and over \$40 million from user fees and licenses.⁴

The number of staff at DATCP has fallen dramatically in recent years, from nearly 800 staff in 1980 to just over 600 as of 2004.⁵ Interestingly, the Department runs significantly more programs now than it did in those earlier years. Unfortunately for the Department and the many farmers (and public) it serves, DATCP's impressive and obvious efficiency will not protect it from budget cuts under a TPA-like scheme. It is ironic that this is the case with any state department

or local government – that if it is operating efficiently now, and contains little bureaucratic waste – the impending cuts mandated by TPA’s formula would hurt the most, in that it will be actual programming and services that will need to be cut.

Here are just a few examples of the specific work conducted by those at DATCP and funded by tax dollars along with fee revenues. These are activities related to protecting both farmers and consumers from a variety of very real threats.

- Helps protect agricultural producers against catastrophic financial defaults by agricultural contractors, including grain dealers, grain warehouse keepers, milk contractors, and vegetable contractors.
- Monitors animal health and disease threats such as chronic wasting disease, “mad cow” disease, tuberculosis, and others.
- Regulates and inspects Wisconsin’s multi-billion dollar livestock and poultry industry to protect it and the public from devastating diseases.
- Works to control serious pests that threaten Wisconsin crops, forests, and plants.
- Regulates Wisconsin’s large feed industry, protecting livestock, human health, and preventing deceptive sales practices.
- Awards grants, along with the DNR, to provide cost share funding under a nonpoint source pollution abatement program.

Another important line of the Department’s work takes place in the Agricultural Development Division. Here are just a few of the functions performed by staff in this division.

- Facilitates sales of Wisconsin agricultural products throughout the nation and the world. (About 85 percent of Wisconsin food products are marketed outside the state.)
- Facilitates value-added agricultural development and diversification to ensure a sustainable future for Wisconsin agriculture. The division awards research and development grants for this purpose.
- Helps farmers and agribusinesses solve business problems.
- Collects and reports commodity prices and other market information.
- Assists county and district fairs, the World Dairy Expo and other organizations.

How DATCP would internally prioritize its functions and parse out reduced funds under TPA is impossible to determine. It goes without saying, however, that current efforts to assist farmers and others employed in Wisconsin’s agricultural industry, to open up new markets for agricultural goods, and to protect both agricultural producers and the public from serious disease threats in our multi-billion dollar agricultural sectors would simply not be possible with the revenue reductions mandated by the TPA.

A way to avoid notable service reductions would, of course, be significant fee increases on farmers and/or agricultural contractors. In fact, that scenario seems even more likely when one considers that the Department’s budget is largely fee driven already (making the agency even more of a target for state budget cutters since the Department would have some way of making up some of the lost state support). In an industry where the typical profit margin is thin, however, there should be serious reservations about turning to increased fee revenue as a way to make up for reduced state financial commitment under the TPA.

UW-Extension

The University of Wisconsin – Cooperative Extension operates several distinct programs including Agriculture and Natural Resources. Through Extension agents in the counties, its research facilities, and many other educational services, the Extension service works closely with farmers and agribusiness professionals, teaching them more efficient and productive practices. The Extension also operates programs in Family Living, 4-H Youth Development, and Community, Natural Resource and Economic Development. The UW-Extension has over the years become a useful partner and a mainstay in rural communities around the state.

The TPA would impact the Extension and its ability to continue assisting the state's farmers and other rural residents in several ways. Because higher education spending largely falls into the unprotected, discretionary category described earlier, it often bears the brunt of needed cuts imposed by a cap such as the TPA. Reductions in state funding can, of course, be partially offset by increased tuition and fees paid by students and parents. Tuition has risen steeply in recent years, however, reaching a level now where there are serious concerns about affordability of a UW education for most Wisconsin families.

Along with the UW-Extension, UW-Madison's College of Agriculture and Life Sciences and other agricultural campuses at UW-Platteville and UW-River Falls would be impacted as well. These institutions provide research then utilized by the Extension in its educational programming.

The Extension would also be impacted by reduced county revenue growth, as well as by reduced state aid to counties. County Extension agents are funded with both state and county revenue. State funds account for 60 percent of the costs associated with extension agents and county funds account for the remaining 40 percent. Importantly, not only does much of higher education fall into the discretionary category at the state level, but also within county budgets, funding for the extension agents is also discretionary. (In fact it's one of the few areas that are discretionary for county governments.) Because of this funding structure, funding for Extension agents will be extremely limited.

Despite these ongoing efforts, many challenges remain for Wisconsin's farmers, with perhaps the most critical being the lack of affordable health care. According to somewhat dated information from 2002, as many as 20 percent of dairy farmers, for example, were going without any health care coverage at all.⁶ Another 25 percent of dairy families had at least one person in the family uninsured. Those that did have coverage, largely purchased individually through private plans, were burdened by high deductibles. Recent steps to alleviate this problem include the creation of regional purchasing pools as a way to negotiate better health care plan prices. It is not clear how those most recent efforts have fared. The specific issues of health care access and affordability for Wisconsin's farmers and the impact the TPA may have on those issues should receive further examination.

Colorado Provides Example of Dire Consequences for Farmers Under TPA

Colorado is the only state in the country to live with a similar cap system, placed in the constitution, with similar measures for allowable growth, and requiring public referenda every time a change or update is required. What has happened there does not instill confidence in

such a scheme. Below are a few examples provided by the Bell Policy Center of Denver, Colorado, of what impact their cap system had on their agricultural efforts.⁸

- The Colorado Department of Agriculture's total General Fund appropriation fell from \$8.3 million in fiscal year 2002 to \$4.2 million in fiscal year 2004. Largely hit was the Agricultural Services Division. That is the division responsible for inspection and certification of Colorado produce, pest control, and management of noxious weeds.
- In 2002, the state cut Colorado State University's budget for Agricultural Extension Service by more than \$1.6 million, or approximately 18 percent. In early 2005, the Extension Service announced it would begin charging fees for such popular programs as statewide 4-H clubs, Master Gardener accreditation, and agricultural technical assistance for ranchers and farmers.
- Before fiscal year 2002, Colorado state government contributed funding to help farmers with the cost of agricultural inspection fees. With the loss of state support, farmers are burdened with the entire cost of these inspections. As a result, the actual costs of these fees to producers increased dramatically.

Conclusion

It's not by chance that an industry and the people employed in it thrive or fail. Investments have to be made and assistance has to be given to protect jobs and to help deal with new challenges. That is the case with other major industries in the state of Wisconsin, from manufacturing to tourism. And it's true of agriculture as well.

If implemented, the TPA will have significant impacts on current efforts to assist the state's farmers and agribusinesses. Investments in agriculture will have to compete with investments in education and with commitments to health care for the poor, and so on. Farmers will be pitted against others for part of an ever-shrinking pie. Shockingly, impacts on agriculture have not yet been part of the TPA debate. They should be. This industry and the well being of the hundreds of thousands of Wisconsin citizens employed in it are too critical to be ignored.

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7. Has the Colorado experience been studied sufficiently to ensure that the severe impacts felt there by farmers and ranchers are not duplicated here in Wisconsin?

¹ This information on the agricultural industry and its impact on the state's workforce and economy were taken from a PowerPoint presentation given by Professor Steven Deller of the University of Wisconsin-Madison. It is available in its entirety at http://www.uwex.edu/ces/ag/wisag/documents/Wisconsin_Ag_Impact.ppt.

² Reschovsky, Andrew. The Taxpayer Protection Amendment: A Preliminary Analysis, Revised March 4, 2006, available at <http://www.chancellor.wisc.edu/pdf/reschovsky2006-003.pdf>

³ Ibid.

⁴ Wisconsin Department of Agriculture, Trade, and Consumer Protection: A summary, Revised January 1, 2004. Available at <http://www.datcp.state.wi.us/index.html>

⁵ Ibid.

⁶ "The Health Care Crisis Among Wisconsin Dairy Farmers." Wisconsin Family Farm Facts, No. 17, September, 2002. This and other bulletins are available from the Program on Agricultural Technology Studies, a unit of the University of Wisconsin – Madison, Cooperative Extension at: www.wisc.edu/pats