

WISTAX: Proposed 2017-19 state budget hikes spending 8.3%

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Legislators must decide: Spend down surplus to fund increase, or trim spending

MADISON—With Gov. Scott Walker (R) requesting an 8.3% spending increase in his 2017-19 state budget, lawmakers reviewing the tax-and-spending plan face a choice. They can spend most of a projected \$453 million surplus to pay for new expenditures, as the governor proposes, or they can reserve a portion of the surplus to protect the state against recession, which requires scaling back the governor's request.

This choice is explained in a new report from the Wisconsin Taxpayers Alliance (WISTAX), "Unwrapping the Governor's Budget Proposal." Now in its 85th year, WISTAX is a nonpartisan organization dedicated to public policy research and citizen education.

The governor's pending budget would spend \$76.1 billion from all sources over the next two years, with about half of the money coming from state general purpose revenues (GPR), mainly state income and sales taxes.

Unlike past biennia when leftover monies were limited, the state expects to end the current budget year in June with a \$453 million balance. The proposed 2017-19 budget would use \$371 million of that surplus, plus projected new monies from economic growth to fund biennially:

- \$649 million more state aids for K-12 schools, including \$72.8 million in general aids. The budget continues and expands the shift toward using per pupil aids, rather than general equalization aids, as the preferred way to distribute new money to schools;

- \$77.2 million in increased GPR funding for the University of Wisconsin System, plus another \$42.5 million that would be tied to new performance measures, such as affordability and work readiness;
- \$200 million in income tax cuts, including reductions in the two lowest marginal tax rates. The budget also would create two sales tax “holidays” for back-to-school shoppers, worth an estimated \$11 million annually, and boost the earned income tax credit for the working poor; and,
- \$180 million to end the state property tax for forestry programs and replace it with GPR funding. The school tax levy credit would also increase by \$87 million this December, although it would be paid for in 2018-19, shifting the cost of next year’s credit to the 2019-21 budget. In the past, budget observers have called this an “accounting gimmick.”

Another major budget decision lawmakers face is transportation finance. The governor’s budget proposes no new revenue sources. It increases local road aids after years of stagnation but delays some major construction projects. A recent audit noted that construction delays have increased, and in some cases doubled, the costs of transportation projects from initial planning to completion.

Ultimately, lawmakers must decide how they want to position state finances for the long term. The proposed budget would end the two-year cycle with a balance of \$82 million, or the equivalent of less than two days’ operating costs for the state. By spending down surpluses, the plan creates a so-called “structural imbalance,” where spending exceeds ongoing revenues, of \$155.2 million in 2018 and \$216.1 million in 2019.

The budget balance depends on projected revenue growth of roughly 3.4% annually, which is a half-percentage point higher than estimated last fall, but lower than the annual average since the recession.

“A half-point revenue swing seems trivial, but with GPR tax collections at about \$16.5 billion per year, a shift in revenue growth of this magnitude translates into about \$80 million, an amount roughly equal to the surplus projected for mid-2019 when the next biennium ends,” the WISTAX report warns.

Although the governor’s budget adds \$20 million to the state’s “rainy day” emergency fund, it would only raise the fund to slightly more than \$300 million, which is more than offset by \$371 million spent from the surplus.

The WISTAX report, “Unwrapping the Governor’s Budget Proposal,” is available now by visiting www.wistax.org; emailing wistax@wistax.org; calling [608.241.9789](tel:608.241.9789); or writing WISTAX at 401 North Lawn Ave., Madison, WI 53704-5033.