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WISTAX: Spending in new state budget diverges from recent trends

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MADISON—Planned spending in the recently enacted 2017-19 state budget departs from recent patterns in two important ways. First, general fund expenditures rise 8.8% over the two years, the largest biennial increase since 2009-11 (12.1%). Second, much of the increase is for school aid, which has grown less in recent years. K-12 aid will grow 8.3% over two years, the largest biennial jump since 2005-07 (9.0%). These are two important findings from a new review of the 2017-19 state budget, "Decisions Made, Questions Deferred," from the Wisconsin Taxpayers Alliance (WISTAX).

State general fund appropriations are budgeted to increase from $15.9 billion in 2017 to $16.6 billion in 2018 and to $17.4 billion in 2019. Over half of all general fund expenditures go, not to fund state services, but to aid local governments, WISTAX noted. Another 26% aids individuals and organizations, particularly Medicaid for the poor and disabled. State operations, including the U.W. System, consume the remaining 24%.

The state's largest expenditure is for K-12 school aid, which grows significantly over the next two years. School aids are rising 3.4% ($187.4 million) this year and 4.7% ($264.3 million) in 2019 to $5.9 billion. School aids rose 5.6% and 3.9%, respectively, during the prior two biennia. Nearly all of the additional dollars are directed into a relatively new "per pupil" aid, rather than into the much larger equalization aid formula; this is a major shift in school funding.

Two other areas claim the bulk of remaining new spending. The budget uses income

and sales taxes to reduce property taxes. It eliminates the state levy for forestry programs ($90 million annually) and the personal property tax on machinery, tools, and parts ($74 million); increases the school levy credit by $87 million per year, and raises the lottery credit by shifting $48 million of general fund taxes to pay lottery expenses.

As with prior budgets, Medicaid expenditures are growing. General fund spending on the program totals $6.1 billion over two years, a 4.9% increase.

Despite the shifts in spending growth and allocation, the new budget continues some old and unfortunate habits. It spends down current surplus, creating a fiscal imbalance heading into the 2019-21 budget. During 2017-19, general fund expenditures total just under $34.0 billion, and are paid for with $33.7 billion of general purposes revenues, primarily state income and sales taxes. With expenditures exceeding revenues by $256.5 million over the two years, the state's general fund surplus will fall from its current $579.0 million to $322.5 million by mid-2019. At 1.9% of expenditures, the balance is below the 5% level often recommended by budget experts and less than the 2% level long anticipated, but unrealized, in state law.

In 2019, ongoing spending is $233 million greater than revenues, and imbalance that is the fifth largest since 1993. Thus, heading into 2019-21, the state will face a fiscal hole that must be filled before new spending is approved.

While the general fund receives the most attention, it is really a budget within a budget. Spending from all funds (including federal money and gas taxes), totals $76.5 billion over two years. That amount includes $771.3 million in spending paid for with new borrowing.

Transportation funding was the major sticking point this past summer and delayed final budget approval for nearly 12 weeks. A compromise between the governor, senate Republicans, and assembly Republicans:

■ reduced funding for highway rehabilitation by $78.6 million, highway development by $77.4 million,
high-cost and interstate bridges by $28.8 million, and southeast Wisconsin megaprojects by $61.0 million;
■ added a $100 annual fee on electric vehicles and a $75 fee on hybrids;
■ increased general transportation aids to local governments by $40.1 million to

$459.7 million;
■ added $10 million to the Local Road Improvement Program and more than doubled the state's commitment to local bridge assistance (from $8.5 million to $18.5 million).

The WISTAX analysis of the new state budget, "Decisions Made, Questions Deferred," is available now by visiting www.wistax.org; emailing wistax@wistax.org; calling 608.241.9789; or writing WISTAX at 401 North Lawn Ave., Madison, WI 53704-5033. Copies of The Framework of Your Wisconsin Government can also be ordered from WISTAX.