



Wisconsin's Fiscal Challenges and Strengths: How Do We Compare?

People around the country who have followed the news regarding political events in Wisconsin this year may have gotten the impression that Wisconsin is on the verge of declaring bankruptcy and is in worse financial shape than almost any other state.

Many probably think that our state has an unusually large and well compensated public sector and also a huge hole in the financing for the pension plan for public employees. And they may have inferred that spending and taxes in Wisconsin are out of control and well above the national average. Many people in Wisconsin have probably gotten those impressions as well.

While it's true that Wisconsin lawmakers face a very challenging budget again this year, an objective analysis of the key fiscal facts paints a very different picture than the erroneous impressions that have been created by the political turmoil of the last two or three months.

This brief paper reviews the facts relating to the size of Wisconsin's deficit, and how our state's spending, taxes, public sector, and pension system compare to other states, as well as trends in state and local taxes.

State tax collections are up 6.6 percent so far this year, and ahead of previous projections

[Tax collection figures](#) recently released by the Department of Revenue for the first 9 months of the 2010-11 fiscal year show an increase of \$520 million or 6.6 percent compared to tax receipts during the same portion of the previous fiscal year.

That's encouraging news because fiscal analysts have been expecting growth of just 4.6 percent over the amount in fiscal year 2009-10. If tax growth averages 2 percentage points above the projected 4.6 percent growth rate for the full fiscal year, that would boost General Fund revenue by about \$243 million over the previous projections. That would

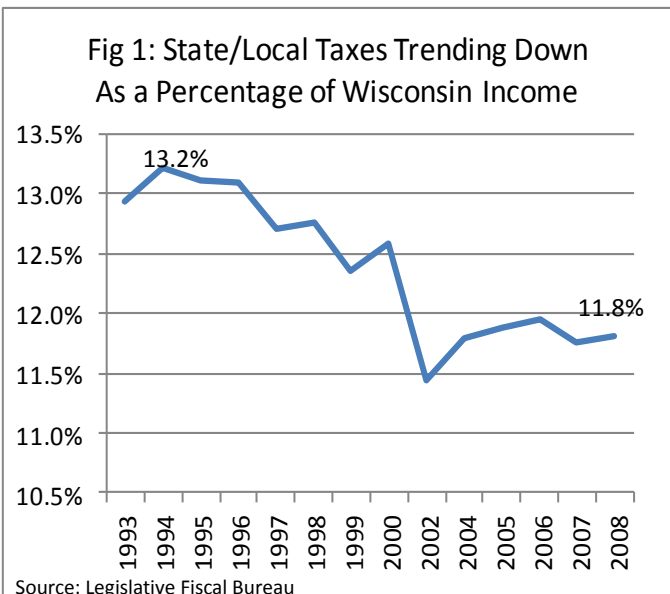
increase the balance carried into the next biennium and would boost the base upon which next year's revenue growth builds.

Wisconsin faced a much larger deficit two years ago

Two years ago the gap between projected revenue and the amount needed to maintain current programs was roughly \$6 billion, dwarfing the \$3.6 billion gap lawmakers face in putting together the 2011-13 budget. Lawmakers closed the previous deficit by using a balanced approach that included spending cuts, additional federal revenue, and targeted tax increases.

State and local taxes have been declining relative to state income

General tax collections have been gradually declining in Wisconsin as a percentage of state personal income. As Figure 1 illustrates, total state and local taxes constituted 13.2 percent of personal income in 1994, falling to 11.8 percent in 2008.



The Wisconsin pension system is one of the most financially sound in the U.S.

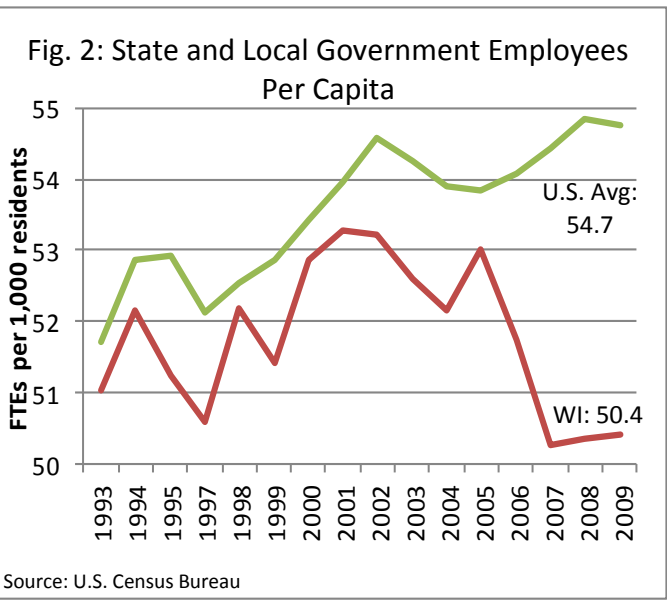
There has been growing concern about poorly funded retirement systems in some of the states. However, [a 2010 report by the Pew Center for the States](#) comparing the financing of state pension systems (using 2008 data) concluded that Wisconsin's system was fully funded and one of the five most financially sound public retirement funds in the nation. That report found that our state also ranks high in setting aside funding for the health care benefits of future retirees.

Only 11 other states have less state pension debt and other state debt, measured as a percentage of total personal income

A [January 2011 report by Moody's](#) (the bond-rating agency) indicates that Wisconsin ranked 39th on the basis of combined long-term debt and pension liabilities relative to state personal income (see Table 3 of the report). In other words, Wisconsin was 12th lowest in long-term debt and pension liabilities, measured as a percentage of state personal income.

Wisconsin's public sector employment is well below the national average

According to the most current U.S. Census Bureau data, Wisconsin ranked 43rd in 2009 in the number of state government employees relative to the state



population and also 43rd in combined state and local government employees. In other words, only seven other states had fewer public sector workers as a percentage of state residents. Wisconsin ranked 30th in per capita spending for public sector salaries and wages. (See our [updated analysis](#) for more information.)

The deficit Wisconsin faces in the next budget puts our state in the middle of the states nationally

Wisconsin faces a General Fund deficit of about \$3.6 billion for the upcoming 2011-13 biennial budget. The shortfall for fiscal year 2012 amounts to 12.8 percent of the fiscal year 2011 budget, which is nothing to sneeze at, but it puts Wisconsin in the middle of the pack nationally, according to a March 2011 [analysis by the Center on Budget and Policy Priorities](#).

Wisconsin is below average in per capita state and local spending and taxes

The most current U.S. Census Bureau statistics (from fiscal year 2008) show that state and local spending in Wisconsin was 4.4 percent less per state resident than the U.S. average, and per capita state and local taxes in our state were 0.9 percent below the national average.

As a [two-page paper on our website](#) explains, Wisconsinites earn about 6 percent less than the national average, so Wisconsin generally goes up in the rankings when taxes and spending are analyzed relative to personal income. Wisconsin ranked 25th in 2008 in total state and local spending as a percentage of income, but 12th in taxes as a percentage of income (which reflects the fact that Wisconsin relies more on taxes and less on charges and fees and federal revenue).

CONCLUSION

Like many other states, Wisconsin is still feeling the effects of the national recession. Although it will be a continuing challenge to balance the state budget while maintaining support for our state's communities and working families, Wisconsin has substantial fiscal resources on which to draw in pursuit of that goal.

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April 2011