



New Spending Figures Show Difficulty of Making Deep Cuts

Most State Spending is for Local Services, Other Popular Programs

With election season here, we hear many calls by candidates advocating for substantial cuts in state spending. These calls are made in the context of a \$3 billion gap between estimated revenues and basic spending needs for the upcoming 2011-13 budget period.

It's never easy making deep budget cuts, but two characteristics of the Wisconsin state budget may make cutbacks particularly painful. First, the majority of state spending actually goes to support local services, rather than services provided at the state level. Cutting this spending could result in increased property taxes or fewer local services.

Second, the bulk of the state budget is devoted to just a few large — and popular — programs, many of which benefit hundreds of thousands of Wisconsinites. The concentration of the state budget in a few areas means those programs will likely have to take the brunt of the cuts.

This Issue Brief takes a look at where the state spends its money, using newly-released spending figures. A follow-up brief will examine combined state and local spending and will compare Wisconsin with other states.

About the Data

This analysis focuses on spending from the state's General Fund, which is the main fund lawmakers use when putting together the Wisconsin budget. As the biggest and most flexible source of funds, this is where most of the attention is focused come budget time.

Information about state spending was taken from the Wisconsin Department of Administration's 2010 Annual Fiscal Report, released on October 15, 2010.

Most State Spending Supports Local Services

Although it might seem counter-intuitive, the majority of state spending doesn't go to support state services and programs. As shown in Figure 1, 56.5 percent of

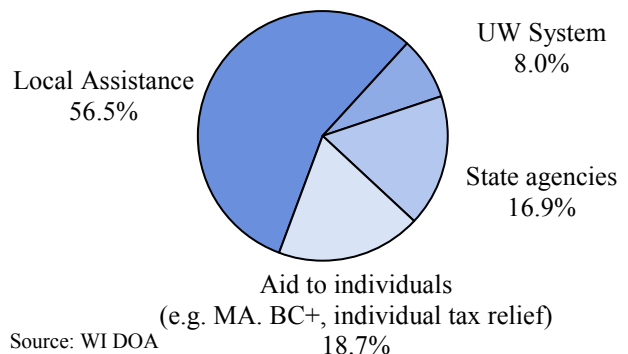
General Fund state spending actually supports *local* services, accounting for \$7.2 billion in fiscal year 2010.

What kind of local services does state spending support? Support for Public K-12 education makes up the biggest chunk of state spending for local services; in 2010 the state spent \$5.1 billion in support of public schools. The state also spent \$812 million in 2010 for aid to municipal and county governments to provide a variety of local services like maintaining roads, and distributed another \$111 million to counties to provide human services. In addition, the state paid \$820 million to local governments to relieve each property owner's taxes.

Severe cuts in state spending for local assistance would have a two-fold effect. First, Wisconsinites would need to be prepared for downgraded local services such as reduced maintenance on local roads, more students per classroom, and cutbacks in services to the elderly and people with disabilities. Second, user fees and property taxes would likely increase as local governments scramble to fill the hole that would be left by reduced state support.

The next largest category of state spending is aid to individuals, which makes up 18.7 percent of state spending. Along with spending on tax relief for

Fig. 1: Most State Spending Supports Local Services
Wisconsin State Budget, Fiscal Year 2010



individuals and student financial aid, this category includes \$1.3 billion of state money spent on Medicaid and BadgerCare Plus (BC+). For every \$1 the state spends on these programs, the federal government generally gives Wisconsin about \$1.50 in matching funds— which means if we cut state spending on Medicaid or BC+, we lose the federal dollars as well.

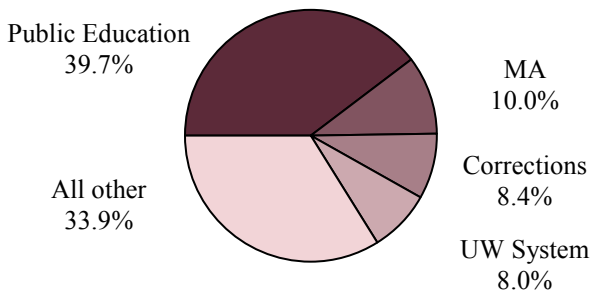
This leaves about \$3.2 billion of state spending that is actually spent on state agencies, including the UW System. That figure may seem like a lot, but it makes up only a quarter of state spending. And this category includes spending on programs that many candidates pledge to protect, like corrections or economic development.

‘The Big Four’: A Few Large Programs Make Up Most State Spending

Another way of thinking about state spending is to take a look at the top programs in terms of state dollars spent. Two-thirds of dollars spent from the state’s General Fund are for just four programs, and it would be hard to make deep spending cuts without having a negative impact on these services.

Almost forty percent of state spending is in support of public primary and secondary education, as shown in Figure 2. Another quarter, roughly, of state spending is split between Medical Assistance (10.0 percent), the state correctional system (8.4 percent), and the University of Wisconsin system (8.0 percent). Together those four programs alone made up 66.1 percent of state spending from the General Fund in fiscal year 2010, or \$8.5 billion of the total \$12.8 billion in spending.

**Figure 2: Top Programs by State Spending
FY 2010**



Source: WIDOA

Looking beyond the biggest four programs in terms of state spending, there are only two other programs that account for any significant portion of the state budget by themselves. Money the state pays to local governments to reduce property taxes, and general aid to local governments each make up about six percent of the total state budget. All together, those six programs made up 78.8 percent of state spending from the General Fund in 2010.

Because these six programs — education, MA, corrections, the UW, property tax relief, and general aid to local governments — make up such a large share of state spending, any attempt to balance the budget through cuts alone will almost inevitably affect them. Candidates may not specifically mention those programs when talking about spending cuts, but unless they are also planning to find additional sources of revenue, they are essentially saying they would cut spending in some of those key areas.

After the biggest six programs, the remaining 21.2 percent of state spending includes spending for dozens of purposes such as economic development, the technical college system, natural resources, the state judicial system, higher education financial aid, individual tax relief, and more.

Proposed Revenue Cuts Would Make Spending Cuts Harder

Candidates calling for deep budget cuts is nothing new. The twist this election season is that some legislative and gubernatorial candidates are also advocating for deep revenue cuts, to be achieved mainly through tax cuts and the reversal of recent changes in tax policy. Less revenue means spending cuts will need to be even more severe.

Wisconsin policymakers have an extremely challenging budget ahead of them, which cannot be balanced without some combination of deep cuts in state services and/or local aid, increases in state taxes and fees, or extensions of some of the federal fiscal relief that is currently scheduled to expire.

There’s no doubt that Wisconsin’s faces fiscal challenges in the coming years. Wisconsinites deserve to know the specifics of candidates would address these challenges.

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