



# Wisconsin Budget Toolkit

Updated April 2017

## INTRODUCTION

Countless times a day, you are affected by state budget decisions. When you turn on the water, send your child to school, turn on a light, or drive on a road, you are impacted by state spending actions. You help pay for these and other benefits every time you buy something, get paid, or even just by owning property.

The state budget is a collection of trade-offs. The budget must be balanced; the state can only spend as much money as it collects through taxes, fees and other sources. That means priorities must be weighed against each other. Ideally, the state budget is a reflection of our public priorities. Do we, as a state, value our tradition of emphasis on public education and infrastructure, and are we willing to fund those services? Or do we value lower revenue from individuals and corporations even if it means minimal community assistance for our children, seniors and working families?

## REVENUE

Each year, the state takes in and spends about \$38 billion. Depending on the source of the revenue, there are some restrictions on how it may be used. The main sources of revenue as a percentage of total state revenue are shown in the chart on the next page.

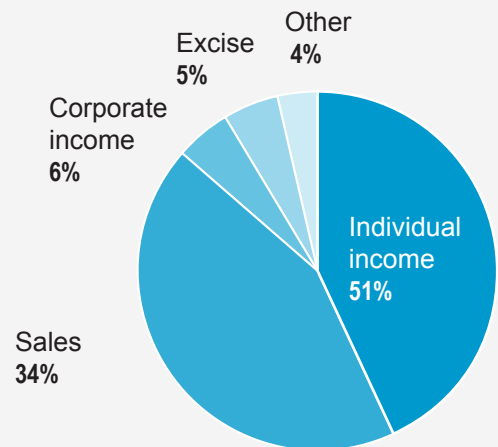
### Wisconsin tax revenue

The biggest fund lawmakers can use when putting together the Wisconsin budget is called the General Fund, which contains General Purpose Revenue. As the biggest and most flexible source of funds, this is where most of the attention is focused come budget time.

GPR revenue comes almost exclusively from taxes, primarily the individual income tax and the sales tax. Most (but not all) taxes paid by Wisconsin residents go into the General Fund. Examples of taxes that are not deposited into the General Fund include the property tax, which is mostly levied and collected by local governments, and the gasoline tax, which is deposited into a segregated fund used for transportation purposes. This guide will focus on taxes deposited into the General Fund, which are shown in the chart.

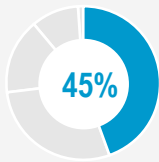
### General Purpose Revenue Taxes by Source

For fiscal year 2016.



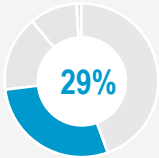
Source: Wisconsin Department of Administration  
WISCONSIN BUDGET PROJECT

# Revenue Sources for the Wisconsin Budget



## GENERAL PURPOSE REVENUE

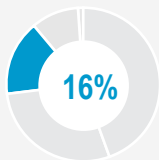
General Purpose Revenue (GPR) is money raised by the state mainly through taxes. In the 2015-17 budget, GPR accounted for 45% of the state budget. GPR is the most flexible type of funding (and therefore the most fought over) and is available for appropriation by the Legislature for any purpose.



## FEDERAL REVENUE

The next biggest chunk of money, about a quarter of the state budget, comes from the federal government. This money generally comes with specifications about how it must be spent.

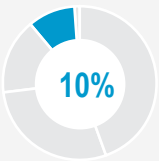
*Example: Federal funds are the primary source of funding for the state's FoodShare program.*



## PROGRAM REVENUE

Program revenue comprises 16% of the total state budget, and comes primarily from user fees associated with state programs. This money is usually credited to a specific appropriation that is closely tied to the source of funding.

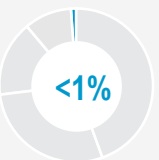
*Example: Tuition paid by students at the UW System is program revenue.*



## SEGREGATED REVENUE

Segregated revenue represents money that, by law, is kept distinct from GPR. In theory, revenues from the segregated fund may only be used for the statutorily-defined purposes of the fund, although the Legislature has bent this rule in the past.

*Example: The gas tax, which is deposited into the Transportation Fund, is a source of segregated revenue.*



## BONDING

Bonding represents money received from the state for the issuance of bonds and deposited in the Capital Improvement Fund for specified purposes.

*Example: Bond revenues are used for state building, highway, and land purchase projects.*

Source: Legislative Fiscal Bureau. Percentages are for 2015-17 budget.

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Revenue deposited into the General Fund includes:

- The individual income tax, which is levied on the income of individuals, is familiar to most of us. The percentage of income paid depends on the amount of income, with higher-income individuals paying a higher percentage of their income. Forty-one states have a broad-based state income tax.
- The sales tax is another familiar tax. Wisconsin levies a 5% tax on most purchases, and counties have the option of adding another 0.5% to fund county operations. A few areas of the state have an additional fraction of a percent levied to fund special projects like Miller Park or the Lambeau Field renovation. Because of this, sales tax varies across the counties from 5.0% to 5.6%, but the share that goes to the state is a constant 5.0% no matter where a purchase is made. Forty-five states have a sales tax.
- Corporate franchise and income tax is a relatively small source of GPR dollars. For a long time, many corporations paid little or no tax in Wisconsin due to a variety of loopholes. Some of those loopholes have been closed, but recently the state legislature has created new loopholes that will ensure that some

corporations pay next to nothing in corporate income tax.

- Excise taxes are taxes on the use or consumption of certain products. Revenue from excise taxes is mostly from taxes levied on tobacco products and to a much lesser extent on alcohol, which is why they are sometimes called “sin taxes,” though excise taxes can also be levied on other, “non sinful” products. Excise taxes make up a small percentage of the whole.
- Public utility taxes, insurance company taxes, and a few other minor sources make up the remainder of GPR tax revenue.

### Tax relief for individuals

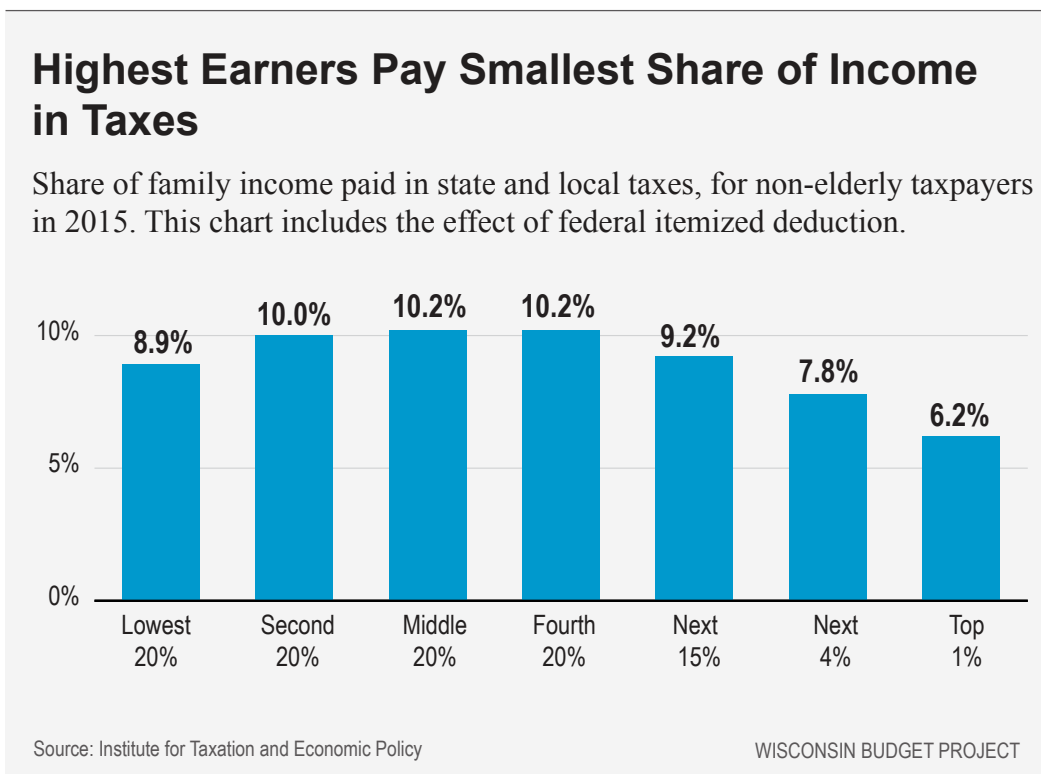
The State of Wisconsin has several tax credits that are targeted towards low-income individuals. A tax credit is a set amount of money that lowers one’s tax bill. The two main targeted tax credits for individuals are:

- The Homestead Credit, which directs property tax relief to low-income homeowners and renters. The program is sometimes referred to as a “circuit breaker” because it is intended to provide relief once property taxes exceed a taxpayer’s ability to pay them; and
- The Earned Income Tax Credit, which is offered at both the federal and state levels as a means of providing assistance to lower-income workers and increasing the incentive to work.

Both the Homestead Credit and the Earned Income Tax Credit are refundable, which means that the credits not only reduce the amount of taxes owed, but if they reduce the taxes owed to less than zero then the state writes a check to the taxpayer for the remaining amount of the credits. These credits help deliver tax relief to people whose income may be too low to pay income taxes, but still pay a significant portion of their income in other state and local taxes.

### Wisconsin taxes: Who pays?

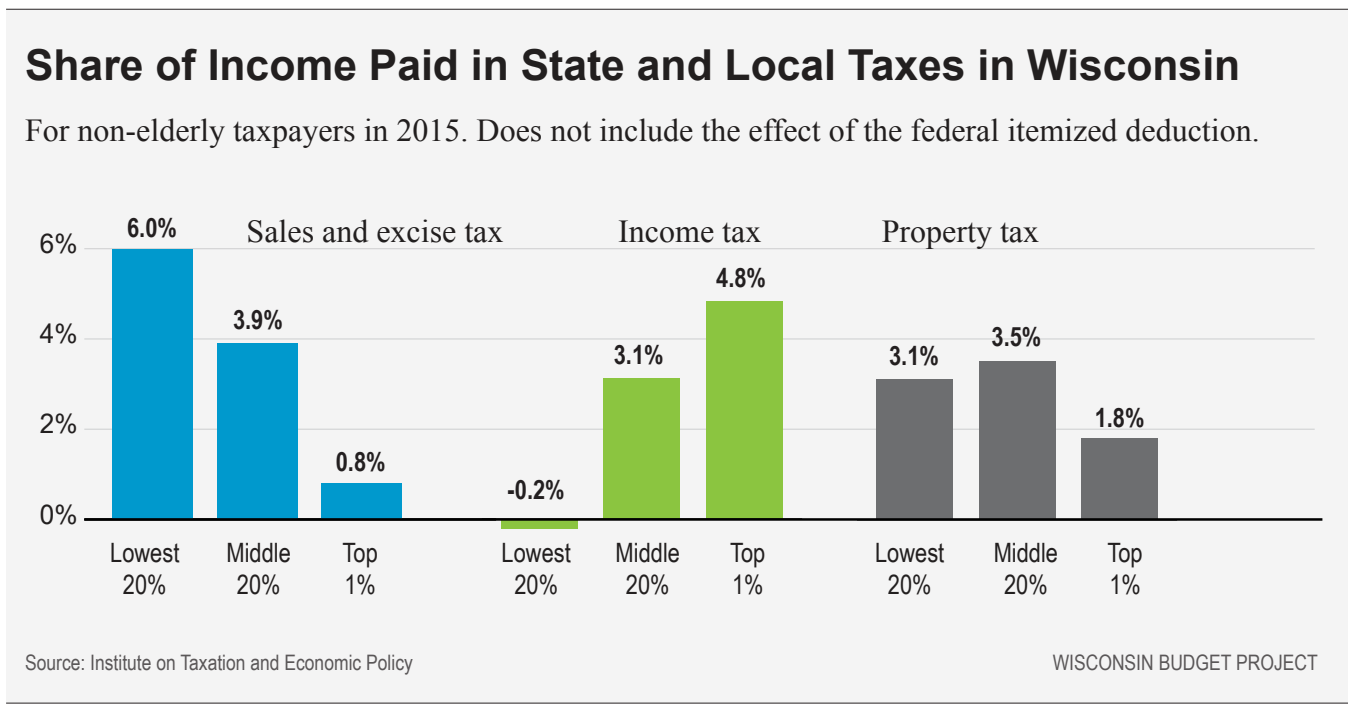
A sound tax system should treat people in similar circumstances similarly, and people in different circumstances differently. That might sound obvious, but often state tax systems don’t live up to these principles. Wisconsin does a better job than many states, but there’s still room for improvement.



Overall, taxes in Wisconsin are regressive. This means that low and middle income people pay a higher percentage of their income in state and local taxes than higher income people do, as shown in the chart on the next page. For example, families in Wisconsin making less than \$22,000 a year pay 8.9% of their income in combined sales and excise, income, and property taxes, while families in the top 1%, making \$399,000 or more, pay only 6.2% of their income in those taxes.

Different taxes have different characteristics. Sales and excise taxes are fairly regressive, as shown in the chart below. Income taxes tend to be progressive, since higher income people typically pay higher shares of their income. The property tax, which is predominantly a local tax, is mildly regressive. Combining several taxation methods results in a somewhat fairer system, lower rates overall, and a stable revenue source.

A good tax system should be understandable, stable, economically neutral, not interfere with Wisconsin’s ability to compete in national and global markets, and provide adequate revenue.



**SPENDING**

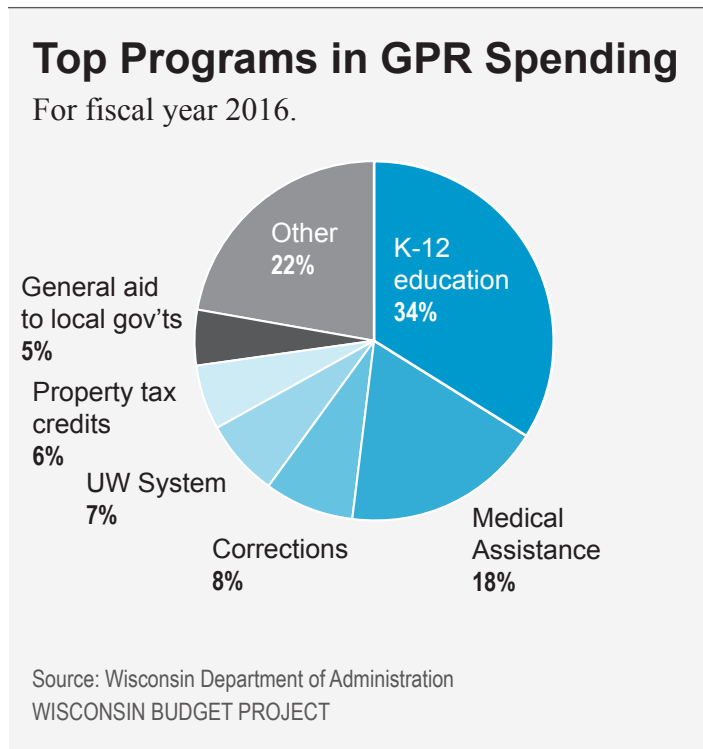
Every year, the state spends money on public services and programs such as education, social services, transportation, and economic development. This spending must be approved every two years by the Legislature and enacted by the Governor in the biennial budget. The last section of this budget guide goes into more detail on the process by which the budget is agreed upon.

The General Fund gets the most attention of any state fund because it has the most flexibility and because it supports the general functions of state government. Other sources of revenue are earmarked for particular services and programs. The chart below shows the percentage of GPR spending for various state programs.

It’s worth noting that four main programs – support for K-12 education, the UW System, Corrections, and Medical Assistance – make up two-thirds of GPR spending. In this sense, much of the available money is already committed to support key programs in which costs generally grow and where reducing spending is difficult.

The biggest category of spending from this fund is K-12 education, which makes up 34% of the General Fund budget. Schools in Wisconsin are financed through state aid, local property taxes, federal aid, and other local revenues such as fees. In fiscal year 2016, the state covered 63% of public school costs.

One out of every six dollars in GPR spending is spent in support of Wisconsin’s Medical Assistance/BadgerCare program, which provides access to health care for low-income Wisconsinites. Support for the state corrections system and the UW System each make up about 8% of GPR spending. Property tax credits, which are paid to local governments to help keep property taxes lower, and general aid to local governments each make up about 6% of GPR spending. The remaining 22% of GPR spending supports a variety of public services.



### Keeping up with current needs

The state budget has to increase every year just to maintain adequate funding for programs such as education and health care, with no new services added. How can this be?

There are several factors affecting spending that the state has no control over. Factors like population growth, inflation, and an increase in health care spending mean that the state budget must grow every year just to keep providing the same level of services. A “flat” budget with no increase in spending would in fact likely decrease assistance available to struggling families, since costs continue to increase.

### The relationship between state and local spending

In Wisconsin, counties, municipalities, and school districts also provide services. Counties primarily provide services in the areas of health and human services, public health, courts and jails, highways, and rural law enforcement. Cities, villages, and towns provide services in the areas of emergency services and public safety, public works, community development, building regulation, and quality of life services like libraries and parks.

The single largest funding source for local governments is tax revenue, including revenue from property taxes and a 0.5% sales tax for most counties. The next largest funding source is money from the state government. As the state reduces the aid it provides, local governments are likely to increase revenue from other sources, like property taxes and fees for public services. Local assistance made up 51% of state GPR spending in fiscal year 2016.

There are several reasons the state provides significant funding to local governments:

- Some local services are provided to residents of other communities. For example, streets in major cities serve commuters from other areas. Aid from the state helps offset these costs.
- The amount of revenue accessible to school districts varies considerably from district to district. Without

funding from the state, schools in different parts of the state might be funded at very different levels. State aid helps reduce some of these differences.

- Local governments provide a wide variety of services that are required by state law. State aid helps reduce the cost of these services to local governments.

## COMPARISONS TO OTHER STATES

There are many different ways to compare states based on taxes and spending. It's best to analyze state and local revenue or spending together when determining Wisconsin's ranking compared to other states, since certain services may be provided at the local level in one state and at the state level in another state.

One common way of looking at state and local revenues is to compare the amount of revenue raised from state and local sources across states. This includes revenue raised by the state and local governments through taxes, fees, and other sources, and does not include any revenue from the federal government. Looking at revenue from state and local sources as a percentage of income gives an indication of how extensively a state raises revenue within its borders.

Contrary to the commonly held idea that Wisconsin is high in taxes and spending, we are close to the middle among the states. In 2014, Wisconsin residents paid an average of \$6,526 in taxes, fees, and other charges to state and local governments, \$234 lower than the national average. State residents paid 15.3% of personal income in taxes and other revenue, the same as the national average.

Wisconsin's revenue status among the states has changed over the years. Wisconsin ranked fairly high in the 1990s in taxes and other revenue collected on a per capita basis, rose to a high of 11th nationally in 2000, fell as low as 27th, and has recently climbed slightly to 24th. At one time, Wisconsin had fairly high taxes and fees on a per capita basis, but that is no longer the case.

### Revenue sources compared to other states

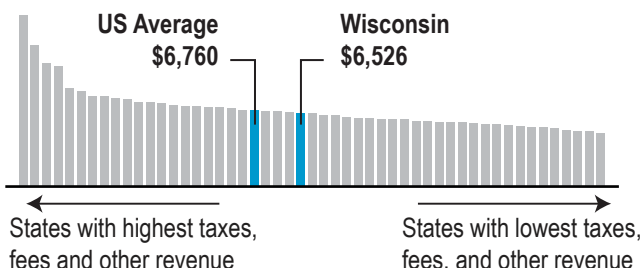
Wisconsin raises about the same amount of revenue as a percentage of income from state and local sources as other states, but we're a little different in how we raise it.

Compared to other states, Wisconsin gets a larger share of its revenue from

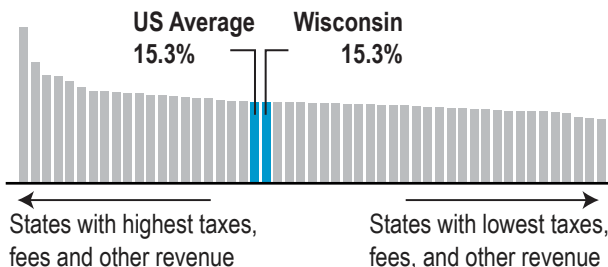
## Wisconsin Ranks Near Middle in Taxes and Fees Paid by State Residents

State and local government taxes, fees, and miscellaneous revenue, 2014.

### PER CAPITA



### AS A SHARE OF PERSONAL INCOME



Source: Analysis of figures from the U.S. Census Bureau and Bureau of Labor Statistics  
WISCONSIN BUDGET PROJECT

the property tax and income tax, and a smaller share from sales and excise taxes, and fees. Wisconsin gets the same share of its revenue from state and local sources from the corporate income tax. The chart below compares Wisconsin and the national average in terms of revenue sources from state and local sources.

## THE WISCONSIN BUDGET PROCESS

Wisconsin has a biennial budget. This means that the state budget usually includes information about how money will be spent for a two-year period, from July of an odd numbered year through June of the next odd-numbered year. For example, the 2015-17 budget runs from July 2015 through June 2017.

In Wisconsin, the Legislature makes most of the decisions about what should be included in the budget, with substantial input from the Governor. The Legislature and Governor, not to mention the two political parties in the Legislature, often have different priorities in terms of how to raise and spend money. This can make for contentious negotiations before the budget is finally enacted.

The state budget is the one bill that must be signed into law. No money can be expended without first being appropriated in the budget, with a few exceptions discussed in the next section.

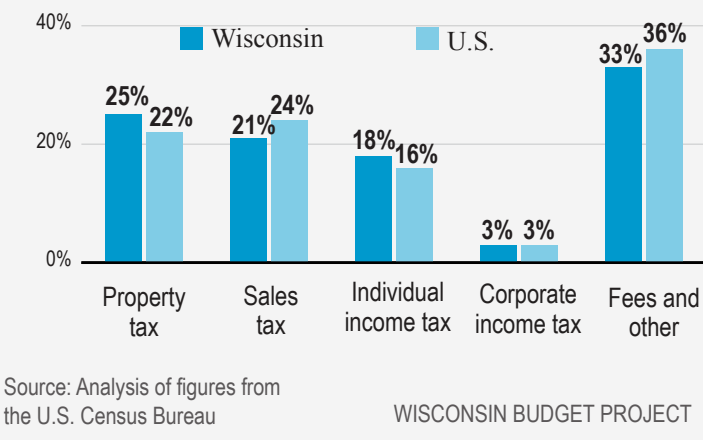
The entire process of developing a budget starts in the fall of even numbered years, when state agencies must submit their budget requests to the Governor. These requests are not just wish lists; usually the agencies are given guidance by the governor in terms of limiting their overall spending or promoting certain services. The Governor then uses those requests to propose a state budget, usually in about February of the odd-numbered years. The Governor outlines the highlights of his proposal in a budget address.

From there, the budget process moves over to the Legislature. Its first stop is the Joint Finance Committee, which is made up of legislators appointed by leaders in both houses of the Legislature. The Joint Finance Committee conducts a series of hearings around the state, so regular people can come and give their input on the budget. Once they've gathered information from those hearings and other sources, the Joint Finance Committee prepares its own version of the budget. That can be quite different from the Governor's proposal.

The next stop for the budget is either the full Assembly or the full Senate, which are houses of the Legislature. One house takes the Joint Finance version of the bill and allows members to propose amendments and changes and to debate their ideas on the floor. Eventually the full membership of that house votes on the entire bill. Once they pass their version of the budget, the bill moves over to the other house of the Legislature, where the whole process takes place again. If the two houses end up passing versions of the bill that are significantly different from each other – which they often do – then a Conference Committee consisting of members from each house is usually appointed to iron out the differences between the two.

## Revenue Sources as a Share of State and Local Revenue

For fiscal year 2014. The sales tax figure includes revenue from motor fuels and other excise taxes. Percentages reflect revenue sources as a share of general non-federal revenue.



Once the Conference Committee comes up with a compromise version of the bill, it goes back to both houses for approval. No amendments or changes are allowed at this point; just a yes or no vote.

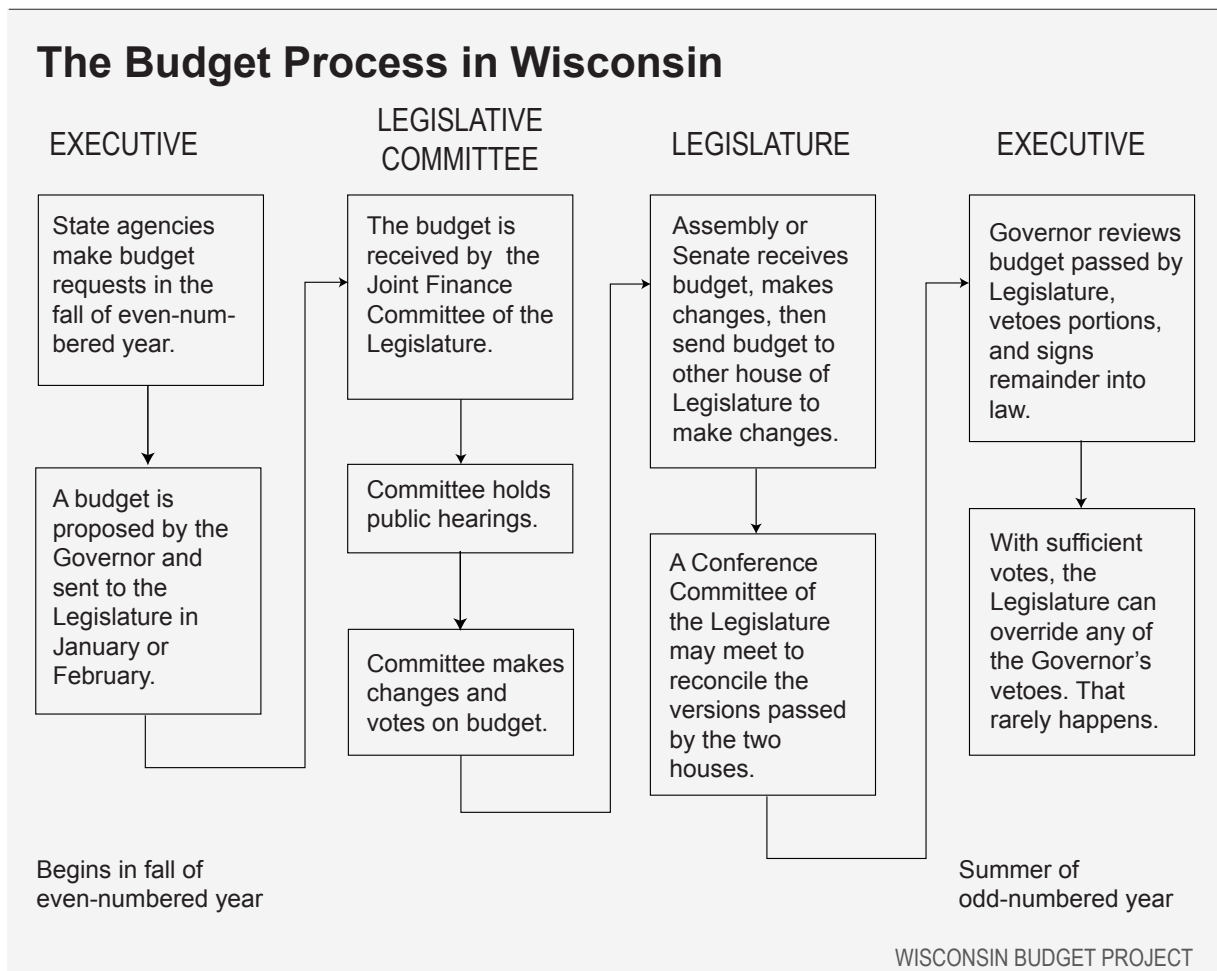
After both houses pass the budget bill, it lands on the Governor’s desk. In Wisconsin, the Governor has the power to make line-item vetoes, which means he can cross out whole items, change dollar values, or delete language to make things more to his liking. The Legislature has the power to override the Governor’s veto, but it takes a two-thirds vote of both houses to do so, and that rarely happens. Finally the budget is signed into law.

The budget is supposed to be finalized by July 1 of the odd-numbered year, because that’s when the revenue and spending levels set by the new budget are set to go into effect. Sometimes, though, the budget process drags out longer, and it’s not unusual for the budget to not be signed until the fall of an odd-numbered year. If the budget is late, revenues and spending are carried over at the level in the previous budget until the new budget is finally signed.

**Interim adjustments to the budget**

Once adopted, the Wisconsin budget provides spending authority for two years, but it can be modified during that period. There are three main ways of modifying the budget:

1. Separate legislation. The Legislature can pass bills over the course of the biennium that affect revenues or spending.
2. A budget repair bill, which may be needed if the biennial budget falls out of balance. The Governor and Legislature rely on revenue estimates when proposing the biennial budget, but if economic conditions





deteriorate drastically, there may not be enough revenue to carry out planned spending.

3. Changes approved by the Joint Finance Committee. Under certain circumstances, this legislative committee may approve supplemental spending over the course of the biennium.

### Does Wisconsin have a balanced budget?

The Wisconsin Constitution requires that the state pass a balanced budget, where estimated revenues are equal to or greater than estimated spending. By this definition, the state budget is in balance.

Even with a balanced budget, Wisconsin still has a structural deficit in most budgets. A structural deficit occurs when ongoing revenues are less than ongoing spending. The structural deficit represents the gap between the amount of revenue raised and the amount of money needed to continue existing programs.

There are several ways the state can find itself with a structural deficit, yet still have a balanced budget. One common way in Wisconsin is to use one-time revenues to support ongoing costs. The Governor and Legislature are well versed in this technique. For example, their budget proposals might use one-time revenue to fund ongoing tax cuts, or delay a payment from one year to the next year in order to keep the budget in balance. Structural deficits also grow when lawmakers adopt deferred or phased in tax cuts that haven't been paid for.

The problem is that although some sources of revenue are one-time, spending almost never is. Even big purchases like land or buildings are spread out over many years through the use of bonding, and thus have ongoing costs. Supporting ongoing services with one-time revenue sources will work for a while, but it will lead to long-term difficulties.

Wisconsin has a long history of structural deficits. We have already used up many of our one-time revenue sources and will have a harder time supporting services in the future.

### How to participate in the budget process

If the way the state raises and spends money matters to you, and if you are concerned about our state's public priorities and how we support those priorities, then you may want to make your voice heard about issues related to the state budget.

There are several ways you can have an impact on the budget process:

- During gubernatorial and legislative campaigns, raise the issues you're concerned about as part of candidate forums and debates. Make sure you vote and get others to vote as well.
- While the Governor is preparing his budget proposal, contact the Governor's office to urge him to support the programs/initiatives you're most concerned about. You can also contact his office later in the budget process to voice your opinion on potential vetoes.
- The Joint Finance Committee holds hearings throughout the state on the budget. You can testify on an issue that's important to you, or submit written testimony.
- Contact your legislators to make sure they know your position on issues that are important to you.