



Seven Fiscal Sins

How the Budget Bill Puts Wisconsin On a Less Secure Financial Footing

One of the very disappointing things about the biennial budget bill is that fiscal conservatives who espoused responsible budgeting two years ago seemed to forget many of those principles this year. In succumbing to the allure of a large tax cut, they made a number of decisions that make Wisconsin's fiscal situation less secure than it was when we started the 2013-15 budget process.

Some people believe that state officials will announce soon that Wisconsin ended the 2011-13 biennium on June 30 with a larger surplus than previously anticipated. If that proves to be the case, it would give the state a great opportunity to create a more solid foundation for future budgets by correcting some of the following short-sighted choices in the recently enacted budget bill:

1) Creating a half billion hole in the 2015-17 General Fund budget

Because the budget bill uses a short-term surplus for a large, ongoing tax cut, Wisconsin lawmakers will begin the 2015-17 budget in a substantial hole. According to [an August 1, 2013 analysis](#) by the Legislative Fiscal Bureau (LFB), General Fund spending will exceed new revenue by \$307 million in the second year of the new budget (FY 2014-15), which is the primary reason that the bill will create a General Fund structural deficit of \$545 million in the 2015-17 biennium.

The structural deficit means that Wisconsin lawmakers will have to set aside the first \$545 million of increased general purpose revenue (GPR) in the 2015-17 biennium simply to provide flat funding for current services – before even beginning to set aside any revenue growth for cost increases resulting from inflation and population growth. The good news is that the projected 2015-17 structural deficit is smaller than those in most of the budgets over the last two decades. However, the size of the budget hole often grows over the course the biennium. In addition, the problem of creating a hole in the subsequent General Fund budget is compounded by a number of other shortsighted budget choices, which are described below.

2) Postponing the long-overdue increase in the state's budget cushion

One of the most disappointing fiscal choices, which has gotten almost no attention, is the decision to delay by two more years the requirement to increase the size of the budget balance that the state must have at the end of each biennium. Legislators and governors of both parties have been saying for the last couple of decades that the state should substantially increase the minimum balance, which is currently just \$65 million, or about 0.4% of annual General Fund spending. Most states strive to have budget reserves (including both rainy day funds and more flexible reserves) of at least 5% of spending. More than ten years ago, a provision was enacted to increase the Wisconsin's balance requirement to 2% of revenue at a future date. However, Governor Walker's last budget delayed the requirement until 2017 (from 2015), and the new budget bill pushes off this fiscally prudent change until 2019! There has been no explanation for that change, but the apparent reason is to make the structural deficit appear smaller, because the way it is calculated only looks two years ahead, so it doesn't account for the short-term cost of raising the reserve four years from now. ([Read more](#) in this May 2013 Budget Project analysis.)

3) Increasing bonding

Even though the Legislature approved less bonding than the Governor proposed, the budget bill significantly increases the use of bonds compared to the previous budget. The final budget bill authorized an additional \$1.4 billion in general obligation bonding, which will be financed with future General Fund revenue.

Authorizing bonds allows the state to spread out the costs of big capital projects over many years. But issuing bonds also obligates the state to repay those bonds at a future date, tying up future revenue and making it more difficult to balance future budgets.

4) Creating a hole in the Transportation Fund budget

After hearing so many politicians talk during the 2010 and 2012 elections about how legislators shouldn't "kick the can down the road" by postponing tough choices to get budgets into balance, it was surprising and disappointing to see them do exactly that with respect to the transportation budget. They rejected the recommendations of the Transportation Finance and Policy Commission for more revenue, yet didn't do much to hold down expenditures for expensive highway projects that create a widening divide between revenue and spending.

A couple of the budget changes made by the Joint Finance Committee add to a Transportation Fund structural deficit in the 2015-17 biennium. Ironically, one of those changes makes the General Fund structural deficit appear smaller – by financing mass transit aid with a one-time transfer of nearly \$108 million from General Purpose Revenue (GPR) in fiscal year 2014-15. Because that commitment of GPR dollars goes away in the next biennium, the Fiscal Bureau says that maneuver makes the General Fund structural deficit \$216 million smaller in the next biennium. That is technically correct, but it could be problematic next session when there will be tremendous pressure to again use General Fund dollars – rather than increasing Transportation Fund taxes or reducing other spending from that fund.

5) Creating a structural deficit in the UW System budget

A similar problem is created by the changes to the UW System budget, because the increased funding is now financed with reserve funds instead of the increased GPR support that the Governor had initially proposed. At some point in the not-too-distant future, it won't be feasible to keep tapping reserves for those purposes, and the UW System will then have holes to close in its budget. Although the LFB doesn't factor that future draw on General Fund dollars into its calculation of the 2015-17 structural deficit, we anticipate that it won't be very long before this budget's use of short-term financing for the UW System will add to the fiscal challenges faced by state budget writers.

6) Making unrealistic assumptions about spending in the welfare-to-work program

The bill builds up the state's General Fund balance by siphoning off federal funding intended to assist low-income families. It does that by using the federal block grant known as Temporary Assistance to Needy Families (TANF) to pay a much larger share of the cost of the state Earned Income Tax Credit (EITC), replacing state funds that were being used to finance the credit. As that sleight of hand maneuver frees up money for things like the tax cuts, it leaves inadequate funding for programs like Wisconsin Works and Wisconsin Shares that serve low-income working families.

The unsustainable use of virtually all of the 2013 TANF balance accounts for \$78 million of the \$545 million budget hole or "structural deficit" calculated by the Fiscal Bureau for the 2015-17 budget. Although that budget effect is factored into the first of the fiscal challenges cited above, the problem goes beyond that. In the course of giving in to the temptation to siphon off TANF funds to build up the

General Fund balance and ease the way for tax cuts, the Governor and Legislature made very unrealistic assumptions about the funding needed for the welfare to work program known as Wisconsin Works, or W-2.

The funding level included in the final version of the budget assumed that W-2 participation and spending would decline by 1% every month, starting in April. But rather than decreasing by 3% over the last three months of fiscal year 2013, the number of paid W-2 placements actually climbed by more than 8% during that period. Even if W-2 spending does start declining by 1% per month sometime in the current fiscal year, which seems unlikely, the state will probably have to cope with a significant deficit in the 2013-15 TANF budget.

7) Transferring dollars from other funds

Many legislators have preached against the practice of using “fund raids” to help balance the budget. Since there isn’t an accepted definition of “fund raids,” it’s difficult to assess whether legislators have made progress in eliminating them. However, the Fiscal Bureau prepares a summary of budget provisions that shift sources of revenue with the intent of using those funding sources “for purposes other than those for which the fund has traditionally been used.” A [Fiscal Bureau memo](#) issued in early August tallied 14 such funding transfers, which authorize the shifting of up to \$383 million (not counting ongoing, previously-enacted transfers).

The largest of those transfers use General Fund dollars to pay for projects that have traditionally been supported by money from the Transportation Fund. Other examples include transferring \$32 million from the segregated Petroleum Inspection Fund to the Transportation Fund, as well as \$9 million from Disaster Aids. In addition, the budget bill shifts \$58 million from the UW System’s program revenue to the Higher Education Aids Board. Regardless of whether one considers these transfers to be “fund raids,” the problem is that they aren’t all sustainable, and some of them will have the effect of exacerbating the 2015-17 General Fund structural deficit by creating similar sorts of budget holes in other parts of the budget for the next biennium.

Conclusion

Many of the choices made in the 2013-15 budget continue the long practice by lawmakers in both parties of making politically expedient decisions that help balance the budget in the short run, while deferring hard choices to future lawmakers. Fortunately, this budget creates a smaller structural deficit than most of the others over the last couple of decades, but the budget hole in an ensuing biennium often grows as that budget period approaches, and a number of decisions made in the budget mask the true size of the future challenges.

Some people think it will soon be reported that there was a larger-than-expected surplus at the end of the 2011-13 biennium. If so, legislators and the Governor should use that short-term windfall in ways that put Wisconsin on a firmer fiscal foundation, rather than using the surplus in an unsustainable way that exacerbates Wisconsin’s longer-term fiscal challenges.

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