

How to Make Heads or Tails of Wisconsin's Finances

Written by Kathleen Vinehout, State Senator 31st District
Tuesday, 31 May 2016 08:54

<http://newiproggressive.com/images/stories/S5/wisc-capitol-dome-s5.jpg>



Many indicators show that things are not as rosy as some would have you believe about Wisconsin's financial health. Do we employ good budgeting practices as we struggle to pay our bills?

MADISON - "Is there any news on how the state is positioned for revenue growth?" Mr. Olsen inquired in his letter.

"How do our finances compare to other states?" Mrs. Adams asked.

People want to know about the health of Wisconsin's finances. As I began my research, I spoke with the State Auditor and the chief financial analyst, both of whom work for nonpartisan legislative support agencies.

Wisconsin is midway through its two-year budget. The state's fiscal year ends June 30th. By mid-August we should know how closely actual spending and revenue tracked with budgeted numbers.

Preparations are underway for the 2017-19 state budget. State agencies are putting together their budget requests. In November, Wisconsin's Department of Revenue (DOR) is required to release estimates on money coming into the state to help inform decisions about the budget.

"The last couple of months have not been particularly strong," the Legislative Fiscal Bureau (LFB) analyst told me.

Sales tax collections were down and the DOR reported that corporate income tax collections in

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April 2016 were about 9% below that of April 2015. The previous month was also down by 15% compared to March 2015 – off about \$40 million – and March is a big month for corporations paying taxes.

Estimating corporate income tax is a difficult exercise because of the large number of tax credits and the long period companies have to claim the credits – many can be claimed at any time over a 15 or 20-year period – making it hard to estimate how low corporate tax collections will go. Over the past 10 years, the amount of business tax credits claimed has more than doubled.

Recently the nonpartisan LFB was informed that Governor Walker's administration would not pay debt bills coming due. Refinancing debt to avoid making a payment is a way to keep more cash on hand.

However, not making those debt payments cost taxpayers more in interest and principal due down the road. The Administration's recent action to delay \$101 million in debt payments coming due results in \$2.3 million in additional interest costs.

Delayed debt payments likely reflect concerns the Walker Administration has about the state's fiscal health. In particular, concerns about the ending balance of the two-year budget. We won't have a clear picture of how difficult the next budget will be until both the DOR and the LFB release their numbers in November 2016 and January 2017 respectively. Nevertheless, lower than expected corporate and sales tax collection should give us pause.

Earlier this year the LFB projected Wisconsin's check book balance would be less than previously projected. They pegged the estimate at \$70.2 million on a \$73.3 billion budget. It is likely the Governor delayed debt payments to improve the balance and make sure he is not in the red.

Wisconsin's debt – while growing – is sometimes cited as low compared to other states because of the strength of the state's pension funds. However, if you set the pension fund success aside, debt has increased over the years. Current debt hovers around \$14 billion – a mere \$500 million less than the state's tax revenue, which in fiscal year 2014-15 was \$14.5 billion.

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One reason debt is higher is because Wisconsin set very little aside in its 'rainy day' fund. While majority lawmakers and the governor added to the fund in recent years – a good thing – Wisconsin has a smaller rainy day fund compared to every Midwestern neighbor except Illinois. Equivalent numbers are hard to get because of the vagaries of state budgeting, but in a comparison of percent of the states' general fund, Wisconsin held aside 1.2% of its general fund while Minnesota held aside about 7% of its general fund.

Debt also affects the state's bond rating. Bond ratings tell us the likelihood of default on the state's debt. A lower bond rating usually means the state would pay more for interest on debt. Wisconsin's bond rating – Aa2 – is the lowest of all Midwest states except Illinois.

All of this indicates that Wisconsin's financial health is not as rosy as some would have you believe. We can do better if everyone pays their fair share and if we grow our rainy day fund during the sunny times and save the credit card for emergencies.