

Policy Brief

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5 Things Everyone Should Know About the State Budget

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Introduction

Like every budget cycle, tensions are high in Madison as the push and pull between the governor, legislators, and lobbyists take shape. Before the Joint Finance Committee in the legislature begins voting on key components of the budget this week, it would be useful to highlight some key points about the budgeting process in the state. Here are 5 things every taxpayer should know:

1. Your income taxes make up a significant part of the state's general fund appropriations.

Income taxes were due this month so you ought to know how the state spends your money.

The individual income tax, corporate income tax, and franchise tax make up the state's "general fund." Wisconsin's general fund consists of state revenue that is appropriated to fund only state programs. In this way, it does not comprise the entire budget because it does not include federally-allotted funds or the state's transportation budget.

The general fund totaled over [\\$15 billion](#) for the 2015-2016 fiscal year. Individual income taxes are the main funding source feeding the state's bank accounts, totaling \$7.74 billion, or about 51%, of the general fund. Since 2004, income taxes have made up about half of the general fund.

In the budget projections of the 2017-2019 biennium, the non-partisan Legislative Fiscal Bureau (LFB) predicts that general fund tax revenues will increase in the coming year. Based on a summary national economic forecast and statewide tax revenue estimates, the Legislative Fiscal Bureau's analysis projects that \$32.65 billion will be collected in 2017-2019.



2. The State uses the general fund to spend money on things like education, prisons, and healthcare.

Since 1995, the biggest categories of spending have remained consistent in the general fund. The most expensive state programs are Elementary and Secondary School Aids, the UW System, Shared Revenue, Corrections, and Medical Assistance (MA). As reflected in the pie charts below, these programs combined represent about half of the state's spending.

Elementary and Secondary School Aids support

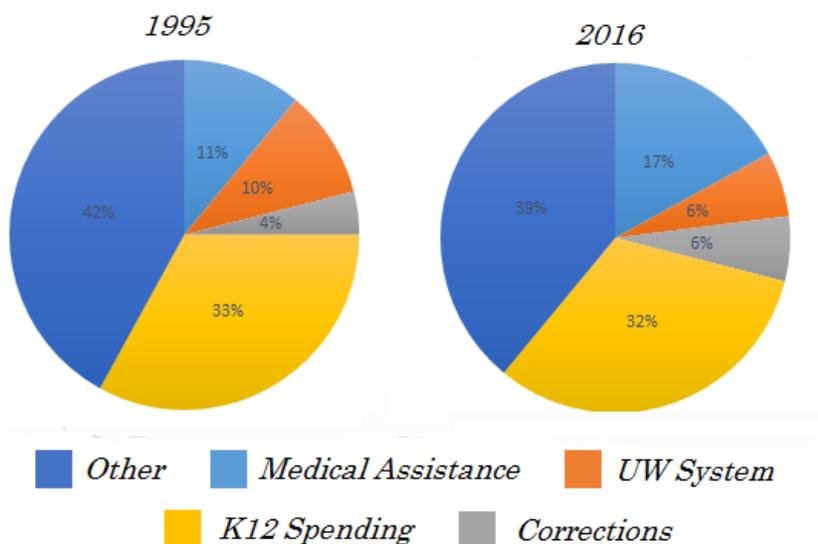
Wisconsin's public K-12 education system by per student funding, specific programming costs (such as special education), and property tax credits.

The UW System for Wisconsin consists of 11 four-year and 13 two-year institutions of postsecondary education, that provide advanced education to 150,833 full-time undergraduate and graduate students as of fall 2015. Shared Revenue is state

funding that flows back into municipalities which they may use to fund local programs and offset their own property tax burdens. Corrections involves the operation of 36 adult correctional facilities that are responsible for about 90,513 individuals. Such a large division of the state government is dedicated to corrections due to the scope of services that must be provided: juvenile aid programs, probation, the courts, and other departments. Medical Assistance consists of BadgerCare Plus, EBD, Medicaid, FamilyCare, and SeniorCare that help individuals with limited resources receive health care services.

The dark blue portion of "other" comprises of an additional 44 government agencies and programs who have a significantly smaller share of state funding. Over the past 21 years (the entire time frame for which data is readily available from the Legislative Fiscal Bureau), Medical Assistance spending has taken an increasingly larger percentage.

The Table below shows the total expenditure by area between 1995 and 2017. Overall general fund spending has more than doubled, as has spending on Medical Assistance, Corrections, and School Aid. Shared Revenue and the UW system have grown much more modestly.





Total Spending by Budget Area, 1995 to 2017

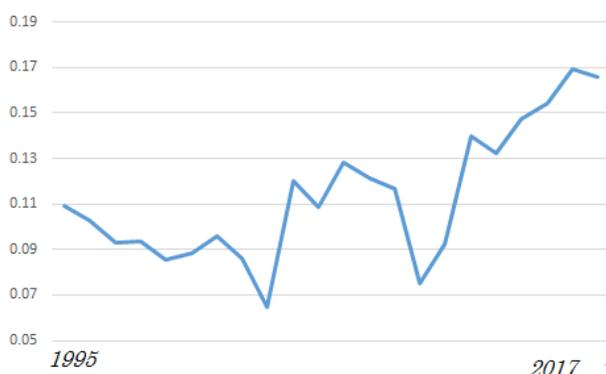
	1995	2017	% Change
Elementary & Secondary School Aids	\$2,692,788,300	\$5,521,406,800	105%
Shared Revenue	\$1,012,618,800	\$846,305,600	-16%
UW System	\$832,577,600	\$1,048,705,300	26%
Correctional Services	\$357,151,900	\$1,046,290,800	193%
Medical Assistance	\$906,022,900	\$2,830,652,300	212%
Total General Fund	\$8,290,547,400	\$17,059,984,800	106%

3. Medical Assistance has significantly expanded since 1995, eating up a bigger slice of the pie than any other major expenditure.

Since 1995, spending on Medical Assistance - such as BadgerCare, Medicaid, Family Care and SeniorCare - has grown from 11% to 16% of the general fund.

The peaks and valleys within Medical Assistance's share of the budget stem, in part, from imbalanced appropriations within the biennial budget. For example, spending for Medical Assistance in the general fund for 2003-2005 varied greatly from 2003-2004 and 2004-2005. The State of Wisconsin only appropriated \$711,2014,400 from 2003 to 2004, but then funded the program in the back half of the budget cycle, from 2004 to 2005, at \$1,434,593,800.

Medical Assistance Share of General Fund, 1995-2017



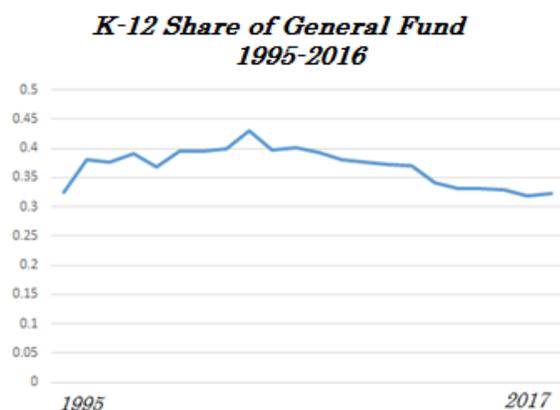
But the long term trend is that Medical Assistance programs become increasingly costly, taking up more of taxpayers' dollars. Several economic factors and federal policy go a long way in explaining this dramatic increase.

One explanation for the sharp increase in Medical Assistance's share is an increase in demand. The Great Recession of the late 2000s left many uninsured. The Recession was coupled with an increase in state aid under the American Recovery and Reinvestment Act that led to an immediate dip in state spending on medical assistance during the early days of the Recession. As these aids dissipated, however, the state increasingly bore the burden for the increased Medicaid enrollment during the recession. Another important factor that cannot be ignored is that, while rates of medical cost growth have slowed, medical costs nonetheless [continue to rise on a year-by-year basis](#).



4. Heated rhetoric aside, state government spending on school voucher programs represent a tiny fraction of overall spending.

The constant complaints of critics that school choice is destroying public education in Wisconsin are unfounded when one considers the facts. The chart displays the amount of the general fund appropriated to



Wisconsin's K-12 schools dating back to 1995. As a share of the general fund, it is relatively flat, K12 spending today represents approximately the same share of the budget as in 1995 in real dollars. In 2017 dollars, spending per student in 1995 was \$10,272 on average compared with \$10,312 in 2016.

In comparison, Wisconsin's three Parental Choice education programs, the MPCP, RPCP and WPCP combined only make up 1.5% of general fund spending.

In context, for 2015-2017, Wisconsin's Parental Choice Programs totaled \$493,958,000, with the larger MPCP accounting for the majority of the funds. Compared to the total \$10,591,858,100 that was spent on Elementary and Secondary School Aids, the extremely effective Parental Choice Programs deserve to grow. A few more dollars allotted to eligible families who would like more educational choice would not even chip the paint on the total spending for public schools.

5. State Budgets always require difficult decisions and trade-offs.

It is important to remember that state budgets are finite pots of money. Spending must "balance" – at least on a cash basis – each year. The state Constitution prohibits deficit spending. Unlike the federal government, Wisconsin (and most other states), can't accumulate a \$20 trillion dollar debt. A consequence of this reality is that increased spending on Medical Assistance has decreased the pot of money available to fund other programs, and increased the tug-of-war for resources among interest groups.

With the implementation of cost-saving and commonsense reforms, the Walker administration's proposal takes the reform-caused savings to increase spending in what the Governor perceives as high-priority areas, such as K-12 education. This "Reform Dividend" has so far limited the need for hard choice in the 2017 budget cycle. [Walker's proposed budget](#) would increase spending on K-12 public schools by \$283,757, 700 in 2017-2018 and by 537.8 million in 2018-2019 as a change to the 2016-2017 base year. Overall, the governor's proposal totals \$13,739,153,600 for the new biennium's K-12 spending. Within the 13.7 trillion-dollar budget, sparsity aid is to increase if the governor's plan is approved. Eligible school districts could receive \$100 to \$400 dollar increase in per pupil aid. Sparsity aid would apply to school districts that have 745 to 1,000 pupils and a population density fewer than 10 people per square mile. Governor Walker's plan allocated 20 million dollars to be dispersed among small, rural school districts.

Overall, the 2017-2019 budget debate will not be without surprises, changes, and adjustments to existing state appropriations. Governor Walker recently floated [the idea of](#) using some of the general fund for transportation purposes, as an alternative to raising the gas tax. This adds to the dilemma of legislators



during budget time. What should the state spend its money on? As Medical Assistance trends upwards, does the State have to cut spending on other programs? Or will higher revenue projections balance priorities?

To be continued.....