



Better Choices for the Wisconsin Budget

Legislators Can Avoid Deep Cuts without Raising Taxes

April 14, 2015

Wisconsin needs a budget that invests in the building blocks of a strong economy. Healthy families, safe and stable communities, and a well-educated workforce are assets critical to helping Wisconsin remain an attractive place to live, raise families, and do business. By strengthening these resources, the state budget can lay the groundwork for broad-based prosperity and an economy that works for everyone.

Unfortunately, the state budget proposed by Governor Walker does not invest in Wisconsin's long-term economic success. The budget proposes reducing resources for public education – a cut that would come on top of dramatic reductions in resources for public schools that have already occurred. The budget would also make deep cuts in state support for the University of Wisconsin System, giving a tremendous blow to one of the engines of Wisconsin's long-term prosperity. The proposed budget would also make it harder for people with disabilities to get the help they need to contribute to their communities.

The Governor's budget recommends making these damaging cuts partly to cover the cost of past tax cuts, then adds to the harm by proposing additional tax cuts. Governor Walker's budget compounds the damage by refusing to accept federal money to improve access to health insurance for Wisconsin residents with low incomes, instead using more state dollars to cover fewer people.

State legislators have an opportunity to protect Wisconsin's assets by passing a budget that strengthens, not weakens, Wisconsin's public schools, public university, and health care system. Fortunately, to avoid the worst of the budget cuts proposed by the Governor, lawmakers don't have to increase taxes – they only need to stop the growth of tax cuts already in place and accept federal money for health care. By doing so, lawmakers can create a budget that invests in Wisconsin and its residents.

FREEING UP REVENUE WITHOUT NEW TAXES

The deep cuts in critical areas of the budget can be avoided relatively easily without any new tax revenue. State policymakers could free up \$782 million by making three changes: capturing our state's share of the money Wisconsin taxpayers have been sending to Washington for Medicaid expansions; halting the continued phase-in of an ineffective corporate tax break that has mushroomed in cost; and reallocating \$211 million that the bill uses for poorly targeted property tax cuts.

Proposed Budget Includes Resources that Could be Reallocated

SOURCE	AMOUNT
Cost of refusing federal money for improvements to BadgerCare	\$345 million
Expansion of state tax credit for manufacturers and agricultural producers	\$226 million
Increase in school levy property tax credit	\$211 million
Total, over two years	\$782 million

Source: Legislative Fiscal Bureau

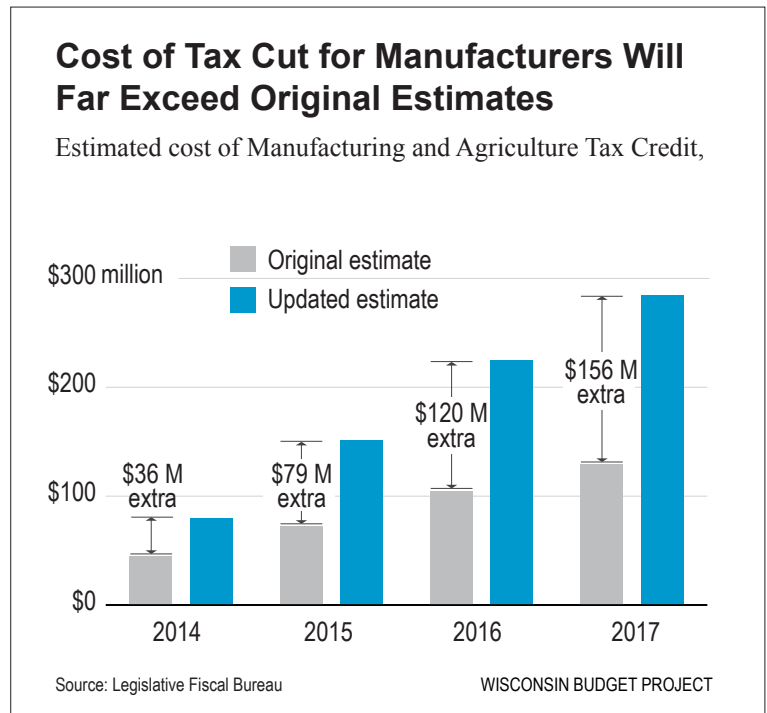
WISCONSIN BUDGET PROJECT

Freeing up \$345 million by capturing federal funding for the expansion of BadgerCare

Wisconsin receives less federal funding per state resident than most other states. We are compounding that problem by not tapping Wisconsin's share of the funding that we've been sending to Washington to finance expanded Medicaid coverage for low-income adults. The Legislative Fiscal Bureau estimated that if state lawmakers expand BadgerCare eligibility to individuals who earn 138% of the federal poverty level, which would qualify the state for additional federal funding, Wisconsin would save about \$345 million and BadgerCare would cover an additional 81,000 adults. That \$345 million, which is a conservative estimate of the net savings,¹ could be used to avoid cuts to SeniorCare and Medicaid proposed by the Governor, and would still leave more than enough to eliminate the \$300 million cut to the University System.

Capping the ballooning cost of an ineffective corporate tax break

A late-night amendment to the 2011-13 budget bill created a phased-in tax break that will nearly wipe out income taxes for corporations engaged in manufacturing or agriculture. When the credit is fully in place in 2017, many businesses engaged in those activities will not have to pay any state income taxes at all, and others will have their income taxes reduced by at least 95%. The credit is expected to cut taxes for corporations by \$285 million per year once it is fully phased in, a price tag \$156 million higher than originally expected.



In addition to being extremely expensive, this ballooning tax break is also ineffective because any manufacturer that has profits in Wisconsin can qualify for the credit, regardless of whether they are adding jobs or eliminating them. Another concern is that Wisconsin is prioritizing an economic sector that has been shrinking as a share of the total economy, rather than ensuring that we are well positioned to compete effectively in the economy of the future.

Although a strong case can be made for repealing the credit altogether, we are proposing a compromise that would cap it at the 2014 level. Keeping the cost from continuing to skyrocket would free up an estimated \$226 million in the 2015-17 biennium. That money could be used much more effectively to boost Wisconsin's economy by enabling our state to invest in the critical building blocks for economic growth, particularly quality K-12 schools and higher education.

Reallocating proposed spending for a poorly targeted property tax credit

The budget bill contains \$211 million of spending that is aimed at reducing property taxes by increasing the school levy credit. This spending not only siphons funding away from other priorities, it is also a

¹ The \$345 million figure is conservative for a couple of reasons. First, to the extent that expanding BadgerCare reduces uncompensated care, the budget could eliminate or reduce the \$30 million appropriation intended to assist hospitals with those costs. Second, because BadgerCare enrollment of childless adults has been growing far faster this year than the Fiscal Bureau assumed in its last estimate, the cost of forgoing the federal funding is growing.

poorly targeted form of property tax relief. Only about half of the funds for that credit goes to Wisconsin homeowners for their primary residences (with much of the rest going to corporations, owners of second homes and property owners who live in other states). In addition, owners of more expensive properties receive more of the benefit from that spending. Because that credit isn't well targeted, the owner of a median-valued home is only expected to see a reduction of \$8 in their property taxes next year.

Whereas the bill increases the ineffective levy credit, it continues a decline in funding for the Homestead Credit, which has long been a source of well targeted property tax relief for low-income households and renters. By relocating the \$211 million the Governor proposes to spend for small, broadly distributed property tax cuts, we would use \$200 million to support rather than harm public schools and the other \$11 million to stabilize funding for the Homestead Credit.

MAKING KEY INVESTMENTS IN WISCONSIN'S FUTURE

By making the changes noted above, state lawmakers could pass a budget that avoids the deep cuts proposed by Governor in critical parts of the state budget. The following is a general outline of the key areas where we would shift funding that is already in the budget bill.

Reversing higher education cuts

Wisconsin's university system has sometimes been referred to as the "crown jewel" of the state, and that's probably an underestimate. It has been a critically important driver of the state's economic growth, and that is likely to be truer than ever in the years ahead as the economy rapidly evolves. For Wisconsin to prosper, we need to invest in the UW System and the state's technical colleges, and also in the communities that will attract and retain a well-educated workforce.

Our plan restores the \$300 million that the Governor proposed cutting from the UW System budget. If possible, we would like to see that funding level increased because freezing the current level of state support would amount to a slowly deepening cut in resources for the university, especially if tuition is also frozen.

Supporting K-12 education

By reallocating the proposed \$211 million increase in the school levy credit, our budget proposal would provide \$200 million more than the Governor proposed for public schools, as well as \$11 million for a small increase in spending for the Homestead credit. With respect to school aids, we would allocate \$127 million to eliminate the proposed cut of \$150 per student in the 2015-16 school year. In addition, our plan would provide \$73 million more than the Governor proposed for general school aid. By increasing the spending caps imposed upon school districts, our plan would enable them to spend the increased school aid provided in the bill.

Increasing Wisconsin's meager budget reserves

Lawmakers in both parties have long expressed support for increasing Wisconsin's meager budget reserves, but have been delaying the implementation of a statute that would help achieve the goal of providing a more adequate budget cushion for situations when revenue runs short. It's time to begin addressing that problem.

A statute on the books requires a closing balance at the end of each fiscal year equal to 2% of general fund appropriations – beginning in fiscal year 2017-18. That would raise the minimum closing balance to well over \$300 million, compared to the current requirement for just a \$65 million budget cushion. However, the Governor is once again proposing to delay the effective date of the change – pushing it off until 2019-20. We would eliminate the provision delaying the increase, and would begin to move Wisconsin in the direction of

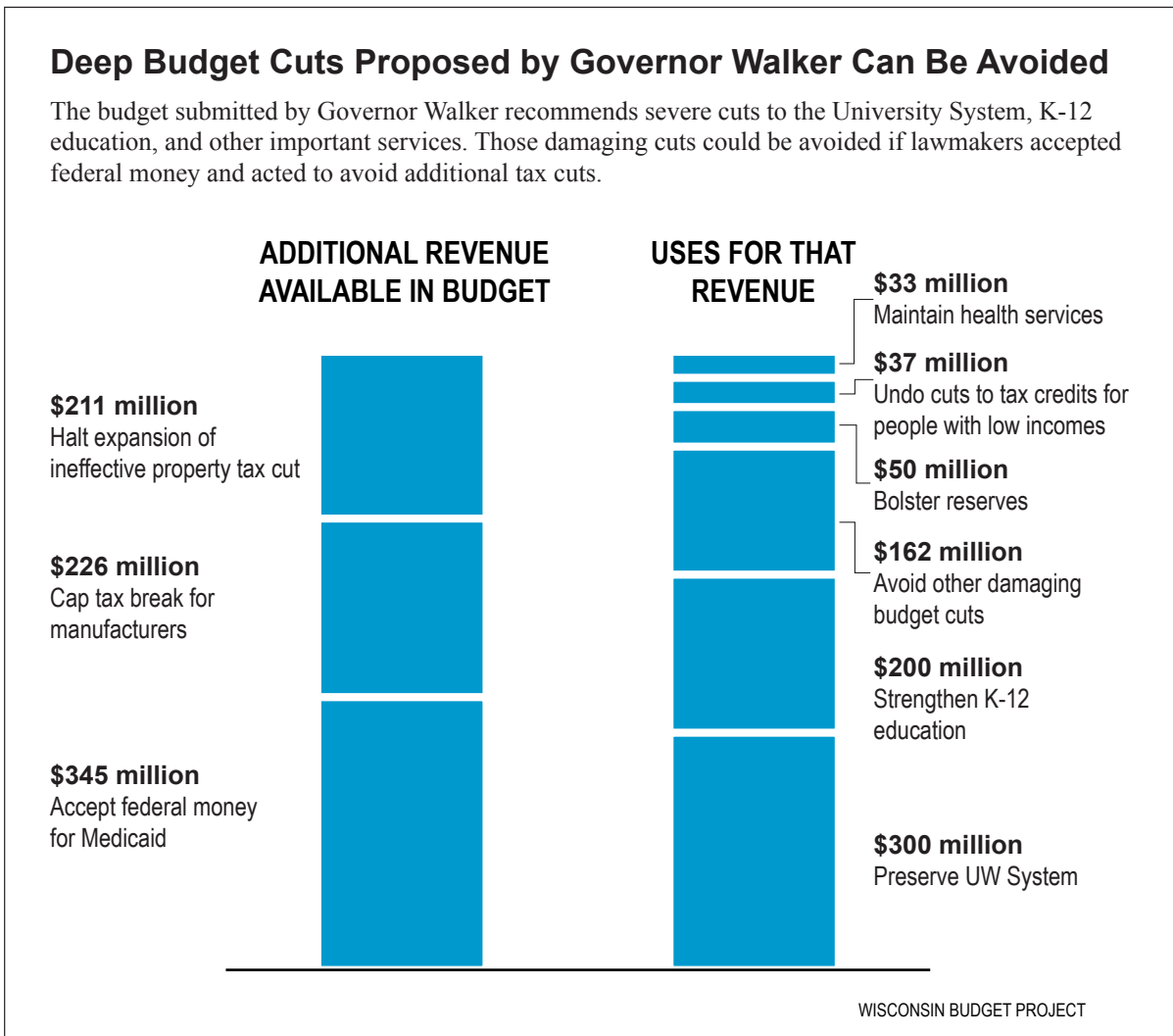
having more prudent reserves by increasing the projected budget balance by at least \$50 million at the end of the current fiscal year.

Reversing cuts to the Earned Income Tax Credit

The 2011-13 budget substantially cut the state’s Earned Income Tax Credit (EITC) for families with two or more children. This credit has long been a critical source of support for low-income working families, and that is even truer now because the incomes of low-wage workers have not recovered after the recession. Our budget plan would provide \$26 million in the second fiscal year to undo the changes to the EITC, beginning in tax year 2016.

Providing targeted property tax relief

As noted above, we are proposing to shift about \$11 million into funding for the Homestead Tax Credit, which under the Governor’s plan would fall to \$113 million in 2016-17, compared to \$133 million in 2011-12. Our budget plan would restore an \$8.8 million reduction in spending for the credit in the Governor’s budget and would increase the annual funding by about 1% over the base level for 2014-15. Although our plan would spend about \$14 million per year less for the Homestead Credit than the level in fiscal year 2012, we would reestablish the process of adjusting the credit formula for inflation, like most of the rest of the tax code. That change would halt the continued erosion of this important source of property tax relief for low-income households.



Removing health care cuts

The budget contains a number of significant cuts in health care services for seniors, people with disabilities, and very low-income adults. Among the changes are cuts to the SeniorCare prescription drug benefit, sweeping changes to the Family Care program that helps the elderly and people with disabilities remain in their homes, and a reduction in spending for personal care services for people with disabilities. The Governor's budget also reduces reimbursement rates for community health centers and seeks to make changes that could significantly reduce the number of childless adults below the poverty level who are participating in BadgerCare. Those changes include imposing a four-year lifetime limit on eligibility, making drug screening a condition of eligibility, and requiring childless adults to pay premiums for their insurance, which would almost certainly cause many of them to lose their coverage. If approved, those proposals could significantly increase the number of uninsured childless adults and the amount of uncompensated care costs that are shifted onto people with insurance.

By capturing Wisconsin's share of the funding for Medicaid expansions, our budget plan would make it unnecessary to make the proposed cuts to critically important health care services. Those cuts are expected to reduce state Medicaid spending by \$33 million during the 2015-17 biennium.

Avoiding other damaging cuts

The changes we are recommending would free up a total of about \$782 million, and we have proposed specific plans for using \$594 million of that amount – which leaves an additional \$188 million unallocated. We will be developing recommendations for using that funding to mitigate many other harmful spending cuts in the Governor's budget. In particular, we are interested in ensuring adequate funding for human service programs for vulnerable Wisconsinites, improving worker training in the technical college system, investing in vibrant and stable communities, and undoing the damage done to environmental programs.

CONCLUSION

Governor Walker's budget proposal does not build on Wisconsin's long history of making the kind of investments in our schools and communities that create broad-based prosperity. However, by halting the expansion of two tax breaks and accepting federal money to improve access to health care, Wisconsin can continue to invest in our strengths – including a solid public education system, accessible higher education, and a healthy workforce.

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