

Former Officials Offer Budget Crisis Analysis and Solution: A Summary & Consideration

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Below is a brief summary the fiscal policy paper [The Fiscal Crisis in Wisconsin - An Analysis of its Origins, Implications and Solutions](#). (43 pp pdf). We intend only to highlight key concepts and proposals, and strongly encourage interested parties to read the entire paper found at the above link. Following this summary is a listing of several points for consideration as policymakers and interest groups evaluate this and other proposals relating to Wisconsin's current fiscal dilemma.

Contributors. The nine persons who contributed to the development of the paper have served in the administrations of Republican and Democratic Governors, including two former legislators.

- **Mark Bugher**, Former Secretary of Administration and Revenue in the Thompson Administration
- **Dale Cattanach**, Former Director of the Legislative Fiscal Bureau; Former Secretary of Transportation in the Schreiber Administration; Former Director of the Legislative Audit Bureau
- **Mike Ley**, Former Secretary of Revenue in the Earl Administration; Former President of the Madison City Council
- **Joe Leean**, Former Republican State Senator; Former Chairman of The Joint Committee on Finance; Former Secretary of Health and Family Services in the Thompson Administration
- **John J. Maurer**, Former Democratic State Senator; Former Chairman of The Joint Committee on Finance; Former Secretary of the Department of Veterans Affairs in the Earl and Thompson Administrations
- **Jim Morgan**, Former President of the Wisconsin Taxpayers Alliance; Former Secretary of Revenue in the Knowles Administration; Current Chair, Wisconsin Ethics Board
- **Carol Skornicka**, Former Policy Advisor in the Lucey Administration; Former Secretary of Department of Industry, Labor and Human Relations in the Thompson Administration
- **Barbara Ulichny**, Former Democratic State Senator; Former Chair of the Senate Economic Development Committee; Former Member of the Assembly Revenue Committee
- **Richard C. Wegner**, Former Deputy Secretary and Acting Secretary of Workforce Development in the Thompson Administration; Member of the Reynolds, Lucey, Schreiber and McCallum Administrations

Overview and Goal. The contributors to this paper make it abundantly clear that Wisconsin is confronting a fiscal crisis of substantial proportions and the time for viable solutions is **NOW**.

Four other “ground rule” statements are important to focus on in the **Introduction** that should not be lost in reading and examining the remainder of the document:

- “This is **our** proposal, not the University’s, nor state government’s nor the private sector’s.”
- “...not all of us advocate each and every one of the ideas in the paper....”
- “The intent is to bring these **ideas** into the open so that policy makers looking for real options to solve the crisis can safely examine them.”
- “In essence, our goal is to foster a widespread debate and discussion.”

(It should be noted that both major party candidates for Governor have pledged not to raise taxes in responding to the fiscal crisis. Raising taxes is not generally a popular position for any candidate. By offering a 3rd party proposal, the contributors hope that all options can be “safely examined.”)

Guiding Principle. The contributors consistently and repeatedly state that whatever is done during the next two years to solve the fiscal crisis must also promote economic growth in the long term.

Only Possible Solutions. It is proffered that the fiscal crisis can be solved in any one of three ways, or a combination of these three:

- Economic growth.
- Spending cuts/service cuts.
- Increased revenue.

Proposed Solutions. After examining all of the options individually, the paper concludes that a combination of tax reform and spending reductions, with a little help from economic growth, are required to solve our fiscal crisis.

The spending changes:

- Reduction in state school aids to the tune of \$289 million per year, represent a cut from 66 2/3 % to 63%.
- Reduce shared revenue by \$50 in 2004-05.
- Reduce GPR to UW System by \$25 million per year.
- Reduce funding for medical assistance and Corrections by \$25 million per year.
- Make a \$58.5 million per year contribution to a “rainy day” fund.

Revenue Changes:

- Reduce individual income tax rates. (No change to corporate rates.)
- Increase the state sales tax from 5% to 6%.
- Expand the base of the sales tax to a number of currently exempt services (over 30), including legal, accounting, bank accounts, advertising, computer services, real estate commissions, management consulting and PR, architectural, engineering, surveying, research, development and testing.

- Increase the cigarette tax by 50 cents per pack.
- Increase the gas tax by 2 cents per gallon with 80% in '03 and 60% in '04 going to the general fund, not the transportation fund.
- Increase the registration fee via a formula based on age and weight and disperse the increased revenue the same as the increased revenue from the gas tax increase.

Considerations

*The following are some considerations prepared by The Hamilton Consulting Group for our clients who have a keen interest in the fiscal policy paper *The Fiscal Crisis in Wisconsin - An Analysis of its Origins, Implications and Solutions*. We provide this information as an aide in evaluating the merits (or demerits) of the proposal.*

1. Clearly, the 9 contributors to the fiscal crisis paper and proposed solutions deserve credit for insuring that all options are on the table and available for open, public debate.
2. ***Whatever is done in the next two years to solve the fiscal crisis must also promote economic growth in the long term*** is the stated guiding principle of the “contributors” and should be the guiding principle for all of us who analyze the pros and cons as well.
3. Many people have found the proposal appealing because it “spreads the pain around” and dares to raise the issue of increasing taxes by increasing some rates and expanding sales tax applicability to services currently exempt from the tax. Others would argue that the current fiscal crisis presents *the* opportunity to cut spending, a concept that has been ignored for too many years. Todd Berry, President, Wisconsin Taxpayers Alliance, was quoted recently as saying that *Wisconsin’s budget deficit didn’t happen because things were bad, but because they were very good*. Wisconsin has experienced unprecedented economic growth over the past many years and budgetary “conflicts” were, more often than not, resolved by agreeing to some additional spending, because the money was there. The “no tax increase” proponents suggest that not using this fiscal crisis to substantially reduce spending would be an opportunity lost and, combined with raising taxes, would have long term negative impacts on economic growth.
4. While the proposal has a modest reduction in the personal income tax (presumably to help move Wisconsin out of the “top ten”), that reduction is more than offset by increases in the sales tax. Opponents of increasing/expanding the sales tax fall into two somewhat divergent camps. The sales tax is viewed by many as regressive and raising sales taxes across the board is perceived by these same people as hitting hardest those least able to pay. Expansion of the sales tax to business and professional services, on the other hand, constitutes a direct tax on business. The tax is not a tax on lawyers, engineers and accountants, it is a tax on their services and will be paid by those businesses that utilize those services.
5. At 6%, sales tax on professional and business services would amount to about \$635 million annually. Adding other services that businesses use, the number could be in the neighborhood of \$750 million per year.
6. The proposal impacts local government by reducing school aids by \$289 million per year and shared revenue by \$50 million per year. The proposal “suggests” that some of the added costs could be made up by consolidation of local services and jurisdictions. If consolidations do not occur or do not occur quickly, will property taxes rise? Some suggest that the job is not complete

unless some consolidations are mandated or accomplished by attractive incentives. (Property taxes are part of the "top ten" calculation.)

7. Finally, the proposal recommends increasing the gas tax by 2 cents per gallon and increasing registration fees by changing to a formula based on weight and age of the vehicle. In 2003, 80% of the increased revenue from the gas tax and registration fee would go to the general fund and not the segregated transportation fund. That figure would be 60% in 2004. Diversion of highway user taxes and fees to the general fund is a huge issue with the highway user community due to existing constraints in the transportation fund. Wisconsin also currently has one of the highest gas taxes in the country which automatically goes up every year due to indexing. Also, some of the arguments regarding the sales tax can be applied here, i.e. these increases hit hardest those least able to pay and increase the cost of doing business in Wisconsin.