

# Wisconsin

## At a Glance

	Change in revenue	Size of budget gap	Change in unemployment rate	Foreclosure rate	Needs supermajority?	GPP "Money" grade	Score
<b>Wisconsin</b>	-11.2%	23.2%	4.4	.96%	No	C+	<b>22</b>
California	-16.2%	49.3%	4.6	2.02%	Yes	D+	30
United States	-11.7%	17.7%	4.4	1.37%	17 yes, 33 no	B-	17

SOURCE: Pew Center on the States 2009, reflecting best available and most current data as of July 31, 2009.

To most, Wisconsin would not seem to have the same problems managing its money as its dairy rival, California, which is in the news constantly for its fiscal nightmare. But the recession has hit Wisconsin harder than it has hit most state governments, especially when it comes to lost tax revenues and the size of the hole that made in its budget. And unemployment is climbing as the state's largest sector—manufacturing—sputters.<sup>280</sup> All of these factors have helped the state to narrowly make Pew's Top 10 list of states in fiscal peril.

Manufacturing in Wisconsin is one of the state's largest industries because of firms such as Harley Davidson and General Motors, as well as other automobile suppliers. Manufacturing's decline in Wisconsin is part of the larger trend seen in other "Rust Belt" states.

The recession has cost Wisconsin 140,000 jobs and one-eighth of its manufacturing workforce, according to the Center on Wisconsin Strategy, a nonprofit group based at the University of Wisconsin at Madison.<sup>281</sup> Wisconsin's unemployment rate rose 4.4 percentage points from the second quarter of 2008 to the same point in 2009.<sup>282</sup>

This fallout from the economic downturn that led to reduced revenues and more demand for state

safety-net programs left the state with a \$6 billion shortfall in its 2009–2011 budget.<sup>283</sup> The budget would have fallen short even without the national economic crisis, although the recession made the state deficit much larger than expected, said Andrew Reschovsky, professor of public affairs and applied economics at the University of Wisconsin at Madison.<sup>284</sup> Federal stimulus funds of \$2.2 billion helped plug some budget shortfalls this year.<sup>285</sup> For the rest, lawmakers raised taxes on the wealthy, hospitals and smokers, and cut spending by \$3 billion, mostly by cutting salaries for state employees.<sup>286</sup> Experts predict Wisconsin could face a \$2 billion<sup>287</sup> deficit during the next biennium, which starts July 1, 2011, after the federal stimulus runs out.<sup>288</sup>

## In Tough Times, Struggling to Deliver on Old Promises

Wisconsin's state government has struggled for years to keep its promises to pay a higher share of school costs while holding property taxes low. Often, lawmakers shifted money around, taking money from the state's transportation fund, for example, to pay for day-to-day operations—and then borrowed to cover the transportation budget.<sup>289</sup> Legislators also failed to put money in reserve before the recession hit. The Pew Center on the States' Government Performance Project noted in 2008 that Wisconsin had a negative

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general fund balance for five straight years before the recession even started.<sup>290</sup>

“It’s practically a textbook case of how not to engage in fiscal policy and budget making,” said Mordecai Lee, a former Democratic state legislator and professor of governmental affairs for the University of Wisconsin at Milwaukee.<sup>291</sup>

“Structurally, we are around the corner of becoming like California...In the next cycle we will be like California.”

—MORDECAI LEE, PROFESSOR OF GOVERNMENTAL AFFAIRS, THE UNIVERSITY OF WISCONSIN AT MILWAUKEE

During better economic times, the state used revenue surpluses to pay for property tax relief and to pump up school aid. The legislature clamped down on fast-rising property taxes in 1993, but

that slowed the money going to schools.<sup>292</sup> So four years later, the state agreed to increase its share of education funding from one-third to two-thirds, a \$1.2 billion commitment legislators have struggled to sustain.<sup>293</sup> Lawmakers also cut the income tax rate in 1998<sup>294</sup> and added a sales tax rebate in 1999,<sup>295</sup> limiting the state’s ability to sock away money in reserve.<sup>296</sup>

“Structurally, we are around the corner of becoming like California,” Lee said. “In the next cycle we will be like California.”<sup>297</sup>

David Schmiedicke, state budget director for the Wisconsin Department of Administration, praised one specific aspect of the state’s budget: The legislature passed the current spending plan on time, before the biennium started, for the first time in 32 years. The legislature also has an unallocated surplus of approximately \$270 million<sup>298</sup> in the current budget in case revenues fall short of estimates.<sup>299</sup>