THE WISCONSIN
TAXPAYER

Vol. 86, Number 6 | 2018

The 2018 State Elections

10 Key Questions for Candidates

On November 6, voters will select Wisconsin's governor, all 99 members of the state Assembly, and 17 of the 33 members of the state Senate. When they take office in January, they will face pressing issues ranging from a looming worker shortage to pressures on state, local, and school finances. Drawing on our recent research, we provide a guide to these topics to help voters make informed decisions.

With the primary elections completed, Wisconsin voters have narrowed the field of candidates for critical state offices. Now, as the 2018 election season hits the home stretch, voters will be bombarded with even more information from interest groups and candidates.

In the following pages, to help voters sort through the noise, we have identified 10 questions that candidates should be addressing regarding six key issues facing the state: transportation, economy and workforce, education, state-local relations, taxes, and Wisconsin's fiscal health. These questions emanate from recent research we have conducted on these topics.

To help inform the discussion, we provide background data from our research. Some of these issues may seem complex, but they have important consequences, whether it is the condition of the streets and highways on which Wisconsin residents drive or the condition of the state's finances.

We hope readers will consult our guide as they consider their choices. We will continue to track and report on these issues in the future, particularly if new developments occur prior to November.

TRANSPORTATION

Like many other states, Wisconsin faces challenges in funding its transportation programs, such as highway construction and local road repairs.

State funding for these programs comes mainly from the fuel (gas) tax and vehicle registration fees, both of which have been relatively stagnant in recent years. The state's $75 annual registration fee for most vehicles has not been raised since 2008, except for an increase for electric and hybrid vehicles in the 2017-19 state budget. Similarly, Wisconsin's 30.9 cents per gallon gas tax has not risen since 2006, when automatic increases, known as indexing, were eliminated. Figure 1 on page 2 shows the growth of these two revenue sources, which many argue has not kept pace with transportation needs.

Also in this issue:

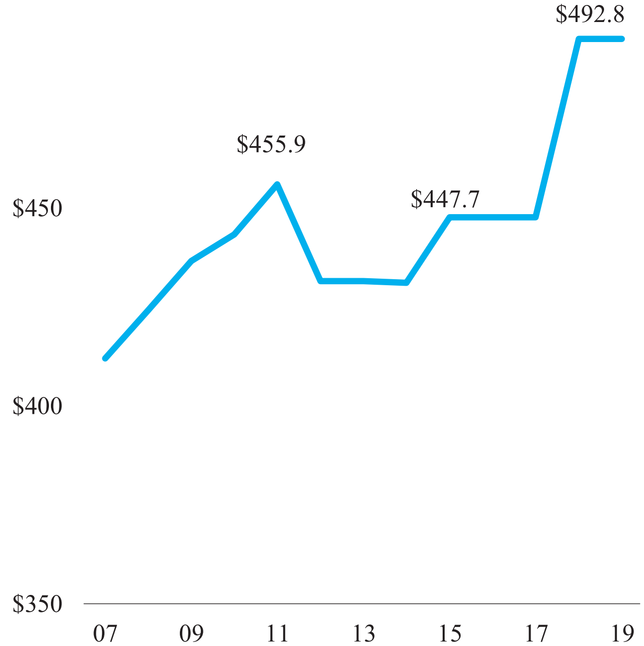
Order *MunicipalFacts18* • Join us in Madison for our Sept. 11 Viewpoint Luncheon on Criminal Expungement

WISCONSIN
POLICY FORUM

In recent years, the state has also relied on borrowing backed by both revenues from the transportation fund (mainly vehicle registrations and gas taxes) as well as general revenues, to fund transportation projects. Total transportation borrowing peaked at $1.3 billion in 2009-11 before dropping to $402.4 million in 2017-19. Debt service as a share of transportation fund revenues has grown from 10.3% in 2006-07 to a projected 20.9% in 2018-19.

Spending for transportation areas such as state highway improvements, local road aids, and long-term major state projects (known as "the majors") has shifted from budget to budget. As shown in Figure 2, local road aids rose to $455.9 million in 2011, dropped, and then rose slowly. They increased by more than $90 million in the 2017-19 budget. This resulted in less cash available for some state highway improvements and major projects.

Figure 2: After Slow Growth, Road Aids Jump
Local Road & General Trans. Aids, in $Millions, 2007-19

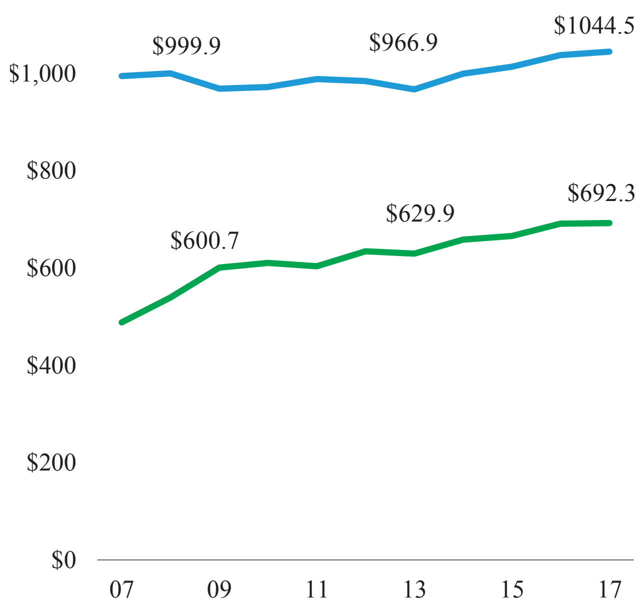


Several recent studies have warned that Wisconsin's current financing system is insufficient to address future needed transportation investments. A 2016 Department of Tranportation solvency study found that under scenarios varying from spending less than the 2015-17 budget to providing modest annual increases, funding shortfalls over the next 10 years ranged from $852 million to $7.9 billion.

Lawmakers have offered proposals to raise transportation revenues, but no action has been taken. Some officials, including the current state transportation secretary, contend the state does not need additional revenues but should instead increase efficiency and reduce the number of projects "in the pipeline" for completion at any given time.

Against this backdrop of uncertain state aid as well as state-imposed limits on property tax increases, a growing number of local governments have adopted vehicle registration fees (also known as wheel taxes) to fund road maintenance and other transportation programs. While the state has allowed local govern-

Fig. 1: Gas Tax, Veh. Reg. Revenues Grow Slowly
Gas tax (blue), veh. fees (green), in $Millions, 2007-17



THE WISCONSIN
TAXPAYER

2018 Vol. 86 Number 6
Publication Number USPS 688-800
Periodical postage paid at Madison, Wisconsin

Subscription Price:
$48.00 per year
Published 11 times a year by the Wisconsin Policy Forum, 401 North Lawn Avenue, Madison, Wisconsin 53704-5033

Postmaster:
Send address changes to *The Wisconsin Taxpayer,*
401 North Lawn Avenue, Madison, Wisconsin 53704-5033
Phone: 608.241.9789 Fax: 608.241.5807
Email: publications@wispolicyforum.org Website: wispolicyforum.org

ments to adopt these fees for years, their expanded use has prompted some lawmakers to propose limits on them.

Questions for candidates

1) Wisconsin relies heavily on gas taxes and registration fees to fund transportation. With revenues from both sources growing slowly, what changes, if any, would you support to meet the state's transportation needs? If you would not increase revenues, how would you reduce spending in order to adapt to more modest revenue growth?

2) A growing number of local governments have turned to "wheel taxes" to fund their transportation programs. Do you support their ability to do so, or do you favor restrictions on these fees? Would you favor alternative local revenue options instead of, or in addition to, wheel taxes, such as local gas or sales taxes?

ECONOMY AND WORKFORCE

Wisconsin's economy faces a number of long-term challenges. Demographically, the state's population is aging, and its birth rate is declining. As the Forum pointed out in 2016, Wisconsin will need at least an additional 300,000 workers over the next 20 years just to keep its workforce at current levels.

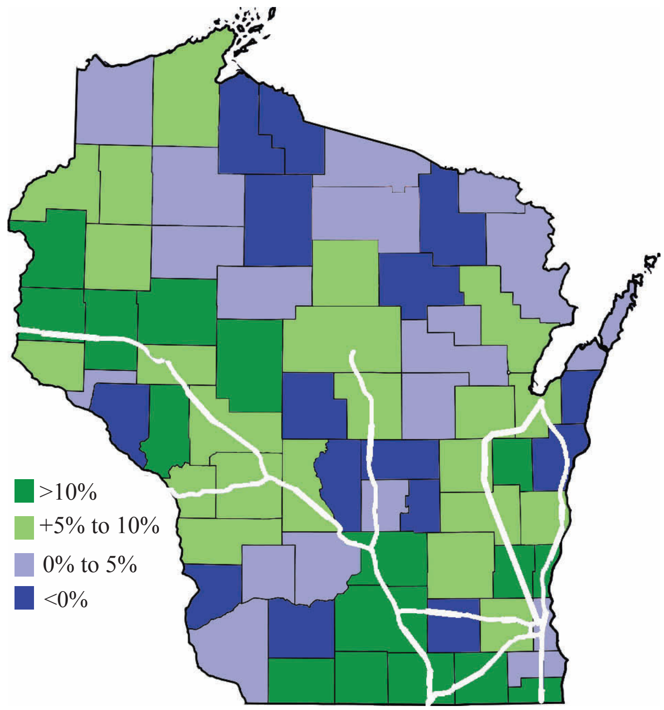
Additionally, the state's recovery from the Great Recession has been uneven. While employment grew statewide between 2009 and 2017, jobs actually declined in 15 counties, many of them in northern Wisconsin. These same areas have also seen a significant decline in the working-age population that is not being replaced.

As shown in Figure 3, job growth has been the highest in west central Wisconsin, principally along the Minnesota border; in south central Wisconsin near the Illinois border; and in east central Wisconsin. It declined or has grown slowly throughout much of northern Wisconsin.

Economic strength, a measure we devised in 2017 to compare the combination of jobs, population, labor force, residential values, and unemployment between counties, shows a similar pattern. The state's strongest economies are along the Minnesota and Illinois borders; the weakest are in northern Wisconsin.

The potential impact of these trends becomes clearer by looking at the working-age population.

Fig. 3: Job Growth from High (Dk. Green) to Low (Dk. Blue)
% Change in Employment by County, 2009-17



In 20 counties, the workforce-age population (25-64 years old) has declined since 2000. Fifteen of the 20 counties are in the north, roughly running along a line from Bayfield and Burnett counties in the northwest to Door County in the northeast.

At the same time, the replacement age population, those between 15 and 24 years old, remains low in many of these same counties. Our estimates, based on U.S. Census figures, show that in 13 counties, the projected 25-34 year old population is enough to replace less than half of potential retirees. In an additonal 23 counties, estimated replacement rates are less than 80%. To guarantee sufficient workers, the state would need to retain more young people, increase the percentage of the population that works, or attract workers from other states or abroad.

Questions for candidates:

3) What policies should the state pursue to attract and retain the employees needed to maintain Wisconsin's workforce over the next 20 years, or how should Wisconsin prepare instead for a smaller, older workforce?

4) Given our recent research showing that, in general, the growth in Wisconsin's economy has been uneven, what steps would you take to promote development in areas that have seen the slowest growth, particularly rural and northern Wisconsin?

EDUCATION

K-12 education is the single largest expense for taxpayers at both the state and local level in Wisconsin. Funding for schools comes from three main sources—state aids, local property taxes, and a small share from federal aids. The state provides two major types of aids: general aids, which are unrestricted and are distributed using a complex formula intended to equalize differences between property tax-rich and -poor districts; and categorical aids, which are typically targeted for specific purposes, such as assistance for students with disabilities.

Figure 4 shows how state funding for K-12 education declined and then rose again between 2010-11 and 2018-19. Total spending for all school aids rose by $570 million, or 10.6% during the period, roughly the rate of inflation.

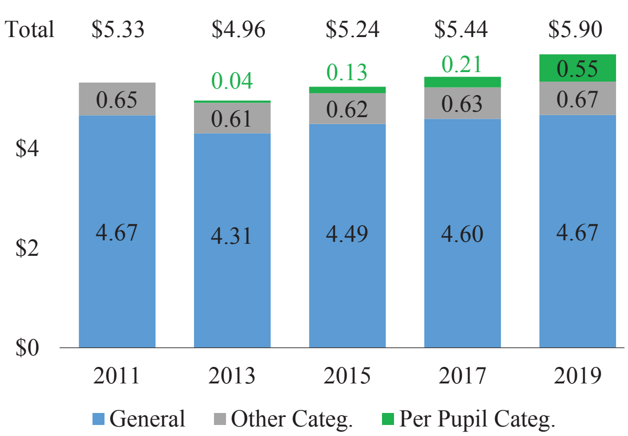
The biggest share of that increase came in the current state budget, which increases all aids by $197.0 million (3.6%) in 2017-18 and another $254.3 million (4.7%) in 2018-19. The 8.3% two-year increase is the largest since the 9.0% rise in 2005-07.

Additionally, at the end of the legislative session this year, the governor and lawmakers provided $6.5 million more in categorical aids for sparsely-populated school districts in 2018-19 and an additional $15.6 million in revenue limit authority for low-revenue districts.

In recent years, general school aids have fluctuated. They declined from $4.7 billion in 2006-07 to $4.3 billion in 2012-13 and have risen slowly every year since.

Categorical aids have undergone more changes. In the 2011-13 budget, the state established and expanded a new form of categorical aids known as per pupil categorical aids. Like general aids, per pupil aids can be used for any purpose, but they are distributed on a flat per student basis outside the general equalization aids formula and the revenue limits described below. That means they do not account for the property tax base in a district or other factors that measure residents' ability to pay for schools. These aids have risen from about $40 million in 2012-2013 to $549 million in 2018-19.

Figure 4: State School Aids Drop, Then Rise
School Aids by Type, In $Billions, 2011-19



A controversial element of K-12 education finance is revenue limits, which essentially restrict how much schools may raise property taxes from one year to the next. Revenue limits are predicated on a district's combination of state general aids and property taxes and are established on a per pupil basis.

The stated purpose of revenue limits is to prevent local property taxes from increasing substantially to replace state funds in years when those dollars decline and to provide property tax relief in years when state funding increases. The state largely has frozen per pupil revenue limits since 2015; schools may exceed the limits if voters approve a local referendum, which they have done in a growing number of school districts.

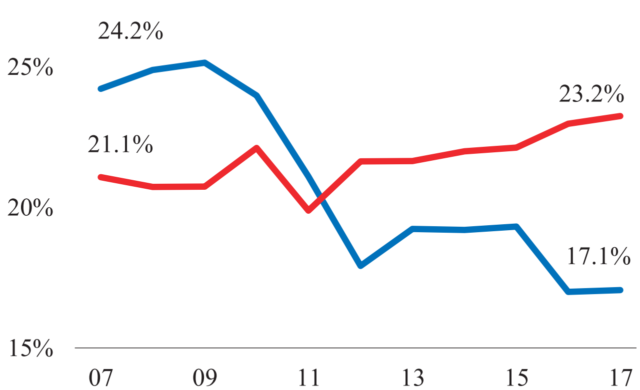
Critics complain that the revenue limits penalize fiscally responsible districts that were spending at relatively low levels when revenue limits were imposed in 1993-94, locking them into low-spending levels ever since. Critics also say revenue limits harm districts with higher per-pupil costs due to declining enrollments. A blue-ribbon legislative panel is examining the school finance system and is expected to make recommendations later this year.

Finally, funding for the University of Wisconsin represents another aspect of state support for education. The state spends about $1 billion in state tax dollars annually on the University of Wisconsin System. The 2017-19 budget provides an increase of roughly $120 million in state funds over 2015-17.

Despite this increase, state general revenue support for the UW System has declined as both a share of the System's budget (from 24.2% in 2006-07 to 17.1% in 2016-17) and as a share of the state's general fund budget (from 7.9% in 2005-07 to above 6% in 2017-19).

As shown in Figure 5 on page 5, tuition comprises a growing share of UW System revenues. In the late 2000s, tuition was increased to offset state funding cuts. Since 2013, the state has frozen tuition for in-state

Figure 5: State's Share of UW Budget Declines
GPR (blue), tuition (red) as % of budget, 2007-17



undergraduates. Gov. Walker (R) has said he intends to continue the freeze for another four years; Democratic candidate Tony Evers has indicated he supports a freeze, but not for how long.

Questions for candidates:

5) Should the current general aids system for K-12 schools be changed? To what extent should funding increases for per pupil categorical aids continue as well, or should future increases be directed toward general aids versus per pupil categorical aids?

6) Should state funding for the UW System budget increase and, if so, by how much? Where should this additional funding come from?

STATE-LOCAL RELATIONS

The relationship between the state and local governments in Wisconsin is complex. For example, local governments here operate many programs that other states provide themselves, such as highway maintenance and human services. In addition, service levels provided by municipalities and counties are impacted significantly by state laws or regulations.

As part of this relationship, the state provides financial assistance to local governments through various aid programs. Among these programs, the largest is shared revenue, which distributes roughly $1 billion annually to municipalities and counties. In recent years, shared revenues have been flat or have declined, prompting local officials to look to other revenue sources to help fill the gap.

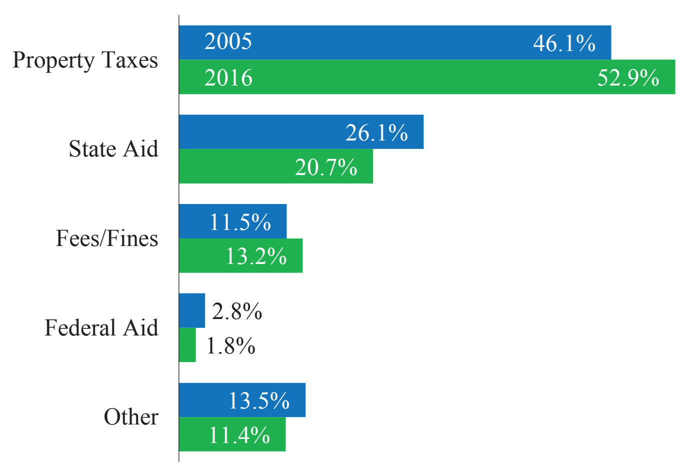
State aids to local governments in Wisconsin are relatively robust when compared to other states, but local revenue options are limited. Unlike many states, Wisconsin allows local governments one main source—the property tax—while largely prohibiting the use of local sales or income taxes. (Counties are allowed to levy a 0.5% sales tax.)

Since 2005, however, the state has limited how much counties and municipalities may increase their total property tax collections, or levies. Those limits are linked to the percentage increase in property values caused by new construction. From 2005 to 2010, the levy limit had a "floor," which was roughly about the rate of inflation, allowing communities that were experiencing little to no growth to increase their levies on an inflationary basis. In 2011, the state eliminated the floor, which means slow-growth communities have little ability to increase their levies.

This policy achieved its goal of slowing the growth in municipal property tax levies, which had increased annually by an average 3.7% between 2005 and 2011 and slowed to 2.1% between 2012 and 2016. Yet, because of the link between property taxes and new construction, rates of property tax growth among communities vary widely. Our research has found that during the latter period, only about 1 of every 10 Wisconsin cities and villages averaged annual new construction rates above 2%, while nearly a third averaged growth of 0.5% or less; under levy limits, these development increases set how much municipalities can increase their property tax collections.

As we noted earlier this year, this gap may be creating a new dynamic in which fast-growing cities and villages have the financial resources to invest in services and infrastructure that help accelerate their growth, while slower-growing communities continue

Figure 6: Muncipalities Rely Most on Prop. Taxes, State Aid
% of Mun. Revs. Pre-/Post Levy Limits, 2005 (blue) and 2016 (green)



to lag further behind. As discussed in our section on Wisconsin's economy, location, overall economic strength, and the robustness of the local workforce tend to drive local development. In this case, those factors also play a primary role in determining the property tax revenues available to fund local governments and invest in future growth. In many parts of the state, property values are just beginning to rise above their pre-2008 levels, and in many more, new construction has been slow to recover to pre-recession levels.

Other local revenue options include the 0.5% sales tax for counties noted previously, which has been adopted by 66 of Wisconsin's 72 counties; and local hotel room taxes for municipalities. As also noted, both counties and municipalities can also charge vehicle registration fees to help pay local transportation costs; the number of communities charging wheel taxes has risen from four in 2011 to 27 in 2017.

Our research has also identified particularly acute fiscal challenges for both the city of Milwaukee and Milwaukee County. In the city's case, rising health care and pension costs for current and retired employees and increasing public safety demands are exacerbating the strains of limited revenue growth. In Milwaukee County, funding for ongoing operations is threatened by past pension obligations as well as a large infrastructure repair backlog and major new capital projects (most notably a $300 million justice center). In both cases, the Forum has cautioned that the present course is unsustainable and changes must be considered.

Questions for candidates:

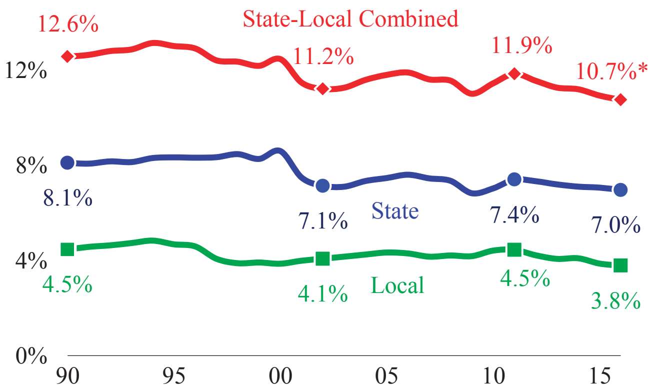
7) Would you support modifications to existing levy limits to give municipalities and counties greater flexibility, or do you support them in their current form to curb growth in property taxes?

8) What, if any, additional revenue options should be available to the city and county of Milwaukee and other local governments in Wisconsin? If no new revenue sources are allowed, should the state help Milwaukee manage its public safety costs and Milwaukee County its infrastructure needs?

TAXES

Wisconsin has traditionally been considered a high-tax state. In recent years, however, the state and local per capita tax burden has declined from 11.6% of personal income in 2008 to 10.7% in 2017. (See Figure 7.) This has largely been due to a growth in personal income following the Great Recession, as well as a decline in unemployment compensation tax collections and the impact of property tax levy limits that first took effect in 2005. Since that year, local tax collections have increased 28.5%, down from 65.9% in the 12 years prior. By comparison, state tax collections have increased 37.2% since 2005, compared to 66.2% in the 12 years before.

Figure 7: State, Local Tax Burdens Declining
Taxes as % of State Personal Income, 1990-2017



*Totals may vary due to rounding

Wisconsin has three major tax sources: the property tax, which is exclusively a local tax used mainly to fund schools, local governments, and technical colleges; the income tax, which is exclusively a state tax to fund state operations, programs, and local aids; and the sales tax, which is used by the state and most counties.

Some observers argue that the current tax structure used to finance state government relies too heavily on the income tax; while others argue that local governments are too reliant on the property tax and would benefit from a broader array of revenue options to fund their operations.

Wisconsin's reliance on specific tax sources to fund particular levels of government has been the subject of debate for years. Many government finance experts say four qualities are important in defining a high-quality revenue system, namely:

Reliablity: The system should generate roughly the same revenue growth from year to year.

Balance: The system should rely on a variety of revenue sources generated by different types of taxpayers, such as property owners, consumers, wage earners, and investors.

Simplicity: The system should be relatively easy to administer, without requiring an inordinate amount of staff time or resources, and should not place a significant burden on taxpayers to comply.

Equity: The system should impose similar burdens on taxpayers in similar circumstances.

In general, Wisconsin's state and local tax structure tends to rate low on reliability, with income and sales tax revenues subject to economic fluctuations. It also generally rates low on balance, because the state reserves certain taxes for itself and other taxes for local governments. Some taxes, such as the sales tax and local wheel taxes, tend to be simpler to administer than either the income or property tax, while others, such as the property tax and income tax, tend to rate higher for equity.

Question for candidates

9) Given the state's advances in lowering its overall tax burden, do you think additional progress needs to be made in this area, and, if so, how would you achieve it? Would you support changes in the state's current tax structure to promote greater balance and equity or other goals?

STATE FISCAL HEALTH

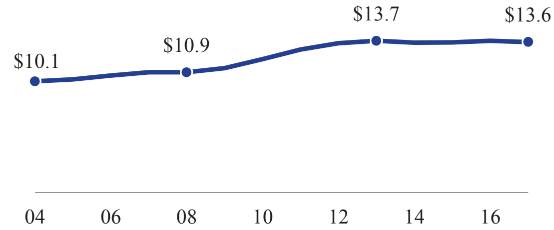
In terms of its fiscal health, Wisconsin's condition can be divided into short- and long-term prospects. As defined in research by the Mercatus Center at George Mason University, short-term health refers to the state's ability to pay its bills as they come due, such as within the first 60 days of the fiscal year. These measures typically reflect the state's bank accounts, liquid investments, and accounts receivable.

As we noted in February, Wisconsin's short-term health has improved since 2002-09. During that period, the state depleted its unemployment compensation (UC) reserves and struggled with declining income and sales tax collections due to the 2001 downturn and, later, the Great Recession. While the state has rebuilt its UC fund and income and sales tax collections have largely recovered, it still ranks 38th among states for short-term financial stability.

Long-term health considers the state's debt load and other outstanding obligations. These can be measured in terms of per capita obligations, liabilities relative to assets, and net assets to total assets. Our February report noted that Wisconsin ranks 27th nationally on combined measures of long-term fiscal health.

Overall, the state has stabilized its use of long-term borrowing, particularly for transportation projects, which

Figure 8: State's Long-Term Debt Stabilizing
Total State Govt. Debt, in $Billions, 2004-17



had been increasing an average of 3.5% annually from 2004 to 2013.

Wisconsin has traditionally avoided one potential threat to long-term financial stability: unfunded pension and post-retirement employee benefit liabilities. Unlike other states, Wisconsin's pension system is fully funded, as are its obligations for post-retirement health care benefits for employees.

Wisconsin has also taken steps to improve its "rainy day fund" and other budget reserves to safeguard against economic downturns. Between 2002 and 2011, the state typically had a combination of ending balances and rainy day funds of less than 1% of spending; in fact, it rated the second-worst prepared state for the 2007-09 recession, behind only Arkansas.

The state ended 2017 with a positive general fund balance of $579 million, plus an additional $283 million in the rainy day fund, for a total reserve of $862 million, or roughly 5% of general fund spending.

Although that figure represents a substantial increase over past levels, 35 states had larger savings in 2017 than Wisconsin; nationwide, states had a median reserve of 8.9%, according to a survey by the National Association of State Budget Officers.

By the end of the 2019 fiscal year, however, Wisconsin's general fund balance is projected to decline to $181.6 million. Combined with an anticipated rainy day fund of $350 million, that would leave the state's total reserves at about $531.6 million, or roughly 3% of general fund spending.

Question for candidates:

10) Although Wisconsin's fund balance has improved in recent years, its reserves to weather financial downturns still remain behind many other states, a situation that leaves it vulnerable to higher-than-predicted costs or lower-than-expected revenue. What, if anything, would you do to even out this boom-or-bust budgeting cycle and build up the state's reserves? ☐

Wisconsin Policy Forum
401 North Lawn Avenue • Madison, WI 53704-5033
608.241.9789 • wispolicyforum.org

PERIODICALS
USPS 688-800

Order *MunicipalFacts18* Now!

MunicipalFacts18 compares per capita spending figures from 2012 to 2016, municipal tax levies and rates, equalized property values, shared revenues, debt, and resident income for 248 cities and villages with populations of more than 2,000. No other publication has such comprehensive statistics on Wisconsin municipalities.

MunicipalFacts18 costs $19.95, but Forum members and contributors can purchase it at the special rate of $9.95.

WPF also offers a custom report prepared specifically for ***MunicipalFacts*** purchasers. The report gathers information for 10 municipalities of your choice and presents it in an easy-to-use format. Along with the data are 12 graphs showing important tax, spending, and income indicators.

When you order ***MunicipalFacts18***, you can order your custom report for only $14.95. Email us at publications@wispolicyforum.org or call Gina Staskal at (608) 241-9789, ext. 26.

We are moving to digital!
Please register your email to stay up-to-date on our latest research, events, and more. Email us your information at info@wispolicyforum.org

Join us Sept. 11 for our Viewpoint Luncheon

Join us Sept. 11 for our Viewpoint Luncheon in Madison at the Concourse Hotel. This is the first time we'll be hosting a Viewpoint in Madison.

We'll review our report *A Fresh Start: Wisconsin's Atypical Expungement Law and Options for Reform* on criminal record expungement.

The presentation will be followed by a panel discussion featuring State Public Defender Kelli Thompson; Dane County District Attorney Ismael Ozanne; Shanyeill McCloud of Clean Slate Milwaukee; and Elise Rommes, Wisconsin State Council of the Society of Human Resource Management. It will be moderated by WPF President Rob Henken.

Register at wispolicyforum.org/events.

In FOCUS . . . recently in our biweekly newsletter

- Wisconsin's Birth Rate Is Falling, But Why? (#13-18)
- Ruling Triggers Rise in State Sales Taxes, Likely Cut in Income Taxes (#14-18)
- A Tale of Two Cities (And Counties) (#15-18)

The Wisconsin Taxpayer is published by the Wisconsin Policy Forum. The Wisconsin Policy Forum was created on January 1, 2018 by the merger of the Madison-based Wisconsin Taxpayers Alliance and the Milwaukee-based Public Policy Forum. Throughout their lengthy histories, both organizations engaged in nonpartisan, independent research and civic education on fiscal and policy issues affecting state and local governments and school districts in Wisconsin. WPF is committed to those same activities and that spirit of nonpartisanship.