

STATE'S SHARE OF PUBLIC SPENDING RISES

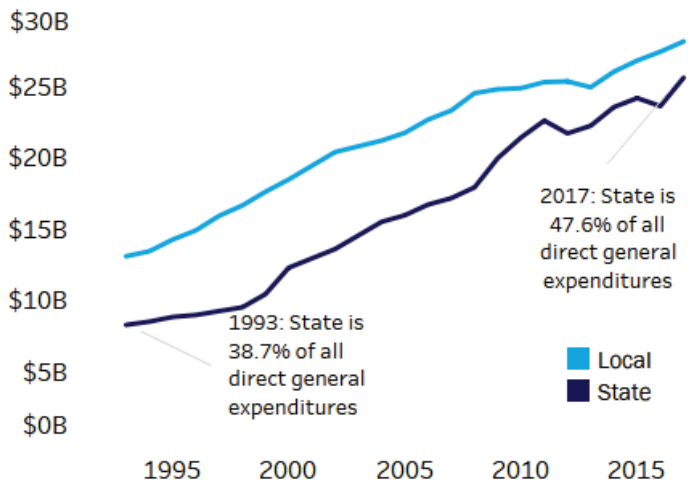
Because of higher state spending in areas like health care for low-income residents and slower growth in local government and school district revenues, the latest Census Bureau data show state government expenditures are now almost equal to the combined amount spent by schools, municipalities, counties, technical colleges, and other local governments in Wisconsin. The effects of the pandemic are unclear but the trend should be considered by policymakers as they contemplate COVID-19 responses and the next state budget.

In a gradual but far-reaching shift, state government in recent years has accounted for a much larger share of public spending in Wisconsin than a quarter-century ago. According to U.S. Census Bureau data, the state's share of that direct general spending increased from 38.7% in 1993 to 47.6% in 2017 (see Figure 1).

In a related trend, a declining share of state spending is going to payments to other governments. Compared to 38.4% of all state spending in 1997, state payments to other governments dropped to just 26.6% in 2017, the most recent year available in the Census data. This factor has contributed to the slower growth in local government spending and reflects a shift in state priorities to other areas.

Figure 1: State's Role Expands

State & Local Core Spending (Direct General), 1993-2017



Source: US Census Bureau

In other words, the balance of spending in Wisconsin has shifted to something much closer to an even split between local government services (such as K-12 schools, police and fire, local roads, and housing) and state services (such as health care for low-income residents, prisons, state highways, and the University of Wisconsin System).

The local aid numbers do look larger if one looks at the separate figures commonly used in state budget debates. The downward trajectory is the same, however, with state financial statements showing “local assistance” programs falling from 62% of state general purpose revenue spending in 1997 to 53% in 2017.

These data predate the coronavirus pandemic, which likely will have profound effects on state and local taxes and spending. The Great Recession, for example, caused state individual income and sales tax collections to decrease from 2008 to 2010 by 11% and 8%, respectively. Meanwhile, local governments in Wisconsin rely much more heavily on the property tax, which is typically more stable during a recession: local property taxes increased by more than \$1 billion in the same time period.

The drop in state taxes could still impact local governments and school districts, which in addition to the property tax rely on revenue from the state for about 40% of their own general revenues (schools receive more than that and cities and counties less). The full impacts depend in part on still unknown factors such as the length of the pandemic and the extent of any



additional federal assistance to state and local governments. For instance, the 2009 American Recovery and Reinvestment Act provided funds for state and local infrastructure, state Medicaid programs, and K-12 schools, propping up public spending in Wisconsin despite the falling state tax collections.

STATE SPENDING SHIFT

Total state spending increased far more quickly than state aid to local governments between 1997 and 2017. Growth in total state spending also far outpaced the rate of inflation (52.7%), while growth in local aids was at or below it.

During these years, the state sharply increased spending on public welfare, which includes programs like Medicaid and Temporary Assistance for Needy Families (TANF) that serve low-income residents. These programs made up 30.9% of the state’s direct general expenditures in 1997 but increased to 41.0% by 2017 (see Figure 2).

Medicaid programs range from acute to long-term care. Factors contributing to the increase in Medicaid spending include the general rise in health care costs nationally, the state’s aging population, and a series of coverage expansions going back to the creation of BadgerCare in 1999. Before any inflation adjustment, per capita spending in this area rose from \$546 in 1997 to \$1,822 in 2017, while Wisconsin’s nationwide rank for welfare spending at just the state level rose from 36th to 26th.

Higher welfare spending has affected other priorities and will likely continue to do so given the high unemployment during the pandemic. State spending on education (including the UW System) dropped from 25.1% of core state spending in 1997 to 21.3% in 2017. Corrections spending declined from 5.3% to 3.8% over the same time span, and environmental and housing spending dropped from 5.2% to 1.9%. Again, these figures look at only state spending in these areas.

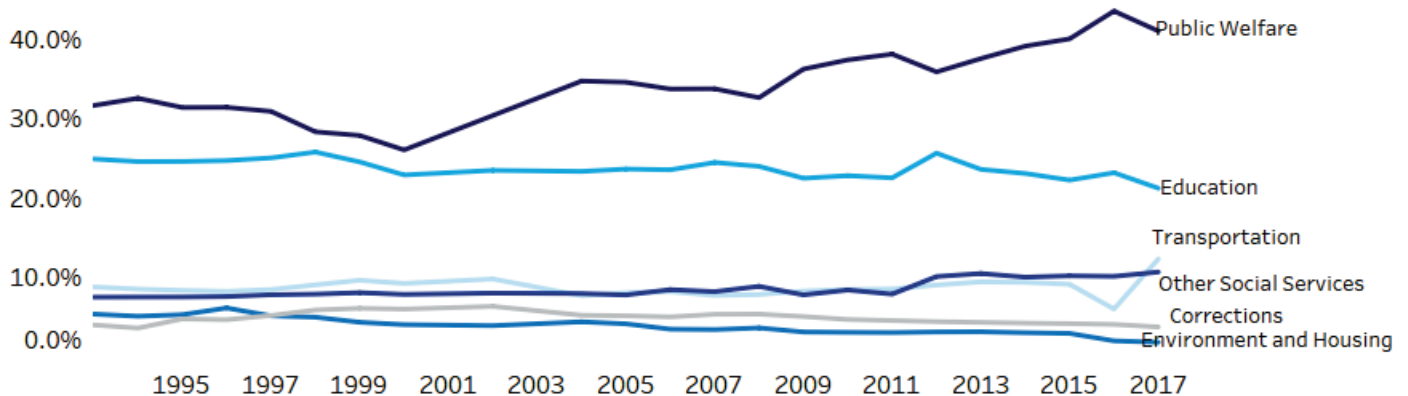
The greater growth in state spending and its increased share of overall public spending also is linked to increased tax collections. Revenues generated from the state individual income tax – the largest state tax – have risen far more swiftly than property tax collections, which in 2017 accounted for 92.7% of total local tax collections in Wisconsin. As noted earlier, however, this trend should reverse as a result of the economic disruption caused by the pandemic.

CONSTRAINED LOCAL GOVERNMENTS

Significant factors limiting local government spending in Wisconsin are the longstanding state limits on property tax increases for municipalities, counties, and technical colleges (see our April 2018 [Taxpayer](#)) and on school district revenues including the property tax. In 2011, state officials tightened these longstanding limits.

With both property taxes and state aid constrained, local governments increased their spending only 21% from 2007 to 2017, which modestly exceeded the rate of inflation but was less than half the 49% rise in state spending.

Figure 2: State Health and Welfare Spending on the Rise
Spending Categories as % of State Core Spending, 1993-2017



Source: U.S. Census Bureau



Local education (primarily K-12 schools and not including state efforts) and fire spending are two areas which have seen spending lag other states over recent years. Compared to 14th in the nation in 1997, local fire spending per capita in Wisconsin dropped to 30th in 2017. Local education spending, which was 5th per capita in 1997 and 10th in 2007, dropped to 18th in 2017. That said, police spending was 12th per capita in Wisconsin in both 2007 and 2017, while highway spending increased from 5th per capita in 2007 to 4th in 2017.

It is worth noting that Wisconsin Act 10 – adopted in 2011 – required most state and local employees to contribute more for their benefits, thus reducing local government spending on those benefits and making it harder to compare spending before and after the change. The legislation, which also repealed most collective bargaining for public workers, did not apply to local police and firefighters.

WHAT NEXT?

Wisconsin's position prior to this crisis – with state spending nearly matching local spending – reflects a confluence of factors, including healthcare expansions, property tax limits, and voter choices. Though local decisions such as school referenda will play a role going forward, the coronavirus pandemic and the state and federal response will dominate the coming months.

On the one hand, the hit to state tax revenues will have some downward effect on spending at the state level. On the other, the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act provided a relief fund with an estimated \$2.3 billion for Wisconsin governments, principally the state. The CARES Act also has funds for K-12 schools, colleges and universities, and jobless benefits, and the Families First Coronavirus Response Act provides additional resources for both state Medicaid and unemployment programs.

The massive surge in unemployment will also drive up state spending on Medicaid and jobless benefits. Technically, unemployment payments lie outside state direct general expenditures – the main metric of spending we examine here – but they are a key part of total direct spending by the state.

In 2017, of \$31.1 billion in direct expenditures at the state level, \$463 million went to unemployment compensation. In 2010, state unemployment

compensation reached \$3.1 billion (this number contains federally-funded benefits, boosted by the 2009 federal stimulus), then representing nearly 11% of state direct expenditures. U.S. Bureau of Labor Statistics data show peak unemployment in 2010 was slightly above 9%. Given that preliminary statistics for May of this year put it at 12% (April was even higher), it is clear that unemployment compensation spending in total and as a percentage of state spending is increasing dramatically in 2020, boosted once again by federal dollars.

Absent additional federal aid, lawmakers and Gov. Tony Evers will likely have to consider spending cuts that may extend to aid to schools and local governments. Their concerns should focus first on the health of the state's citizens and economy, not on statistics like those examined here. Yet, the trend toward greater constraints on local governments in Wisconsin – and on some parts of the state's own budget such as higher education – may be one factor to weigh during the deliberations to come.

