

Wisconsin's Growing State Debt is Unsustainable

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Scott Walker's brand of government has always featured tax cuts offset by putting needed purchases on the credit card. This week Senator Vinehout writes about the unsustainable increase in state debt that results.

MADISON - "I was wondering how Wisconsin's state debt has been trending over the last several years," Dave from Durand wrote me. "I'm also curious to know why there has been no talk of paying off the state's debt."

The state's debt is important. Before any other bill gets paid, or any other service delivered, the state must make payments on debt. When money goes to pay off bonds – the way the state incurs debt – that money is not available for roads, schools, health care or public safety.

Too much debt can lead to less money available for everyday operations – as more general revenue is used to pay off debt. Think of the credit card or mortgage payment taking up more of your take home pay.

Over the past twenty years the state's debt has tripled.

In a paper I recently received from the Legislative Fiscal Bureau (LFB), the state's total indebtedness went from \$4.4 billion in 1996 to a projected \$14.6 billion in 2015.

For comparison, in the fiscal year 2014-15, the state is projected to take in a total of \$14.7 in tax revenue.

From 2007 through 2010, during recession years, total indebtedness increased by 23%. In 2011 through 2015, projections show an increase of a little less than ten percent.

Part of the reason debt grew at a slower rate in the past four years is that two funds- one to clean up petroleum spills and another to finance clean water projects- are winding down. These bonds will eventually be paid off, lowering the total indebtedness of the state.

But other types of debt are increasing – potentially at an unsustainable rate.

The two main types of bonds, General Obligation and Transportation Revenue, grew by 15% during the recession and 18% since 2011. One reason debt grew at such a high rate in the past 8 years? Both Governors Doyle and Walker restructured debt to avoid making a payment – using the cash saved to cover state operations. This led to extraordinarily high debt payments.

Perhaps the most serious financial problem going forward is that the state cannot support the current level of borrowing for transportation. Borrowing for roads and bridges was nearly \$1 billion in the last state budget. Debt payments on this loan is projected to be 20% of all the money coming into the Transportation Fund by the first year of the next state budget according to another paper I recently received from LFB.

Some state officials imply the current problems with money for roads are because of borrowing from this fund for state operations ten years ago. This is utter nonsense.

For the last two state budgets, money was moved from the General Fund (85% of which goes to pay for schools and universities, health care, local government and public safety) to the Transportation Fund. Much of this money was “one time” meaning the gap between spending and revenue only got higher in the next budget.

Instead of cutting spending, the governor and legislative majority increased borrowing for transportation.

This is why interest on the transportation debt has jumped from 11% of the fund in 2009-10 to a projected 20% in 2015-16.

Too much debt can affect the state's credit rating leading to increased interest costs on future bonds. States are rated based on risk by several bond-rating agencies.

When bond-rating agencies look at the credit worthiness of a state, they look at the state's overall financial performance compared to other states. With the exception of Illinois, Wisconsin already has the lowest Moody's bond rating of seven states in the Midwest.

In January, Moody's mentioned Wisconsin's "below average balance sheet position" and "sizable negative GAAP balances" in assigning a credit rating. Looking towards the future, Moody's said, "The state's ability to make progress toward structural budget balance and improve its liquidity and fund balances will be important to future credit analysis."

There is no free lunch in state budgeting. Spending too much and collecting too little in taxes leads to a budget imbalance and more borrowing.

Dave, you're asking the right questions. We need to talk about the state debt.

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