

State Finances: Stuck in the Mud

Posted on Apr 15, Posted by [Kathleen Vinehout, State Senator 31st District](#) Category [Wisconsin](#)

State Senate leader, Kathleen Vinehout, gives the inside story of how Walker and the Republicans in Madison have spent our State into a structural debt that will hold Wisconsin's economy back for decades.

MADISON - "Pardon my tardiness," I told the crowd gathered at a Town Hall Meeting. "I spent 20 minutes stuck in the mud." Rural folks nodded in understanding. Spring has turned many unpaved roads into mud.

Stuck in the mud is an apt metaphor for Wisconsin state finances.

Debts and deficits; GAAP and gaps; bonding and borrowing; all these terms make it hard to follow what's happening with the state's fiscal health.

Wisconsin cannot run a deficit. Unlike the federal government, every budget must be balanced. But what exactly does that mean?

When state leaders make funding commitments to coming years they can create a 'structural deficit' which means the future years' expected revenue won't cover the expected spending.

This happened regularly over the past 20 years. A 2013 memo from the nonpartisan Legislative Fiscal Bureau (LFB) shows more in store in the future.

My colleague summed up the concern. "I cannot support a budget that has that kind of a structural deficit and I know several other Senate Republicans who feel the same way," Senator Rob Cowles (R-Allouez) told the *Milwaukee Journal Sentinel*.

Commitments made in the proposed 2013-15 state budget leaves the following two-year budget with a significant shortfall.

Much has been made of the work done to create a budget surplus at the end of this fiscal year. LFB staff report the state ending up with a nearly \$500 million surplus. The main reason is improvement in revenue from tax collections.

But the LFB memo has many folks talking about projections for a shortfall of \$644 million in the 2015-17 state budget.

Deficits, structural or otherwise, should not be confused with debt. The state sells bonds to raise capital with a commitment to later pay back the bondholders. This is state debt.

The Wisconsin Taxpayers Alliance calculated debt per person rose 131.9% over the past decade. My research with the LFB shows state debt more than tripled from \$4.4 billion in 1996 to \$14.2 billion in 2012.

Money spent on debt payments can't be spent on roads or classrooms so financial staff remind legislators to hold spending in check. Historically the state's debt management threshold is no more than 4% with a target of annual GPR debt service between 3% and 3.5% of all general fund spending. Debt payments go well into the danger zone at 5.28% in the first year of the 2013-15 budget.

One very troubling part of the current budget was the sale of more debt to avoid making payments coming due.

Even though the current budget had \$1.8 billion projected in new revenue, the Governor did not pay \$560 million in debt payments coming due. More debt was incurred as some bonds were sold at a premium to gain cash up front. This gave the appearance of the state having more cash. But the long-term effect was an increase in principle and interest.

The 5.28% of tax money spent on debt in the 2013-15 budget is the direct result of payments owed but not made in the past.

Deficits and debt are two measures of fiscal health. A third, rather unique to state government, is the GAAP Gap. This measures the gap between how the state budgets - on a cash basis - and generally accepted accounting principles (GAAP).

Since 1982 when the Attorney General interpreted the constitutional requirement for a balanced budget as “cash” accounting not “accrual” accounting, the state often committed more to spending than available resources. According to the Taxpayers Alliance, in 2011 only California and Illinois had a larger GAAP deficit than Wisconsin.

When revenues came in higher than expected, Governor Walker put half of these revenues into the rainy day fund as required by law. This, and his work paying other commitments, helped lower the GAAP deficit from \$2.9B to \$2.2B. But spending in his new budget increases the GAAP gap to \$2.8B by 2015.

It's important to remember the GAAP deficit only looks at the gap between money coming in and money going out in the next year. The real long-term health is better measured by the long-term commitments – i.e. debt.

Looking ahead, Wisconsin finances do seem stuck in the mud.

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