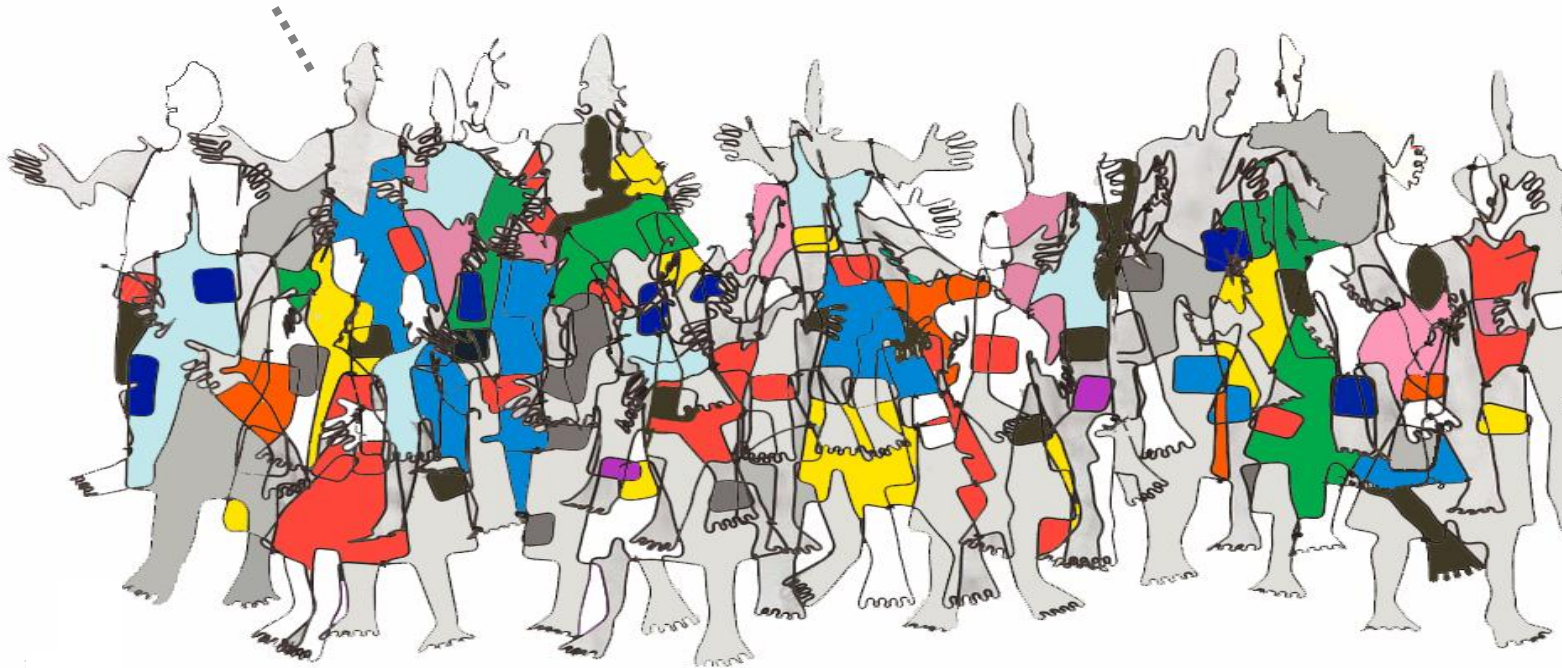


Where is Wisconsin going?



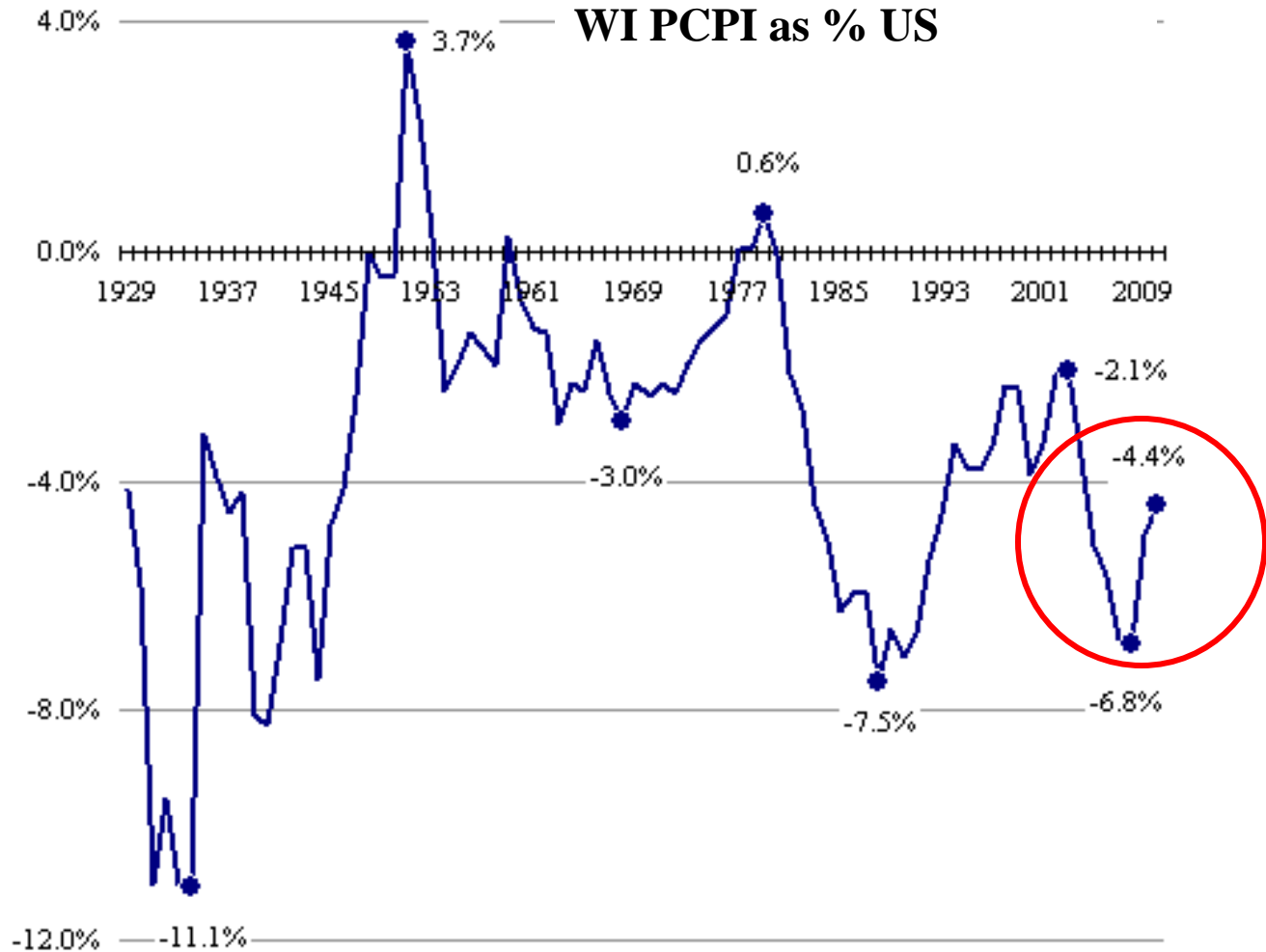
Jobs, Budgets, and Ballyhoo: An honest look at the state of the Wisconsin



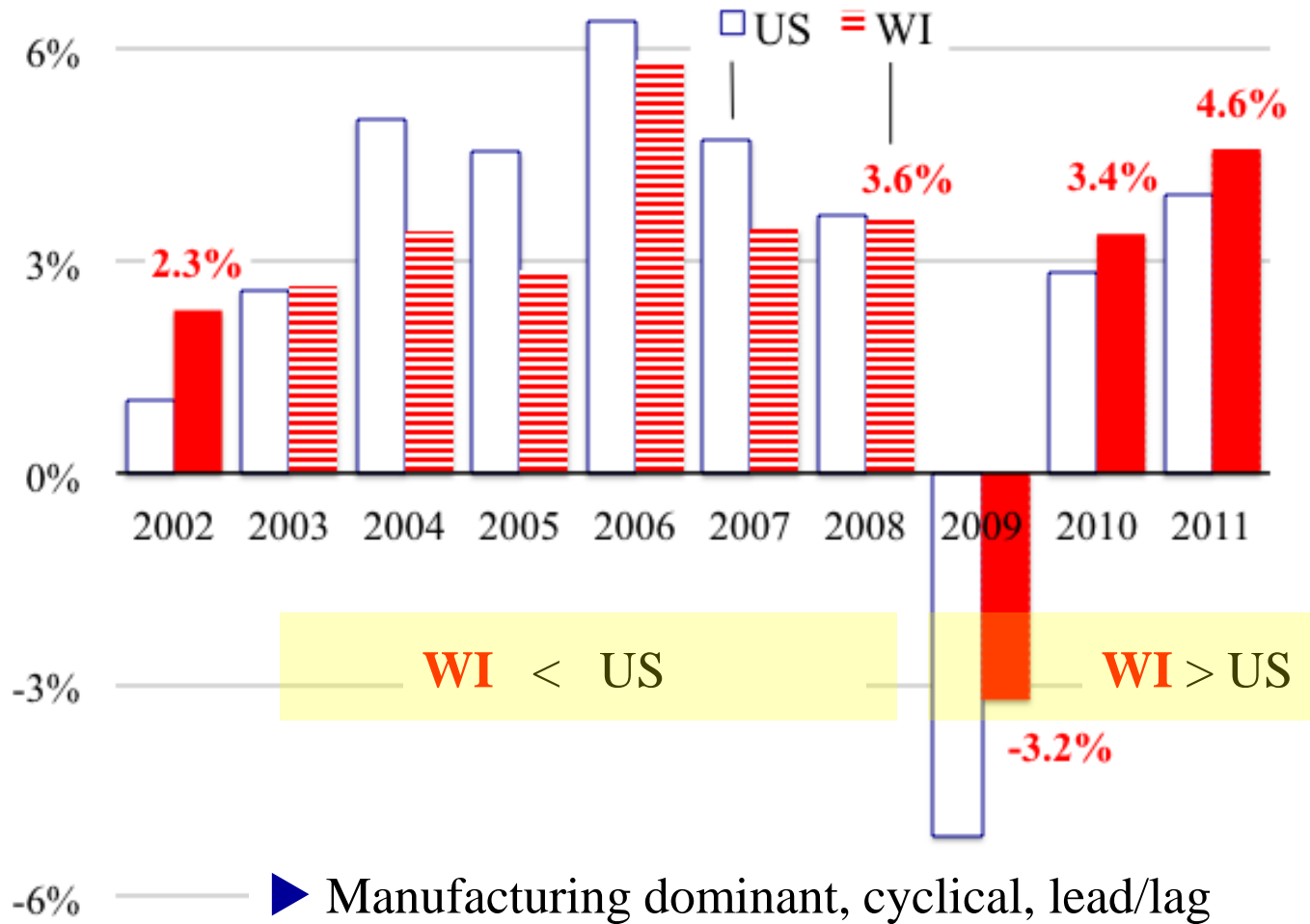
Overview

- About WISTAX
- The state economy: Dissecting the rhetoric
- State finances: Getting to the truth
- Local implications: Sniffles and pneumonia
- Ballyhoo: Trying to understand state politics
- Wrap-up and questions

State economy: The long view

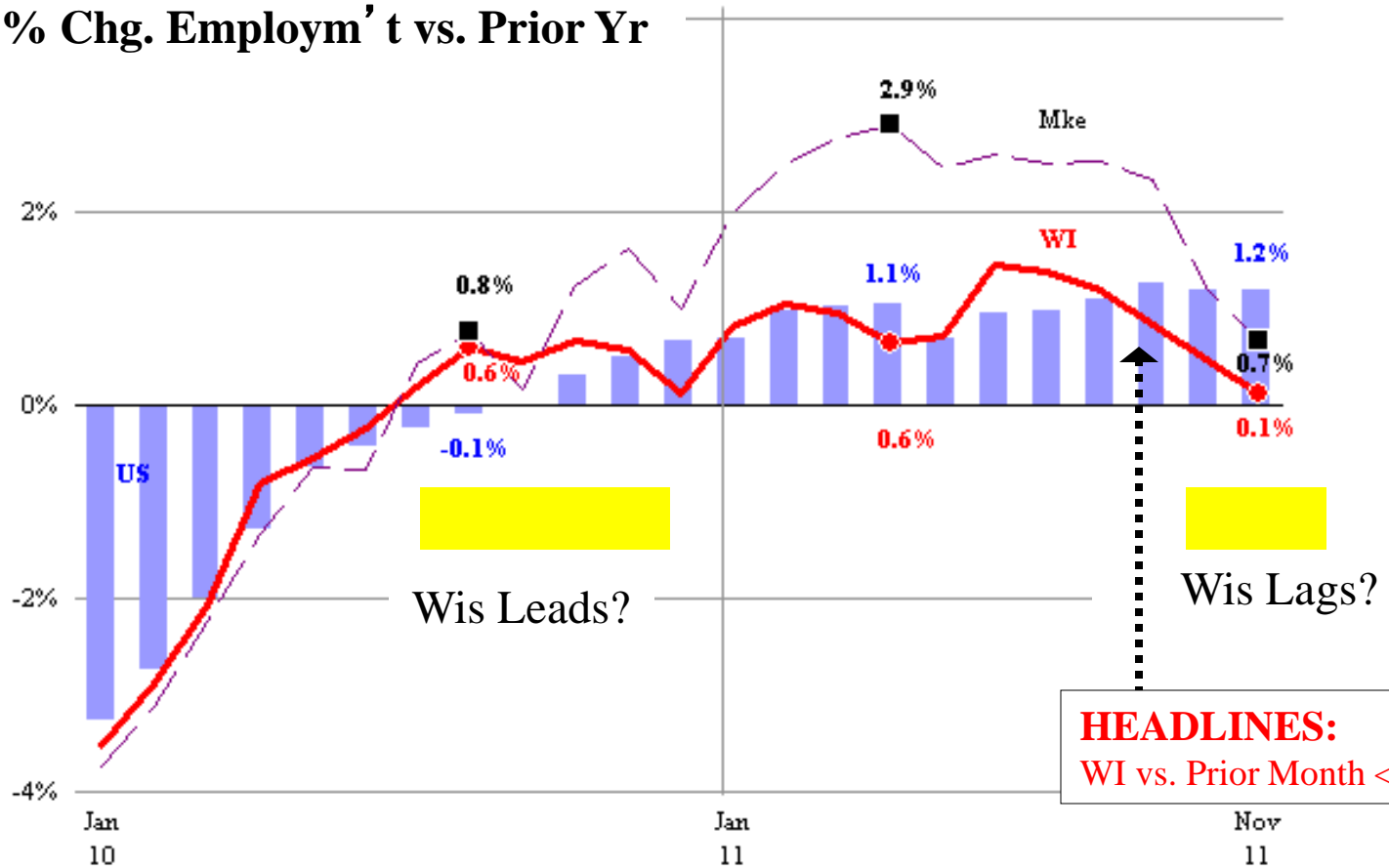


A closer look at total income growth

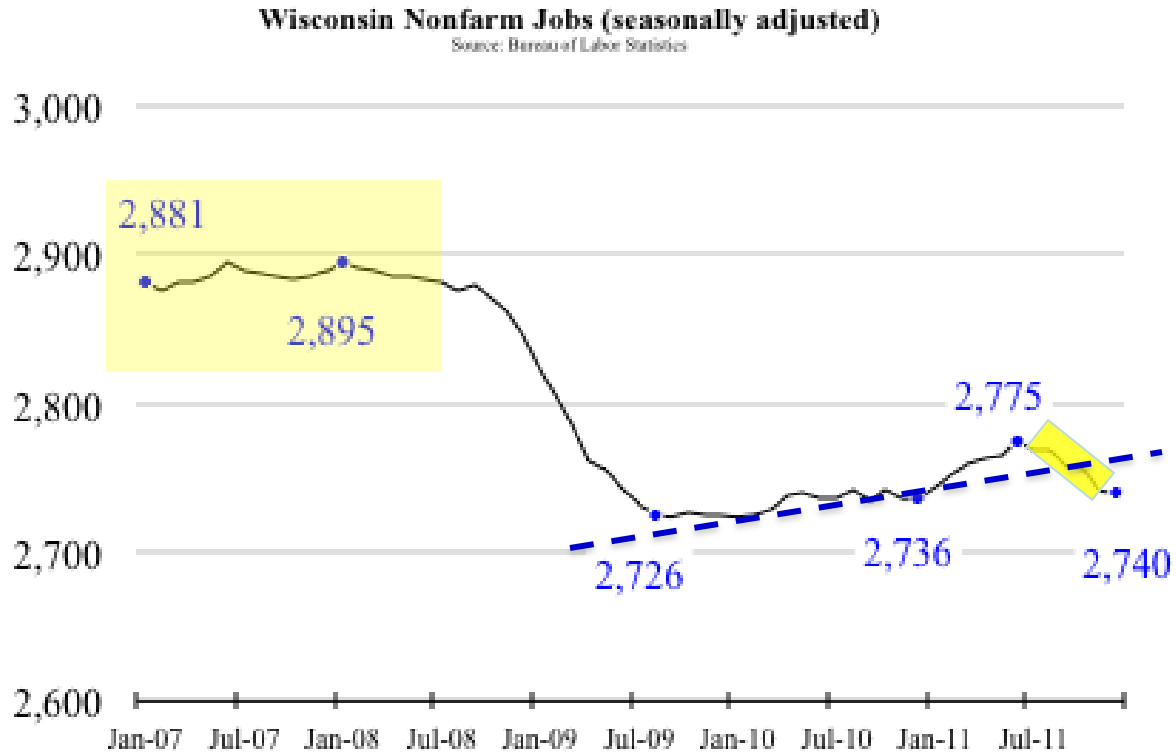


... the economy and job growth?

% Chg. Employ' t vs. Prior Yr



The longer employment picture



Key factor overlooked — firm creation

Firm Creation Rate

New Firms as % All Firms, 1992-2009

	Rate	Rank
United States	5.4	
Alaska	7.4	1
Illinois	5.3	25
Indiana	4.5	43
Iowa	4.2	48
Michigan	5.8	17
Minnesota	5.5	23
Wisconsin	4.5	42
Connecticut	4.0	50

But, good news . . .

Our firms survive:

New firms in '96:

	<u>WI</u>	<u>US</u>
Alive in '06	44%	34%
Alive in '10	36%	27%

State finances: Background to mischief

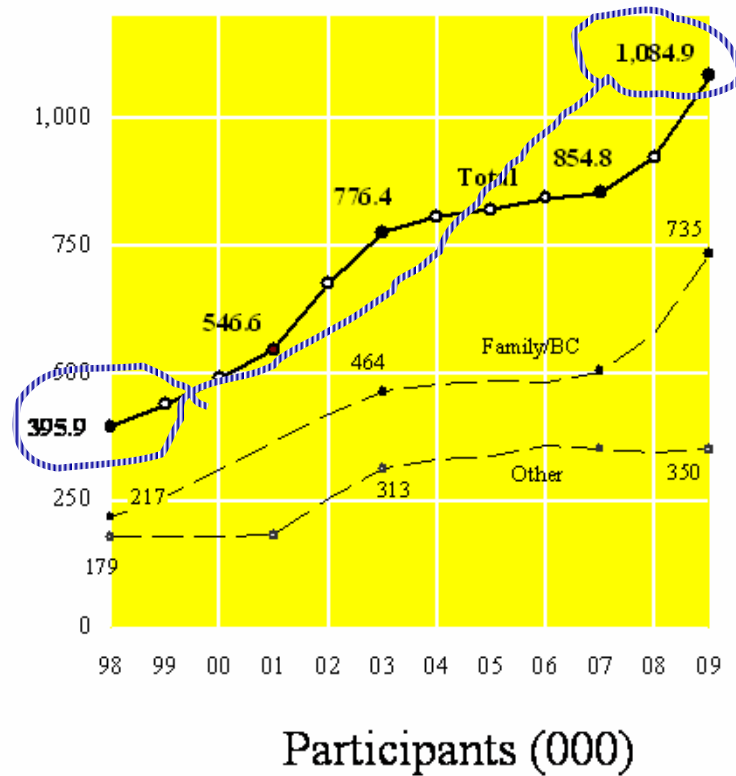
- State peculiarity: State taxing, local spending
- State budget is not: Local aid > half of GPR spending



- Legacy of state fiscal mischief: The 1990s
Boom in school aids, Medicaid & tax relief
- Age of tricks: Late 90s and 2000s
Tob. bonds, transfers (DOT!), borrow/
refinance, acctg tricks, and fed. stimulus !

Making state finance worse: Medicaid

■ The monster eating Wisconsin: Medicaid



Medicaid (MA):

'98: 1/13

'08: 1/5

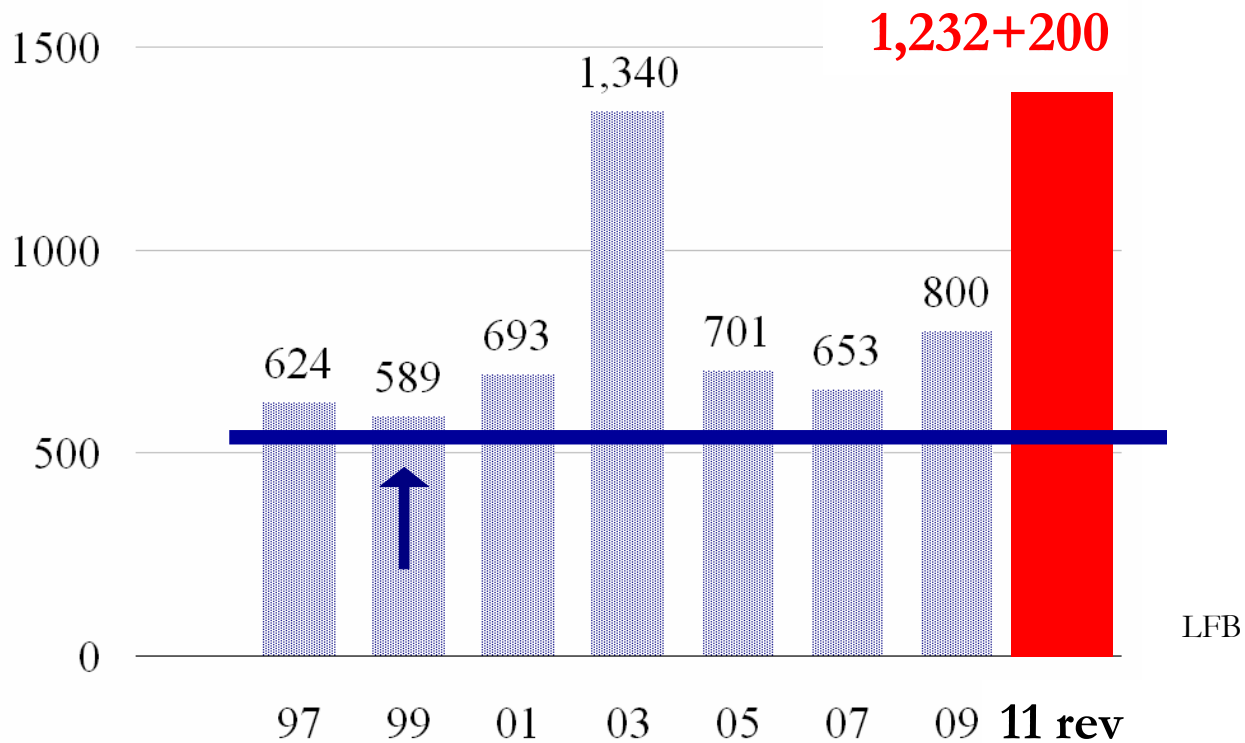
Fed stimulus no more;
now \$1.8b bill to pay

Still worse: recession denial

- Recession comes early: More deny, defer
- Reserves? Wis. (poster child) vs. other states
- Spending? Growth topped most states (NASBO)
- PS: Taxes? Among largest hikes in US (\$3bn 08-11)
- Federal stimulus pays for ongoing state programs
\$7.0b - \$7.5b, 05-08 □ **\$12.2b, 10-11** □ \$9.5b, 12-13
- A recession . . . and 10+% spending growth?

The result: State's perpetual IOUs

The IOUs: 'Structural deficit'



For example: 2011-12—\$1.4bill. in IOUs vs. \$1.5bill in new revenue'

New state budget: Out of options?

Cards dealt . . .

- \$1.4 bill. IOUs – 1st yr.
- Medicaid needs \$1.8b
- Other options?
- Balanced budget req' d



Cards played



All 11-13 revenue used (\$1.5b)
Increase MA \$1.4b
No tricks, tax hikes (pledge)
Cuts, fringe benefit chgs
Debt restructuring

Result: 2011-13 state budget

2011-13 State Budget (Act 28)

Comparisons to Prior Fiscal Years, All \$ Bill.

Program	Fisc. Years		Total 01-03	Fisc. Years		Total 09-11	Fisc. Years		Total 11-13	and % Ch. vs.	
	01-02	02-03		09-10	10-11		11-12	12-13		01-03	09-11
Tot. All-Funds	26.16	25.66	51.82	30.58	31.59	62.17	31.76	32.56	64.32	24.1	3.5
Tot. Gen. Fund	11.27	11.05	22.31	12.82	14.17	26.99	14.19	14.83	29.03	30.1	7.6
Medicaid	1.07	1.06	2.13	1.30	1.45	2.75	2.09	2.05	4.14	93.8	50.7
Corrections	0.82	0.85	1.67	1.08	1.15	2.23	0.00	0.00	2.25	34.6	1.1
K-12 Educ.	4.55	4.76	9.31	5.09	5.28	10.38	4.86	4.93	9.78	5.1	-5.7
Shared Rev's	1.02	1.02	2.05	0.83	0.88	1.71	0.89	0.82	1.71	-16.4	0.0
UW System	0.98	1.06	2.05	1.03	1.15	2.18	0.99	1.11	2.10	2.4	-3.8

Local fallout of state budget battle



- Aid cuts inevitable (Doyle & Walker)
- Challenge for loc. gov' t: labor intensive
- Costs: WI vs. US —No' s? salaries? fringes?
- Choice: Cut compensation vs. people
- Cost relief with 3000 units of gov' t?
- Collective bargaining changes? Left to you . . .



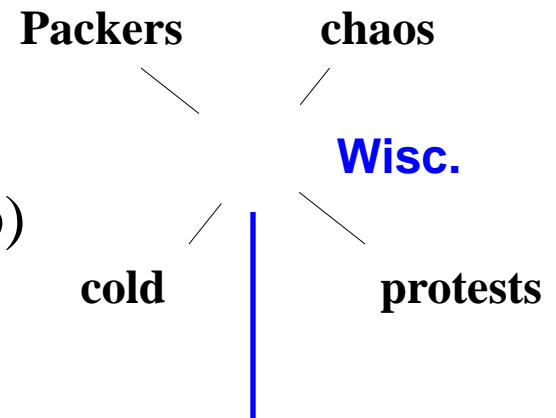
Which brings us to ballyhoo, as in political

- Summer, senate recalls
 - Nonpartisan analysis of summer results
 - Past political spin to voter message?
- Now . . . More senate recalls + Gov. + Lt. Gov
- Caveat: How I change gov't policy

What are the impacts?

- For Wisconsin internally
 - If governor survives recall
 - If governor doesn't survive
 - Why it may not matter

- For Wisconsin externally
 - Brains, products, images
 - Image of Wis? (cog. map)



“The outside image of Wisconsin is of a state in turmoil”

— Prof. Larry Sabato, U. Va. Jan 25 Wis St Jnl

What is the real problem?

- Fiscal: Short-term thinking, actions w/o consequence
- Why? Wisconsin political landscape:
 - full-time, careerist legislature
 - power shift to party leaders and interests
 - elections reward ends of spectrum
 - media decline



Not a new problem (1787)

Madison, *The Federalist Papers*, #10:
“Mischiefs of faction”

“Complaints are everywhere heard . . . that the public good is disregarded in the conflicts of rival parties. . . [which are] adversed to the rights of other citizens, or to the permanent and aggregate interests of the community . . .

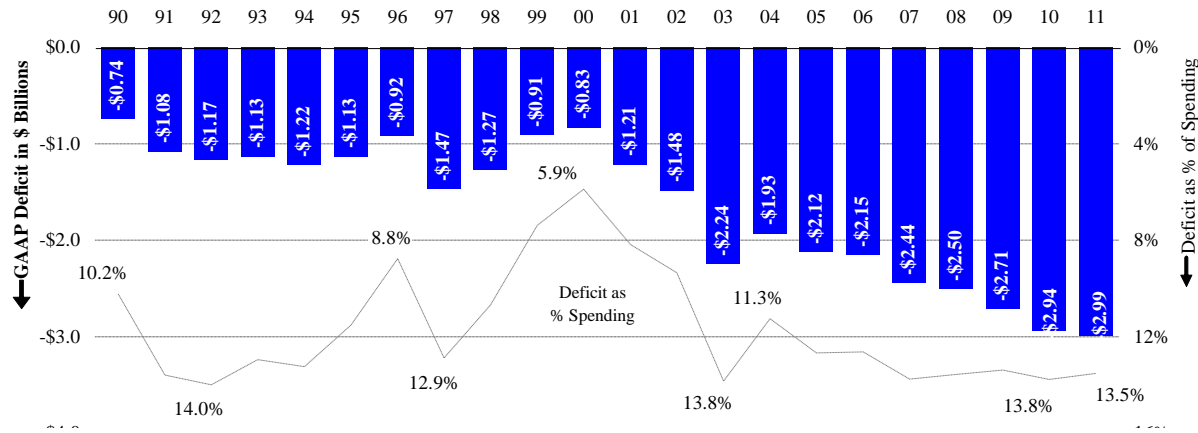
. . . different leaders ambitiously contending for pre-eminence and power . . . have, in turn, divided mankind into parties, inflamed them with mutual animosity, and rendered them [citizens] much more disposed to vex and oppress each other than to co-operate for their common good.”

Ideas for change?

- Part-time citizen legislature: less time, pay, staff
- Smaller assembly districts? Session limits?
One long senate term? Supreme Ct?
- Nonpartisan redistricting?
- Ballot reform: Instant run-off (rank choices)
- Unicameral (and nonpartisan?)
- Multi-member districts?

Wrap-up: Good news? Bad news?

- No 2013 'structural deficit' (see '97-' 11)
- But fin. statements have \$3 bn GAAP deficit



- Budget looking forward, not backward
- Reform? Taxes, schools, loc. gov' ts
higher ed. finance, economy
- Local units—budget options, but also stressed
- State dysfunction: fiscal, no?; political ?!

Thank you . . . and questions, or critique?



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