



**TAX GROWTH
2011-16**



State Tax Growth Outpaces Local Increases But State-Local Tax Burden Continues to Decline

Since 2011, state tax and fee collections have grown 13.5%, while local revenues are up 2.5%. Tax collections at both levels of government continue to decline as a share of personal income, due to a combination of state income tax cuts and state-imposed restrictions on local property taxes. State collections grew 2.4% in 2016, while local revenues increased 1.6%.

Driven primarily by state-imposed limits on local property taxes, the “bite” state and local taxes took out of Wisconsin residents’ personal income in 2016 is the lowest in more than 40 years, at 10.7%.

The 2016 figures continued a trend of state and local taxes declining as a share of income over the past five years. Taxes relative to personal income reached a low of 10.9% last year; in the preceding decade, the portion ranged between 11% and 12%.

The five-year reduction comes primarily from slowed growth in local taxes. State taxes as a share of personal income had remained

nearly constant since 2011, at roughly 7%, the same percentage as seen in 2016.

On the other hand, local taxes have hovered above 4% of income for the past decade. They reached 4.5% of income in 2010; that percentage dropped to 3.8% in 2016 (see Figure 1, page 2).

Part of the reason for these declining percentages has been renewed income growth. In the past five years, personal income has grown an average of 4% per year. Total personal income, which includes wages and salaries, investment income, and government benefits, rose 3.6%, to \$264.9 billion in 2016.

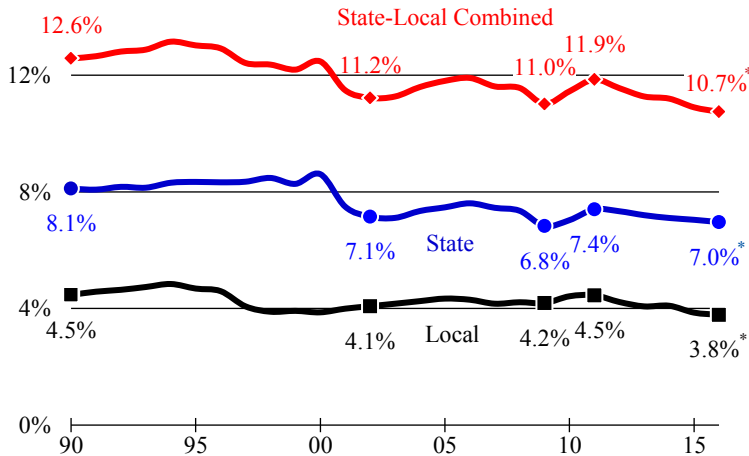
The state’s total tax burden relative to income has generally followed the economy over the past decade, with it falling during the 2007-09 recession as tax collections declined, and rising with the recovery. However, the recent trend appears fueled by state income tax cuts and limits on local taxes.

State-local tax collections totaled \$28.5 billion in 2016, up 2.1% over 2015 and 9.4% since 2011, (see Table 1, page 3). State-only collections rose 2.4% this year and 13.5%

Also in this issue:

SchoolFacts16 Now Available • State Tax Growth Slower than Expected

Figure 1: State-Local Tax Burden Continues to Decline
State, Local, Combined Taxes % Personal Income, 1990-2016



* The total tax burden percentage is less than the individual percentages due to rounding.

since 2011. Local revenues rose less—1.6% this year and 2.5% since 2011.

Federal taxes dominate what many pay, so when federal taxes are factored in, total taxes as a share of personal income were 30.4% in 2016. This is a slight decline over the previous two years but above the 30-year low of 28.6% set in recessionary 2009. Federal tax collections from Wisconsin reached an estimated \$51 billion in 2016, and accounted for 64% of the total tax burden.

To fully gauge state-local tax trends, we now turn to individual state and local taxes.

STATE TAXES AND FEES

State taxes and fees totaled \$18.4 billion in 2016, a 2.4% increase over 2015. The major state taxes are individual and corporate income taxes, sales taxes, the gas tax, and the unemployment insurance payroll tax; major fees include those for vehicle registration.

Individual Income Tax

The individual income tax is Wisconsin’s principal tax and primary source for funding state government. Collections totalled \$7.7 billion in 2016, well ahead of the sales tax (\$5.1 billion) and corporate income taxes (\$963 million) combined.

Income tax collections tend to follow the state economy. Collection growth slowed from an average 7.0% in 2005-07 to 2.1% in 2008, then declined in both 2009 and 2010 due to the 2007-09 recession.

That downturn led to a number of state tax changes. To help balance the 2009-11 state budget, lawmakers created a new top income tax bracket of

7.75% for incomes above \$225,000 for single earners and \$300,000 for married couples filing jointly. For tax year 2015, those cutoffs were \$244,270 and \$325,700, respectively. That budget also taxed a greater percentage of capital gains: 70%, up from 40%. These increases led to a 10% jump in income tax collections in 2011, the largest since 2000 (15.5%).

Since 2011, however, state budgets have often featured tax cuts. In 2013, all rates were reduced, with the top rate dropping from 7.75% to 7.65%, and the bottom rate falling from 4.6% to 4.4%, and later to 4.0%. The budget also reduced withholding and the earned-income tax credit for some low-income workers.

The changes led to a 5.8% reduction in 2014 collections, or roughly \$435 million. Further reductions enacted in the 2015-17 state budget to blunt the “marriage penalty” for married couples filing jointly also slowed collections. No new changes took effect in 2016, and revenues grew 5.7%.

Sales Tax

Unlike the income tax, there have been no major changes to the sales tax, state government’s second-largest tax.

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Phone: 608.241.9789 Fax: 608.241.5807
Email: wistax@wistax.org Website: www.wistax.org

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Table I: State and Local Tax Collections 2007-16
(\$ millions)

Tax/Fee	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
STATE										
Income:										
Individual	\$6,573.8	\$6,713.7	\$6,222.7	\$6,089.2	\$6,700.7	\$7,041.7	\$7,496.9	\$7,061.4	\$7,325.8	\$7,740.8
Corp.	890.1	837.8	629.5	834.5	852.9	906.6	925.4	967.2	1,004.9	963.0
Sales	4,158.6	4,268.0	4,084.0	3,944.2	4,109.0	4,288.7	4,410.1	4,628.3	4,892.1	5,065.8
Motor Vehicle:										
Fuel	994.7	999.9	968.8	971.8	988.3	983.9	967.0	999.4	1,013.4	1,037.7
Vehicle Reg.	488.2	539.3	600.7	610.5	603.4	634.4	629.9	658.1	665.5	691.3
Driver's Licenses	30.5	35.7	42.1	41.7	41.8	40.8	40.1	39.2	38.6	39.7
Limo/Car Rental	7.6	7.1	7.5	7.3	8.3	8.2	8.0	8.3	8.7	9.2
Excise:										
Cigarette	296.1	455.7	551.3	644.3	604.8	587.8	569.2	573.0	569.5	573.4
Tobacco Products	17.5	29.7	42.2	59.9	60.9	65.5	63.0	67.7	71.9	76.1
Liquor & Wine	42.7	45.2	44.1	44.2	45.8	47.0	48.3	49.0	48.8	50.0
Beer	9.5	9.6	9.9	9.6	9.3	9.2	9.0	9.0	8.8	9.0
Public Utility:										
Electric & Gas	197.8	214.8	226.2	211.5	230.5	234.6	229.2	235.7	247.1	229.9
Telephone	65.3	59.5	63.5	70.0	67.0	81.0	67.3	72.2	81.9	77.0
Railroad	16.4	19.9	21.6	24.1	24.9	28.1	29.1	31.3	35.7	38.5
All Others	28.8	30.0	36.0	42.4	50.2	57.9	50.9	60.9	61.0	59.4
Unemp. Comp.	663.8	642.3	666.2	760.2	1,015.5	1,187.9	1,149.0	1,129.2	1,065.7	922.6
Insurance Premiums	156.8	172.1	152.0	146.9	156.5	165.8	176.7	185.5	184.2	177.3
Inheritance & Estate	121.1	158.8	20.9	0.9	-0.1	0.3	0.3	-0.1	-0.1	1.7
Hospital Assessment			335.2	379.0	414.7	412.7	414.6	414.6	414.6	417.3
Real Estate Transfer	71.7	59.4	41.2	44.3	35.6	39.8	48.0	51.2	57.8	65.2
Temp. Service Charges ¹	23.5	25.1	27.2	20.6	25.9	27.5	30.4	19.3	27.5	23.7
Petroleum Inspection	52.5	47.0	44.7	61.0	67.6	66.1	41.7	41.2	50.3	46.1
Conservation Fees ²	85.5	99.8	106.4	106.5	113.2	120.0	100.6	99.6	102.1	102.1
Pari-mutuel	1.0	0.9	0.7	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	25.2	22.5	25.4	24.2	26.4	28.4	29.4	29.5	30.8	28.8
Total State	\$15,018.7	\$15,494.0	\$14,970.0	\$15,149.0	\$16,253.1	\$17,063.9	\$17,534.0	\$17,430.9	\$18,006.7	\$18,445.5
LOCAL										
Gen. Prop.	\$8,706.4	\$9,250.3	\$9,667.1	\$10,105.7	\$10,364.3	\$10,384.8	\$10,469.9	\$10,605.5	\$10,383.7	\$10,620.2
School Levy Credit	-593.1	-672.4	-747.4	-747.4	-747.4	-747.4	-747.4	-747.4	-747.4	-853.0
Lottery Credit	-144.7	-129.6	-118.1	-113.2	-131.2	-136.3	-141.5	-171.4	-169.8	-158.1
First Dollar Credit			-72.6	-141.9	-147.6	-147.3	-148.4	-146.7	-150.0	-148.4
Net Levy	7,968.6	8,448.3	8,729.0	9,103.2	9,338.1	9,353.8	9,432.6	9,540.0	9,316.5	9,460.8
Room	63.5	67.9	72.0	62.5	68.4	73.8	78.8	83.4	90.4	97.9
County Sales	272.8	282.8	293.8	272.9	276.5	296.6	302.9	312.7	339.5	351.1
Real Estate Transfer ³	17.9	14.9	10.3	11.1	8.9	10.0	12.0	12.8	14.5	16.3
Motor Vehicle	0.4	0.3	4.6	7.5	7.2	7.5	7.8	8.0	9.4	11.9
Local Expo.	17.4	18.5	18.0	17.2	24.3	27.0	27.2	29.2	31.3	32.2
Premier Resort Sales	2.1	2.9	2.8	2.9	5.4	6.4	6.5	6.3	7.2	8.7
Stadium ⁴	47.0	47.2	47.1	43.7	46.1	48.2	48.0	51.7	55.1	39.6
Total Local	\$8,389.8	\$8,882.8	\$9,177.5	\$9,521.9	\$9,774.9	\$9,823.3	\$9,916.1	\$10,044.1	\$9,863.8	\$10,018.4
TOTAL STATE & LOCAL										
Total Personal Inc.	\$23,408.5	\$24,376.7	\$24,147.5	\$24,671.0	\$26,027.9	\$26,887.2	\$27,450.1	\$27,475.0	\$27,870.5	\$28,463.9
Total Personal Inc.	\$201,536	\$210,811	\$219,283	\$215,499	\$219,628	\$232,664	\$243,576	\$245,382	\$255,753	\$264,988
Taxes as % of Personal Income	11.6%	11.6%	11.0%	11.4%	11.9%	11.6%	11.3%	11.2%	10.9%	10.7%

Sources: Compiled by the Wisconsin Taxpayers Alliance using published and unpublished information of the Wisconsin Departments of Revenue, Administration, Workforce Development, Natural Resources, and Transportation, the U.S. Bureau of Economic Analysis, and the Internal Revenue Service.

¹ Was the recycling surcharge prior to 2012.

² Projected figures for 2016.

³ 20% of real estate transfer fees collected remain at the local level.

⁴ State imposed 0.1% sales tax in the counties of Milwaukee, Ozaukee, Racine, Washington, and Waukesha. Brown County retired its 0.5% sales tax in 2015.

Note: Detail may not add to subtotal due to rounding.

Like the income tax, the sales tax is sensitive to economic conditions: Collections tend to decline as unemployment increases and consumer spending tightens. During the recession, collections declined in 2009 and 2010 before finally exceeding 2008 collections in 2011.

Of state government’s main taxes, sales tax collections (+23.3%) rose the most between 2011 and 2016, well ahead of income taxes, which climbed 15.5%. Sales tax collections rose 3.5% in 2016.

In recent years, Wisconsin has increased efforts to collect sales taxes from online purchases, which could contribute another \$25 million to \$30 million annually.

State law requires online sellers to collect the tax if they have brick-and-mortar operations in the state, which some of the largest retailers, such as Best Buy, Amazon, and Wal Mart, already do. Retailers without such a presence, or nexus, are not required to collect the tax, but residents are still required to pay it.

In an effort to increase collections, the state individual income tax form requires residents to report online purchases and pay any unpaid sales taxes, or certify that they made no taxable purchases.

Corporate Income Tax

Corporate income taxes are among the most volatile, reflecting immediate economic conditions. Collections declined during the recession but rose with the recovery. Collections grew 3.8% in 2015, but declined 4.2%, to \$963 million, this year.

A portion of the decline may be attributable to an agriculture-manufacturing tax credit that began in 2013. The credit will be fully implemented in 2017.

Unemployment Tax

While the unemployment insurance (UI) tax is largely unseen by individual taxpayers, its collections are among the state’s largest. Unemployment tax collections tend to grow following periods of high joblessness. The 2007-09 recession depleted UI reserves and required a \$1 billion loan from the federal government to pay benefits.

To repay the loan and restore fund solvency, the state increased the base wages on which employers were taxed from \$12,000 in 2010 to \$13,000 in 2011 and to \$14,000 in 2013.

These changes resulted in a 33% jump in collections in 2011 and 16% in 2012 to a high of \$1.19 billion. Reflecting a decline in unemployment claims and restoration of the fund, unemployment collections dropped 15.5% in 2016 from the prior year, to \$922.6 million.

Transportation Taxes

Transportation-related revenues, such as the motor fuel tax and vehicle registration fees, go into the segregated transportation fund. Following a series of budgets in which transportation fund revenues were used to fill shortfalls in the state’s general fund, voters approved a constitutional amendment in 2015 prohibiting further transfers. Recent budgets have reversed the trend and featured transfers from the general fund to the transportation fund.

The two major sources of transportation revenues are the state gas tax and vehicle registration fees. The gas tax has remained at 30.9 cents per gallon since 2006, when lawmakers ended automatic inflationary increases, or indexing, while vehicle registration fees were last raised in 2010.

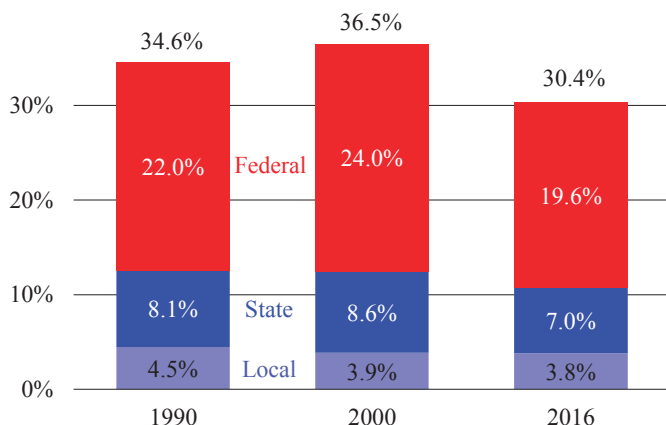
During 2007-14, gas tax collections ranged from \$967 million to just under \$1 billion. After topping \$1 billion last year, they increased 2.4% in 2016 to \$1.04 billion. Vehicle registration fees, which declined in 2011 and 2014, rose 3.9% to \$691 million in 2016.

“Sin Taxes”

While not a major source of revenue, taxes on tobacco have at times been targeted for increases, either to discourage smoking or balance deficit-prone budgets.

Taxes on cigarettes and other tobacco products were last increased in 2010, when the cigarette tax was raised by 75 cents per pack, to \$2.52. After the

Figure 2: Tax Burden Declines At All Levels
Fed., State, Local Taxes % Personal Income, Select Yrs., 1990-2016



increase, collections declined until 2014; they have generally remained stable at about \$570 million. In 2016, collections increased 0.7%, to \$573.4 million.

Revenues for taxes on other tobacco products have increased steadily, rising 5.8% to \$76 million in 2016.

Liquor and beer tax collections increased minimally in 2016: 2.5% for liquor, to \$50 million, and 2.2% for beer, to \$9 million.

Hospital Surcharge

Enacted in 2009, the tax on hospital revenues was intended to leverage additional federal Medicaid funds. Revenues from the tax are deposited in the state's Medical Assistance (Medicaid) fund and are eligible for the federal Medicaid reimbursement of about 60%.

Collections remained flat in 2016, growing by 0.6% to \$417.3 million. The surcharge is estimated to leverage an additional \$250 million in federal funds.

LOCAL TAXES

Total local tax collections grew 1.6% in 2016, to \$10.0 billion. Local taxes as a share of personal income declined from 3.9% in 2015 to 3.8% in 2016.

The slowing growth of local tax collections reflects the ongoing impact of state-imposed property tax controls on schools and local governments. Property taxes are the principal source of revenues for local governments. They account for almost 95% of local tax collections and are the single largest source of tax revenues at either the state or local level.

Sixty-two counties had a 0.5% local option sales tax in 2016, and 15 counties and municipalities had a local vehicle registration (or "wheel") tax to supplement the property tax. Municipalities may also adopt hotel room taxes.

Property Taxes

Gross property taxes rose 2.2% in 2016 to \$10.6 billion; the net property tax collections rose 1.5%, to \$9.5 billion. From 2011, gross property taxes increased a total of 2.5%, while net taxes grew 1.3%. Net property taxes are gross taxes minus state property tax credits.

The largest share of the property tax, roughly 45% statewide, goes to local schools. Schools also receive a significant share of their funding from the state.

State government effectively determines how much schools may raise through property taxes by set-

ting annual per-pupil revenue limits and allocating state aids. Generally, the more per-pupil aid a district receives from the state, the less it can levy in taxes.

For cities, villages, towns, and counties, the state has effectively frozen property tax levies since 2011, allowing them to increase only by the rate of net new construction, which has generally been around 1.5% or less statewide in recent years.

The state's technical college system also operates under a less restrictive form of revenue limits. The 2015-17 state budget featured a one-time infusion of \$406 million to reduce property tax levies of local districts.

In addition to these limits, the state provides three credits which reduced property taxes by more than \$1.1 billion in 2016.

The lottery credit uses a portion of lottery proceeds to reduce property taxes. The credit amount varies annually depending on lottery sales; it increased each year from 2011 to 2014, but declined in 2015 and dropped 6.9% to \$158.0 million in 2016.

The "school levy" tax credit is another way to reduce property taxes. Unlike other attempts to offset property tax hikes by providing state aids to local schools, the credit is applied directly to the annual property tax bill. Fixed at \$469 million during 1997-2006, the credit has been increased five times since and now stands at about \$853 million.

Finally, the first dollar credit was set at \$75 million when created in the 2007-09 budget, then increased to \$145 million annually the following year. The credit has generally remained flat in recent years, declining 1.0% in 2016 to \$148 million.

The combination of property tax limits and tax credits put property taxes at 3.5% of personal income in 2016, the lowest in a decade. The share has declined steadily since 2011, when it peaked at 4.3%.

Sales Taxes

Counties may impose a 0.5% sales tax. Their collections have been subject to the same economic trends as the state sales tax, declining in 2010 and 2011 before rebounding in 2012.

Currently, sixty-two of 72 counties have the tax, which generated \$351 million in 2016, up 3.4%. Sheboygan County will add the tax in 2017, raising the total to 63.

Five counties (Milwaukee, Racine, Ozaukee, Washington, and Waukesha) have an additional 0.1% state-imposed sales tax to pay for construction of the Miller Park baseball stadium; the tax is projected to end in 2020. A similar 0.5% county sales tax was created in Brown County to fund improvements to Lambeau Field in Green Bay, but it ended in 2015 after project costs were repaid.

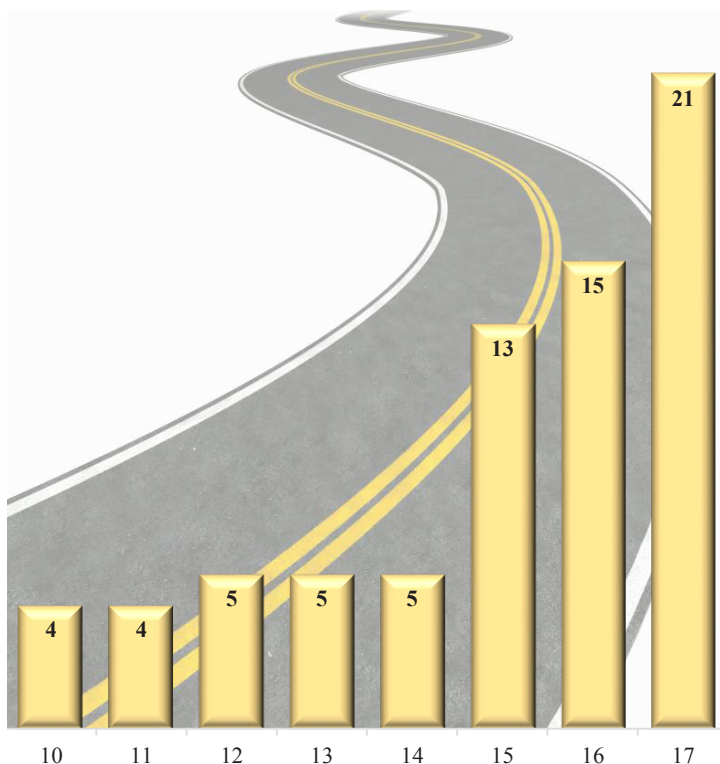
“Wheel Tax”

Counties, cities, villages, and towns may all impose a wheel tax. There is no statutory limit on what they may charge.

While wheel taxes have been around since the 1970s, they were seldom used until very recently. Of the 15 communities with a wheel tax in 2016, 10 added it in the past two years. Currently, 10 cities, three counties, one village, and one town impose a wheel tax. Six more communities, including Milwaukee County, will begin charging the tax in 2017, for a total of 21 (see Figure 3, below).

As a result of recent adoptions of the wheel tax, collections have increased 63.0% since 2011, from \$7.3 million to \$11.9 million in 2016. Collections increased 27% in 2016 alone.

Figure 3: More Communities Choose Wheel Taxes
Number of Muni’s/Counties With Wheel Taxes By Year, 2010-17



Room Tax

Municipalities may charge a room tax of up to 8%, although at least 70% of proceeds must go to fund “tourism promotion and development.” Collections declined in 2010 following the recession, but have consistently grown in the years since. They totaled an estimated \$97.9 million in 2016, an 8.3% increase over the preceding year.

THE STATE-LOCAL BALANCE

The state-local tax burden relative to personal income has declined steadily in the past five years, from a high of 11.9% in 2011 to 10.7% in 2016.

This decline has been driven primarily by restrained growth in local tax collections. As a share of personal income, the local tax burden has declined from 4.5% of income in 2011 to 3.8% in 2016. The state’s share fell from 7.4% to 6.9% of income.

Tax collections illustrate this trend even more clearly. State collections increased 13.5% between 2011 and 2016, while they increased only 2.5% at the local level. (See Figure 4, page 7.)

Local Tax Trends

These trends reflect a series of policy decisions at the state level: tightened property tax levy limits on cities, towns, villages, and counties, and revenue caps on schools and technical colleges.

Since 2011, the state has essentially frozen municipal and county levies, except for increases tied to new construction and borrowing. Limits created in 2005 had allowed levies to increase annually by a specific percentage.

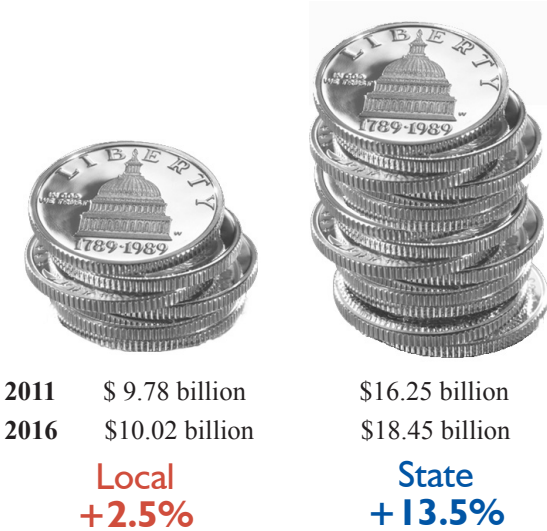
State officials have restricted school revenue growth since 1994. Initially, the state allowed inflationary increases in these limits. That ended in 2012; since then, those increases have been small or non-existent.

The state has also moved to restrict other revenue options local governments had. In 2013, for example, it limited the ability of municipalities to charge fees for services previously funded by the property tax.

Apart from the county sales tax, the only remaining “new” local revenue source is the vehicle registration fee, or “wheel tax.”

The growth of local wheel taxes coincides with two trends: increased restrictions on other local revenues and stagnation in state transportation aids to local governments.

Fig. 4: State Taxes Grow Faster Than Local Taxes
2011-16 Tax Collections, In Dollars and Pct. Increase



State Tax Trends

While state-imposed property tax limits have yielded significant slowing in local tax growth, the state record on taxes is more mixed. As noted, state collections rose 13.5% between 2011 and 2016, while local revenues were up 2.5%.

The state has enacted measures to reduce specific areas of collection, primarily through the individual and corporate income taxes.

In some program areas, demand for more state funding is creating pressure for new revenues. Flat collections for the state's transportation fund—primarily derived from vehicle registration fees and fuel taxes—have prompted calls in some quarters to increase funding. The current and former administrations have chosen to increase borrowing. The issue is likely to dominate 2017-19 budget deliberations, as it did in 2015-17.

The transportation funding debate highlights how Wisconsin state and local taxes are intertwined. More than half of the state's general fund tax collections are returned to local governments in the form of school aids, shared revenues, and relief for property taxpayers.

State-Local Shift?

Historically, Wisconsin's state-local fiscal relationship has differed from most states. Here, state government collects the majority of taxes, but local governments spend a majority of the money providing many services.

In recent years, there has been a shift both in state aids to local governments as well as in who provides the services.

U.S. Census Bureau figures show that in 2004, Wisconsin state government collected 60.5% of all taxes and fees, but only paid for 42.2% of the public service costs in the state. State aids to local governments subsidized 43% of local spending in 2004.

Ten years later, the state collected a greater share of total revenues (61.6%) and also funded an increased share of services (47.7%). In 2014, state aids supported only 41.5% of local spending.

This trend may be due to providing services in areas where spending has increased the most, such as medical assistance. Alternatively, it may not be because the state is providing more services, but due to state expenditures having grown more than local spending in recent years.

In either case, the trend presents a challenge for state officials. Wisconsin has reduced its tax burden relative to income largely by limiting local taxes. This invites the question: Will the state be able to balance funding for ongoing services and programs at both the state and local levels, while also maintaining current revenue restrictions?

A Glimpse of the Future

The coming debate over 2017-19 transportation funding may provide clues. Transportation has always been a service funded jointly by state and local governments.

In recent years, however, state officials have resisted calls to raise transportation revenues, while local officials have been constrained by property tax limits and generally stagnant state aids. Local officials have responded by expanding a previously little-used revenue source—the wheel tax.

State transportation officials have warned that without additional state revenues, projects will be delayed and maintenance will decline. However, elected officials have been unable to agree on a suitable funding source.

Transportation is just one piece of a larger policy puzzle, but the result may hint at whether the overall 2017 state-local tax burden will continue to decline, whether the reductions will continue to come primarily from local governments, or whether the trend will move in a new direction. □



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WISTAX NOTES

■ **State Tax Growth Slower than Expected.** New figures from the Department of Revenue (DOR) show tax collections continue to grow more slowly than state budget-makers have projected for the 2016-17 fiscal year.

Collections from July to November of 2016 were 1.2% higher than the same period in 2015. State officials initially projected revenues to grow 3.8% annually but have since lowered the rate to 2.3%.

The new figures point to a potential softening of Wisconsin's revenues as the state prepares its 2017-19 budget to be introduced early next year. DOR is projecting growth of about 3.0% per year through the biennium.

A recent report by the National Association of State Budget Officers (NASBO) indicates revenues are slowing nationwide. NASBO reports revenues came in less than budgeted in 25 states in fiscal 2016—the most since the Great Recession. Many states are seeing weakening revenues in fiscal 2017.

■ **Ross New Transportation Secretary.** Gov. Scott Walker (R) named David Ross the Secretary of Transportation. Ross was Secretary of Safety and Professional Services. He succeeds Mark Gottlieb, who resigned Jan. 6. □

In FOCUS . . . recently in our biweekly newsletter

- AFR gives insights into state taxes, funding, and fiscal health (#21-16)
- City-village fiscal facts for local budget time (#22-16)
- Taxes, guns, cola, and carbons: The election in 34 other states (#23-16)