

**PREPARED TESTIMONY OF REPRESENTATIVE TRAVIS TRANEL**  
**before the**  
**Wisconsin Ways and Means Committee**  
**Regarding the**  
**Wisconsin First – Fiscal Responsibility and Stability Fund Amendment**  
**Assembly Joint Resolution 21**  
**Thursday, April 7, 2011**

Good afternoon and thank you Madam Chair Kerkman and committee members. I appreciate the opportunity to be testifying on behalf of my bill called the Wisconsin First – Fiscal Responsibility and Stability Fund Amendment today and would be happy to answer any of your questions following my testimony.

Most families, farmers, and small business owners in the State of Wisconsin understand that there are good and bad economic cycles. When times are good they plan for the future and put a small amount of money aside for emergencies.

Maybe there is an illness in the family, a piece of machinery breaks, someone loses a job, or sales drop off suddenly. Having a “rainy day” fund set aside for these tough times can help to weather the unexpected storm.

Currently, Wisconsin has a rainy day fund, but it has not been properly funded over the years. The politicians from both parties have not had the fiscal discipline or foresight to consistently set aside tax dollars in good economic times. This is why it is important that the fund be constitutionally protected and funded.

When our state’s economy took a turn for the worst several years ago there was little in the fund to deal with the economic emergency. This meant that the state leaders were left with difficult choices to raise taxes, borrow money, or make cuts. I believe that, in most cases, the path of least resistance was taken and that has led us to having to come to grips with a massive 3.6 billion dollar deficit today.

I think that by working to pass a constitutionally protected rainy day fund today, we can prevent our state from finding itself in another very difficult financial situation in the future. As our state’s economy begins to grow, it is only prudent that we look at enacting serious long term budget reforms. I don’t want my kids and grand kids to have to go through the polarizing debates that we have seen taking place over the last few months up here at the capitol.

When I was out campaigning for this office, I spent many evenings and weekends going door to door in the 49<sup>th</sup> district talking with constituents and listening to their concerns. Time and time again they asked me what could be done to get our economy back on track, create jobs, and address our state’s fiscal mess. They told me that they wanted to

see more common sense solutions and I think that this amendment is just that, common sense.

The amendment I am proposing today creates a constitutionally protected rainy day fund by putting into place budgetary reforms to help ensure the ability of state government to weather future economic downturns.

Just like families and small businesses, all across Wisconsin that set a little bit of their income aside for emergencies, state government needs to set priorities and plan for the future too.

The amendment controls spending, stabilizes the state budget, and provides future property tax relief. It is beneficial for the long term stability of our state and prevents us from having to make the very difficult and painful measures we are currently enacting to balance the state's budget.

How it works:

- State tax collections in excess of 6.5 percent of state wide personal incomes are deposited into the Fiscal Responsibility Fund. If taxes are below that level, a small minimum deposit is made instead.
- During a recession, money can be withdrawn from the Fund to help balance the budget.
- Any accumulated balance over a set maximum must be returned as a property tax credit.
- The fund can only be tapped in a recession, or fiscal emergency with the approval of 2/3 of the legislature.

Responsible budgeting and planning for the future is something that the citizens of my district told me that they wanted to see state government do. My hope is that you will join me in support of this amendment. Thank you for your time and I would be happy to respond to your questions.



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

April 7, 2011

TO: Representative Travis Tranel  
Room 308 North, State Capitol

FROM: Rob Reinhardt and Dave Lopnow

SUBJECT: Fiscal Responsibility Fund Constitutional Amendment--Example of Fiscal Impact

At your request, we are providing information relating to a proposal to amend the State Constitution to establish a mechanism to transfer general fund tax revenues to a proposed fiscal responsibility fund. A copy of Assembly Joint Resolution 21 is attached.

### Summary of Proposal

The proposal would amend the state's Constitution to specify that the Legislature shall provide by law for the establishment of a fiscal responsibility fund in the state treasury. The proposal would require that in each fiscal year in which the balance of the fund was less than 10% of actual general fund tax collections in the prior fiscal year, the state shall deposit in the fund the greater of: (a) one-half percent of the actual general fund tax collections in the second preceding fiscal year; or (b) the amount, if any, by which actual general fund tax collections in the second preceding fiscal year exceeded 6.5% of state personal income in the calendar year in which the second preceding fiscal year began. The proposal would provide that the Legislature could increase or decrease the 6.5% threshold by a two-thirds vote of the members present in each house of the Legislature.

The proposal would specify that, in this section of the Constitution, "general fund tax collections" would mean: (a) those taxes that were treated as general purpose revenue under the statutes in effect on January 1, 2011; and (b) new, increased, or expanded taxes or fees used to support programs that derived a majority of their state funding from general purpose revenue under those statutes.

The proposal would provide that the Legislature could appropriate or transfer from the fiscal responsibility fund by a two-thirds vote of the members present in each house of the Legislature, or by a majority vote of the members present in each house of the Legislature if the Governor

declares that the national real gross domestic product or its successor index is projected to decline for two or more quarters in the current or succeeding fiscal year. The proposal would specify that in each fiscal year following a fiscal year in which the balance in the fiscal responsibility fund exceeded 10% of actual general fund tax collections in that fiscal year, the Legislature shall appropriate from the fund the excess to be used for property tax relief in the same manner as the net proceeds of the state lottery under Article IV, Section 24(6)(a) of the Constitution.

### **Discussion of Proposal**

*Timing of the Deposit to the Fiscal Responsibility Fund.* To illustrate the potential timing of required actions under the proposal, the following example describes the fiscal and calendar years that would be considered, if the proposal would first apply in the 2013-15 biennium. In fiscal year 2013-14, the required deposit would equal the greater of: (a) 0.5% of actual GPR tax collections in 2011-12; or (b) the amount by which actual general fund tax collections in 2011-12 exceeded 6.5% of state personal income in 2011. As an example of the minimum required deposit, if the proposal would apply in 2013-14, 0.5% of general fund tax collections in 2011-12 would total an estimated \$66 million, which would be a floor on the amount of the required deposit to the fund.

Under current law, the state's Annual Fiscal Report is completed by October 15 after the close of the fiscal year, so that actual general fund tax collections are known by that date. Estimates of state personal income for the preceding calendar year are released in March and September. Therefore, at the time the Governor would be preparing his or her budget recommendations for the 2013-15 biennium in late 2012 and early 2013, the required amount of the deposit to the fiscal responsibility fund in 2013-14 would be known, because actual state collections data for 2011-12 and federal estimates of state personal income for calendar year 2011 would all be available. However, the required deposit for 2014-15 would have to be estimated, in order for the Governor and Legislature to allocate revenues from the general fund to make the deposits in the context of their deliberations on the 2013-15 biennial budget.

*Timing of Withdrawal of Moneys from the Fiscal Responsibility Fund.* In this section, the 2013-15 biennium is again used as a starting point. If in late 2012 and early 2013 (when the Governor is preparing his or her budget recommendations), it would be projected that national real gross domestic product would decline for two or more quarters in 2012-13 or 2013-14, the Governor could make a declaration to this effect. Under this scenario, the Legislature could appropriate or transfer moneys from the fiscal responsibility fund with a majority vote in each house. This would allow any moneys in the fund, or that would be transferred to the fund, to be used to balance the 2013-15 budget at the discretion of the Legislature, without needing a two-thirds vote. With a two-thirds vote in each house, the Legislature could withdraw moneys at any time.

*Limit on Balance in the Fiscal Responsibility Fund.* As an example of the potential balance that could accumulate in the proposed fiscal responsibility fund, it is estimated that general purpose revenue taxes will total \$13.1 billion in 2011-12 under the Governor's 2011-13 budget recommendations. If the proposal had been in effect in 2011-12, the maximum balance in the fund would have been \$1.31 billion, before payments of the excess from the fund for property tax relief

would have been required. Since actual tax collections for the prior fiscal year are known on October 15 of the current fiscal year, any excess moneys in the fund could be distributed as property tax relief on tax bills issued in that December.

*Use of Excess Balances for Property Tax Relief.* The proposal would specify that any excess moneys in the fiscal responsibility fund (above 10% of actual general fund tax collections) must be appropriated for property tax relief in the same manner that the Constitution requires for net proceeds of the state lottery. The Constitution specifies the following regarding the use of net lottery proceeds: (a) the net proceeds must be used for property tax relief for residents of the state; (b) the distribution of the net proceeds may not vary based on the income or age of the person provided the property tax relief; and (c) the distribution of the net proceeds is not subject to the Constitution's uniformity clause.

Under current law, net lottery proceeds in 2010-11 will be used to fund the lottery and gaming credit (\$117,957,000) and a portion of the school levy credit (\$14,850,000). The lottery and gaming credit offsets school property taxes on a portion of the value of primary residences. The school levy credit offsets a portion of school levies on all taxable property (by administrative rule, the portion of the school levy credit funded from the lottery must be used only for state residents). Under the proposal, the Legislature could use one of these mechanisms to distribute excess fund balances or could choose to create a different form of property tax relief. However, since the amount, if any, available to be distributed in December of an even-numbered year would not be known until after the Legislature's regular session is typically adjourned, the Legislature could establish a prospective mechanism for distributing excess funds.

### **Example of the Proposal's Potential Fiscal Impact**

You asked for an example of the potential fiscal impact of the proposed constitutional amendment if it had been in effect since fiscal year 1984-85. The following sections present such an example, based on tax collections and state personal income data, previous recession forecasts, and a number of assumptions regarding how the Legislature and the Governor would have incorporated the proposal in enacting state fiscal policy.

*Tax Collections and State Personal Income.* Table 1 shows general fund tax collections since the 1984-85 fiscal year compared to state personal income in the calendar year in which the fiscal year began (for example, 1984-85 tax collections are compared to state personal income for calendar year 1984).

TABLE 1

**General Fund Tax Collections Compared to State Personal Income  
1984-85 through 2009-10  
(Millions)**

<u>Fiscal Year</u>	<u>General Fund Taxes</u>	<u>Calendar Year</u>	<u>Wisconsin Personal Income</u>	<u>Taxes as a Share of Personal Inc.</u>
1984-85	\$4,447	1984	\$62,094	7.2%
1985-86	4,776	1985	65,132	7.3
1986-87	4,955	1986	68,594	7.2
1987-88	5,174	1987	72,541	7.1
1988-89	5,536	1988	76,929	7.2
1989-90	5,649	1989	83,494	6.8
1990-91	6,073	1990	88,213	6.9
1991-92	6,340	1991	91,809	6.9
1992-93	6,871	1992	98,872	6.9
1993-94	7,288	1993	103,722	7.0
1994-95	7,807	1994	110,630	7.1
1995-96	8,236	1995	116,074	7.1
1996-97	8,818	1996	122,953	7.2
1997-98	9,528	1997	130,478	7.3
1998-99	9,948	1998	141,019	7.1
1999-00	10,946	1999	147,462	7.4
2000-01	10,063	2000	156,603	6.4
2001-02	10,020	2001	162,792	6.2
2002-03	10,200	2002	167,742	6.1
2003-04	10,739	2003	173,295	6.2
2004-05	11,397	2004	180,338	6.3
2005-06	12,030	2005	186,595	6.4
2006-07	12,618	2006	198,598	6.4
2007-08	13,043	2007	207,201	6.3
2008-09	12,113	2008	212,553	5.7
2009-10	12,132	2009	208,220	5.8

As shown in Table 1, actual general fund tax collections exceeded 6.5% of state personal income in each fiscal year between 1984-85 and 1999-00. From fiscal year 2000-01 through 2009-10, general fund tax revenues were below 6.5% of state personal income.

*Recession Forecasts.* According to IHS Global Insight, Inc., the economic forecasting service used by the state in preparing tax revenue estimates, there were three periods since 1985 during which the Governor could have declared that a recession was projected under the proposal, based on forecasts of two or more quarters of declining real GDP. These periods occurred in fiscal years 1990-91, 2001-02, and 2008-09.

*Assumptions.* The following assumptions were made in constructing an example of the potential impact of the proposal:

- In each fiscal year the Legislature and the Governor would have made the minimum required deposit to the fiscal responsibility fund (0.5% of tax collections in the second preceding fiscal year). For example, the initial deposit would have been made in 1984-85, and would have been equal to 0.5% of tax revenues collected in 1982-83.

- During the period when tax collections exceeded 6.5% of state personal income (fiscal years 1984-85 through 1999-00), the Legislature and the Governor would have reduced general fund taxes to an amount equal to approximately 6.5% of state personal income plus the minimum amount required to be deposited into the fiscal responsibility fund. State spending supported by general fund taxes would have been decreased accordingly. This assumption reflects the belief that the Legislature and the Governor would not have imposed additional taxes that would have had to be deposited into the fund rather than used to support state programs.

- During the more recent period when state tax collections were below 6.5% of state personal income (fiscal years 2000-01 through 2009-10), tax revenues would have been increased by the amounts necessary to cover the minimum required deposit into the fiscal responsibility fund (approximately 0.5% per year). State spending would not have been increased or decreased from the actual amounts. During those years, the proposed 6.5% cap would not have been a constraint on state taxing and spending.

- During the three fiscal years when the Governor could have declared that a recession was projected, the entire balance in the fiscal responsibility fund would have been appropriated to support the state's general fund budget. This could have resulted in lower taxes or higher spending during those years, or some combination of both. It is also possible that state borrowing would have been reduced.

Based on the above assumptions, the following results are derived:

*State Taxes and Spending.* During the 16-year period from 1984-85 through 1999-00, state taxes would have been reduced by an estimated cumulative amount of \$9.2 billion and state spending would have been reduced by a cumulative amount of \$9.7 billion. The total spending reductions exceed the tax decreases because an estimated \$499 million would have been deposited into the fiscal responsibility fund during this period, rather than used to support state spending. The tax reductions would have ranged from approximately \$196 million in 1989-90 to \$1.3 billion in 1999-00. It is not possible to determine how these revenue and spending decreases would have been achieved, and what impact the spending cuts would have had on specific state programs or local property tax levies. In addition, it should be noted that the state appropriated \$688 million in 1999-00 for the sales tax rebate. The rebate might not have occurred if the proposed constitutional amendment had been in effect.

During the 10-year period from 2000-01 through 2009-10, state taxes would have been increased by an estimated cumulative amount of \$555 million in order to cover the required deposits to the fiscal responsibility fund. The increases would have been approximately \$50

million to \$65 million per year. State spending would not have been changed during this period. As noted below, most of these revenues would have been withdrawn from the fund in the recession years of 2001-02 and 2008-09, which could have offset part of the \$555 million tax increase during this period.

For the entire 26-year period, state taxes would have been reduced by an estimated \$8.6 billion, and state spending would have been decreased by an estimated \$9.7 billion. Table 2 shows the estimated tax modifications that would have occurred during these fiscal years. Yearly spending reductions are more difficult to determine due to the carryover of general fund balances in certain years, so the \$9.7 billion in cumulative spending reductions are not shown in the table. It should also be noted that the tax figures shown and the cumulative spending reduction are prior to consideration of the impact of withdrawals from the fiscal responsibility fund.

**TABLE 2**  
**Estimated Tax Modifications under Proposed Constitutional Amendment**  
**1984-85 Through 2009-10\***  
**(Millions)**

<u>Fiscal Year</u>	<u>General Fund Taxes</u>
1984-85	-\$392
1985-86	-519
1986-87	-474
1987-88	-435
1988-89	-511
1989-90	-196
1990-91	-311
1991-92	-344
1992-93	-414
1993-94	-514
1994-95	-582
1995-96	-654
1996-97	-787
1997-98	-1,006
1998-99	-738
1999-00	-1,313
2000-01	50
2001-02	55
2002-03	50
2003-04	50
2004-05	51
2005-06	54
2006-07	57
2007-08	60
2008-09	63
2009-10	<u>65</u>
Total	-\$8,636

\*Prior to consideration of withdrawals from the fiscal responsibility fund.

*Deposits to the Fiscal Responsibility Fund.* Beginning in 1984-85, annual deposits would have been made equal to 0.5% of actual general fund tax collections in the second preceding fiscal year. Total deposits are estimated at \$1,054 million between 1984-85 and 2009-10. It is assumed that the deposits would have been made on the last day of each fiscal year, so as to most advantage the general fund. The deposits would have ranged from \$19 million in 1984-85 to \$65 million in 2009-10.

*Withdrawals from the Fiscal Responsibility Fund.* It is assumed that withdrawals from the fund would have been made during each of the three recession years. The withdrawal amounts are estimated at \$197 million in 1990-91, \$528 million in 2001-02, and \$416 million in 2008-09. These estimates include the required deposit for those years and interest earnings based on experience with the state investment fund since 1985. As noted, it is assumed that the withdrawn revenues would have been used to support the general fund budget, which would have resulted in some combination of decreased taxes or borrowing, or increased state spending. It is also assumed that the withdrawals would have occurred on the first day of the fiscal year, so as to most advantage the general fund.

*Property Tax Relief from Fiscal Responsibility Fund.* Under the proposal, if the balance in the fiscal responsibility fund exceeds 10% of general fund tax revenues for that year, the Legislature must appropriate the excess amount for property tax relief in the following fiscal year. Using the assumptions regarding fund deposits and withdrawals outlined above, it is estimated that the fund balance would not have reached the 10% threshold at any time between 1984-85 and 2009-10. Therefore, no appropriations for property tax relief would have been made from the fund.

*2009-10 Fund Balance.* The estimated balance in the fiscal responsibility fund at the end of 2009-10 would have been \$65 million, which consists of the required deposit for that year.

Table 3 shows the estimated annual activity in the fiscal responsibility fund, assuming the fund had been in effect since 1984-85 and using the other assumptions outlined above.

**TABLE 3**  
**Estimated Condition of Proposed Fiscal Responsibility Fund**  
**1984-85 through 2009-10**  
**(Millions)**

<u>Fiscal Year</u>	<u>Opening Balance</u>	<u>Deposits</u>	<u>Withdrawals</u>	<u>Interest Earnings</u>	<u>Ending Balance</u>
1984-85	\$0	\$19	\$0	\$0	\$19
1985-86	19	23	0	2	44
1986-87	44	22	0	3	69
1987-88	69	24	0	5	98
1988-89	98	25	0	8	131
1989-90	131	26	0	12	169
1990-91*	169	28	-197	0	0
1991-92	0	28	0	0	28
1992-93	28	30	0	1	59
1993-94	59	32	0	2	93
1994-95	93	34	0	5	132
1995-96	132	36	0	7	175
1996-97	175	39	0	9	223
1997-98	223	41	0	12	276
1998-99	276	44	0	14	334
1999-00	334	48	0	18	400
2000-01	400	50	0	23	473
2001-02*	473	55	-528	0	0
2002-03	0	50	0	0	50
2003-04	50	50	0	1	101
2004-05	101	51	0	2	154
2005-06	154	54	0	6	214
2006-07	214	57	0	11	282
2007-08	282	60	0	11	353
2008-09*	353	63	-416	0	0
2009-10	0	<u>65</u>	<u>0</u>	<u>0</u>	65
Totals		\$1,054	-\$1,141	\$152	

\*Recession years.

As outlined above, a number of assumptions had to be made in preparing this analysis. The most important assumptions relate to actions by the Legislature and Governor regarding the level of state taxes and spending that would have been enacted if the proposal had been in effect since 1985, and the amounts that would have been withdrawn from the fiscal responsibility fund during the three recession years.

The use of different assumptions would lead to significantly different results. For example, it is possible that taxes would not have been reduced, or reduced by smaller amounts than estimated above, during the period when actual collections exceeded 6.5% of state personal income. If that had occurred, then: (a) the balances in the fiscal responsibility fund would have been larger at the onset of the recession years; (b) there may have been years when appropriations were made from the fund for property tax relief; (c) state taxes would have been higher; and (d) state spending would likely have been reduced as outlined above because the additional tax revenues would have been deposited into the proposed fund.

Another alternative assumption is that some or all of the \$555 million of required deposits into the fiscal responsibility fund from 1999-00 through 2009-10 would have been funded through general fund spending reductions instead of tax increases.

It is also possible that some or all of the balance of the fiscal responsibility fund would not have been withdrawn during the first two recession years, which would have left additional revenues available during the most recent downturn.

Finally, the proposal would allow for the 6.5% threshold to be increased by a two-thirds vote of the Legislature, and also for monies to be appropriated or transferred from the fiscal responsibility fund in non-recession years by a two-thirds vote. It is possible that the Legislature would have utilized one or both of these provisions, which would also impact the results reported above.

We hope this information is helpful. Please contact us if you have additional questions.

RR/DL/sas  
Attachment



State of Wisconsin  
2011 - 2012 LEGISLATURE



LRB-0435/1  
SRM:wlj:jf

## 2011 ASSEMBLY JOINT RESOLUTION 21

April 1, 2011 -- Introduced by Representatives TRANEL, JACQUE, RIPP, BALLWEG, KNILANS, BROOKS, FARROW, MARKLEIN, A. OTT, RIVARD, KESTELL, SPANBAUER, PRIDEMORE, STEINEKE, BERNIER, PETRYK, HONADEL, ENDSLEY, TAUCHEN, KAUFERT and MURSAU, cosponsored by Senator SCHULTZ. Referred to Committee on Ways and Means.

- 1 **To create** section 11 of article VIII of the constitution; **relating to:** creation of the  
2 fiscal responsibility fund (first consideration).

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### *Analysis by the Legislative Reference Bureau*

Currently, the state maintains the budget stabilization fund which is established and administered as required by statute. This proposed constitutional amendment, proposed to the 2011 legislature on first consideration, requires the legislature to establish the fiscal responsibility fund in the treasury, and to deposit into the fund the greater of 1) one-half of 1 percent of the actual general fund tax collections in the second preceding fiscal year; or 2) the amount, if any, by which the actual general fund tax collections in the second preceding fiscal year exceeded 6.5 percent of state personal income in the calendar year in which the second preceding fiscal year began. The 6.5 percent threshold may be modified by law by a two-thirds vote of the legislature. The amendment would permit the legislature to appropriate moneys from the fund by a two-thirds vote or by a majority vote if the governor declares that the national real gross domestic product is projected to decline in either the current or succeeding fiscal year. In each fiscal year following a fiscal year in which the balance in the fiscal responsibility fund exceeded 10 percent of actual general fund tax collections in that fiscal year, the legislature shall appropriate by law from the fiscal responsibility fund the excess to be used for property tax relief in the same manner as the net proceeds of the state lottery under article IV, section 24 (6) (a), of the constitution.

A proposed constitutional amendment requires adoption by two successive legislatures, and ratification by the people, before it can become effective.

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*Resolved by the assembly, the senate concurring, That:*

SECTION 1. Section 11 of article VIII of the constitution is created to read:

[Article VIII] Section 11 (1) In this section, "general fund tax collections" means those taxes that were treated as general purpose revenue under the statutes in effect on January 1, 2011, and new, increased, or expanded taxes or fees used to support programs that derived a majority of their state funding from general purpose revenue under those statutes.

(2) The legislature shall provide for the establishment of the fiscal responsibility fund in the state treasury. In each fiscal year in which the balance of the fund as of the preceding June 30 was less than 10 percent of the actual general fund tax collections in the preceding fiscal year, the state shall deposit into the fund the greater of the following:

(a) One-half of 1 percent of the actual general fund tax collections in the 2nd preceding fiscal year.

(b) The amount, if any, by which the actual general fund tax collections in the 2nd preceding fiscal year exceeded 6.5 percent of state personal income in the calendar year in which the 2nd preceding fiscal year began.

(3) The legislature may increase or decrease the 6.5 percent threshold under sub. (2) (b) by a two-thirds vote of the members present in each house of the legislature.

(4) The legislature may appropriate or transfer from the fiscal responsibility fund by a two-thirds vote of the members present in each house of the legislature or by a majority vote of the members present in each house of the legislature if the

1 governor declares that the national real gross domestic product or its successor index  
2 is projected to decline for 2 or more quarters in the current or succeeding fiscal year.

3 (5) In each fiscal year following a fiscal year in which the balance in the fiscal  
4 responsibility fund exceeded 10 percent of the actual general fund tax collections in  
5 that fiscal year, the legislature shall appropriate from the fiscal responsibility fund  
6 the excess to be used for property tax relief in the same manner as the net proceeds  
7 of the state lottery under article IV, section 24 (6) (a).

8 **SECTION 2. Numbering of new provision.** If another constitutional  
9 amendment ratified by the people creates the number of any provision created in this  
10 joint resolution, the chief of the legislative reference bureau shall determine the  
11 sequencing and the numbering of the provisions whose numbers conflict.

12 *Be it further resolved, That* this proposed amendment be referred to the  
13 legislature to be chosen at the next general election and that it be published for 3  
14 months previous to the time of holding such election.

15 (END)



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

April 11, 2011

TO: Representative Samantha Kerkman  
Room 315 North, State Capitol

FROM: Dave Loppnow, Program Supervisor

SUBJECT: Budget Stabilization Fund

At your request, I am providing information relating to whether moneys were held in the budget stabilization fund in 1979, 1999 and at present.

The budget stabilization fund was created by 1985 Act 120, so no moneys were in the fund in 1979.

As created in 1985 Act 120, revenues to the fund were to come by direct appropriation from the general fund. However, from the time of the creation of the fund by Act 120 until the enactment of the 2001-03 biennial budget, this funding mechanism remained unchanged, but no funds were appropriated to the fund and the only revenues to the fund consisted of small donations. Because of these donations, the balance of the fund was approximately \$12 in 1999.

The budget stabilization fund had a balance of approximately \$1.7 million in March, 2011.

I hope that this information is helpful to you. Please contact me if you have any questions.

DL/le



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

April 11, 2011

TO: Representative Samantha Kerkman  
Room 315 North, State Capitol

FROM: Rob Reinhardt, Program Supervisor

SUBJECT: State Tax Modifications in 1979 and the Early 1980s

At your request, this memorandum provides information regarding state tax reductions enacted in Chapters 1 and 2, Laws of 1979, and subsequent tax increases adopted in the early 1980s.

### Chapters 1 and 2, Laws of 1979

Chapters 1 and 2, Laws of 1979, included a number of significant state tax reductions and also provided property tax relief through a one-time refundable property tax credit and expansion of the homestead tax credit program. These tax cuts were enacted following projections in January, 1979, that the state general fund would have a large surplus by the end of the 1979-81 biennium if the existing tax laws remained in place. At that time, the estimated general fund surplus ranged from approximately \$670 million (assuming state expenditures would increase at the projected rate of increase in personal income) to over \$1 billion (assuming the minimum requirements for existing state programs without any enhancement).

The largest fiscal impacts of Chapters 1 and 2 were due to individual income tax cuts and the property tax relief measures. In addition, more modest reductions were enacted in the sales and use tax, corporate income tax and inheritance and gift taxes. Based on estimates prepared at that time, the fiscal effect of these provisions was a revenue loss of \$203 million in 1978-79, \$401 million in 1979-80 and \$355 million in 1980-81, for a three-year total of \$959 million. To put these figures in context, prior to this legislation, total general fund revenues were estimated at \$3.1 billion in 1978-79, \$3.4 billion in 1979-80 and \$3.8 billion in 1980-81. Therefore, over this three-year period, taxes were reduced by about 9.3%.

The following sections briefly describe the major tax changes that were adopted in Chapters 1 and 2, Laws of 1979:

*Individual Income Tax.* The state income tax was reduced by increasing the standard deduction, decreasing tax rates, widening tax brackets and indexing the tax brackets for inflation. In addition, the itemized deduction for property taxes was replaced with a property tax/rent credit (PTRC), and an exclusion for capital gains on the sale of a primary residence was enacted. The legislation also included an income tax withholding moratorium in May and June of 1979. In total, income taxes were reduced by an estimated \$203 million in 1978-79, \$213 million in 1979-80 and \$247 million in 1980-81. The three-year reduction was \$663 million.

*Property Tax Relief.* The homestead credit was expanded by increasing the eligibility income limit and the amount of property taxes that could be claimed for the credit. In addition, property tax relief was provided through a one-time property tax refund credit equal to 10% of property taxes due in 1979, but not more than \$100. The credit was paid during the summer of 1979. The homestead changes were estimated to cost \$48 million in 1979-80 and \$52 million in 1980-81, while the property tax refund was estimated at \$95 million in 1979-80.

*Other Taxes.* The most significant changes in other state taxes were the creation of a sales tax exemption for residential heating fuel (estimated at \$37 million in 1979-80 and \$40 million in 1980-81) and increased exemption amounts under the inheritance and gift taxes (\$2.7 million in 1979-80 and \$11.7 million in 1980-81). Corporate taxes were reduced by \$5.7 million in 1979-80 and \$4.7 million in 1980-81 through modifications to the treatment of S (tax-option) corporations, throwback sales and charitable contributions.

### **Tax Increases Adopted in the Early 1980s**

In the early 1980s, the U.S. economy experienced a severe downturn. Real (inflation-adjusted) gross domestic product fell by 1.9% between 1981 and 1982, while the national unemployment rate reached nearly 10% during 1982 and 1983. These developments led to significant state budget shortfalls, which were partially addressed through an increase in the state sales tax rate, temporary surtaxes on the state individual and corporate income taxes and other permanent tax increases. The sales tax increase was included in Chapter 317, Laws of 1981 (the 1981-83 budget adjustment act) and 1983 Wisconsin Act 2. The other tax increases were part of the 1983-85 biennial budget (1983 Wisconsin Act 27). The major tax changes in these acts are outlined below.

*Sales Tax Increase.* The sales tax rate was increased from 4% to 5%, effective May 1, 1982, under Chapter 317, Laws of 1981. The tax increase was enacted to provide funds for property tax relief and was intended to be temporary (from May 1, 1982, until June 30, 1983). The rate increase was estimated to generate \$294 million during this 14-month period. However, in order to address a large budget deficit, the 5% tax rate was made permanent in January, 1983, under 1983 Wisconsin Act 2.

*1983 Act 27.* It was estimated that Act 27 would increase state general fund taxes by \$459 million in 1983-84 and \$288 million in 1984-85, for a two-year total of \$747 million. The most significant increases were 10% surtaxes on the individual and corporate income taxes for tax years 1983 and 1984. The surtaxes were estimated to generate \$298 million in 1983-84 (\$283 million from the individual income tax and \$15 million from the corporate income tax) and \$134 million in 1984-85 (\$113 million from the individual income tax and \$21 million from the corporate tax). It should be noted, however, that the individual income surtax for 1984 was subsequently repealed in 1983 Wisconsin Act 212. Other significant tax increases in Act 27 included: suspending indexing of the individual income tax brackets for tax years 1983 through 1985; reducing the PTRC and limiting it to taxes or rent paid on a principal residence; limiting the use of accelerated depreciation; accelerating certain utility tax payments; and converting the ad valorem tax on light, heat and power companies to a gross receipts tax.

I hope this information is helpful. Please contact me if you have further questions.

RR/sas



## Legislative Fiscal Bureau

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November 18, 1999

TO: Members  
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: 1999 Wisconsin Act 10: One-Time Sales Tax Rebate

This memorandum describes 1999 Wisconsin Act 10, which provides a sales tax rebate at an estimated cost of \$700 million in 1999-01. Act 10 also repeals provisions of 1999 Act 9 (the 1999-01 biennial budget as partially vetoed by the Governor) that increase the property tax/rent credit (PTRC) and the school levy credit.

### Sales Tax Rebate

Act 10 provides a one-time rebate of nonbusiness consumer sales tax paid by individuals in Wisconsin to be mailed at the end of December and early January at an estimated cost of \$700 million. The PTRC and a portion of the school levy credit were eliminated to fund the rebate. The rebate will vary based on filing status and Wisconsin adjusted gross income (AGI) as reported in 1998 state income tax returns and will be paid out of a sum sufficient appropriation created for this purpose. Wisconsin residents who did not file a state income tax return or homestead credit claim in 1998 will receive the rebate if a claim is filed with the Department of Revenue (DOR). In addition, nonresidents will be allowed to claim a rebate for documented sales taxes paid to the state in 1998.

**Rebate Amounts.** Table 1 shows the rebate schedule included in Act 10, under which the rebate for married-joint filers will range from \$360 to \$534 and the rebate for single, head-of-household and married-separate recipients will range from \$184 to \$267. The table also shows the rebate as a percentage of the mid-point of each AGI range, except that the percentages for the first and last AGI ranges are based on the highest and lowest AGI amount in each range, respectively. These columns show that, although the amount of the proposed sales tax rebate will become larger as income increases, the rebate measured as a percent of income will decline.

**TABLE 1**

**Sales Tax Rebate Under Act 10**

<u>Married-Joint</u>			<u>Single, Head-of-Household &amp; Married-Separate</u>		
<u>Wisconsin AGI</u>	<u>Rebate</u>	<u>% of AGI</u>	<u>Wisconsin AGI</u>	<u>Rebate</u>	<u>% of AGI</u>
\$25,000 and Under	\$360	1.44%	\$25,000 and Under	\$184	0.98%
25,001 to 50,000	368	0.98	25,001 to 37,500	193	0.62
50,001 to 75,000	385	0.62	37,501 to 50,000	203	0.46
75,001 to 100,000	405	0.46	50,001 to 100,000	221	0.29
100,001 to 200,000	442	0.29	100,001 to 250,000	244	0.14
200,001 to 500,000	487	0.14	250,001 and Over	267	0.11
500,001 and Over	534	0.11			

The average sales tax rebate will be \$271 under Act 10, which reflects an estimated cost of \$700 million and an estimated 2,580,000 claimants. Table 2, which follows, displays the average rebate by filing status according to the 1997 Wisconsin tax sample. These figures somewhat overstate the average rebate because the income tax sample only includes individuals and couples that filed income tax returns in 1997. Persons who are eligible for the rebate, but did not file an income tax return are not included in the tax sample.

**TABLE 2**

**Average Rebate by Filing Status**

<u>Filing Status</u>	
Married-Joint	\$383
Married-Separate	191
Head-of-Household	189
Single	189

Source: 1997 Wisconsin Tax Sample

**Calculation and Issuance Procedures.** Most Wisconsin residents will not have to file a form to receive the rebate but will be issued the rebate automatically. However, claimants who did not file an income tax or homestead return in 1998 will have to file a claim with DOR. The Department is required to prepare a form no later than 60 days after the effective date of the act for use in claiming the rebate (since Act 10 takes effect on November 19, 1999, these forms must be available by January 18, 2000). The rebate will be calculated and issued as follows for each category of recipient:

Residents Who Filed a 1998 Tax Return. The rebate for full-year and part-year state residents will be calculated and issued automatically by DOR based on the individual's or married couple's filing status and AGI reported on their 1998 Wisconsin income tax return.

Resident Nonfilers Who Received a Homestead Credit in 1998. The rebate will also be issued automatically to those who filed a homestead credit form in 1998 but did not file a state income tax return. The Department is directed to calculate the rebate as if the individual's or couple's AGI is \$25,000. Since the homestead credit was only available to claimants with household income of \$19,154 or less in 1998 and the minimum rebate will be provided to those with AGI of \$25,000 or less, all homestead credit recipients will receive the minimum rebate (\$360 if married-joint and \$184 if single, head-of-household or married-separate) because household income is always equal to or greater than AGI.

Resident Nonfilers. A resident or part-year resident individual or couple who did not file a 1998 income tax return or homestead credit form by October 15, 1999, will be eligible to receive a rebate only if a claim is filed with DOR by June 30, 2000. These individuals and couples will also receive the minimum rebate for the appropriate filing status since the income threshold for filing a 1998 income tax return was less than \$25,000.

Residents and Part-Year Residents Who Were Married to Nonresidents. Residents and part-year residents who were married to nonresidents will also receive the rebate based on their Wisconsin AGI.

Dependents. Taxpayers who were claimed as a dependent on another person's 1998 federal income tax return will only be eligible for the rebate if they had Wisconsin AGI of \$5,000 or more and a state income tax liability in 1998.

Nonresidents. A nonresident of Wisconsin will be eligible to receive a rebate if a claim is filed with DOR no later than 30 days after the effective date of the act (by December 19, 1999). The Department is required to prepare a form for this purpose. The claimant will be required to document his or her nonbusiness consumer sales taxes paid to Wisconsin in 1998. The documented amount must be at least \$20 (equivalent to \$400 in taxable purchases). The rebate will be calculated as 30.4% of the documented amount up to a maximum rebate of \$267. This maximum will apply to individual claimants as well as married couples and is equivalent to 30.4% of the state sales tax paid on taxable purchases of \$17,566. The rebate rate of 30.4% is equal to \$700 million as measured against the estimated amount of sales taxes collected in 1998-99 that were paid by individuals.

**Limitations and Conditions.** The following limitations and conditions will apply to the sales tax rebate.

- The Department is prohibited from considering any adjustments or amendments made to 1998 income tax returns that are made after October 15, 1999, in its calculation of the rebate.

- The rebate will first be applied against a debt that is owed to state agencies, municipalities, counties or for certified delinquent payments of child or family support, in the same manner as income tax refunds are currently applied under these offset provisions. If only one spouse owes a debt, each spouse will be considered to have a 50% ownership interest in the rebate.

- The Department is allowed to enforce the rebate and take any action, conduct any proceeding and proceed as it is authorized in respect to income taxes under current law. The income tax provisions relating to assessments, refunds, appeals, collection, interest and penalties also apply.

- Married couples who filed joint returns are allowed to request a separate check for 50% of the joint rebate after the rebate has been issued but before the check, share draft or other draft has been cashed.

- The right to the rebate will lapse if DOR is unable to locate the individual or couple or if an issued check, share draft or other draft is not cashed by December 31, 2000.

- The rebates of residents who filed a 1998 income tax return or homestead credit claim and who become deceased after their tax returns or credit claims were filed will be paid to the claimants' estates.

- The Department of Revenue is directed to calculate the rebate for the family only of an individual who has been, or was, incarcerated in a state or federal prison during tax year 1998. In addition, the Department is prohibited from sending any rebate checks to any state or federal prison facility.

- Act 10 specifies that the sales tax rebate not be counted as income or an asset for the purposes of determining eligibility or benefits for the W-2 program, W-2 child care assistance and other state assistance programs in the month received and the following month. In addition, the act directs the Department of Health and Family Services to seek a waiver from the federal government and amend its state plan to disregard the rebate in determining eligibility for medical assistance. The act also specifies that, to the extent allowed under federal law, state agencies must disregard the sales tax rebate as income or assets in determining eligibility or benefits under federal assistance programs.

- The provisions related to the sales tax rebate will not apply after December 31, 2000.

- Although not included as part of Act 10, SB 276 and SS AB 2 would specify that the sales tax rebate not be subject to the state individual income tax.

**Administrative Funding.** Act 10 provides \$2,357,500 GPR to the Department of Revenue in 1999-00 to administer the sales tax rebate. Table 3, which follows, shows a breakdown of the components of the administrative costs. The cost estimates are based on the

Department's experience with the one-time property tax/rent credit payment in 1989 and information from the State of Minnesota about its sales tax rebate program. The estimates were based on an assumption that approximately 2.5 million rebate checks would be sent to taxpayers.

**TABLE 3**

**Sales Tax Rebate Administrative Costs**

<b>Personnel</b>	
Permanent salaries (for overtime)	\$240,400
LTE salaries	139,200
Fringe benefits	<u>65,500</u>
Subtotal	\$445,100
<b>Administration</b>	
Contract programming, InfoTech costs and other related expenses	\$241,900
Printing claim forms, envelopes, postage	702,400
Distributing rebate checks and related expenses	93,400
Furniture, rent and telephone expenses	67,200
Printing, storage, security and transportation of rebate checks	480,000
Processing rebate checks	<u>327,500</u>
Subtotal	\$1,912,400
<b>TOTAL</b>	<b>\$2,357,500</b>

**Federal Taxation of a Sales Tax Rebate.** Federal individual income tax filers who claim itemized deductions rather than the federal standard deduction are allowed to deduct the amount of income taxes paid to state governments. If the taxpayer receives a refund, credit or offset of any state income tax that was deducted, federal taxes must be paid on the amount refunded, credited or offset. In such cases, Wisconsin will issue a federal form 1099-G to indicate the amount of state individual income tax that was refunded. Federal income tax filers who claim the standard deduction rather than itemize deductions do not have to pay federal taxes on refunds of state income taxes.

The amount an individual pays in sales taxes is not deductible for federal income tax purposes, and thus, no federal tax is owed for refunds of sales tax payments. Based on the experience of Colorado and Minnesota, which have provided sales tax rebates in recent years, the Wisconsin Department of Revenue will not issue a federal form 1099-G on the sales tax rebates. There may be some very limited cases, however, where the rebate could be subject to federal tax. This could occur if it was determined that the rebate amount exceeds the actual amount of sales taxes paid by a recipient.

### **Property Tax/Rent Credit**

The property tax/rent credit is eliminated in tax year 1999 and thereafter under Act 10. Prior to enactment of the 1999-01 biennial budget, homeowners and renters could claim a PTRC under the state individual income tax. The credit was equal to 10% of property taxes, or rent constituting property taxes, up to a maximum of \$2,000. The maximum credit was \$200. The credit was increased on a one-time basis in 1998 to 14% of property taxes or rent to a maximum of \$2,500, for a maximum credit of \$350. For homeowners, the credit was based on the amount of property taxes paid on a principal residence during the year. The credit was available to renters based on the amount of rent constituting property taxes. Rent constituting property taxes was defined as 25% of actual rent if payment for heat was not included or 20% of actual rent if payment for heat was included. The PTRC was not refundable; that is, it may have been used to reduce income tax liability to zero but a refund was not issued if the amount of the credit exceeded the amount of tax owed.

Under Act 9, the PTRC would have been increased to 16.4% to a maximum credit of \$328 in 1999 and retained at 10% to a maximum of \$200 in 2000. The PTRC would have been eliminated beginning with the 2001 tax year under Act 9. By eliminating the PTRC beginning with tax year 1999, Act 10 increases general fund revenues by an estimated \$399.1 million in 1999-00 and \$241.7 million in 2000-01 for a total of \$640.8 million over the biennium.

### **School Levy Credit**

Act 10 eliminates the one-time funding increase for the school levy credit provided in Act 9. The Governor partially vetoed provisions in Enrolled AB 133 relating to the lottery fund, the business tax registration system and shared revenue calculations so that Act 9 reads:

The amounts under section 20.835(3) of the statutes is equal to the amounts under section 79.14 and \$60,000,400 in 2001.

This provision would have increased the school levy credit distribution by \$60,000,400 from \$469,305,000 to \$529,305,400 in 2001. Because the school levy credit distribution occurs in July, the increase would have occurred in 2001-02. The additional funding in Act 9 would have increased the tax credits, thereby reducing property taxes, on a median-valued home by an estimated \$23.

Prepared by: Kelsie Doty, Rick Olin, Rob Reinhardt and Fred Ammerman



**WISCONSIN  
BUDGET  
PROJECT**

An Initiative of the Wisconsin Council on Children and Families  
April 11, 2011

To: Members of the Assembly Ways and Means Committee  
From: Jon Peacock, Budget Project Director  
Subject: Concerns about AJR 21 – the proposed Fiscal Responsibility Fund

I regret that I was unable to attend the hearing last week on Assembly Joint Resolution 21, which would amend the Wisconsin Constitution to require the state to make contributions to a rainy day fund, to be known as the fiscal responsibility fund. Because of the relatively short notice for the public hearing, I was unable to rearrange my schedule and testify before the committee on this important issue.

I have attached a two-page summary and analysis of AJR 21, prepared by my colleague Tamarine Cornelius, which raises a number of concerns about the proposal. In short, we understand the sentiment of legislators who would like to see the state establish a robust rainy day fund; we wholeheartedly agree that the state should save in good times for economic downturns, such as the one the state has been experiencing. However, we are concerned that AJR 21 would make the fund difficult to access in times of need, and we worry that enshrining specific fiscal policy requirements in the state constitution would hamstring the Legislature's options for confronting a budget crisis.

Having a well funded rainy day fund would be extremely useful now, as the state struggles with the very slow economic recovery, sharply higher caseloads for public benefits, and a steep reduction in federal Medicaid funding. However, if AJR 21 were now in place, the criteria for using money from the fund would preclude the Legislature from tapping those dollars (without the approval of a supermajority in each house). In fact, the budget for the current fiscal year (2010-11) would have been required to add \$61 million to the fiscal responsibility fund, followed by an additional \$124 million during the very challenging 2011-13 biennium.

The bill limits access to the proposed fund based on changes in the national gross domestic product (GDP), but changes in the state economy and state revenue are not always completely in sync with changes in the national economy.

We are also concerned that the proposal would have the practical effect of limiting the revenue available for local aid and property tax relief, which could lead to higher property taxes, and it is also likely to put upward pressure on non-tax revenue sources, such as tuition and vehicle registration fees.

In light of these concerns, we respectfully urge a no vote on the proposal to put these sorts of specific fiscal requirements into the state constitution.



## WISCONSIN BUDGET PROJECT

An Initiative of the Wisconsin Council on Children and Families

### Constitutionally Requiring a “Fiscal Responsibility Fund”

Assembly Joint Resolution 21, which was introduced on April 1, 2011, would amend the Wisconsin Constitution to mandate contributions to a state “fiscal responsibility fund” intended to be used in the case of a recession. Once the fund level exceeds a specified amount, the excess must be returned to taxpayers. The amendment would also have the effect of capping state taxes (but not the property tax) at a specified level.

#### About the Data

This analysis relies on the following data:

- Income and gross domestic product data from the Bureau of Economic Analysis at the U.S. Department of Commerce; and
- Tax revenue figures taken from the Annual Fiscal Report published by the Wisconsin Department of Administration and projections made by the Legislative Fiscal Bureau.

#### Mandated Contributions to Fund

The amendment proposes that each fiscal year, the state must make a contribution to a fiscal responsibility fund. The state must contribute the larger of these two amounts:

- One half of 1 percent of the general fund tax collections in the second preceding fiscal year.

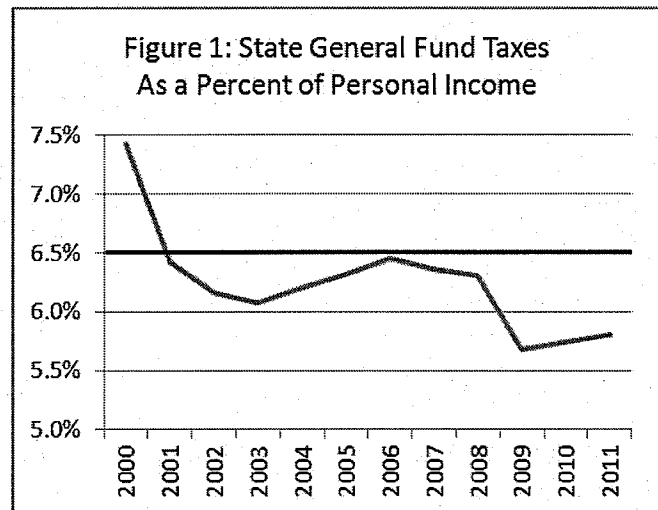
*Example: In fiscal year 2014, the state would deposit 0.5 percent of 2012 general fund tax collections into the fund, which would be \$65 to \$70 million.*

--OR--

- The amount by which general fund tax collections in the second preceding fiscal year exceeded 6.5 percent of state personal income in the calendar year in which the second preceding fiscal year began. The Legislature could change the 6.5 percent threshold by a two-thirds vote.

*Example: In fiscal year 2014, the state would deposit the amount by which general fund taxes in fiscal year 2012 exceeded 6.5 percent of the state’s personal income in calendar year 2011. If the taxes were 6.75 percent of the state’s personal income, a rough estimate indicates this could require a deposit of more than a billion dollars over the biennium.*

State general fund taxes have been below 6.5 percent of personal income since 2001, as shown in Figure 1.



#### Withdrawals from Fund

The amendment proposes that the Legislature could appropriate from the fiscal responsibility fund with a majority vote if there is a recession, as defined by a governor’s declaration that the real national gross domestic product (GDP) is projected to decline for two or more quarters in the current or succeeding fiscal year. With a two-thirds vote, the Legislature could withdraw money at any time.

There is a limit on the balance in the proposed fiscal responsibility fund. If the fund level exceeds 10 percent of general fund tax collections in that

fiscal year, the excess must be used for property tax relief in the next fiscal year in the same manner as net lottery proceeds.

### **Does WI Already Have a Rainy Day Fund?**

Technically, Wisconsin already has a budget stabilization fund, albeit with virtually nothing in it. At the end of fiscal year 2010, the fund balance was \$1.7 million. Instead, a statutory requirement for a General Fund balance fulfills some of the functions of a budget stabilization fund. The required balance is currently set at \$65.0 million. If a bill would reduce the balance in the General Fund below the required amount, the Legislature can include a provision in the bill that specifies that the statutory reserve requirement does not apply.

### **There Are a Few Pros to This Proposal....**

Substantial contributions to a budget stabilization fund could help cushion against future economic downturns. Wisconsin has not had much success in setting aside money during flush economic times to help protect against recessions. The proposed amendment would make contributions to the fund more likely. A meaningful budget stabilization fund could have the side effect of reducing the state's borrowing costs, since bond rating organizations look favorably upon such funds.

### **...But Mostly Cons**

The criteria for using money from the proposed fund is too stringent. In order to take money out of the fund with a majority vote, the national GDP must be projected to decline for two or more quarters in either the current or succeeding fiscal year. In the last 25 years, there have only been two fiscal years that met that test. Even in 2011, when we are still feeling the effects of the recession, we would not be able to access the fund without a two-thirds vote of the Legislature.

The amendment would require contributions to the fund even during economic doldrums. The amendment would require the state to contribute to the fund every year. For example, if this amendment were in effect for fiscal year 2011, the state would need to contribute about \$61 million to the fiscal responsibility fund.

Also, the law uses national GDP figures, and changes in the state economy sometimes lag or precede changes in the national economy.

The amendment would reduce options at a time when we need to retain maximum flexibility. It's difficult to imagine the Legislature transferring a billion dollars over the biennium to a fiscal responsibility fund; more likely is that general fund taxes as a percent of personal income would be in essence capped at a rate below 6.5 percent. Tying future lawmakers' hands and reducing the choices available could result in cuts to critical services, harm Wisconsin's long-term economy, and restrict innovation.

The amendment takes a narrow view of taxes and ignores fees. Presumably one of the goals of this proposed amendment is to limit the amount of taxes Wisconsinites pay to support state and local government. To that end, this amendment essentially caps state general fund taxes at 6.5 percent of personal income, but doesn't place any limits on property taxes, which are levied at the local level. In fact, this amendment could actually end up *increasing* property taxes by limiting the revenue available for the state to provide property tax relief.

If the purpose of the 6.5 percent trigger is to limit the amount of money Wisconsinites pay to support state services, the amendment has missed part of the picture by including only taxes and excluding fees. This amendment could shift state revenue sources away from taxes and towards fees such as tuition and vehicle registration fees, which often fall more heavily on low-income residents.

The distribution is likely to be regressive. The amendment requires the mandated property tax relief to be distributed consistent with the constitutional requirements for use of net proceeds of the state lottery. State statutes now limit the use of lottery proceeds to homeowners and exclude renters from the relief (though that isn't constitutionally required). Following that precedent would be regressive.

Proposed constitutional amendments require adoption by two successive legislatures and ratification by referendum.

Tamarine Cornelius  
April 2011