MADISON METROPOLITAN SCHOOL DISTRICT

545 West Dayton St. ● Madison, Wisconsin 53703-1995 ■ 608.663-1607 ▼ www.mmsd.org

Daniel A. Nerad, *Superintendent of Schools*

To: Board of Education

From: Daniel A. Nerad, Superintendent

Date: April 1, 2010

Subject: Overview of MMSD Financial Picture

Within your packet, you will find information pertaining to:

1) Impact of State's finance on MMSD finances and budget projections

We utilized two separate papers from the legislative fiscal bureau (attached) and a presentation given by Andrew Reschovsky to provide detail to the board of education. Unfortunately projections at this point in time are showing a shortfall for the 2011-13 biennial budget of approximately $2.3 million. Without knowing if there will be another stabilization type package to help ease this burden, chances are funding for education and many other State funded programs will be looked at for possible reduction.

2) 5-year budget forecast

Information attached for this item shows an abbreviated version of the 5-year forecast put together by PMA for MMSD. Along with this abbreviated forecast, we have put forward the assumptions used to build these projections over the next five years for the Board of Education. Finally, you will find attached a look over the past 20 years at property taxes for MMSD and a listing of efficiencies brought forward by administration for the 2009-10 school year and those proposed for the 2010-11 school year.

3) Tax Impact projections of 4-k implementation

You will find attached information relative to property tax projections with and without four-year old kindergarten over the next five years.

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Daniel A. Nerad, *Superintendent of Schools*

To: Board of Education

From: Daniel A. Nerad, Superintendent

Date: April 1, 2010

Subject: State of Wisconsin Projected Revenues

Forecasting tax collections/state revenue is a tricky business. In the mid-1990s during economic boon times, Department of Revenue tax collection projections were typically *lower* than the actual amount taken in by the state. This generally led to more state spending by the Legislature prior to the even-year elections.

Given that caveat, the near-term horizon for the state's fiscal situation does not look good. According to a February 2, 2010 memo (attached) from Legislative Fiscal Bureau Director Bob Lang to Sen. Michael Ellis (R-Neenah), the state will enter the 2011-13 biennium with a projected $2.3 billion "structural deficit" (current funding commitments vs. projected revenue). Structural deficits have plagued the Legislature for nearly a decade and generally have been resolved through accounting maneuvers, raising fees/excise taxes, across-the-board state agency cuts and a variety of other means.

The Wisconsin Department of Revenue (DOR) is required by statute to provide revenue projections on November 20 annually. In even-numbered years, this provision coincides with agency budget requests that are due to be delivered to the Governor (and the Department of Administration, that governor's budget office) on September 15 in anticipation of the governor's biennial budget. The Legislative Fiscal Bureau only makes revenue projections annually in January.

In its Economic Outlook report of February 2010, the DOR predicts employment growth for Wisconsin in the second quarter (April-June), but *overall* employment in Wisconsin will fall for 2010. The report also predicts 3.3% personal income growth with wages and salaries growing a modest 2.3% in 2010. For 2011, employment growth will be an estimated 1.9%.

Professor Andrew Reschovsky has been working with the School Finance Network to examine different models of school funding. Reshovsky and others have noted that the federal stimulus funds used to backfill state spending cuts for K-12 in the 2009-11 biennial budget are slated to end in 2011. Whether or not another round of federal stimulus funds will be made available for the 2011-13 biennial budget is unknown at this time, but we believe it is very unlikely there will be funds available to fill the projected $2.3 billion shortfall over that two year period.

K-12 spending consumes about 37% of the state's budget (a little more than $5 billion annually). Medicaid, the UW System and corrections spending are all about $1 billion annually. This spending is noted because if the state finds itself in a fiscal pinch in 2011-13 biennium, these programs will likely be examined for reductions.

How the Legislature will respond to the state fiscal circumstances in 2011 is purely a matter of conjecture, with the 2010 elections a key determinant of the Legislature's response.

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

February 2, 2010

TO: Senator Michael Ellis
Room 7 South, State Capitol

FROM: Bob Lang, Director

SUBJECT: 2009-11 and 2011-13 General Fund Budget

This memorandum provides information on the condition of the general fund for the 2009-11 and 2011-13 biennia. The 2011-13 portion of the memorandum reflects funding commitments contained in current law. It should be noted that the figures shown throughout this memorandum are in millions. Table 1 displays the 2009-11 general fund condition statement from the Legislative Fiscal Bureau's January 27, 2010, revenue and expenditure estimate.

TABLE 1

General Fund Condition Statement

	2009-10	2010-11
Revenues		
Opening Balance, July 1	$90	$306
Estimated Taxes	12,132	12,801
Departmental Revenues		
Tribal Gaming Revenues	19	23
Other	799	781
Total Available	$13,040	$13,911
Appropriations and Reserves		
Gross Appropriations	$12,971	$14,083
Compensation Reserves	47	96
Less Lapses	-284	-324
Net Appropriations	$12,734	$13,855
Balances		
Gross Balance	$306	$56
Less Required Statutory Balance	-65	-65
Net Balance, June 30	$241	-$9

As shown in Table 1, the gross balance at the end of the 2009-11 biennium is estimated to be $56 million. Act 28 sets the required statutory balance at $65 million for 2010-11. Thus, the net balance at the end of the biennium would be -$9 million.

Structural Balance

The structure of the budget is typically referred to as the relationship between revenues and appropriations in a given fiscal year. For example, if revenues raised in a fiscal year exceed appropriations, the budget is deemed to be in structural balance. Imbalance occurs when appropriations exceed revenues for a fiscal period.

In analyzing the structure of the state's budget, attention usually focuses on the second year of the biennium. This is because the next biennial budget is based upon the second year, or "base year" of the previous biennium. Table 2 focuses only on the 2010-11 fiscal year.

TABLE 2

2010-11 General Fund Condition Statement

Opening Balance	$306
Revenues (Taxes and Departmental Revenues)	13,605
Total Available	$13,911
Net Appropriations	$13,855
Gross Balance	$56

Table 3 addresses the structure of the general fund budget. To do so, only the revenues, net appropriations, and the difference between the two is shown. Thus, Table 3 ignores the opening balance and focuses only on the revenues and net appropriations for the 12 months of the fiscal year.

TABLE 3

2010-11 Fiscal Year Balance of Revenues and Expenditures

Revenues	$13,605
Net Appropriations	13,855
Difference	-$250

Table 3 indicates that net appropriations exceed revenues by $250 million. Thus, the structure of the general fund shows a balance of -$250 million. The -$250 million becomes $56 million when the $306 million opening balance is considered. However, Table 3 focuses only on the revenues and net appropriations of the 12-month period (July, 2010, through June, 2011).

2011-13 General Fund Commitments

Table 4 shows estimated 2011-13 general fund commitments. This table reflects estimated increases or decreases of various items for each year of the 2011-13 biennium as a change to base year (2010-11) revenues and net appropriations.

TABLE 4

2011-13 General Fund Commitments
(In Millions)

	2011-12	2012-13
Revenues (Taxes and Departmental Revenues)		
2010-11 Base Revenues	$13,605	$13,605
Modifications to Base		
Restore estate tax in 2011	$94	$125
Reduction in Menasha refunds	4	9
Combined reporting/add backs	43	28
Airport development zones	1	2
Sunset livestock farm investment credit	0	2
2007 Act 20 lapse/transfer	-100	-100
2009 AB 75 lapse/transfer	-164	-164
2009 Act 2 lapse/transfer	-43	-43
Petroleum inspection fund transfer	-9	-9
Capital gains deferral on QNBVs	-14	-14
Expand angel investment tax credit	-13	-13
Sales tax exemption for biotechnology	-7	-13
Electronic medical records credit	-5	-10
Expand early stage seed credit	-6	-6
R&D credit	-5	-5
IRC update	6	6
AgChem transfers	-1	-2
2005 Act 25 insurance deduction	-8	-8
2007 Act 20 insurance deduction	-22	-56
2007 Act 20 child care deduction	-6	-5
Delay community rehabilitation credit	-3	-3
Delay alternative energy sales tax exemption	-1	-1
Delay biodiesel tax credit	-1	-2
New development opportunity zones	-2	-2
Recycling fund transfers	-15	-15
Subtotal -- Modifications	-$277	-$299
Total	$13,328	$13,306

	2011-12	2012-13
Net Appropriations		
2010-11 Base	$13,855	$13,855
Modifications to Base		
Medical assistance -- replace enhanced FMAP	$314	$314
SeniorCare -- replace enhanced FMAP	3	3
DHS MA rate reform -- replace enhanced FMAP	24	24
DHS MA rate reform -- delayed payments	59	59
Debt service funding	154	162
First dollar credit increase	5	5
Delete covenant lapse	25	25
Terminate MN/WI Reciprocity payment	-61	-61
Child care -- replace stimulus funds	15	15
Child support incentive match payment	5	5
Subsidized jobs -- EITC	2	2
Governor, Court, Legislature lapse	10	10
Jobs tax credit	5	10
Foster care and adoption assistance -- replace enhanced FMAP	5	5
Student financial aid	4	7
Female inmate treatment center	6	6
Index homestead tax credit	1	2
Beginning farmer credit	1	1
Public benefits fee/DAs	9	9
SPD private bar	2	2
UW System base restoration	15	15
Children's long-term support program	4	4
Independent living centers	1	1
Independent charter schools	2	4
Engineering grants	0	-2
Community health/poison control	1	1
TANF emergency contingency funds	1	1
Subtotal -- Modifications	$612	$629
Total	$14,467	$14,484

As shown above, Table 4 includes additional revenues of $94 million in 2011-12 and $125 million in 2012-13 related to restoration of the estate tax for deaths occurring on or after January 1, 2011. This assumes that the current federal estate tax provisions, which will restore the federal credit for state death taxes beginning in 2011, will not be modified. If federal law is modified to provide a deduction (rather than credit) for state death taxes, or to permanently eliminate the federal estate tax, these additional state revenues would not be realized.

Table 5 places the figures from Table 4 into condition statement format for the 2011-13 biennium. It is important to note that the amounts shown in Tables 4 and 5 represent current law commitments. No assumptions are made about changes (increases or decreases) in caseload and population estimates or for such items as state employee compensation in the 2011-13 biennium. Also, the figures in Table 5 are displayed for the purpose of examining base revenues and appropriations, adjusted for 2011-13 commitments. The table does not reflect any potential revenue growth or other appropriation changes, including restoration of the funding related to 2009-11 state employee furloughs ($36 million GPR, annually).

TABLE 5

2011-13 General Fund Condition Statement

	2011-12	2012-13
Opening Balance	$56	$65
Revenues	13,328	13,306
Total Available	$13,384	$13,371
Net Appropriations	$14,467	$14,484
Required Statutory Balance*	65	65
Total	$14,532	$14,549
Amount Needed	$1,148	$1,178

*For 2011-12 and 2012-13, Act 28 sets the required statutory balance at $65 million.

Table 5 shows that, for 2011-12, the general fund would need to generate $1,148 million in order to meet current commitments, maintain the required statutory balance, and balance the budget for that year. In 2012-13, $1,178 million ($30 million over the $1,148 million in 2011-12) would need to be realized. These amounts could be generated by revenue increases (growth or tax increases), appropriation reductions, or some combination of the two.

Over the past several biennia, this office has prepared information that estimates the general fund amount necessary in each year of the ensuing biennium to produce a balanced budget. Similar to the exercise in this memorandum, the amounts were calculated by comparing base year revenue and expenditure amounts, adjusted for fiscal commitments that had been made that will affect the next biennium.

The following table lists the estimated general fund amounts necessary to produce a balanced budget for 2011-13 and the seven preceding biennia. The figures for the 1997-99 through 2009-11 biennia were typically prepared at the conclusion of each legislative session.

TABLE 6

General Fund Amounts Necessary for a Balanced Budget

	In Millions		
	1st Year	2nd Year	Total
For the 2011-13 Biennium (Jan. 27, 2010 est.)	$1,148	$1,178	$2,326
For the 2011-13 Biennium (2009 Act 28)	899	1,150	2,049
For the 2009-11 Biennium	800	882	1,682
For the 2007-09 Biennium	653	846	1,499
For the 2005-07 Biennium	701	845	1,546
For the 2003-05 Biennium	1,340	1,527	2,867
For the 2001-03 Biennium	693	1,026	1,719
For the 1999-01 Biennium	589	914	1,503
For the 1997-99 Biennium	624	908	1,532

BL/sas

Legislative Fiscal Bureau Robert Wm. Lang, Director

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State of Wisconsin

January 27, 2010

Representative Mark Pocan, Assembly Chair
Senator Mark Miller, Senate Chair
Joint Committee on Finance
State Capitol
Madison, WI 53702

Dear Representative Pocan and Senator Miller:

In January of each year, this office conducts a review of the status of the state's general fund and presents its findings to the Legislature. In even-numbered years, the analysis includes an examination of economic forecasts and tax collection and expenditure data for the first six months of the current fiscal year, and projections for each fiscal year of the current biennium. We have now completed our review.

Based on our analysis, we project the closing gross general fund balance at the end of this biennium to be $55.7 million. This is $219.5 million below the balance that was projected upon enactment of the 2009-11 biennial budget (2009 Act 28). The $219.5 million is the net result of: (1) an increase of $19.1 million in the opening balance; (2) a revenue loss of $91.8 million due to the termination of the Minnesota-Wisconsin income tax reciprocity agreement; (3) an additional $203.4 million decrease in estimated tax collections; (4) a $22.0 million decrease in departmental revenues; (5) a $15.4 million increase in sum certain appropriations due to enactment of the OWI legislation (2009 Act 100); (6) a $490.0 million decrease in sum sufficient appropriation expenditures; and (7) a $396.0 million decrease in estimated lapses to the general fund.

Although the gross balance is projected at $55.7 million, it should be noted that the required statutory balance is $65 million. Thus, the net balance at the end of the biennium (June 30, 2011) is projected to be -$9.3 million.

The following table reflects the estimated general fund condition statement, which incorporates our revenue and expenditure projections.

TABLE 1

2009-11 General Fund Condition Statement

	2009-10	2010-11
Revenues		
Opening Balance, July 1	$89,564,000	$305,783,700
Taxes	12,132,100,000	12,801,200,000
Departmental Revenues		
Tribal Gaming Revenues	19,476,600	22,580,300
Other	799,412,600	780,836,300
Total Available	$13,040,553,200	$13,910,400,300
Appropriations and Reserves		
Gross Appropriations	$13,423,591,800	$14,120,217,600
Compensation Reserves	47,279,100	95,962,700
Sum Sufficient Reestimates	-452,359,200	-37,591,700
Less Lapses	-283,742,200	-323,849,900
Net Appropriations	$12,734,769,500	$13,854,738,700
Balances		
Gross Balance	$305,783,700	$55,661,600
Less Required Statutory Balance	-65,000,000	-65,000,000
Net Balance, June 30	$240,783,700	-$9,338,400

Significant adjustments are made to the sum sufficient and lapse estimates. There are three primary reasons for this. First, under the income tax reciprocity agreements with Minnesota and Illinois, estimated sum sufficient expenditures have been reduced by $21.7 million in 2009-10 and by $37.0 million in 2010-11. This is due to a decline in income tax collections, which reduces Wisconsin's payments to the two states for tax years 2008 and 2009.

Second, on August 4, 2009, the Joint Committee on Finance approved a request to transfer $76.1 million in federal fiscal stabilization funds in the county and municipal aid program from 2010-11 to 2009-10 and make corresponding general fund appropriation adjustments.

Third, Act 28 deferred principal payments on commercial paper and general obligation bonds that otherwise would have been paid in the 2009-11 biennium. Because information on the specific appropriations that were affected was not available, these debt service reductions were accounted for by increasing lapses by $309 million in 2009-10 and $94 million in 2010-11. The

Capital Finance Office has recently prepared estimates by debt service appropriation of the payments that will be made in the 2009-11 biennium. Based on this information, sum sufficient debt service appropriations are reduced by an estimated $347.3 million in 2009-10 and $80.5 million in 2010-11, and lapses are reduced by an estimated $309.0 million in 2009-10 and $88.3 million in 2010-11. The net effect of these changes is to reduce estimated debt service by $38.3 million in 2009-10 and increase debt service by $7.8 million in 2010-11, for a net reduction in debt service of $30.5 million in the 2009-11 biennium.

The following additional points should be noted about the condition statement of Table 1. First, it incorporates the fiscal effects of all bills enacted to date (through Act 100). It does not, however, reflect the impact of bills that have not yet been signed into law.

Second, it does not reflect the estimated shortfall in the private bar appropriation of the Office of the Public Defender. It is estimated that this appropriation will incur a deficit of $9.6 million by the end of the 2009-11 biennium.

Third, due to higher than anticipated enrollment in BadgerCare Plus and the BadgerCare Plus Core Plan, it is currently estimated that an additional $120 million to $150 million GPR may be needed to support medical assistance (MA) program benefits for these populations in the 2009-11 biennium. The total potential shortfall in the MA program, including MA for elderly, blind, and disabled populations and Family Care enrollees, will depend on future enrollment and expenditure trends, as well as the Department of Health Services' management decisions regarding the program. The potential shortfall will also depend on the Department's success in realizing Act 28 savings targets.

The state could benefit by proposed federal legislation that would extend the period during which the state receives enhanced federal financial participation (FFP) for MA benefits costs under the American Recovery and Reinvestment Act (ARRA) of 2009. For example, the Jobs for Main Street Act passed by the U.S. House of Representatives (H.R. 2847) would extend from January 1, 2011, through June 30, 2011, the period during which the state receives the ARRA-enhanced FFP. While the exact amount of any additional FFP would depend on the state's MA benefit expenditures during the period and the state's unemployment rate, such an extension could increase federal MA matching funds to the state in 2010-11 by approximately $300 million. Additional one-time FFP would reduce the amount of state dollars otherwise needed to fund MA benefits in the current biennium. However, those federal funds would need to be replaced with other funding sources in the 2011-13 biennium. It should be noted that in her December 17, 2009, presentation to the Joint Committee on Finance, DHS Secretary Timberlake stated that she believed the Act 28 funding levels would be sufficient to support anticipated MA costs (higher caseloads notwithstanding), even if additional FFP is not received. In that event, the Secretary indicated that the current MA savings plan may need to be revised, and legislative action may be required, to realize additional savings in the MA program.

General Fund Taxes

The following section provides information on general fund tax revenues for the 2009-11 biennium, including a discussion of the national economic forecast and general fund tax revenue projections for fiscal years 2009-10 and 2010-11.

National Economic Forecast. This office first prepared revenue estimates for the 2009-11 biennium in January, 2009, based on IHS Global Insight, Inc.'s January, 2009, forecast for the U.S. economy. That forecast, released during what Global Insight described as the worst global recession of the postwar era, called for the economic contraction to continue in the first two quarters of 2009, followed by gradual stabilization and recovery. On balance, Global Insight's January, 2009, forecast predicted that real (inflation-adjusted) GDP would fall by 2.5% in 2009, before rebounding by 2.2% and 3.2% in 2010 and 2011, respectively. The primary risk to this "baseline" forecast was that the financial crisis would prove more severe than expected, triggering even higher rates of unemployment and weaker consumer and business spending.

In May, 2009, this office lowered its revenue estimates for 2008-09 and for the 2009-11 biennium. Those downward revisions were based on two considerations. First, tax collections through April, 2009, particularly individual income tax receipts, were lower than expected. Second, Global Insight's April, 2009, and May, 2009, forecasts, while slightly more optimistic than several of the preceding months' forecasts had been, still called for lower levels of economic activity than had been projected in January, 2009.

According to the U.S. Department of Commerce's Bureau of Economic Analysis, real GDP fell at annual rates of 6.4% and 0.7% in the first two quarters of 2009, respectively. Coming on the heels of worse-than-expected performance in late 2008, the first quarter's results signaled that the recession was deeper than Global Insight first thought.

The circumstances that gave rise to the recession of 2008-2009 were outlined in this office's January, 2009, revenue estimate letter. Briefly, beginning in 2007 and accelerating through 2008, banks and other financial companies realized large losses on their holdings of mortgage-backed securities and related assets as the underlying mortgage loans experienced high rates of delinquency and default. Those losses impaired financial company balance sheets, and reduced their ability and willingness to lend money. As credit markets froze, and large financial institutions failed or required government assistance, already-leveraged consumers felt the negative wealth effects caused by declining real estate values and falling equity markets. With similar developments also occurring in other parts of the world, exports, personal consumption, and industrial output all fell dramatically.

These events are reflected in economic data from the period. For instance, in the last quarter of 2008, industrial production fell at an annual rate of 13.0% and nominal (current dollar) consumer spending fell by more than 8.0%. Most measures of the economy's health continued to deteriorate in the first quarter of 2009, when industrial production fell at an annual rate of 19.0%. The recession's greatest impact, however, may have been on U.S. employment conditions. From

December, 2007, to December, 2009, the nation's seasonally adjusted unemployment rate increased from 5.0% to 10.0%, and the number of unemployed persons increased by 7.7 million. During that same period, the number of "involuntary part-time workers" (defined as individuals who were working part time because their hours had been cut back or because they were unable to find full-time employment) rose from 4.6 million to 9.2 million.

Beginning in late 2008, the federal government took a series of actions designed to address the crisis. In October, 2008, Congress passed the Emergency Economic Stabilization Act of 2008, which among other things established the troubled asset relief program (TARP). Under TARP, the U.S. Treasury initiated a "Capital Purchase Program" through which it made direct capital infusions totaling hundreds of billions of dollars into financial institutions in exchange for preferred shares and warrants. The program was intended to strengthen these companies' balance sheets, to restore confidence in the financial system following the September, 2008, collapse of Lehman Brothers, and to encourage lending activity. (By year-end 2009, many of the largest recipients of those infusions, including Bank of America, Goldman Sachs, JPMorgan Chase, Morgan Stanley, Wells Fargo and Citigroup, had repaid some or all of the investments.) TARP funds were also used to assist the domestic auto industry in the form of loans and direct equity investments, and to fund the Federal Reserve's "Term Asset-Backed Securities Loan Facility", which is intended to make credit available to consumers and businesses on more favorable terms by facilitating the issuance of asset-backed securities and improving the market conditions for asset-backed securities more generally. Other government actions during the crisis included placing Fannie Mae and Freddie Mac into conservatorship, and guaranteeing billions of dollars of financial company assets.

In February, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009. Global Insight estimates that through a combination of individual and corporate tax cuts, transfer payments to individuals, increased support for states, and spending on infrastructure, ARRA will inject $561 billion into the U.S. economy during its first two calendar years, and add approximately 0.8 percentage point to GDP in 2009 and 1.3 percentage points to GDP in 2010. In addition to TARP and ARRA, Congress also passed more targeted pieces of legislation (such as the "cash for clunkers" program and extensions of the home buyer tax credit) that were intended to promote activity in sectors of the economy particularly impacted by the recession.

As for monetary policy, the U.S. Federal Reserve maintained an extremely accommodative stance throughout 2009, leaving its target range for the federal funds rate and its target discount rate at all-time lows. In addition to keeping these short-term interest rates at or near 0%, the Federal Reserve used several other strategies to confront the financial crisis. Initially, those efforts focused primarily on providing short-term liquidity to the system through a series of "facilities" such as the Term Auction Facility, the Commercial Paper Facility, the Money Market Investor Funding Facility, and the Primary Dealer Credit Facility. Later, as concerns regarding the system's liquidity eased, the Federal Reserve shifted its strategy towards the purchase of long-term securities. Specifically, the Federal Reserve announced plans to purchase up to $1.75 trillion in a combination of U.S. Treasury securities, securities issued by government-sponsored entities (GSEs), and mortgage-backed securities. The purpose of these purchases was to support the functioning of credit markets, in particular the mortgage lending market. By the end of 2009, the Federal Reserve had completed its purchases of GSE and Treasury debt, and was scheduled to complete its mortgage-backed security purchases by the end of March, 2010.

In addition to the fiscal and monetary policies described above, Global Insight believed a turn in the inventory cycle would also contribute to a recovery in the second half of 2009. During the last two quarters of 2008, the "inventory to sales ratio" spiked as excess inventories accumulated in the face of declining final sales. Businesses reacted by reducing inventories. Global Insight estimates that this inventory de-accumulation process reduced real GDP by annual rates of 2.3 percentage points and 1.4 percentage points in the first two quarters of 2009, respectively. As that process eventually unwound, Global Insight believed the resulting turn in the inventory cycle would become the main near-term driver of economic recovery.

In the third quarter of 2009, real GDP grew at an estimated annual rate of 2.2%, the first such increase since the second quarter of 2008. The U.S. financial markets also showed signs of recovery, with credit spreads returning to their pre-crisis levels, and the U.S. stock market (like most equity markets around the world) rebounding substantially from its March, 2009, lows.

Global Insight's latest forecast (January, 2010) expresses the view that the U.S. economy finished 2009 on a strong note, with real GDP growing at an annual rate of 5.1% in the fourth quarter. That would be substantially better growth than what was anticipated in the May, 2009, forecast, which expected real GDP to rise by only 0.7% in the fourth quarter. Global Insight does not believe the fourth quarter's pace will be sustainable, however, given that more than 3% is attributable to the aforementioned swing in the inventory cycle. Rather, the January, 2010, forecast anticipates that a number of positive factors (such as modest recoveries in single-family housing activity and industrial production) will be moderated by a weak consumer, who continues to deal with high unemployment, tight credit, reduced net worth, and the prospect of higher federal income taxes beginning in 2011. Real GDP is now expected to grow by 2.6% in 2010. That is higher than the 1.5% increase Global Insight projected in May, 2009. For 2011, the updated forecast calls for real GDP to grow by 2.7%. This rate of growth is slightly less than the May, 2009, forecast expected (3.4%), but still envisions a higher level of economic activity than did the earlier forecast.

Global Insight identified the following key assumptions behind its January, 2010, forecast. First, it continues to believe that ARRA will inject $561 billion of fiscal stimulus into the U.S. economy in 2009 and 2010, and that the government will not allow the Act's emergency unemployment benefits program to expire in 2010. Second, top marginal income tax rates, including the top rates on capital gains and dividends, will increase in January, 2011, and the individual income tax cuts that were part of ARRA will expire at that time, or be replaced by other tax increases. Furthermore, taxes will gradually increase beyond 2011, and those increases will not be confined to the top brackets. Third, Global Insight assumes that a healthcare reform bill, largely along the lines of that already passed by the U.S. Senate, will be enacted in early 2010. While this is not expected to have a significant economic impact before 2014, it is assumed that the measure will eventually lead to an increase in federal taxes. Fourth, oil prices will average $68 a barrel in 2010 then rise to $77 a barrel in 2011 in response to stronger worldwide demand. Fifth, the Federal Reserve will not raise the federal funds rate (currently set in a range of 0.0% to 0.25%) until late in the third quarter of 2010. Sixth, the U.S. dollar will appreciate slightly relative to most other major currencies in 2010, but will depreciate by 2.9% against the Chinese renminbi. Seventh, real GDP in the United States' major-currency trading partners will grow by 1.6% in 2010, but real GDP will grow more rapidly (4.5%) among other important trading partners, led by China. Finally, real defense purchases will increase by 3.3% in 2010, followed by a 3.1% decline in 2011 as overseas contingency operations begin to wind down.

These assumptions are embedded in the following economic indicators taken from Global Insight's January, 2010, forecast.

GDP. Although growth appears to have resumed in the third quarter, real GDP is believed to have fallen by 2.5% in 2009, the largest annual decline since 1946. Going forward, real GDP is expected to increase by 2.6% in 2010 and by 2.7% in 2011. Nominal (current dollar) GDP is now forecast to grow by 3.7% and 4.3%, respectively, during those years. Overall, Global Insight's January, 2010, forecast calls for greater levels of U.S. economic activity in 2010 and 2011 than did the May, 2009, forecast.

Consumer Prices. Consumer prices, as measured by the consumer price index (CPI), are believed to have fallen by 0.3% in 2009. While this would be the CPI's first decline in over 50 years, it is less than the 1.2% decline Global Insight expected in its May, 2009, forecast (and significantly less than the 2.2% decline forecast in January, 2009). Oil prices, and by extension, gasoline prices, are one reason the CPI fell less than expected. In May, 2009, Global Insight estimated that oil prices would average $46 a barrel in 2009, and that the retail price of gasoline would average $2.06 a gallon. The actual prices averaged closer to $62 a barrel and $2.40 a gallon, respectively. By early January, 2010, oil prices had once again risen to over $80 a barrel. Global Insight's latest forecast expects oil prices to average $68 a barrel in 2010 and $77 a barrel in 2011.

The federal government's expansive fiscal and monetary policies have raised some concerns about re-inflated asset bubbles and a debasement of the U.S. dollar. Acknowledging those concerns, Global Insight nevertheless believes inflation will stay relatively low during the next several years. That forecast is based on the assumption that high unemployment will restrain consumer demand and keep wage inflation in check. Combined with high rates of excess productive capacity, those factors are expected to limit increases in the CPI to 1.7% and 2.0% in 2010 and 2011, respectively. Core inflation (which excludes the typically more volatile food and energy costs), is expected to rise by 1.5% and 1.7%, respectively, during that same two-year period. These estimates are comparable to the May, 2009, forecast, which expected the CPI to increase by 1.5% and 2.3% in 2010 and 2011, respectively, and core inflation to increase by 1.4% and 1.7%.

Personal Consumption Expenditures. High unemployment, reduced net worth, and higher rates of saving all contributed to weak consumer spending in 2009. In nominal (current dollar) terms, personal consumption expenditures are estimated to have fallen by 0.4% during the year. That was slightly better than the 0.7% decline Global Insight had expected in its May, 2009, forecast. Expenditures for consumer durables, which are typically subject to the state sales tax, fell by an estimated 5.6%. Sales of new cars and light trucks, though aided by the government's "cash for clunkers" program, registered a 12.2% decline. Conversely, consumer purchases in several major expenditure categories not subject to state sales tax (such as food for home consumption and services) increased in 2009.

Global Insight's latest forecast expects nominal consumer spending to increase by 3.6% in 2010 and by 4.0% in 2011. The May, 2009, forecast had called for increases of 2.9% and 4.0%. The most recent forecast also expects purchases of consumer durables to increase by approximately 3.9% in 2010 and 6.0% in 2011, with much of that increase coming in new motor vehicles (+14.4% and +23.6%, respectively). These updated estimates are higher than May's, which predicted that purchases of consumer durables would rise by just 0.5% in 2010 and by 5.2% in 2011.

Employment. During the first quarter of 2009, the U.S. economy shed jobs at the rate of 691,000 per month. By the fourth quarter, that rate had declined to an average of 69,000 jobs per month. Although Global Insight believes the jobs situation will gradually improve over the next two years, it expects that improvement to be slow and uneven. That was demonstrated in the Bureau of Labor Statistics December, 2009, jobs report, which revised the November figures to show a monthly increase of 4,000 jobs, while reporting that 85,000 jobs were lost in December. Global Insight's January, 2010, forecast expects the national unemployment rate to average 10.1% in 2010 and 9.5% in 2011. Those estimates are unchanged from the May, 2009, forecast.

Housing Starts and Housing Prices. The U.S. housing market suffered another difficult year in 2009, with housing starts down 38.2% (to a postwar low of 556,000 units). Against this negative backdrop, however, Global Insight sees positive signs beginning to emerge. Sales of existing homes, spurred by the $8,000 homebuyer tax credit and improved affordability, rose 5.6% in 2009. Global Insight believes existing home sales will decline by 1.1% in 2010, but increase by 4.9% in 2011. More importantly, housing starts are expected to total 792,000 units in 2010 and 1,243,000 units in 2011, which would represent year-over-year increases (albeit from very depressed levels) of 42.3% and 57.0%, respectively. The revised estimates for housing starts are slightly lower than Global Insight projected in its May, 2009, forecast, which predicted that housing starts would total 884,000 units in 2010 and 1,294,000 units in 2011. The anticipated recovery in residential housing activity is expected to contribute modestly to GDP growth in 2010, but more significantly in 2011 and 2012.

Personal Income. Rising unemployment contributed to an estimated 1.4% decline in personal income during 2009. This was worse than Global Insight expected in May, 2009, when its forecast called for a 0.2% fall. In 2010 and 2011, personal income is expected to increase by 3.8% and 3.9%, respectively, consistent with a modest economic recovery and a gradually improving employment outlook. The 3.8% increase projected for 2010 is better than the 1.8% increase predicted in the May, 2009, forecast (the estimated rate of increase for 2011 remains unchanged), but is relatively moderate compared to the 2004-2007 period, when personal income increased at annual rates between 5.5% and 7.5%.

Corporate Profits. Global Insight estimates that corporate pre-tax book profits fell by 2.9% in 2009, which is a significant improvement over the May, 2009, forecast, which expected a 19.0% decline. This better-than-anticipated result may stem from the strong productivity increases that occurred in 2009, the product of aggressive corporate cost-cutting. Global Insight believes these productivity gains, and a generally improving economy, will help drive strong increases in corporate profits in the upcoming quarters. Pre-tax book profits are now expected to increase by 13.1% in 2010 and by 10.6% in 2011. Similarly, economic profits, which are not affected by federal tax law changes, are expected to increase by 11.6% and 6.9%, respectively, in 2010 and 2011. The May, 2009, forecast anticipated that pre-tax book profits would rise by 16.5% in 2010 and by 17.2% in 2011, and that economic profits would climb by 8.7% and 14.4%, respectively.

Business Investment. Business investment spending is estimated to have fallen by more than 18.0% in 2009, with weakness in all of the major investment categories, including equipment and software (-16.6%) and nonresidential structures (-21.1%). These declines are in line with what Global Insight expected in its May, 2009, forecast.

The most recent forecast expects business investment to decline again in 2010 (-2.5%), mainly because very weak activity in the nonresidential structure sector (-21.4%), caused by tight credit and previous overbuilding, is anticipated to more than offset gains in equipment and software investment (+7.6%). Total business investment is expected to rebound in 2011 (+9.8%), driven by a modest gain in nonresidential structures (+1.0%) and continued gains in equipment and software (+13.2%). Even with the small percentage gain in 2011, investment in nonresidential structures will still be at a level that is 37.4% lower than it was in 2008. In addition to depressed levels of new investment in nonresidential structures, concerns also exist about financial conditions in the commercial real estate sector, where high debt levels, combined with high vacancy rates, declining values, and tight credit, are seen as potential threats to a sustained recovery in the financial industry.

The indicators described above, and summarized in Table 2, represent Global Insight's "baseline" forecast. Global Insight's January, 2010 forecast also includes alternative "pessimistic" and "optimistic" forecasts. In the pessimistic alternative, to which Global Insight assigns a 20% probability, credit constraints stemming from the financial crisis limit U.S. economic growth, and as the temporary lifts provided from the turn in the inventory cycle and fiscal stimulus fade, economic growth turns negative again in the second and third quarters of 2010. Consumer spending falls in the face of higher unemployment, as does capital spending as businesses pull back investment plans in the face of the weakening sales outlook. Under this pessimistic scenario, real GDP grows by 0.9% in 2010 (compared to 2.6% in the baseline forecast) and by 0.8% in 2011 (compared to 2.7% in the baseline forecast).

Under the optimistic scenario, to which Global Insight also assigns a 20% probability, the combined impact of aggressive fiscal and monetary policies around the globe, coupled with strong productivity gains and a return to normally functioning credit markets, leads to falling rates of unemployment, and real GDP increases of 4.3% in 2010 and 3.8% in 2011.

TABLE 2

Summary of National Economic Indicators
IHS Global Insight, Inc., Baseline Forecast, January, 2010
($ in Billions)

	2008	2009	2010	2011
Nominal Gross Domestic Product	$14,441.4	$14,253.2	$14,778.0	$15,417.1
Percent Change	2.6%	-1.3%	3.7%	4.3%
Real Gross Domestic Product	$13,312.2	$12,984.1	$13,323.5	$13,678.3
Percent Change	0.4%	-2.5%	2.6%	2.7%
Consumer Prices (Percent Change)	3.8%	-0.3%	1.7%	2.0%
Personal Income	$12,238.8	$12,070.4	$12,533.2	$13,018.2
Percent Change	2.9%	-1.4%	3.8%	3.9%
Personal Consumption Expenditures	$10,129.9	$10,089.8	$10,457.0	$10,877.4
Percent Change	3.1%	-0.4%	3.6%	4.0%
Economic Profits	$1,360.4	$1,298.5	$1,449.6	$1,549.1
Percent Change	-11.8%	-4.5%	11.6%	6.9%
Unemployment Rate	5.8%	9.3%	10.1%	9.5%
Light Vehicle Sales (Millions of Units)	13.2	10.3	11.5	13.8
Percent Change	-18.0%	-22.1%	11.9%	20.1%
Housing Starts (Millions of Units)	0.900	0.556	0.792	1.243
Percent Change	-32.9%	-38.2%	42.3%	57.0%
Exports	$1,831.1	$1,557.5	$1,749.1	$1,889.2
Percent Change	10.6%	-14.9%	12.3%	8.0%

General Fund Tax Projections. Table 3 shows our revised general fund tax revenue estimates for the 2009-11 biennium. The estimates are based on Global Insight's January, 2010, forecast of the U.S. economy, and incorporate all of the tax law changes enacted to date. The estimates also reflect the impact of the termination of the Minnesota-Wisconsin individual income tax reciprocity agreement as of January 1, 2010.

TABLE 3

Projected General Fund Tax Collections
($ Millions)

Source	2008-09 Actual	Budget Estimates (Act 28) 2009-10	Budget Estimates (Act 28) 2010-11	Revised Estimates January, 2010 2009-10	Revised Estimates January, 2010 2010-11
Individual Income	$6,222.7	$6,231.0	$6,432.4	$6,155.0	$6,505.0
General Sales and Use	4,084.0	4,089.2	4,320.7	4,015.0	4,235.0
Corporate Income and Franchise	629.5	717.2	808.3	700.0	800.0
Public Utility	320.1	318.2	327.4	322.2	327.2
Excise					
Cigarette	551.3	687.6	684.7	650.0	630.0
Liquor and Wine	44.1	45.8	47.6	43.5	44.7
Tobacco Products	42.2	52.3	55.2	57.8	62.6
Beer	9.9	10.0	10.0	9.6	9.7
Insurance Company	136.3	148.0	148.0	127.0	135.0
Estate	20.9	0.0	0.0	0.0	0.0
Miscellaneous	52.1	47.0	48.0	52.0	52.0
Total	$12,113.2	$12,346.2	$12,882.3	$12,132.1	$12,801.2
Change from Prior Year					
Amount		$233.1	$536.1	$18.9	$669.1
Percent Change		1.9%	4.3%	0.2%	5.5%

As shown in Table 3, general fund tax revenues are estimated to total $12,132.1 million in 2009-10 and $12,801.2 million in 2010-11. These amounts are lower than the Act 28 estimates by $214.1 million in the first year and $81.1 million in the second year, for a biennial decrease of $295.2 million. The estimates for most of the tax sources have been revised downward, with the most significant reductions in the general sales and use tax and the cigarette tax.

As described above, the current economic forecast is more positive than the May forecast, particularly in 2010 and 2011. However, to-date, revenues from the sales and use tax, cigarette tax, and insurance company taxes have been significantly below projections. The downward revisions to the revenue estimates primarily reflect the tax collection data, as well as revenue losses resulting from termination of the Minnesota-Wisconsin income tax reciprocity agreement.

Individual Income Tax. State individual income tax revenues were $6,222.7 million in 2008-09 and are currently estimated at $6,155.0 million in 2009-10 and $6,505.0 million in 2010-11. Relative to the Act 28 estimates, the current estimates are lower by $76.0 million in the first year and higher by $72.6 million in the second year. On a year-to-year basis, the current estimates reflect a reduction of 1.1% for 2009-10 and an increase of 5.7% for 2010-11. The revised estimates incorporate the effects of a number of law changes, including the Act 28 addition of a new tax bracket and decrease in the capital gains exclusion. In addition, the re-estimates reflect reductions estimated at $30.1 million in 2009-10 and $61.7 million in 2010-11 related to the termination of Wisconsin's tax reciprocity agreement with Minnesota, beginning in 2010.

Based on preliminary collection information through December, 2009, individual income tax revenues for the current fiscal year are about 5% lower than such revenues through the same period in 2008-09. These collection amounts are generally consistent with the Act 28 estimate for 2009-10. If the Act 28 estimate for 2009-10 is adjusted to exclude the estimated impact of law changes, the adjusted total would be 5.7% less than actual collections in 2008-09. The re-estimate for 2009-10 is lower than the Act 28 estimate due, in part, to the termination of income tax reciprocity with Minnesota. Also, the May forecast assumed a smaller reduction in personal income in 2009 (-0.2%) than the January forecast (-1.4%). However, for 2010 and 2011, the January forecast of personal income is approximately 1.9% higher than the May forecast. This explains the increase in estimated income tax collections in 2010-11, relative to the Act 28 estimate, even after the estimated reduction in collections due to the termination of the reciprocity agreement. The revised estimates also account for modifications to the withholding tables by the Department of Revenue, which took effect in October, 2009.

General Sales and Use Tax. In 2008-09, state sales and use tax collections were $4,084.0 million, which was 4.3% lower than the prior year. State sales and use tax revenues are currently estimated at $4,015.0 million in 2009-10 and $4,235.0 million in 2010-11, which represents reduced revenue of 1.7% in the first year and increased revenue of 5.5% in the second year. These estimates are $74.2 million lower in the first year and $85.7 million lower in the second year than the Act 28 estimates of $4,089.2 million in 2009-10 and $4,320.7 million in 2010-11. The reductions in the estimates are based, in part, on reduced year-to-date sales and use tax collections of 7.5% through December, 2009, and in part on the most recent forecast of growth in taxable personal consumption expenditures. These estimates include refund payments associated with the *Menasha Corporation* decision, which reduced sales and use tax collections by $10.2 million in 2008-09 and are estimated to reduce revenue by $42.0 million in 2009-10 and $14.0 million in 2010-11.

Corporate Income and Franchise Tax. Corporate income and franchise taxes were $629.5 million in 2008-09. Collections are projected to be $700.0 million in 2009-10 and $800.0 million in 2010-11. These amounts represent an annual increase of 11.2% in 2009-10 and 14.3% in 2010-11. The new estimates are lower than the Act 28 estimates (by $17.2 million in 2009-10 and $8.3 million in 2010-11).

The new estimates reflect year-to-date corporate income and franchise tax collections, which were 6.6% higher through December, 2009, than for the same period of 2008. In addition, corporate estimated tax payments were 18.5% higher for the period. Corporate profits are projected to increase in 2010 and 2011, as industrial production picks up, investment in equipment and software moves higher, and consumer spending responds to the gradually improving economic circumstances. Economic profits are forecast to increase 11.6% in 2010 and 6.9% in 2011.

The corporate income and franchise tax estimates have been adjusted to reflect the effect of certain law changes, including requiring unitary multi-state corporations to use combined reporting, repealing the domestic production activities deduction, requiring throwback sales to be included 100% in the apportionment formula, and providing the super research and development tax credit. In addition, the estimates have been adjusted to reflect enhanced tax law enforcement activities by the Department of Revenue.

Public Utility Taxes. Public utility tax revenues were $320.1 million in 2008-09, and are currently projected at $322.2 million in 2009-10 and $327.2 million in 2010-11. Relative to the Act 28 estimates, these figures are higher than the 2009-10 estimate by $4.0 million but lower than the 2010-11 estimate by $0.2 million. Utility tax collections are currently expected to increase by 0.7% in 2009-10 and 1.5% in 2010-11, as opposed to a 0.6% decrease in 2009-10 and an increase of 2.9% in 2010-11, as had been estimated under Act 28. The change to the Act 28 estimates is due primarily to higher than expected payments by pipeline companies, related to construction activity, offset by lower liabilities for private light, heat, and power companies, attributable to mild weather in 2009.

Excise Tax Revenues. General fund excise taxes are imposed on cigarettes, other tobacco products, liquor (including wine and hard cider), and beer. Total excise tax revenues were $647.5 million in 2008-09. Excise tax revenues are currently estimated at $760.9 million in 2009-10 and $747.0 million in 2010-11, which represents growth of 17.5% in 2009-10 and reduced revenue of 1.8% in 2009-10. These estimates are $34.8 million lower in the first year and $50.5 million lower in the second year than the Act 28 estimates, which were $795.7 million in 2009-10 and $797.5 million in 2010-11. Excise tax revenues have been reduced largely due to a reduction in estimated cigarette tax collections, which represent approximately 85% of total estimated excise tax revenue.

Cigarette tax revenues were $551.3 million in 2008-09, and are currently estimated at $650.0 million in 2009-10 and $630.0 million in 2010-11. These estimates represent growth of 17.9% in 2009-10 and reduced revenue of 3.1% in 2010-11. Anticipated growth in 2009-10 is largely a result of the Act 28 75¢ increase in the cigarette tax rate from $1.77 to $2.52 per pack, which became effective September 1, 2009. These estimates are lower than the Act 28 estimates by $37.6 million in the first year and $54.7 million in the second year and are based, in part, on lower than expected year-to-date collections, and in part on an anticipated reduction in cigarette tax revenue resulting from the statewide indoor smoking ban, which will become effective July 5, 2010, pursuant to 2009 Act 12.

Insurance Premiums Taxes. Insurance premiums taxes were $136.3 million in 2008-09. Premiums tax collections are projected to be $127.0 million in 2009-10 and $135.0 million in 2010-11. The projected decrease in 2009-10 is primarily based on year-to-date monthly premium tax collections, which are 9.2% lower through December, 2009, and on lower demand for insurance products due to the economic downturn. The projected increase in 2010-11 reflects an improvement in consumer demand during the forecast period.

Estate Tax. Estate taxes were $20.9 million in 2008-09. For deaths occurring on or after January 1, 2008, the estate tax is no longer being imposed, but there is still a small amount of collections and refunds each month related to prior years. On balance, it is estimated that estate tax revenue will be minimal in 2009-10 and 2010-11.

Miscellaneous Taxes. Miscellaneous taxes include the real estate transfer fee (RETF), municipal and circuit court-related fees, and a small amount from the occupational tax on coal. Miscellaneous tax revenues were $52.1 million in 2008-09, and are estimated at $52.0 million in 2009-10 and 2010-11. These estimates are higher than the Act 28 estimates by $5.0 million in the first year and $4.0 million in the second year. The increase in estimated revenue is due, in part, to higher than expected year-to-date RETF collections, and, in part, to the revised forecast for sales of new and existing homes as compared to the Act 28 estimates.

We will continue to monitor economic forecasts and data regarding tax collections and expenditures and inform you if any further revisions are necessary.

Sincerely,

Bob

Robert Wm. Lang
Director

RWL/sas
cc: Members, Wisconsin Legislature

EXCERPTS OF:

The Prospects for Increasing State Support for Higher Education

Forum on Financing Public Higher Education
CAPE, PROFS, UFAS
February 23, 2010

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The Impact of the Recession on State Tax Revenue

	2007-08	2009-10	Percentage Change
Individual Income	$6,713.7	$6,155.0	-8.3%
General Sales and Use	4,268.1	4,015.0	-5.9%
Corporate Income	837.8	700.0	-16.4%
Excise			
Cigarette	455.7	650.0	42.6%
Tobacco Products	29.8	57.8	94.0%
Liquor and Wine	45.2	43.5	-3.8%
Beer	9.6	9.6	0.0%
Public Utility	297.5	322.2	8.3%
Insurance Premium	156.6	127.0	-18.9%
Inheritance	158.8	0.0	-100.0%
Miscellaneous	70.3	52.0	-26.0%
Total GPR Taxes	$13,043	$12,132	-7.0%

2

Employment Forecast

February 2010 WI Dept. of Revenue *Economic Outlook*

- Employment should begin to grow in the 2nd quarter of 2010
  - Overall for 2010, employment will decline
- 1.9% employment growth in 2011
- Employment growth will be slow; not until the end of 2012 will employment in WI equal pre-recession level
  - Growing labor force means that unemployment rate will remain high

3

Personal Income Forecast

February 2010 DOR *Economic Outlook*

- After declining for the first time in 50 years in 2009, personal income should grow by 3.3% in 2010
- Growth in 2011 and 2012 should be slightly above 4%
  - Slow growth by historical standards
- Wages and salaries should grow by a very modest 2.3% in 2010

4

Wisconsin's Fiscal Future

- The state has a long-standing *structural deficit*
- The fiscal situation for the next biennium (2011-13) is made much worse by the recession

5

Defining a *Structural* Deficit

- The **gap** between the amount of revenue raised by the current tax system and the amount of money needed to continue existing government programs
  - Measuring the "cost to continue" is complex
  - Costs rise because input prices rise and number of recipients of public services grows
    - e.g. employee health insurance; energy
    - population grows; especially the number of elderly

6

Balancing the 2011-13 Budget

- Big trouble on the horizon
- Sluggish growth in employment and wages signals slow growth in state tax revenue
  - In past recessions 3 or 5 years until revenue returns to pre-recession levels
- Most federal stimulus funds will disappear by the end of 2011
  - They were used to "back fill" state spending cuts, especially for K-12 education and Medicaid
  - It is unclear whether Congress will approve any additional stimulus funds

7

Balancing the State Budget in 2011-13

	2011-12	2012-13
	(In millions of dollars)	
LFB calculation of "amount needed" (2/10)	$1,148	$1,178
Adjustments:		
Elimination of estate "pick up" tax	$94	$125
State employee salary adjustment	$50	$50
Increases in state aid for K-12 education	$206	$328
Medicaid caseload and utilization adj.	$94	$188
Adjusted amount needed	$1,592	$1,869
Growth rate of GPR revenue (3.5% per year)	$433	$880
Structural budget gap	$1,159	$989
Two-year total	$2,147	

8

10 Largest General Purpose Revenue Programs

(in millions of dollars)

	2009-10		
	Amount	% of Total	Cumulative % of Total
Elementary and Secondary School Aids	$5,025,190,300	37.3%	37.3%
Medical Assistance	1,015,880,300	7.6	44.8
UW System	1,107,090,200	8.2	53.0
Correctional Operations	991,702,500	7.4	60.4
Shared Revenues	975,379,900	7.2	67.6
School Levy/First Dollar Tax Credits	820,075,200	6.1	73.7
Appropriation Obligation Bonds	361,306,000	2.7	76.4
Community & Juvenile Correctional Services	228,306,300	1.7	78.1
Judicial and Legal Services	243,357,700	1.8	79.9
State Residential Institutions	187,773,500	1.4	81.3
Subtotal	$10,956,211,900	81.4%	
All Other Programs	2,514,659,000	18.6	100.0
GRAND TOTAL	$13,470,870,900	100.0%	

Increasing State Support for the UW System

- Prospects for 2011-13 are slim
- In the longer run, there are only 2 options
  - Increase the size of the budget
  - Reduce spending on other programs
- Most realistic is increasing taxes
  - We are no longer a high tax state
  - In terms of *own-raised revenues,* WI is about average
  - Taxes increases can be part of a well crafted state economic growth policy

10