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State-Local Spending in Wisconsin

Context and Trends

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Executive Summary

Wisconsin was traditionally viewed as a high-tax, high-spending state. However, that reputation has become increasingly more nuanced as political priorities have shifted over the past two decades. Here, the focus is on the spending side of the ledger. State and local government expenditures are viewed together; with half of the state general fund going to aid local units, examining them separately can be misleading.

Tax Burden Off Previous Highs

First, though, a few words on taxes are in order. Beginning in the early 1960s, federal figures showed that Wisconsin's reputation as a high-tax state was deserved. In 1996, taxes claimed 12.8% of personal income, fourth-highest in the nation.

Since then, those figures have ratcheted down. When data for 2016 became available in late 2018, the tax percentage had fallen to 10.1% of income, and the rank to 17th. Over the intervening 20 years, Wisconsin's tax burden, which had been 16% above average, fell to just 2% above the U.S. (For more information on Wisconsin taxes, see "Wisconsin Tax Options: A Guide to Fair, Simple, Pro-Growth Reform," a joint report by the Tax Foundation and the Badger Institute.)

Why Spending Never Ranked as High

Despite the decline in state tax rank from fourth to 17th, Badger State expenditures consistently have ranked lower, e.g., 24th in 2016. This difference exists for at least two reasons: First, Wisconsin

has long lagged in the 50-state battle for federal funds; and second, it has chosen to limit its use of some state-local revenue sources. If those reasons are further explored, one finds several factors — political, economic, historical and cultural — at work.

The difference in higher tax rankings and lower spending rankings is better understood with an example. If two states spend similar amounts, but the second receives less federal money, the latter must rely more on its own revenues than on Washington largesse. With fewer federal dollars — and, importantly, relatively less reliance on user charges and sales taxes — the Wisconsin result has been above-average income taxes at the state level and property taxes at the local level. More visible and "memorable" than other revenues, these "big two" taxes explain the state's lingering but somewhat outdated reputation for high taxes overall.

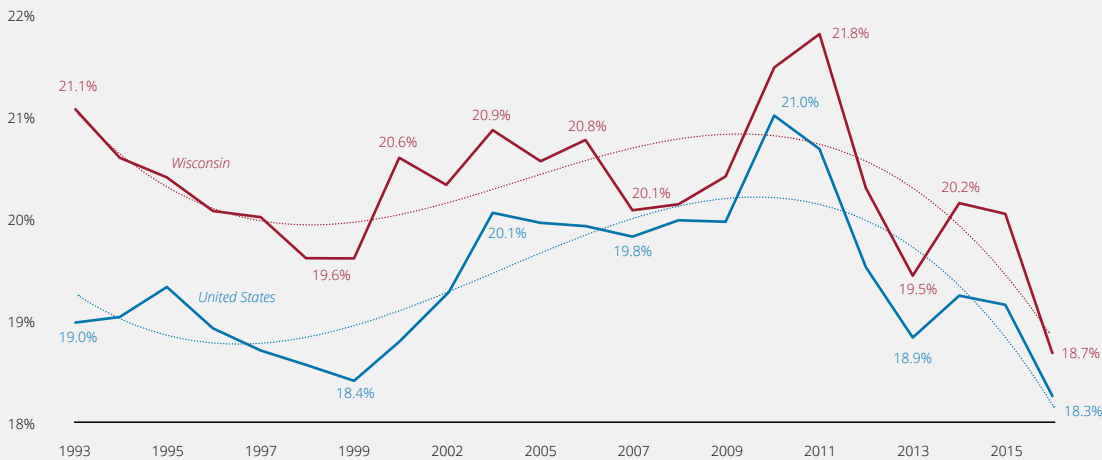
Unless state policy-makers and leaders want to rejigger the revenue mix — and they have shown little inclination to do so since the early 1980s — those seeking long-term income or property tax relief have to focus on state and local expenditures. It is to those figures, as released in December 2018 by the U.S. Census Bureau, that we now turn.

Two Decades of State-Local Spending

In Total

In 1996, the Badger State devoted 20.1% of its personal income to state-local spending ("direct general expenditures" per the U.S. Census Bureau). That was 19th-highest among the states; recall that

Figure 1: State-Local Spending as Percent Personal Income: United States vs. Wisconsin



taxes that year ranked fourth. Since the average state-local expenditure level nationally was just under 19% of income, Wisconsin spent roughly 6% more than the nation as a whole.

Fast forward to 2016. Wisconsin expenditures claimed 18.7% of income, good for a rank of 24th. With spending across the 50 states down to 18.3%, Badger State spending was about 2.3% higher than the U.S. average. State-local spending income for the 1993-2016 period, both for the U.S. and Wisconsin, are shown in Figure 1.

Income percentages were down for both, but the gap between the two narrowed before and especially after the 2007-'09 recession. It is important to remember that these percentages can fall due to either spending restraint or income growth. The ideal, of course, is to enjoy faster growth in personal income than in expenditures, for that means governments can spend more in dollars while making a smaller claim on income.

Top Priority: Education

In 2016, as two decades earlier, Wisconsin and most states devoted the largest shares of income to two

areas: education and public welfare. Spending in these two areas and others are detailed in Table 1 (income percentages are rounded for simplicity, but the “% +/- U.S.” comparisons are calculated before rounding).

State and local levels combined, Wisconsin devoted almost 6.6% of personal income to education in 2016, 20th-highest among the states. As with figures for total spending, these amounts were lower than in 1996, both for the state (7.7%, ninth) and nation (6.4%). While Wisconsin spent about 9% more than the national average in 2016, the difference was even greater 20 years before (over 21%).

K-12 education: The bulk of educational spending goes to elementary and secondary education. In 2016, the income percentages approached 4.1% here and topped 3.9% nationally, a difference of 3% in Wisconsin's favor. The state's edge was 19% in 1996, when it spent 5.3% of income (seventh-highest) compared to 4.5% for the U.S.

In interpreting these statistics, an analysis done several years ago by the Wisconsin Taxpayers Alliance is relevant. Using federal education statistics, nonpartisan WISTAX researchers found

Table 1: State-Local Spending as Percent Personal Income with Ranks (U.S. Census Bureau 12.18)

Category	U.S.			Wisconsin						
	1996	2016	'96-'16 Pt.	1996			2016			
	Pct.	Pct.		Pct.	Rk	% +/- US	Pct.	Rk	% +/- US	'96-'16 Pt.
Total DGE*	19.0	18.3	-0.7	20.1	19	6.0	18.7	24	2.3	-1.4
<i>Education</i>	6.4	6.0	-0.3	7.7	9	21.2	6.6	20	9.1	-1.1
K-12	4.5	3.9	-0.5	5.3	7	19.3	4.1	24	3.1	-1.3
Higher Ed.	1.6	1.8	0.2	2.1	16	32.7	2.3	18	28.5	0.2
Pub. Welfare**	3.1	4.0	0.9	3.3	17	7.5	4.5	25	13.1	1.2
Highways	1.3	1.1	-0.2	1.6	19	27.1	1.3	20	19.3	-0.3
<i>Public Protection</i>										
Police	0.7	0.7	0.0	0.7	13	4.2	0.7	18	0.0	-0.1
Fire	0.3	0.3	0.0	0.3	13	10.7	0.3	29	-13.3	-0.1
Corrections	0.6	0.5	-0.1	0.5	21	-10.0	0.6	10	18.8	0.0
<i>Memo</i>										
Fin. Admin.	0.4	0.3	-0.1	0.3	42	-19.4	0.2	46	-25.9	-0.1
Interest on Debt	0.9	0.7	-0.3	0.9	25	-3.2	0.6	21	-9.2	-0.3

Note: *Direct general expenditures; **Includes Medical Assistance or Medicaid; +Boxed items only categories with no pt. decline

that most of the spending gap between the state and nation before 2010 was due to Wisconsin spending 50% to 60% per pupil more on fringe benefits than nationally. With the enactment of Act 10 in Wisconsin changing public-sector bargaining and benefits, that percentage has declined to less than 10%. In other words, the spending difference had been largely due to employee benefits.

Higher education: Universities, community colleges and technical colleges account for most of the remaining expenditures on education. In 2016, Wisconsin spent 2.3% of income (18th-highest) on higher education, 28% more than the U.S. (1.8%). In 1996, both in Wisconsin and elsewhere, smaller shares of income went to higher education (2.1%, 16th-highest, here vs. 1.6% nationally), although the Badger State edge over the U.S. was slightly higher (over 32%).

Because the U.S. Census Bureau does not distinguish between expenditures on two- and four-year

institutions, the percentages cited above are somewhat misleading. Statistics compiled some years earlier by the College Board reveal that Wisconsin ranked near the top on spending for two-year colleges. This means, of course, that if expenditures for four-year and graduate institutions could be broken out, Wisconsin would rank lower than 18th on public funding for comprehensive four-year and doctoral campuses.

Top Priority: Public Welfare — and the “Grab” for Share

Public welfare is a broad census category that importantly is dominated by medical assistance or health care for low-income and disabled individuals. Medicaid’s budget demands have increased significantly in most states recently. Wisconsin is no exception; medical assistance as a share of state general funding doubled after 2009.

Federal data reflect this trend. Nationally, the U.S. devoted an average of 3.1% of income to “welfare” in 1996 and almost 4% in 2016. The jump was even greater in the Badger State: 3.3% in 1996 and close to 4.5% 20 years later. The state’s spending rank fell from 17th to 25th only because medical assistance growth was even greater in other states. That said, Wisconsin’s welfare spending was 7% above the U.S. in 1996 and 13% above by 2016. The state’s share of income spent on welfare climbed 35%, compared with over 28% nationwide.

Putting funding trends in elementary/secondary education and public welfare side by side reveals an important dynamic: The former is under financial pressure from the latter. In 1996, K-12 education accounted for over a quarter (26.4%) of all state-local expenditures, and welfare for about 10 points less (16.5%). By 2016, those spending shares nearly reversed, as welfare rose to 24% of income and K-12 slid to 21.7%. The U.S. has experienced a similar shift, but it is more pronounced in Wisconsin.

Other Leading Programs

In almost all other major expenditure categories, spending relative to income dropped between 1996 and 2016. The few exceptions, notably welfare, are “boxed” in the table.

Highways: Eroding commitment to budgets in this area has captured headlines here and in other states. In 1996, Wisconsin devoted 1.6% of personal income (19th-highest) to highways; that fell to 1.3% (20th) by 2016. National averages also fell, albeit somewhat less: from almost 1.3% in 1996 to 1.1% in 2016. While the Badger State spent 27% more than the U.S. 20 years ago, that edge fell to 19% in 2016.

Public protection: This is one category where commitments at the state and local levels are easily distinguishable. Both police and fire protection are usually local responsibilities, while corrections tends to

be more of a state function. Police spending both here and elsewhere accounted for 0.7% of income in 2016; the percentages were only fractions higher in 1996. Wisconsin ranked 13th 20 years ago vs. 18th in 2016.

Analysis of fire protection is more elusive. In Wisconsin and some other sparsely populated states, volunteer fire departments play an important role, particularly in rural areas. Thus, the share of income devoted to fire services in 2016 was under 0.3% here vs. 0.3% nationally; percentages did not vary greatly from 20 years ago. However, the state’s rank fell from 13th to 29th.

Corrections: The growth in Wisconsin’s corrections expenditures was most pronounced in the 1990s during the “tough-on-crime” era but has moderated somewhat since. Nevertheless, trends at the state and national levels have diverged. Nationally, the percentage of income spent on incarceration was 0.6% in 1996, falling to under 0.5% by 2016. Here, percentages rose slightly from 0.54% to 0.57% of income.

While Wisconsin spent 10% less than the U.S. norm in 1996, it spent nearly 19% more than the U.S. average two decades later. Not surprisingly, over that period, the state’s spending rank climbed from 21st to 10th. As a share of income, corrections does not approach education, public welfare or highways, but it is the only major category examined where Wisconsin cracked the top 10 states.

With recent reports suggesting that the Badger State’s need for prison beds will rise in the years to come, corrections is another area that will put pressure on state finances, competing for funds with more popular human service and transportation programs.

Miscellaneous

The final spending figures displayed at the bottom of the preceding table are for information only. They show that Wisconsin is not a state with excessive

administrative (“financial administration”) or debt service expenses (“interest on debt”). The state ranked 46th on the former and 21st on the latter.

Takeaway

As Wisconsin’s position in the pecking order of state tax burdens has eroded, so has its rank on state-local spending. As seen, however, Badger State spending has always ranked below taxes.

Elementary/secondary education and public welfare are two leading expenditure categories. However, the former is losing expenditure share to the latter, as Medicaid, which dominates welfare spending, rises inexorably. Medicaid and corrections costs have, and will continue to have, impact on other more universally popular programs.

About the author



Todd A. Berry, Ph.D., served from 1993 through 2017 as president of the Wisconsin Taxpayers Alliance, a nonpartisan research organization. Earlier, he held positions in state and local government, as well as in business. In 2018, he was named a fellow of the Wisconsin Academy of Sciences, Arts & Letters in recognition of his contributions to public policy research and civic education.



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