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## Rep. Kooyenga's Statement: Addressing Structural Deficit Concerns

Madison – Today, Representative Kooyenga (R-Brookfield) released the following analysis concerning Wisconsin's financial situation:

The concern about the structural deficit has been the primary opposition to the Governor's Blue Print for Prosperity. The following summarizes why the structural deficit is, at times, an inaccurate measurement of financial solvency. In addition, the Governor's plan is more financially responsible than what is being portrayed by his opponents. Finally, I will explain how responsible tax cuts are in the best interest of our state's financial solvency.

- Opponents of the Governor's plan argue that the structural deficit should be lower in order to make the state more fiscally solvent. However, the structural deficit is not necessarily a good measure of financial solvency. In fact, **a transfer of money to the rainy day fund increases the structural deficit!** Even if every single penny of the \$976 million surplus is placed in the rainy day fund, the structural deficit would still increase. You and I know that more money in the rainy day fund means Wisconsin is more solvent than insolvent. The argument that the Governor's plan is increasing the structural deficit, which is in part due to putting money into the rainy day fund, would be like arguing that you would be financially irresponsible for transferring money from your checking to your savings account.
- **\$440 million of Governor Walker's \$976 million plan is going towards strengthening the financial health of Wisconsin's State Government.** \$117 million will be deposited into the rainy day fund. Additionally, \$323 million will facilitate adjusting the withholding income tax tables. Adjusting the withholding tables means less of your money is subject to an interest free loan to the state. Your loan to the state represents a state liability, very similar to a debt, and adjusting the withholding tables means Wisconsin is paying off \$323 million in debt.
- The previous point notes that \$440 million will make Wisconsin more financially solvent. **Now that Wisconsin is in a solvent position, we need to ensure that our states' seniors, labor force, families and businesses are solvent. The \$536 million in tax cuts will assist Wisconsin taxpayers in meeting their own financial obligations.**
- **This is the third time that the Legislature is discussing tax cuts in Wisconsin in less than a year. Every time a tax cut is announced and therefore the previous projected deficit becomes a surplus, the same structural deficit chorus criticizes the plan.** In February 2013, the Governor introduced the biannual budget. This budget received criticism for having a modest structural deficit. In May 2013, revised tax revenue numbers eliminated the structural deficit. Immediately, the Legislature introduced another round of tax cuts and reforms and once

again, dissenters said we should not cut taxes because of structural deficits. The additional tax cuts were adopted in the budget despite the objections. In October 2013, Governor Walker advocated for another \$100 million in property tax cuts. For the third time, dissenters raised concerns over structural deficits. In January 2014, the state announced that a projected structural deficit was now a structural surplus. Governor Walker announced another tax cut. **Despite the detractors being incorrect on their previous three structural deficit warnings, the same group now warns tax cuts are irresponsible because of a projected structural deficit.**

- The table below, provided by the non-partisan Legislative Fiscal Bureau, summarizes the history of the structural deficit. Adopting the latest round of tax cuts will result in approximately an \$800 million structural deficit, which is significantly lower than any previous budget since 1997, with the exception of the Republican's last budget in which we adjourned with a structural surplus. As of today, the state has an \$809 million structural surplus. There is a critical difference between former Governor Doyle's budgetary structural deficits. Those budgets were on average at least twice the current structural deficit. The Democrats' structural deficits were the result of additional spending, while the current structural deficit is due to pro-growth tax cuts.

**TABLE 6**  
**General Fund Amounts Necessary for a Balanced Budget\***

|  | <u>1<sup>st</sup> Year</u> | <u>2<sup>nd</sup> Year</u> | <u>Total</u> |
|--|----------------------------|----------------------------|--------------|
| For the 2015-17 Biennium   |                            |                            |              |
| January 2014 Special Session Bills                               | \$402                      | \$405                      | \$807        |
| LFB 1/16/14 Estimates with Transfer to Budget Stabilization Fund | -668                       | -141                       | -809         |
| LFB 1/16/14 Estimates  | -1,111                     | -141                       | -1,252       |
| Thru 2013 Act 117 (prior to 1/16/14 estimates)                   | 325                        | 383                        | 708          |
| 2013 Act 20  | 231                        | 314                        | 545          |
| Legislature  | 239                        | 317                        | 556          |
| Joint Finance  | 202                        | 303                        | 505          |
| Governor   | 336                        | 348                        | 684          |
| For the 2013-15 Biennium   | -140                       | -6                         | -146         |
| For the 2011-13 Biennium   | 1,232                      | 1,279                      | 2,511        |
| 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        |

\*Except for 2013-15 and the 1/16/14 estimate, all figures indicate amounts necessary to produce a balanced budget. A surplus of \$146 million is shown for 2013-15. A surplus of \$1,252 or \$809 is shown for the 1/16/14 estimates.

- A recent survey by George Mason University rated the financial solvency of states' budgets. **Of the ten most solvent states, five of the states do not have an income tax** and the remaining five states have generally low tax burdens. The top ten most insolvent states all have an income tax and are generally high tax states. In conclusion, lowering taxes leads to economic growth and economic growth leads to financial solvency for the state's government and its citizens. Wisconsin's greatest obstacle is our reputation for being a high tax state. The evidence shows that states with low taxes, or no income taxes, are more likely to be solvent. Wisconsin is becoming more like the solvent states by adopting Governor Walker's Blue Print for Prosperity.

