



THE WISCONSIN TAXPAYER

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Big Changes Happen Slowly

Census Figures Highlight Changing Tax Burden, State-Local Relationship

Total state-local taxes in Wisconsin claimed 10.8% of income in 2014, the lowest percentage since 1962, but 16th highest among the 50 states. The Badger State ranked 21st on total spending. About two-thirds of public sector spending here is either for education, public welfare or roads. During 1993-2014, public welfare spending increased 224%, almost double the rate of all other programs.

In some ways, government is a lot like a glacier. Whether it is growing or shrinking, change can often be so slow as to go unnoticed.

That is why federal Census Bureau figures detailing state-local taxes and expenditures are useful. Although their release lags two years, they enable useful comparisons annually across states and over time within a single state.

A particularly meaningful, even surprising, statistic emerges from the 2014 figures released in the past month or two: Wisconsin's state and local taxes claimed 10.8% of personal income, the lowest percentage since 1962.

Also buried in these data that span almost 60 years are answers to other important questions: How does Wisconsin's spending compare with other states? Are our priorities the same as elsewhere? And how have they evolved in recent decades?

It is even possible to tap federal data to explore how Wisconsin's 150-plus year preference for delivering public services at the local level has evolved. But first, we explore the latest figures on Wisconsin's state-local taxing and spending.

A 2014 SNAPSHOT

Wisconsin state and local governments collected \$47.2 billion in revenue during fiscal 2014. Of that,

\$9.6 billion was federal aid, leaving \$37.6 billion from state-local taxes and fees.

General expenditures (\$49.4 billion) were slightly higher since some spending can be funded with borrowing or by drawing down surpluses.

These Census Bureau figures include revenues and expenditures for the state and the variety of local governments, including counties, municipalities, and all public schools. They do not include figures

Also in this issue:

Wisconsin Population Growth Lags
• School District Consolidation • Antigo Not Splitting • Tax Collections Higher Than Expected

Table 1: State-Local Revenues Compared
Selected Revenues as % of Personal Income and Per Capita, 2014

	U.S.		Wisconsin			U.S.		Wisconsin		
	% Inc.	\$ Millions	% Inc.	+/- U.S.	Rk.	P.C.	P.C.	+/- U.S.	Rk.	
Gen. Revenue	19.6%	\$47,195	19.2%	-1.9%	28	\$8,781	\$8,244	-6.1%	29	
Federal	4.3	9,608	3.9	-8.5	36	1,917	1,678	-12.5	38	
Own Source	15.3	37,588	15.3	0.0	21	6,863	6,566	-4.3	25	
Taxes	10.6	26,398	10.8	1.5	16	4,746	4,611	-2.8	19	
Property	3.3	9,544	3.9	17.3	11	1,485	1,667	12.3	14	
Ind. Income	2.4	6,793	2.8	14.2	12	1,086	1,187	9.3	14	
Gen. Sales	2.5	4,980	2.0	-17.8	34	1,105	870	-21.3	33	
Sel. Sales *	1.2	2,831	1.2	-4.6	30	542	495	-8.7	26	
Corp. Income	0.4	981	0.4	3.1	15	174	171	-1.3	16	
Fees	3.2	7,580	3.1	-4.2	29	1,445	1,324	-8.4	27	
Taxes and Fees	13.8	33,978	13.8	0.2	22	6,191	5,935	-4.1	24	

*Includes taxes on motor fuel, alcohol, and tobacco, among others.

for state and local pensions, public utilities, or workers compensation.

Because state populations vary, comparing tax and spending totals can lead to misleading conclusions. For example, with about two and one half times more residents, Illinois governments generate more revenue and spend more money than Wisconsin.

But that does not necessarily mean that Illinois' tax or spending burden exceeds Wisconsin's. To avoid confusion related to population, public financial data are usually recalculated on a share-of-income or per capita basis. Personal income measures broad economic activity; it includes wages and salaries, employee benefits, retirement income, among others.

Total Revenues, Taxes Compared

Combined, all federal, state, and local revenues going to Wisconsin governments claimed 19.2% of state personal income in 2014 (see Table 1, first row), down marginally from 19.3% in 2013. On this, the Badger State ranked 28th among the states in both years.

In Iowa (21.5% of income, ranked 14th), Minnesota (20.4%, 22nd), and Michigan (20.2%, 23rd), government revenues claimed a greater share of income than in Wisconsin. In Illinois (18.7%), they claimed less. Nationally, total state-local revenues were 19.6% of income.

Per capita, government revenues here totalled \$8,244, or 6.1% less than the U.S. average (\$8,781) and 29th highest among the states (right side of Table 1). Because Wisconsin's personal income per capita

is below the U.S. average, state ranks relative to income are often higher than corresponding ranks per capita.

Taxes. Wisconsin typically receives less federal aid than most states. In 2014, it collected 12.5% less per capita than the 50-state average (see Table). Thus, to fund "average" spending, Wisconsin needs to collect more in taxes and fees than other states.

Concerned about equity, state officials historically preferred taxes to fees. As a result, taxes are relied on here more than elsewhere, and the state's tax burden historically has been above average. That said, Wisconsin's tax burden has declined in recent years and is now nearer the U.S. average than at any time in at least 50 years.

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In 2014, state-local taxes claimed 10.8% of personal income, down from 10.9% in 2013 and 11.8% in 2011. Nationally, the state-local tax burden averaged 10.6% of income. Wisconsin ranked 16th among the states in 2014.

Three taxes—the property tax, individual income tax, and general sales tax—account for more than 80% of the tax total. The property tax (\$9.5 billion), mostly a local tax, is by far the largest revenue source for Wisconsin governments. It claimed 3.9% of personal income in 2014, and ranked 11th highest nationally.

The individual income tax (\$6.8 billion) is the second largest tax here, although it is state government's largest revenue source. It claimed 2.8% of income and ranked 12th highest of the 50 states.

The state's 5% sales tax and its optional half-cent county counterpart combined to generate \$5.0 billion in 2014, or 2.0% of personal income. Nationally, state-local sales taxes averaged 2.5% of income. Wisconsin ranked 34th on general sales tax collections.

Other taxes of interest include:

- Corporate income: 0.4% of income and 15th highest among the states;
- Gas: 0.4% of income and 10th;

■ Tobacco: 0.3% and fifth; and

■ Alcohol: less than 0.1% of income and 37th.

Fees and Charges. In addition to taxes, state and local governments impose user fees and other charges to pay for services. State campground fees, tuition for public colleges or universities, and charges for local building permits are examples. Depending on whether they are reported relative to income or to population, fees and charges here were 4.2% to 8.4% below the U.S. average and ranked in the bottom half of states.

Taxes differ from fees because their payment is required regardless of whether any public services are consumed. Fees are remitted only when services are used (e.g., camping at a state park) or specific actions taken (e.g., starting a business). Some researchers combine taxes and fees to measure the overall “cost” of government.

In 2014, state-local taxes and fees combined claimed 13.8% of personal income, the same as the 50-state average. Wisconsin ranked 22nd on this measure.

Spending Totals, Priorities Compared

Wisconsin's \$49.4 billion in state-local expenditures was 20.1% of state personal income in 2014,

Table 2: State-Local Expenditures Compared
Selected Spending Categories as % of Personal Income and Per Capita, 2014

	U.S.	Wisconsin				U.S.	Wisconsin		
	% Inc.	\$ Millions	% Inc.	+/- U.S.	Rk.	P.C.	P.C.	+/- U.S.	Rk.
Dir. Gen. Expenditure	19.2%	\$49,403	20.1%	4.6%	21	\$8,618	\$8,629	0.1%	22
Education	6.4	17,463	7.1	10.7	16	2,879	3,050	6.0	15
Higher Ed.	1.9	6,124	2.5	30.5	14	856	1,070	24.9	12
K-12	4.2	10,601	4.3	3.7	21	1,866	1,852	-0.8	21
Public Welfare	3.9	11,346	4.6	19.9	15	1,727	1,982	14.7	12
Highways	1.2	4,132	1.7	46.1	10	516	722	39.8	10
Police Protection	0.7	1,757	0.7	-1.2	20	325	307	-5.4	22
Health	0.6	1,607	0.7	2.7	20	286	281	-1.7	19
Hospitals	1.2	1,598	0.7	-44.7	36	527	279	-47.1	36
Corrections	0.5	1,508	0.6	15.6	11	238	263	10.7	11
Sewers	0.4	944	0.4	5.3	15	164	165	0.7	18
Natural Res.	0.2	788	0.3	63.0	17	88	138	56.0	15
Fire Protection	0.3	675	0.3	-12.3	29	141	118	-16.0	25
Judicial/legal	0.3	628	0.3	-18.2	33	140	110	-21.8	35
Parks/Rec.	0.3	610	0.2	-6.5	26	119	106	-10.6	23
Solid Waste	0.2	371	0.2	-8.0	27	74	65	-12.0	29
Housing/Comm. Dev.	0.4	338	0.1	-61.1	49	159	59	-62.8	49

or 4.6% more than the national average (see Table 2, page 3). Wisconsin spent \$8,629 per person, very similar to the national norm (\$8,618). The Badger State ranked 21st and 22nd, respectively, on these two spending measures.

In 2014, state-local taxes in Wisconsin claimed 10.8% of total state personal income. The Badger State ranked 16th among the states on this measure.

Two-thirds of state-local spending in Wisconsin is for education, public welfare, and roads. In only four states do these three areas comprise a greater share of public spending: Arkansas, Kentucky, Vermont, and West Virginia.

Education. Both here and in other states, education (K-12 and higher education combined) is the largest state-local expenditure. At \$17.5 billion, it was 35% of 2014 state-local spending here. Its share of personal income was 7.1%, nearly 11% higher than the U.S. average and 16th highest among the states (Table 2, page 3).

Of the neighboring states, education claimed a greater share of income in Iowa (7.8%) and Michigan (7.4%). In Minnesota (6.4%) and Illinois (6.2%), less was spent on education.

About three of five education dollars was spent by K-12 schools (\$10.6 billion). K-12 spending claimed 4.3% of income, 21st highest of the 50 states. Spending on higher education (\$6.1 billion), which includes the U.W. System and state technical colleges, equalled 2.5% of income, 14th highest.

Public Welfare. Public welfare spending is primarily Medicaid (health care for the poor and disabled), but also includes temporary assistance for needy families (TANF), old age assistance, and other programs based on need. Welfare-related spending totalled \$11.3 billion in Wisconsin, or 4.6% of personal income, versus 3.9% nationally. This placed the Badger State 15th among the states. Of our neighbors, only Minnesota (5.2%, 10th) ranked higher.

Roads and Highways. Wisconsin also devotes significantly more resources to roads than the average state. Two main factors play a role. The first is climate: Cold-weather states tend to spend more due largely to snow and ice damage. The second fac-

tor is the scope of the system: Wisconsin has more paved road miles per capita than all but five states: Mississippi, Montana, North Dakota, South Dakota, and Wyoming.

In 2014, road and highway spending (\$4.1 billion) accounted for 1.7% of personal income, which was 10th highest of the states. Nationally, road and highway spending claimed 1.2% of income.

With the exception of Michigan (47th), Wisconsin's neighbors all placed in the top half of states on road and highway spending. Iowa (8th), Wisconsin (10th), and Minnesota (13th) were all in the top 15.

Table 2 details other expenditure categories. Relative to income, Wisconsin spent significantly more than the average state on natural resources and corrections. Spending was significantly below average on hospitals, fire protection, the justice system, and housing and community development.

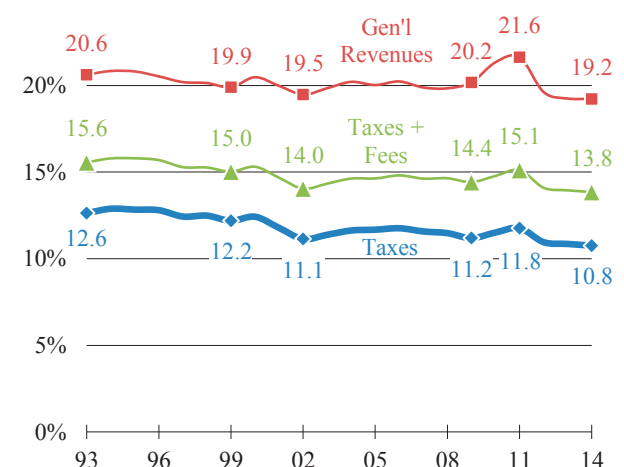
TAX AND SPENDING TRENDS

So far, Census figures reported here have provided a snapshot of state-local finances in 2014. However, the Census Bureau began collecting the figures in the 1950s, so they can show how state-local finances have changed over the past five, 10, or even 20 years.

Revenue Declines as Share of Income

As a share of personal income, Wisconsin state-local taxes were lower in 2014 than in 1993. In fact, 2014's tax take was the lowest since 1962, the year Wisconsin established its state sales tax. Since taxes are state-local government's primary revenue source, their decline relative to income has also reduced Wisconsin's "tax plus fee" burden and total revenues as a

Figure 1: State-Local Rev's Fall as Share of Income
Selected Revenues as % of Personal Income, 1993-2014



share of income. Since 1993, all three measures have fluctuated in similar patterns (see Figure 1, page 4).

1993-2002. During 1993-2002, taxes as a share of income declined from 12.6% to 11.1%. Compared to other states, Wisconsin's rank dropped from third to sixth. The broader measures of taxes-plus-fees and total revenues also moved down.

Part of the decline in the 1990s was the result of strong income growth: Wisconsin's economy, like the nation's, was booming. When income grows faster than tax collections, the tax burden falls. Income tax indexing (adjusting brackets for inflation) and rate reductions in the late 1990s and early 2000s also helped reduce Wisconsin's tax burden.

2002-11. Over the ensuing seven years, taxes as a share of income climbed from 11.1% in 2002 to 11.8% in 2006. Then, property tax levy limits imposed on counties and municipalities beginning that year helped reduce the tax burden to 11.2% by 2009.

With state collections dampened by recession, state lawmakers raised both individual and corporate income taxes in 2009. They also added a \$400 million "hospital tax" to capture additional federal Medicaid funds. Those tax increases, combined with a recovering economy in 2010 and 2011, drove collections to 11.8% of income in 2011.

Total general revenues increased more than taxes alone during 2009-11. During that period, the state used federal stimulus funds to help maintain its spending, especially on Medicaid and schools. Federal assistance climbed from \$7.4 billion in 2008 to \$11.0 billion in 2011.

2011-14. During the following three years, state income taxes were reduced, and state property tax limits on municipalities, counties, and schools were tightened. With income continuing to rebound, taxes declined from 11.8% of income in 2011 to 10.8% in 2014.

Spending Patterns Shift

With some minor differences, total state-local expenditures tracked the pattern of general revenues shown in Figure 1. Direct general expenditures:

- claimed 21.1% of income in 1993;
- declined to 20.3% by 2002;
- increased through 2006 and then fell back to 20.4% of income in 2009;
- reached 21.8% of income in 2011; and

- dropped to 20.1% of total personal income in 2014.

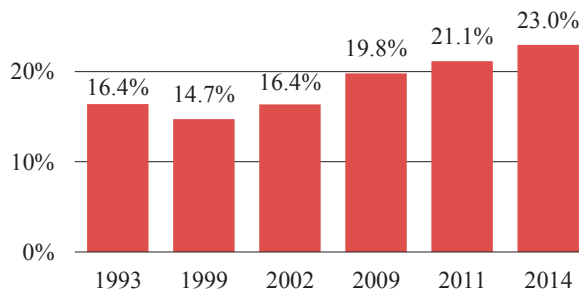
During these years, Wisconsin's spending rank was as high as 14th (1993) and as low as 27th (2007 and 2008).

How Wisconsin's priorities shifted as tax and revenue burdens changed is particularly revealing. Rising public welfare costs drove much of the changing spending patterns.

Public Welfare. Driven largely by increased Medicaid spending, public welfare expenditures increased 224% during 1993-2014, from \$3.5 billion to \$11.3 billion. By comparison, all other state-local spending rose 113%. In 1993, public welfare spending accounted for 16.4% of total state-local expenditures; it reached 23.0% by 2014.

Most of the large spending increases occurred after 1999. During 1993-99, public welfare spending declined as a share of total spending, from 16.4% to 14.7% (see Figure 2), but returned to 16.4% of the total in 2002. By 2011, public welfare was claiming more than 21% of state-local spending, and it continued to grow after 2011, reaching 23.0% by 2014.

Figure 2: Welfare Spending Growing Rapidly
Shares of Total State-Local Spending, 1993-2014



The impact of rising welfare costs on other public programs can be estimated by comparing current spending with a hypothetical had the welfare share remained unchanged. If public welfare spending comprised 14.7% of 2014 expenditures, state local governments would have spent \$7.3 billion on these programs in 2014, rather than the \$11.3 billion actually spent. The \$4.0 billion of "additional" spending "crowded out" spending in other areas.

Education. Despite rising Medicaid costs, education remains Wisconsin's largest government expenditure. During 1999-2014, total spending on

**During
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expenditures
increased**

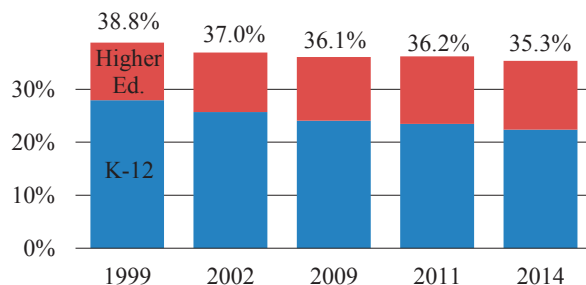
education increased faster than inflation (60.3% vs. 42.1%), but nevertheless declined as a share of total spending, from 38.8% in 1999 to 37.0% in 2002, to 36.2% in 2011, and to 35.3% in 2014 (see Figure 3).

The pattern of road/highway spending has shifted. In 1999, 61% of state-local expenditures on roads and highways were at the local level; in 2014, 54% of such spending was local.

There was also a shift within the education sector. In 1999, spending on K-12 schools accounted for 72% of total education spending (blue section of bar in Figure 3), with higher education (U.W. System and Wisconsin Technical College System) claiming the remaining 28% (red section). By 2009, the split between K-12 and higher education roughly 2/3-1/3. During 2009-14, these shares continued to shift: In 2014, 63% of education spending was for K-12 and 37% was for higher education.

Some of the shift was due to changing policy; however, most can be explained by changing student numbers. During 1999-2014, the number of full-time equivalent (FTE) K-12 students declined about 1%, from 868,000 to 857,000. The number of FTE students in public higher education increased almost 20%, from 189,000 to 225,000.

Figure 3: Education's Spending Shares Declining
Education Exp. as % of Total State-Local Exp., 1999-2014



Roads and Highways. Rising welfare costs affected road and highway spending less than education. State highway spending and state road aid to local governments are usually funded from the separate transportation fund, not the general fund.

Instead, spending in this area was impacted by: (1) state raids on the transportation fund to balance the general fund; (2) stagnant gas tax revenues; (3) stagnant or declining state road aids; and (4) limits on local revenues (levy limits).

In 1999, state-local road and highway spending was for 8.5% of all spending. By 2011, its share declined to 7.8%. These declines shifted after 2011; by 2014, road and highway spending rebounded to 1999 levels, 8.4% of the total.

While overall road spending changed as a share of total spending, a bigger shift occurred in the mix of state versus local spending. What is largely unknown is that local governments in Wisconsin spend more on roads than the state spends on highways. In 1999, 61% of road and highway spending in Wisconsin was local, 39% was on state highways.

Over the ensuing 15 years, those percentages shifted. During 1999-2014, state highway spending increased 104%, while local spending rose at about half that rate (54%). As a result, by 2014, local road spending had declined to 54% of all road/highway spending, with the state share rising from 39% to 46%.

Other Spending. As spending on public welfare, education, and roads and highways comprise two-thirds of state-local expenditures, much of the shifting occurred in these areas. However, there were relatively large shifts in at least two smaller spending categories.

■ **Interest on Debt.** Declining interest rates make borrowing less costly. State and local borrowing rates can vary, but generally follow federal bond rates. In 1999, long-term treasuries were yielding over 7%; in 2014, yields had fallen to just over 3%, reducing the cost of borrowing.

During 1999-2014, total state-local debt increased 83%, from \$17 billion to \$31 billion. The state portion rose 150%, while local borrowing was up 58%. Despite increased borrowing, interest on state-local debt rose 33%, or less than inflation (42%). These payments declined from 4.6% of public sector spending in 1999 to 3.5% in 2014.

■ **Parks and Recreation.** This category is comprised largely of local spending (over 95% of the total). Expenditures increased just 24% over the 15 years studied, with all of the growth occurring during 1999-2002. Since then, spending has dropped 7%.

After local levy limits were imposed in 2006, municipalities and counties prioritized their core services. During 2006-16, municipal and county spending increased 11.8%. Expenditures for police (+24.0%), fire protection (+21.7%), and local roads (+13.9%) grew more, leaving less money for other services, such as parks and recreation, which fell 1.4%.

A LITTLE LESS UNIQUE?

Wisconsin has a long history of local control, so it is not surprising that local governments spend most of the public dollars here. In 2014, it was one of 28 states where the majority of state-local spending was by local governments.

Until 1963 and the new state sales tax, local governments generated the majority of government revenue here. However, since 1980, local taxes and fees have comprised about 40% of the state-local total. By 1999, Wisconsin was one of 27 states where state government generated a majority of state-local revenues but local governments did a majority of the spending.

What made Wisconsin's situation somewhat unique was the magnitude of the gap between how much revenue state government generated and how much it spent on its own programs. In 1999, state government collected 63% of state-local revenue, but accounted for only 37% of all spending. The difference between those two percentages—26 points—was second largest nationally behind Michigan.

Much of state spending was not on state programs but on aid to local governments. Of the state's \$19.3 billion of revenue that year, it sent \$7.6 billion, or 40%, to local governments.

A Shift to the State

Since then, the state-local relationship has evolved. Rising Medicaid participation and costs have driven state spending. Tight property tax limits on local governments slowed local spending.

By 2014, nearly 48% of all state-local spending was done at the state level, up from 37% in 1999. The state-local revenue mix continued to be about 60%-40%. In other words, what was once a 25-point gap between the state's respective shares of revenue and expenditures was now less than 14 points. Wisconsin's rank had dropped from second to ninth and its state-local gap had become more similar to its neighbors': Iowa (9.7 points), Illinois (11.3), Michigan (15.8), and Minnesota (18.5).

With the state spending more on its programs, a smaller share went to aid local governments. In 2014, the state sent \$10.7 billion, or 33%, of its \$32.4 billion in revenue to local governments. That percentage was much smaller than the 40% it sent in 1999.

The Local Conundrum

While Wisconsin is somewhat unusual in how it collects and spends tax dollars, it is also fairly unique

in how it funds local governments. In Wisconsin, the property tax is the primary local tax. In 2014, it accounted for almost two-thirds of tax and fee revenue generated locally. In only six states—Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, and Rhode Island—did the property tax account for such a large portion of locally-sourced revenues.

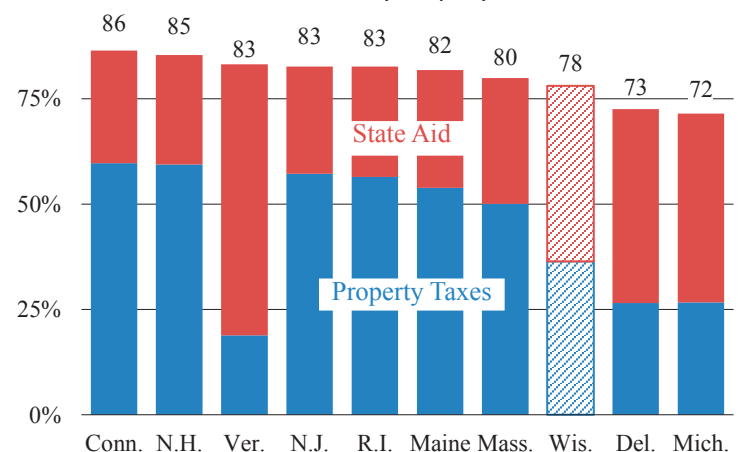
However, as mentioned above, a significant portion of state tax dollars was used to aid local governments. While the property tax accounted for 65% of locally-generated revenues, it accounted for just 36% of all revenues, including state assistance. State aid to local governments (including schools) represented 42% of total local revenues in 2014.

Combined, property taxes and state aid comprised 78.1% of local revenues in Wisconsin (see Figure 4), eighth highest nationally. States with higher percentages were all Middle Atlantic or New England states.

With state-imposed levy limits on local governments, Wisconsin lawmakers now have unprecedented control over local revenues: They determine both local aid amounts and allowable property tax levy increases. Local governments can exceed the property tax caps only if voters approve by referendum.

Moreover, state law provides local governments with few revenue options outside of the property tax. Counties can impose a 0.5% sales tax and municipalities can impose a room tax. Both have the option to create a "wheel tax" to pay for local transportation spending. Other than the county sales tax, these other options generally do not generate large sums. □

Figure 4: Local Gov'ts Rely Heavily on Property Tax, State Aid
% of Local Revenues Generated by Property Tax and State Aid, 2014





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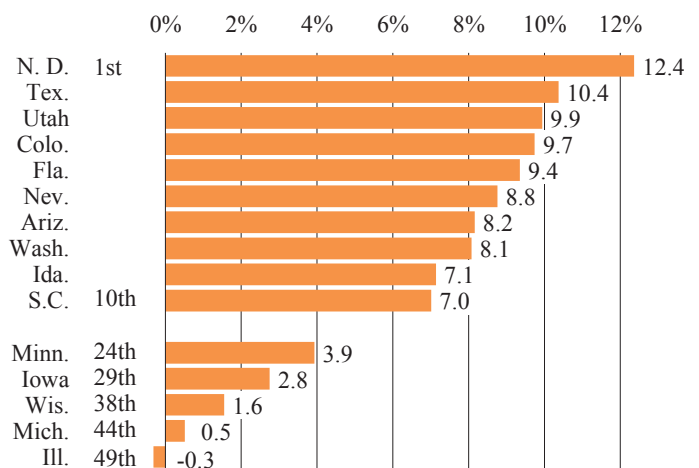
■ **Wisconsin Population Growth Lags.** Wisconsin's estimated population increased 0.2% from 5,767,891 in 2015 to 5,778,708 in 2016, according to new figures from the U.S. Census Bureau. The percentage increase was 34th largest of the states. Of Wisconsin's neighbors, population gains were larger in Minnesota (0.7%) and Iowa (0.4%), and the same in Michigan (0.2%). Illinois' population declined 0.3%, the third consecutive annual drop.

Since 2010, the number of Badger State residents has risen just 1.6% (see chart). Population growth was faster in Minnesota and Iowa, but slower in Michigan and Illinois. With the exception of Florida and South Carolina, the 10 fastest growing states are west of the Mississippi River.

■ **School District Consolidation.** Wisconsin has two fewer school districts in 2016-17 than in 2015-16. Three K-8 districts in southeastern Dodge County—Hermann, Neosho, and Rubicon—consolidated beginning July 1, 2016. The new Hermann-Neosho-Rubicon School District will continue to feed into Hartland Union High School.

■ **Antigo Not Splitting?** In January, the Antigo school board voted 8-1 to deny creation of a new school district serving the Village of Mattoon and surrounding areas. Following the closing of an Antigo grade school in the village, residents petitioned to create a 220-student district. The proposed district would have educated students in kindergarten through sixth grade in Mattoon, while 7th-to-12th graders would have been educated in Antigo or another district through a whole grade sharing agreement. Whole grade sharing was created in the 2015-17 state budget to help rural districts reduce costs.

Wisconsin Population Growing Slowly
Pop. Growth by State, 10 Fastest, Wis., and Neighbors, 2010-16
2014



■ **Tax Collections Higher Than Expected?** Following reports of relatively strong tax collections in December, the state's Legislative Fiscal Bureau (LFB) said it expects collections for the full fiscal year to be \$63.4 million higher than Department of Revenue estimates released last November. LFB also expects Medicaid spending to be \$138 million less than expected.

With more revenues and less spending, the state's ending balance is now projected to be \$427.2 million, up from November's estimate of \$104.8 million. At 2.7% of net general fund spending, the projected 2017 ending balance will be the third highest since 2000. Balances were 5.3% of spending in 2013 and 3.5% in 2014. The balance of the state's "rainy day" fund is \$281 million, bringing total reserves to \$708 million, or 4.4% of spending. □