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**GOVERNMENT RETIREE HEALTH
BENEFITS:
WISCONSIN'S TICKING TIME BOMB**

By Christian Schneider
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EXECUTIVE SUMMARY

In recent months, local governments across Southeastern Wisconsin have found themselves the subject of criticism on several fronts for the improper use of taxpayer money. An investigative series by the Milwaukee Journal Sentinel concluded Milwaukee Public Schools (MPS) wasted over \$100 million on the Neighborhood Schools Initiative, which intended to build new classrooms in hopes of luring inner city school children to stay close to home for school. A Milwaukee television station uncovered the fact that Milwaukee County was handing out millions of dollars in flood relief money to residents that had no flood damage. In 2003, Milwaukee County famously ousted their county executive after it was found he was directing millions of dollars worth of pension and retirement benefits to his cronies.

Yet despite these very public embarrassments, local governments in Wisconsin face a far greater threat - one that threatens to make these fiscal missteps look like ripples in the pond that will eventually drown their respective budgets.

According to local government annual finance reports, 27 local governments in Wisconsin are saddled with a combined \$6 billion unfunded liability to pay for "Other Postemployment Benefits" (OPEB). Often times, as part of their employment packages, local governments offer to pay health benefits for retired employees. Until now, local governments paid what they owed on a year-to-year basis. But new accounting rules require local governments to divulge the level of their long-term benefit liability. And in some cases, the local government OPEB liabilities are stunning - in some cases, dwarfing the government's total annual budget.

According to our review, the state's largest total unfunded OPEB liabilities are concentrated in Southeast Wisconsin, headed up by MPS at \$2.2 billion. Milwaukee County currently carries a \$1.5 billion OPEB liability, with the City of Milwaukee at \$806.3 million. The next five highest liabilities all hail from the Southeast: The City of Racine (\$314.8 million), Racine County (\$253 million), the Kenosha School District (\$241.6 million), the Waukesha School District (\$195 million), and the Racine Unified School District (\$168 million).

When a government carries a swollen OPEB liability, there are dire future consequences. At some point, the liability either must be paid, or benefits have to be scaled back. (Unlike pension benefits, which cannot be reduced, future health benefits can be altered.) If a local government chooses to pay the liability, the revenue has to come from somewhere - either reduced funding for existing programs, or from tax increases. In a recent case, some school districts lost an estimated \$120 million by buying riskier investments in an attempt to make more money to pay off their OPEB liabilities. And, of course, these benefits are all being given to employees who are no longer active.

The option most local governments have taken up to this point is to underfund their liability. While the new accounting rules require acknowledging the annual required contribution, the rules do not require funding the liability. However, whenever a local

government contributes less than the required annual amount, the liability swells - leaving future taxpayers to pick up the tab.

Furthermore, having a large OPEB liability can affect a local government's credit rating, making it more costly to borrow money. When a local government needs to undergo a new capital building project, carrying a large OPEB liability could possibly increase the cost of issuing bonds to fund the project.

The new accounting rules only apply to governments with budgets of over \$100 million in 2007. All other local governments will phase in the requirement over the next two years, which will give a much clearer picture of how big of a hole Wisconsin local elected officials have dug their taxpayers.

INTRODUCTION

In June of 2008, the Milwaukee Public Schools Board was struggling to put together a budget. Board members complained bitterly about losing state aid, due to falling student enrollment and increased enrollment in the Milwaukee Parental Choice program. The new budget came on the heels of a 9% property tax increase the previous year, and attempted to fund increased costs for special needs students, math instruction, and student health programs.

After piecing together a \$1.2 billion proposal, the Board held a public meeting that lasted over six hours. Among the speakers at the hearing was Abby Plummer, a teacher at Tippecanoe School in Bay View, who complained about having 32 children in her fourth grade class.¹ Plummer's message to the Board was simple:

"Please put the needs of our children first," she said.

Plummer expressed the sentiments of thousands of MPS parents, who expect results from a district proposing to raise their property taxes by 14.9% in 2008. These parents, many of whom are busy working jobs and raising their kids, generally aren't well versed in the intricacies of the MPS budget - yet they don't understand why they continually pay more and more, while pupil test scores in the district drop. With all of this new tax revenue, why isn't the district putting the needs of their children first?

The answer is only now becoming clear. In July of 2004, the Government Accounting Standards Board (GASB) instituted a change in how local governments report their unfunded future health care liabilities. The change, known in accounting parlance as GASB 45, exposed the amount local governments are paying in health care benefits to employees who either no longer work for them or are expected to retire in the near future. While reporting these numbers seems like a small accounting change buried in lengthy financial reports, the lack of long-term planning they uncover is anything but insignificant.

Prior to the GASB 45 reporting requirement, local governments simply paid the retiree health care liability on a year to year basis, known as the "pay-go" method. These

benefits, known as "Other Postemployment Benefits," constituted the governmental district's annual retiree health insurance payout. In many cases, governments only paid the minimum amount necessary to satisfy the obligation for that year - leaving the future unfunded liability to grow. Furthermore, the old approach understated the true amount of the benefits being offered, often masking the fact that local governments were offering benefits they couldn't afford. Yet due to the lack of a reporting requirement, only the government's accountants had an inkling of the true cost of the long-term liability.

Because of GASB 45, the long-term health care liabilities for Wisconsin local governments are now fully disclosed - and in many cases, the amount of the liabilities carried by local governments is immense. For instance, according to an actuarial study of the Milwaukee Public Schools system, the district's 2007 Unfunded Actuarial Liability (UAL) for health care stood at \$2.2 billion - towering over the district's total budget, which stands at \$1.2 billion annually.

GASB 45 also requires governments to calculate the annual required contribution (ARC), which is the amount the government must pay per year in order for their health plan to be considered "fully funded." According to the MPS OPEB study, paying off a liability of \$2.2 billion requires an annual contribution of \$189.9 million - yet in 2007, the MPS board approved funding only \$50.6 million of the required amount, or 26.6% of what they owed.

Naturally, when the government underfunds a long-term liability, the liability grows in the future. If MPS continues to underfund their OPEB liability, the district estimates the liability will increase to \$2.9 billion in 2010, and to nearly \$4.9 billion by 2016.

Accordingly, the district's annual liabilities would increase if the annual payment continues to fall short. Pursuant to MPS actuarial estimates, the district's annual required contribution would jump to \$226 million by 2010, and to \$348 million per year by 2016. This assumes the district increases their actual payment by roughly \$10 million per year, up to \$130.8 million in 2016, at which time the actual contribution is expected to equal 20% of the district's total payroll.

Table 1 reflects the Milwaukee Public Schools system's annual OPEB liability, annual required contribution (ARC), and expected employer contribution (EEC), as well as the percentage of payroll the annual payments are expected to take up:

Table 1

Milwaukee Public Schools Ten-Year GASB Projection

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Actuarial Liability	\$2,222.7	\$2,442.2	\$2,674.5	\$2,922.7	\$3,188.8	\$3,475.0	\$3,784.1	\$4,117.7	\$4,478.2	\$4,867.8
Annual Required Contribution	\$175.5	\$189.9	\$205.3	\$221.6	\$239.2	\$257.9	\$278.0	\$299.8	\$323.0	\$348.0
ARC % of Payroll	35%	36.90%	38.80%	40.80%	42.80%	44.90%	47.10%	49.40%	51.70%	54.20%
Expected Employer Contribution	\$50.6	\$61.0	\$70.0	\$78.6	\$86.9	\$94.6	\$102.9	\$111.5	\$120.5	\$130.8
EEC as % of Payroll	10.10%	11.80%	13.20%	14.40%	15.40%	16.30%	17.20%	18.10%	19%	20%

Source: Actuarial Valuation of the Milwaukee Public Schools performed by Gabriel Roeder Smith, and Company, as of July 1, 2007.

With an enrollment of 87,360 and an annual liability of \$189 million, that leaves each MPS student to pick up \$2,163 worth of health care benefits for retired teachers who don't set foot in a classroom. While the MPS Motto is "High Expectations Start Here," it is clear that those expectations don't extend to sound fiscal management.

With the MPS OPEB liability now known, it begins to explain why parents are seeing higher taxes, but poorer results. A significant portion of their taxes are going to pay health benefits at the expense of direct classroom instruction. And for every dollar they pay a retiree in health benefits, that's one less dollar they can spend on special needs children, math programs, or to reduce the size of Abby Plummer's 4th grade class.

Of course, MPS isn't alone in carrying a significant unfunded OPEB liability. Milwaukee County is currently saddled with a \$1.5 billion OPEB liability, while the City of Milwaukee owes future retirees \$806 million in future health benefits. In each case, local government budgets are pinched to pay for future benefits, and in most cases, the liabilities will balloon as governments contribute only a fraction of the required amount - leaving future taxpayers to foot the bill.

The Wisconsin Policy Research Institute examined the OPEB liabilities of 27 local governments in Wisconsin that were required to report their outstanding benefits for the first time this year. In aggregate, these local governments owe nearly \$6 billion in future retiree health care benefits - a number that was completely unknown to the public before the new reporting requirement. As a result of the change, Wisconsin citizens now know how much they will be asked to contribute in the future in the form of higher taxes.

UNFUNDED HEALTH CARE LIABILITIES IN WISCONSIN

In 1990, the private sector accounting governing board (the Financial Accounting Standards Board, or FASB) recognized that the true cost of post-employment benefits were not being disclosed. They surmised that the full cost of these benefits was much higher than had previously been estimated, and in 1992 began requiring full disclosure of the future liabilities businesses faced. Soon thereafter, businesses began to realize their plans were too costly, and an overhaul of employee benefit programs often followed.

Despite this warning, government accountants did not follow suit and require full postemployment benefit reporting for the nation's 84,000 local governments until 2007. Only now are taxpayers finding out the size of the hole these governments have dug themselves.

For decades, government has provided retirees with health care benefits. Yet the full cost of these benefits are only now coming to light, pursuant to the GASB 45 requirement. According to the new rule, governments with budgets over \$100 million

are required to report their full OPEB liabilities for the 2007 fiscal year, with all other smaller governments being phased in over the next two years.

In Wisconsin, 27 governments fall within the \$100 million total budget threshold for 2007: 11 counties, 6 cities, and 10 school districts. Table 2 lists the local governments required to report, and their total unfunded OPEB liability:²

Table 2: Total 2007 OPEB Liability, Local Governments Over \$100 Million

Local Government	OPEB Liability
Milwaukee County	\$1,500,000,000
City of Milwaukee	\$806,300,000
City of Racine	\$314,800,000
Racine County	\$253,000,000
City of Madison	\$43,300,000
Dane County	\$24,700,000
Rock County	\$19,500,000
Walworth County	\$17,600,000
Winnebago County	\$14,500,000
Marathon County	\$13,670,000
Sheboygan County	\$9,100,000
City of Green Bay	\$7,900,000
Dodge County	\$0
Outagamie County	\$0
Waukesha County	\$0
City of Kenosha	N/A
City of La Crosse	N/A
School District	OPEB Liability
Milwaukee Public Schools	\$2,200,000,000
Kenosha School District	\$241,600,000
Waukesha School District	\$195,000,000
Racine Unified School District	\$168,000,000
Janesville School District	\$40,800,000
Madison Metropolitan School District	\$27,200,000
Sheboygan Area School District	\$24,890,000
Green Bay Area School District	\$20,800,000
Appleton Area School District	\$19,900,000
Total Liability	\$5,962,560,000

Note: The Eau Claire Area School District and City of La Crosse did not have numbers available, as they were awaiting the results of an actuarial study. The City of Kenosha did not respond to numerous e-mail and phone requests for information.

Charts 1 and 2 demonstrate the total OPEB liability for local governments and school districts:

Chart 1

Total 2007 OPEB Liability, Governments Over \$100 million (School Districts Excluded)

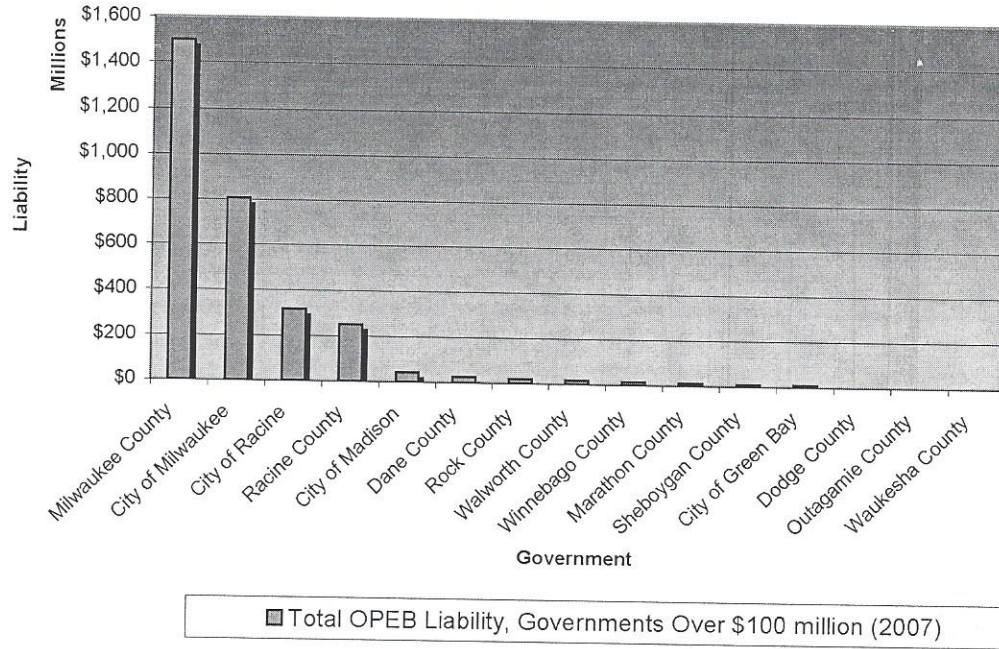
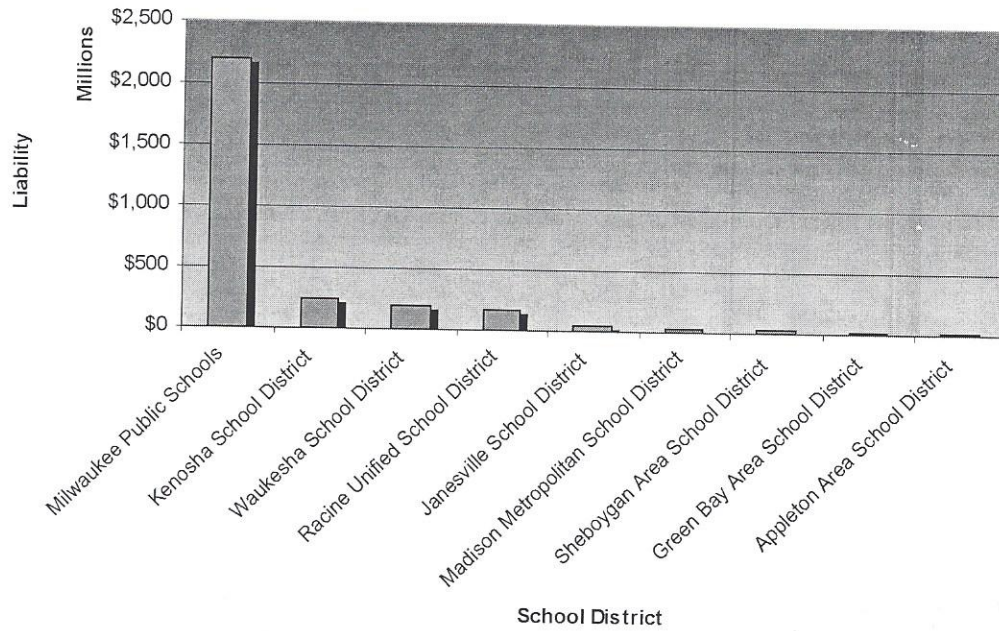


Chart 2

Total 2007 OPEB Liability, School Districts (in Millions)

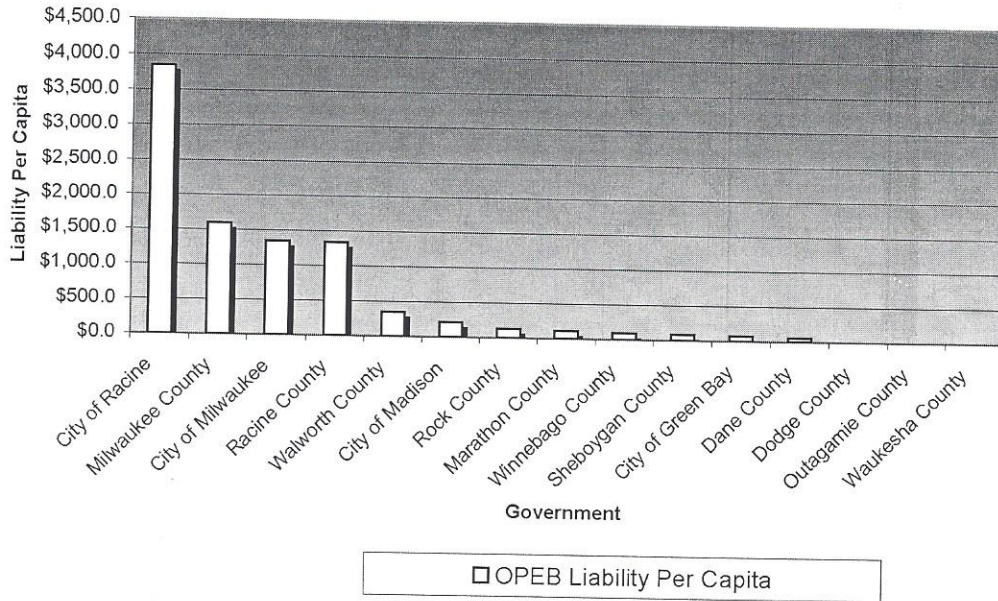


■ Total OPEB Liability, School Districts

Of course, larger governments and school districts are going to have more employees, so they would be expected to carry a larger OPEB liability. Chart 3 demonstrates each local government's OPEB liability on a per capita basis, based on their population:

Chart 3

2007 OPEB Liability Per Capita, Governments over \$100 Million



As can be seen in the chart above, the City of Racine has extremely high retirement health care costs relative to their population, with Milwaukee County, the City of Milwaukee, and Racine County rounding out the next three spots.

Chart 4 demonstrates the same per-capita calculations for school districts, based on pupil enrollment:

Chart 4

2007 School District OPEB Liability Per Capita (Based on Student Headcount)

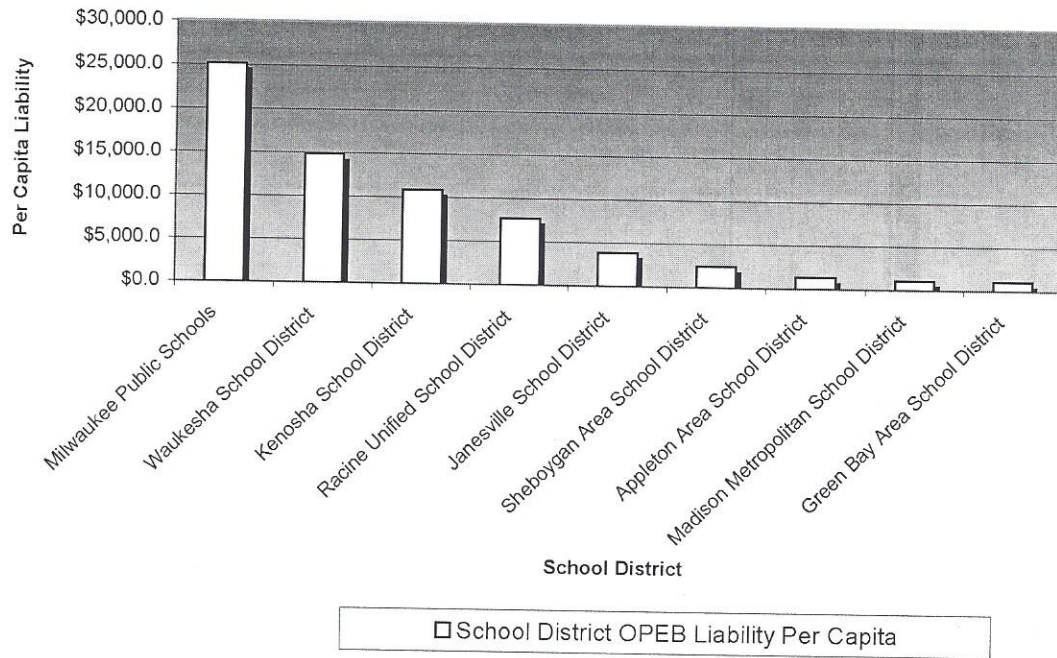


Chart 4 demonstrates the sheer size of the OPEB liability the Milwaukee Public Schools system is carrying. MPS has 62,453 more pupils than the next largest district (Madison Metropolitan), and also has a per capita liability \$8,964 per pupil higher than the next highest district (Waukesha).

Of course, amid these troubling numbers, there are some success stories. Waukesha County, with a population of 361,000, carries a liability of zero, as they do not offer postemployment health benefits to their employees. Smaller counties such as Dodge and Outagamie also carry no long-term OPEB liabilities. Dane County (\$24.7 million) and the Madison Metropolitan School District (\$27.2 million) both carry low OPEB liabilities compared to governments of comparable size. The City of Madison, commonly viewed as the big government gold standard in Wisconsin, actually carries a manageable postemployment liability, at \$43.3 million, or \$208 per capita.

THE FALLOUT

The detrimental effect of OPEB liabilities on local governments and taxpayers are myriad. Recent examples have exposed the pitfalls that governments face when trying to deal with excessive retiree health benefits.

As of August 2008, five school districts (Waukesha, Kenosha, Kimberly, West Allis-West Milwaukee and Whitefish Bay) reportedly have lost \$120 million by investing in risky financial funds known as collateralized debt obligations – which include investments in subprime mortgages and corporate bonds.

When asked to explain why they would risk so much money in questionable investments, the Wisconsin Association of School Board Officials cited the pressure they felt to fund their OPEB obligations.³ With school districts working under tax revenue caps, districts clearly felt they had to increase revenue through investments to fund these looming liabilities – yet the increased promise of greater returns instead brought greater losses.

The five school districts have said they will sue to try to recoup their losses, arguing they were misled as to the risk involved in these investments. Yet none of the districts in question hired a consultant ahead of time to counsel them as to the amount of risk they were accepting.

High OPEB liabilities also can cost local governments in other ways, such as affecting their credit ratings. Credit agencies – independent institutions that rate the credit worthiness of state and local governments – have said they will pay close attention to the manner in which governments address their OPEB liability. In 2007, Wisconsin Policy Research Institute Senior Fellow George Lightbourn described the credit rating trap for local governments with high liabilities:

For example, *Fitch Ratings* considers OPEB a “soft” liability, akin to pensions, in that the determination of the liability is dependent on a number of assumptions. They expect that, once the liability is exposed, governments will take steps to address the problem. “Indefinite deferrals are damaging to credit quality.” Similarly, *Standard and Poors* said that they would treat both pension and OPEB liabilities similar to debt, as a long-term obligation of the government. Failure to adequately address the OPEB liabilities is likely to hit governments in a particularly painful area, in their ability to borrow money. At a minimum, governments that ignore substantial unfunded OPEB liabilities are likely to discover an increased cost of borrowing.⁴

Finally, and most importantly, large OPEB liabilities left unattended will cost taxpayers dearly in the future. In several cases, the total unfunded OPEB liability towers over the amount of taxes a county, municipality, or school district brings in annually.

For instance, the City of Racine currently carries an OPEB liability of \$314 million – yet only collects \$43.5 million in taxes per year. As a result, Racine could spend every cent it collects from taxpayers for seven straight years and not pay off its OPEB liability. Similarly, Milwaukee County’s liability is over five times its annual revenue. While the total OPEB liability is a multi-year figure, looking at the annual local government tax revenues can give a very general look at how much governments owe versus how much they collect.

Table 3 details each local government’s OPEB liability compared to the size of the government’s tax base:

Table 3

	OPEB Liability	Taxes	Liability vs. Taxes
City of Racine	\$314,800,000	\$43,526,200.0	723.2%
Milwaukee County	\$1,500,000,000	\$294,534,000.0	509.3%
Racine County	\$253,000,000	\$53,112,000.0	476.4%
City of Milwaukee	\$806,300,000	\$236,779,000.0	340.5%
Rock County	\$19,500,000	\$51,497,600.0	37.9%
Walworth County	\$17,600,000	\$56,395,400.0	31.2%
City of Madison	\$43,300,000	\$149,748,500.0	28.9%
Winnebago County	\$14,500,000	\$55,672,200.0	26.0%
Marathon County	\$13,670,000	\$55,413,300.0	24.7%
Sheboygan County	\$9,100,000	\$44,007,400.0	20.7%
City of Green Bay	\$7,900,000	\$45,352,100.0	17.4%
Dane County	\$24,700,000	\$146,141,000.0	16.9%
Dodge County	\$0	\$34,489,600.0	0.0%
Outagamie County	\$0	\$49,957,700.0	0.0%
Waukesha County	\$0	\$94,852,500.0	0.0%

Source: Wisconsin Department of Revenue, “County and Municipal Revenues and Expenditures, 2005.”

Table 4 demonstrates the same effect with regard to school districts. Again, the Milwaukee Public School system stands out, as the district’s OPEB liability is ten times their annual tax revenue:

Table 4

School District	OPEB Liability	Taxes	Liability vs. Taxes
Milwaukee Public Schools	\$2,200,000,000	\$205,820,608.0	1068.9%
Kenosha School District	\$241,600,000	\$77,829,247.0	310.4%
Racine Unified School District	\$168,000,000	\$62,982,282.0	266.7%
Waukesha School District	\$195,000,000	\$76,376,982.0	255.3%
Janesville School District	\$40,800,000	\$32,667,682.0	124.9%
Sheboygan Area School District	\$24,890,000	\$34,750,364.0	71.6%
Appleton Area School District	\$19,900,000	\$50,793,269.0	39.2%
Green Bay Area School District	\$20,800,000	\$68,807,000.0	30.2%
Madison Metropolitan School District	\$27,200,000	\$208,109,183.0	13.1%

With liabilities dwarfing annual tax revenue, it isn't a mystery as to how the disparity will be reconciled. Unless local governments begin to eliminate their postemployment benefit packages, taxpayers will be forced to fund them.

RECOMMENDATIONS

In advance of the implementation of GASB 45 in 2007, the WPRI issued a report ("The Mounting Cost of Deferred Responsibility in Government") that made several recommendations on how to deal with ongoing OPEB liabilities.⁵ Now that the magnitude of these unfunded liabilities are becoming known, these recommendations are even more apt:

1. Bring Health Care Benefits Into Line With Available Funding

As noted, pension costs for retirees and OPEB (generally health care) liabilities are different, in that OPEB liabilities can be adjusted even after an employee retires. Private businesses have had to thoroughly review and adjust their postemployment benefit practices once their liabilities became known - and government should be no different.

The first thing local governments should do is review the postemployment benefits they are offering to current employees. Are these benefits necessary to sustain their workforce, or can they be scaled back? As has been shown in this report, several local governments offer their employees no postemployment package. In fact, much of their fiscal health and flexibility could be attributed to the surplus funds they enjoy by not carrying a large OPEB liability. On the other hand, there are local governments (most notably in Southeast Wisconsin) that carry excessive, burdensome liabilities that threaten to debilitate their future budgets. Are these governments necessarily attracting better employees because of their Cadillac retirement plans? Is anyone willing to argue that these costly OPEB liabilities make for more effective local government?

Next, local governments should review the postemployment health benefits they currently pay out to retirees. In most cases, these plans can be altered to relieve the annual burden on governments. Governments can institute more cost sharing for

retirees, increase service requirements, capping benefits, and reducing the years a retiree is eligible. Also, as the previous WPRI report suggests, plans can be converted from defined benefit plans to defined contribution plans - similar to 401(k) plans. Under this method, an employee would be given a certain fixed dollar amount per month, which they can then spend on health-related services upon retirement. As a result, future health care liabilities will be more predictable, as the liabilities will not be subject to mercurial health care cost increases. Thus, it will make budgeting for these OPEB liabilities much easier.

2. Debt Finance the Liability

In 2003, the State of Wisconsin figured its unfunded OPEB liability to be \$600 million. In order to deal with this large liability, the state issued bonds, including an extra \$729 million to pay for its ongoing pension liability. In doing so, the state converted a so-called "soft" liability into a "hard" liability (taxpayer funded debt.)

Some have argued (including this author⁶) that the manner in which the pension and health care obligation bonds were issued may be outside the scope of appropriate use of state bonding authority. Traditionally, state bonding paid for from the general fund and backed by the state's moral authority pledge has been for brick-and-mortar projects and land acquisition. In issuing the bonds, the state sidestepped a state constitutional provision prohibiting general obligation bonds from being used for ongoing budget purposes.

However, issuing these bonds did save the state money in the long-term. These "appropriation bonds," as they are known, allowed the state to forgo the 8% annual increase that it would have had to pay otherwise. Instead, by issuing the debt, the state now only has to pay off the interest on the bonds, which is expected to be well below 8% per year.

Local governments could conceivably use the same arbitrage scheme when considering their long-term OPEB and pension liabilities. In previous years, issuing that much debt would have forced credit rating agencies to look less favorably on their fiscal management. Yet with the advent of GASB 45, large OPEB liabilities are going to be known anyway. And, as noted, some credit rating agencies have expressed plans to view OPEB liabilities as if they were "hard" debts such as bonds.

Certainly, it would be much better for local governments to reduce or alter benefits before converting their liabilities into hard debt. Yet doing both in concert with one another may be able to relieve the burden on future taxpayers.

3. Pay it Forward

When local governments fail to pay the full annual required payment for their OPEB indebtedness, the liability grows in the future. In 2007, the City of Milwaukee's annual required contribution was \$67.6 million, yet they only paid \$29.4 million of that amount.

As noted, Milwaukee Public Schools only paid \$50.6 million of their \$189.9 million annual required contribution or 26.6% of what they owed.

When elected officials decide to short their annual OPEB liabilities, they are making a direct and conscious decision to leave future taxpayers with more debt. Every time they kick the can down the road, it may make their re-election a little easier, but it leaves the bill to future taxpayers. Until fiscal responsibility actually becomes an issue with which taxpayers judge their elected officials, this cycle will likely continue – until taxes soar to finally pay off the liabilities. Right now, local government are essentially engaging in subprime mortgage financing – and the bill is coming due. Surely, it will be the taxpayers that bail them out.

While controlling benefits and creative financing might marginally help local governments that are already swimming in OPEB debt, nothing will help their long-term fiscal situation like *actually paying off the obligation*. Of course, doing so means making tough decisions on what ongoing programs the government wants to fund. Ironically, if these governments were predisposed to that type of fiscal responsibility, they wouldn't be in this predicament in the first place.

The previous WPRI report also recommends local governments put funds in trust to help pay off their OPEB liabilities. Setting up a trust allows districts to set money aside without the threat of elected officials raiding those funds to plug a budget hole.

To their credit, the Kenosha Unified School District (KUSD) has begun implementing several of these strategies all at once. Unfortunately, they only began these ameliorative measures after running up a \$241.6 million OPEB liability. In 2007, KUSD paid \$9.5 million over their actual annual contribution in hopes of beginning to shrink their liability (although with that one-time contribution, they only paid 85.2% of the actuarially determined annual required contribution.)

Additionally, KUSD has set up a trust fund to aid in paying off their liability. Currently, the fund holds \$40.6 million, mostly comprised of bonds issued by the district.⁷

4. Bar Elected Officials From Taking Part

In order to maintain the appearance of a conflict-free system, elected officials should not be allowed to participate the same benefit system which they oversee. Even if their decisions are fiscally sound, their decisions may be seen as self-serving.

¹ Alan Borsuk, "Board Pushes \$1.2 Billion Budget; Critics Decry Continued MPS Cuts," Milwaukee Journal Sentinel, June 4, 2008.

² The OPEB liability was taken from the local government's Comprehensive Annual Financial Report (CAFR) when available, and from direct phone or e-mail contacts with local officials when not available. The number listed refers to the unfunded accrued actuarial liability (UAAL), unless only the accrued actuarial liability (AAL) was made available by the local government.

³ Amy Hetzner and Avrum Lank, "Schools in Risky Business? 5 Districts May Need Taxpayers' Help to Avoid Default in Investment Schemes Sour," Milwaukee Journal Sentinel, April 5, 2008.

⁴ George Lightbourn, "The Mounting Cost of Deferred Responsibility in Government: The Future Impact in Wisconsin," Wisconsin Policy Research Institute, January 2007.

⁵ Ibid.

⁶ Christian Schneider, "The Exploding Use of Debt to Finance Government in Wisconsin," Wisconsin Policy Research Institute, November, 2007. In 2003, Wisconsin issued \$1.3 billion in bonds to pay off the state's unfunded pension and sick leave liabilities. Generally, there had been two types of bonding – general obligation (GO) bonding and revenue bonding. GO bonding is paid for from the state's general fund and is backed by the state's full faith and credit – but the Wisconsin Constitution essentially limits GO bonding to capital projects such as land acquisition and buildings. Revenue bonds are not considered debt of the state, as they do not carry the state's moral obligation – and they are funded by a dedicated revenue source, such as vehicle registration fees (in the case of road building).

Yet the 2003 appropriation bonds mixed the two types of debt in order to circumvent the constitutional prohibition on bonding for ongoing general fund programs. Appropriation bonds are paid for out of the general fund and are backed by the state's full faith and credit, yet they aren't considered GO bonds, due to the constitutional limits.

At the time the appropriation bond plan went to the legislature for examination, the Legislative Fiscal Bureau questioned the appropriateness of this broad expansion of bonding authority. In a memo to the Joint Committee on Finance, they noted that "using general fund revenues to pay off revenue obligation bonds or GPR funding to pay the appropriation bonds authorized under the bill could establish a precedent for the state's debt programs." They further warned that "such borrowing programs that use state general fund revenues to support debt that is not constitutionally limited in its use or amount, could be statutorily expanded to support bonds that could be issued for any state government operating function or expense."

However, the legislature chose not to heed the warning and proceeded to approve the governor's proposal.

⁷ Kenosha Unified School District 2007 Comprehensive Annual Financial Report, Pages 51-52.