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STATE BUDGET STABILIZATION – THE “RAINY-DAY” FUND

Speaking to delegates at the Republican Party state convention on June 1, 2002, Governor Scott McCallum announced plans to call a special session of the legislature to consider amending the Wisconsin Constitution to require a budget stabilization fund that could be used to balance the budget in emergencies or during times of reduced tax collections. He proposed that the “rainy-day” reserve be built from future budget surpluses and that any money accumulated beyond a specified amount be rebated to taxpayers. According to his proposal, the legislature would have to approve any spending from the fund by a two-thirds vote of each house. Although Wisconsin currently has a budget stabilization fund which was enacted by statute, no moneys have been appropriated since it was created in 1986.

In order to take effect, an amendment must be passed in identical wording by two successive sessions of the legislature and then be approved by the voters in a statewide referendum. If passed by the current legislature in time to meet legal deadlines and approved by the next legislature when it convenes in early 2003, the measure could be ratified at the April 2003 election.

STATE CONSTITUTION REQUIRES ANNUAL TAX LEVY TO EQUAL EXPENSES

Although Wisconsin currently operates on a biennial budget, since 1848 the state constitution has required a balanced budget by directing the legislature to levy “an annual tax sufficient to defray the estimated expenses of the state for each year” and pay any deficits existing at the time [Article VIII, Section 5]. This provision has been understood to mean that the budget must appear balanced.

REQUIRED GENERAL FUND BALANCES

Beginning with the 1983-85 biennium, the legislature has mandated that specific balances be maintained in the state’s general fund. Originally, no bill affecting general purpose revenues (GPR) could become law if its effect was to reduce the general fund balance to less than 1% of total GPR appropriations at the close of the fiscal year on June 30. 1995 Wisconsin Act 16 required that the balance include additional GPR reserves to cover increases in compensation and benefits for state employees. 1999 Wisconsin Act 9 increased the required percentage incrementally to 2% of total GPR appropriations and compensation reserves by 2005-06 and thereafter. [Section 20.003 (4), Wis. Stats.]

BUDGET STABILIZATION FUND LEGISLATION

1977: Previous budget stabilization fund. Chapter 418, Laws of 1977, enacted a budget stabilization fund “to finance existing or newly enacted programs which will receive no or partial funding during the 1977-79 biennium or which will require significantly increased funding during the 1979-81 biennium.” The fund was repealed, effective July 29, 1979.

1986: Current budget stabilization fund created. Wisconsin adopted its current budget stabilization fund in response to budget shortfalls resulting from the recession of the early 1980s. 1985 Wisconsin Act 120 created Section 25.60, Wis. Stats., which stated as its purpose:

“Moneys in this fund are reserved to provide state revenue stability during periods of below-normal economic activity when actual state revenues are lower than estimated revenues . . .” (This language was repealed by 2001 Wisconsin Act 16.) Unlike the many other states which created rainy-day funds about the same time, Wisconsin did not require that a percentage of revenues or a stipulated amount be deposited in the fund. Instead, the amount was left to legislative discretion. Thus far, money has not been appropriated for the fund.

Bills to fund the reserve. 1993 Assembly Bill 1290 proposed appropriations to the stabilization fund of \$160 million and \$40 million in the respective fiscal years of the 1993-95 biennium. 1995 AB-730 proposed placing \$70 million in the fund for FY 1996-97 and stated that the money was allocated to provide property tax relief in the 1997-99 fiscal biennium, with a two-thirds vote of the legislators elected to each house required to allow a withdrawal.

1999: Automatic transfers to fund. 1999 Wisconsin Act 9 established a one-time procedure to deposit money into the budget stabilization fund. The Legislative Fiscal Bureau was required to estimate for the Joint Committee on Finance that portion of the general fund budgeted to pay general obligation debt service during the 1999-2001 biennium. Subject to a 14-day passive review by Joint Finance, if the actual amounts needed for debt service were estimated to be less than had been appropriated in Act 9, the amount of the difference was to be transferred from the general fund to the budget stabilization fund. There was no surplus, and no money was transferred to the budget stabilization fund before the law expired.

1999 Assembly Bill 791, which failed to pass, would have repealed the Act 9 provisions and substituted a similar procedure that would have transferred all excess net general fund balances to the budget stabilization fund, instead of just surplus debt service funds.

2001: Revised automatic transfers to fund. 2001 Wisconsin Act 16 directs that if tax revenues exceed projected revenues in any fiscal year, 50% of the surplus is to be automatically transferred to the stabilization fund. However, there will be no transfer if the fund's balance equals or exceeds 5% of estimated GPR for that fiscal year. The extent of the transfer is limited by the statutory requirement to maintain a general fund balance. The Secretary of the Department of Administration calculates the annual difference between general fund tax estimates and taxes actually collected and makes deposits accordingly. The legislature appropriates any withdrawals from the budget stabilization fund, and the governor must include a recommendation on the use of stabilization funds as part of gubernatorial procedures for dealing with a revenue shortfall of 0.5% or more of gross GPR appropriations.

2001 AB-137, which failed to pass, was similar to 1999 AB-791, but would have transferred only 75% of the 1999-2001 net surplus general fund balances to the stabilization fund.

PROPOSED CONSTITUTIONAL AMENDMENTS

Twenty constitutional amendments have been proposed since 1973 to require a state budget stabilization fund or emergency reserves, but all failed to pass on first consideration. The proposals were based on three types of measures: 1) a percentage of total or GPR appropriations or estimated expenses in a fiscal year or biennium; 2) a specified percentage of the total state personal gross income; or 3) limiting state GPR expenditures during a fiscal year to a percentage of estimated revenues. Most included a formula limiting the growth of state expenditures to a fixed or variable percentage of increase based on factors such as inflation and population growth. In most cases a two-thirds vote of the elected membership of each house of the legislature would have been required to spend reserves, and funds accumulated in excess of authorized levels of appropriations or a stabilization fund were to be rebated to taxpayers or otherwise provided as tax relief.