



Budget Briefs

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BUDGET STABILIZATION AND APPROPRIATION LIMITS

The biennial state budget act (2001 Wisconsin Act 16), passed by the legislature and signed by Governor Scott McCallum on August 30, 2001, sets standards for the automatic deposit of money in the state's budget stabilization fund, modifies the law regarding withdrawals from the fund, and limits increases in general purpose revenue appropriations.

BACKGROUND

Revenue Sources. Wisconsin's biennial budget includes five types of revenue. *General purpose revenues* (GPR) consist of general taxes, such as those collected on personal and corporate income and retail sales, and miscellaneous moneys collected by state agencies. These are deposited in the general fund and lose their identity, as distinguished from *program revenues* (PR), such as certain license fees, which are deposited in the general fund but credited to a specific appropriation, and *segregated revenues* (SEG), which are derived from specific sources, such as the gasoline tax, and must be deposited in segregated funds and used for specified purposes. The other types of revenue are *federal revenues* (FED) received from the federal government and *bond revenues* (BR) borrowed through the contracting of public debt.

Requirements for General Fund Balances. Although Wisconsin enacts its budget on a biennial basis, the state constitution requires the legislature to balance the budget by levying a tax annually to cover any existing deficits plus the estimated expenses of the ensuing year. Beyond the constitutional requirement, beginning with the 1983-85 biennium, the legislature specified by statute that no bill affecting GPR could become law if it reduced 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 provided the balance should include additional GPR funding for "compensation reserves" to cover increases in compensation and benefits for state employees.

The 1999 budget act established a schedule for general fund balances that increase the percentage required at the end of the fiscal year, rising to a total of 2% of GPR appropriations and compensation reserves in 2005-06 and thereafter.

STABILIZATION FUND

Creation of Wisconsin's Budget Stabilization Fund. Often called "rainy day funds", budget stabilization accounts consist of moneys set aside to help state governments balance their budgets in hard times. Like many other states, Wisconsin adopted a budget stabilization fund in response to the economic downturn and budget shortfalls experienced in the early 1980s. Unlike many other states, Wisconsin did not require that a percentage of revenues or a stipulated amount to be deposited in the fund. Instead it was left to the discretion of the governor and the legislature to appropriate the money. The fund was created on February 8, 1986, by 1985 Wisconsin Act 120, but the state has never appropriated funds for it.

Faced with declining revenues, budget shortfalls, and the threat of a business recession, Governor McCallum included in his version of the 2001-03 state budget a requirement that prescribed deposits be made to the budget stabilization fund. He stressed that the level of such reserves is one of the key elements used by the national bond markets when determining the state's financial stability and its bond rating for borrowing money. (Three bond rating services

have recently lowered Wisconsin's rating, which could force the state to pay higher interest payments when new bond issues are sold.)

Automatic Transfer of Funds. Act 16 provides for the automatic transfer of funds to the budget stabilization fund. If actual tax revenues exceed projected revenues in any fiscal year, 50% of that surplus is to be transferred to the stabilization fund with two limitations. First, there will be no transfer if the fund's balance equals or exceeds 5% of estimated GPR for that fiscal year. Second, the extent of the transfer is limited by the statutory requirement to maintain a general fund balance. The Secretary of the Department of Administration must annually calculate the difference between general fund tax estimates and taxes actually collected and make deposits accordingly.

Withdrawals from the fund must be made by legislative appropriation. Act 16 repealed the legislative limitation imposed when the fund was created in 1986 that it was to be used to "provide state revenue stability during periods of below-normal economic activity when actual state revenues are lower than estimated state revenues". The new law does, however, require the governor to include a recommendation on withdrawal of funds from the stabilization fund along with required gubernatorial actions for dealing with a revenue shortfall of 0.5% or more of gross GPR appropriations.

LIMITS ON APPROPRIATIONS

Besides creating a mechanism for automatic deposits to the budget stabilization fund, Act 16 also sets limits on year-to-year GPR spending. Beginning with the 2003-05 fiscal biennium, increases in GPR appropriations are tied to the percentage increase in aggregate state personal income, as projected by the Legislative Fiscal Bureau (LFB) in consultation with the Department of Revenue.

By November 20 of each even-numbered year, LFB must submit a projection of aggregate state personal income for the next two calendar years, followed by a report, due on December 1 of the even-numbered year, of the allowable increases in GPR appropriations for the coming biennium. In each fiscal year, the increase in GPR appropriations over the previous year may not exceed state individual income increases estimated for the related calendar year. For example, state personal income estimates for calendar years 2003 and 2004 would determine the percentage increase in GPR appropriations for fiscal year 2003-04 and 2004-05, respectively. The legislature could exceed the GPR spending limit if the proposed appropriation was contained in a bill enacted with the approval of at least two-thirds of the members of each legislative house.

Exceptions to the spending limit are also provided for: 1) principal and interest on public debt and operating notes; 2) payments for statutory moral obligation pledges; 3) payments to the federal government to avoid designation of state bonds as arbitrage bonds; 4) payments for legal expenses and costs of judgments, orders, settlements, and appeals; 5) appropriations for tax relief and credits under Section 20.835 (2), Wisconsin Statutes; 6) transfers to the budget stabilization fund; and 7) appropriations to the Higher Educational Aids Board, the Department of Public Instruction, and the UW Board of Regents.

FOR FURTHER INFORMATION

For copies of statutory Section 13.40 ("Limitation on state appropriations from general purpose revenues") and Section 16.518 ("Transfers to the budget stabilization fund") in 2001 Wisconsin Act 16, contact the Legislative Reference Bureau at (608) 266-0342 or refer to the Internet at <http://www.legis.state.wi.us/2001/data/acts/01Act16.pdf>.