



Legislative Fiscal Bureau

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June 6, 2006

TO: Senator Michael Ellis
Room 118 South, State Capitol

FROM: Bob Lang, Director

SUBJECT: 2005-07 and 2007-09 General Fund Budget

At your request, this memorandum provides information on the condition of the general fund for the 2005-07 and 2007-09 biennia. The 2007-09 portion of the memorandum reflects provisions of the 2005-07 budget and funding commitments contained in current law. The Governor has now acted on all enrolled bills which have been passed by the Legislature in this legislative session. In total, 487 bills have been enacted into law. Table 1 displays the estimated 2005-07 general fund condition statement through 2005 Act 487. The figures shown throughout this memorandum are in millions.

TABLE 1

2005-07 General Fund Condition Statement

	<u>2005-06</u>	<u>2006-07</u>
Revenues		
Opening Balance, July 1	\$4	\$11
Estimated Taxes	11,950	12,560
Departmental Revenues		
Tribal Gaming Revenues	118	86
Other	<u>686</u>	<u>506</u>
Total Available	\$12,758	\$13,163
Appropriations, Transfers and Reserves		
Gross Appropriations	\$12,634	\$13,218
Compensation Reserves	90	178
Transfer to Medical Assistance Trust Fund	342	25
Less Lapses	<u>-319</u>	<u>-269</u>
Net Appropriations	\$12,747	\$13,152
Balances		
Gross Balance	\$11	\$11
Less Required Statutory Balance	<u>-65</u>	<u>-65</u>
Net Balance, June 30	-\$54	-\$54

As shown in Table 1, the gross balance at the end of the 2005-07 biennium is estimated to be \$11 million. 2005 Act 25 sets the required statutory balance at \$65 million in each year of the 2005-07 biennium. Thus, the net balance at the end of the biennium would be -\$54 million.

Structural Balance

The structure of the budget is typically referred to as the relationship between revenues and appropriations in a given fiscal year. For example, if revenues raised in a fiscal year exceed appropriations, the budget is deemed to be in structural balance. Imbalance occurs when appropriations exceed revenues for a fiscal period.

In analyzing the structure of the state's budget, attention usually focuses on the second year of the biennium. This is because the next biennial budget is based upon the second year, or "base year" of the previous biennium. Table 2 focuses only on the 2006-07 fiscal year.

TABLE 2

2006-07 General Fund Condition Statement

Opening Balance	\$11
Revenues (Taxes and Departmental Revenues)	<u>13,152</u>
Total Available	\$13,163
Net Appropriations	\$13,152
Gross Balance	\$11

Table 3 addresses the structure of the general fund budget. To do so, only the revenues, net appropriations, and the difference between the two is shown. Thus, Table 3 ignores the opening balance and focuses only on the revenues and net appropriations for the 12 months of the fiscal year.

TABLE 3

2006-07 Fiscal Year

Revenues	\$13,152
Net Appropriations	<u>13,152</u>
Difference	\$0

Table 3 indicates that revenues and net appropriations are identical. Thus, the structure of the general fund shows a balance of \$0. The \$0 becomes \$11 million when the \$11 million opening balance is considered. However, Table 3 focuses only on the revenues and net appropriations of the 12-month period (July, 2006, through June, 2007).

2007-09 General Fund Commitments

Table 4 shows estimated 2007-09 general fund commitments. This table reflects estimated increases or decreases of various items for each year of the 2007-09 biennium as a change to base year (2006-07) revenues and net appropriations.

TABLE 4

2007-09 General Fund Commitments

	<u>2007-08</u>	<u>2008-09</u>
Revenues (Taxes and Departmental Revenues)		
2006-07 Base Revenues	\$13,152	\$13,152
Modifications to Base		
Loss of transfers from:		
Transportation Fund	-\$89	-\$89
Petroleum inspection fund	-20	-20
Public benefits fund	-17	-17
Recycling fund	-11	-11
Environmental management account	-1	-1
WHEDA	-2	-2
Financial Institution transfer	-25	-25
One-time property sales	-36	-36
Ho-Chunk payment for 2003-05	-30	-30
Program revenue lapses in 2006-07	-6	-6
Estate tax (2001 Act 16 and 2003 Act 258)	0	-97
Single sales phase-in (2003 Act 37)	-20	-29
Manufacturer's sales tax credit (2003 Act 99)	-3	-5
IRC Update (2001 Act 109)	-5	-12
Deduction for health insurance premiums	-6	-12
Social security exclusion	-46	-100
HIRSP assessment credit	-10	-5
Sales tax exemption for farm personal property (Act 366)	-6	-6
Tax credit for research (Act 452)	-3	-3
Broadband tax exemption (Act 479)	-3	-3
Airport development zones	<u>-1</u>	<u>-1</u>
Subtotal -- Modifications	-\$340	-\$510
Total	\$12,812	\$12,642
 Net Appropriations		
2006-07 Adjusted Base	\$13,152	\$13,152
Modifications to Base		
Delay computer aid payment	\$65	\$65
School levy credit payment increase	124	124
Student financial aid	3	6
Courts, Legislature lapse	5	5
Debt service on general obligation bonds	35	64
Debt service on STH rehabilitation bonds	13	13
TANF Funding	5	5
WTCS lapse	1	1
Across-the-board reductions	10	10
Appropriation obligation bonds	4	6
1.5% WRS lapse	10	10
SAGE funding	12	12
Enterprise zones (Act 361)	10	14
Film incentives (Act 483)	<u>0</u>	<u>1</u>
Subtotal -- Modifications	\$297	\$336
Total	\$13,449	\$13,488

Table 5 places the figures from Table 4 into condition statement format for the 2007-09 biennium. It is important to note that the amounts shown in Tables 4 and 5 represent current law commitments. Also, the figures in Table 5 are displayed for the purpose of examining base revenues and appropriations, adjusted for 2007-09 commitments. The table does not reflect any potential revenue growth or other appropriation changes.

TABLE 5

2007-09 General Fund Condition Statement

	<u>2007-08</u>	<u>2008-09</u>
Opening Balance	\$11	\$65
Revenues	<u>12,812</u>	<u>12,642</u>
Total Available	\$12,823	\$12,707
Net Appropriations	\$13,449	\$13,488
Required Statutory Balance*	<u>65</u>	<u>65</u>
Total	\$13,514	\$13,553
Amount Needed	\$691	\$846

*For 2007-08 and 2008-09, 2005 Act 25 sets the required statutory balance at \$65 million.

Table 5 shows that, for 2007-08, the general fund would need to generate \$691 million in order to meet current commitments, maintain the required statutory balance, and balance the budget for that year. In 2008-09, \$846 million (\$155 million over the \$691 million in 2007-08) would need to be realized. These amounts could be generated by revenue increases (growth or tax increases), appropriation reductions, or some combination of the two.

Over the past several biennia, this office has prepared information that estimates the general fund amount necessary in each year of the ensuing biennium to produce a balanced budget. Similar to the exercise in this memorandum, the amounts were calculated by comparing base year revenue and expenditure amounts, adjusted for fiscal commitments that had been made that will affect the next biennium.

The following table lists the estimated general fund amounts necessary to produce a balanced budget for 2007-09 and the five preceding biennia. The figures for the 1997-99 through 2005-07 biennia were typically prepared at the conclusion of each legislative session. The figures for 2007-09 reflect the 2005-07 budget recommendations of the Governor, Joint Committee on Finance,

Assembly, Senate/Legislature, the budget as partially vetoed (2005 Act 25), and projections through 2005 Act 487 (all bills enacted in the 2005 legislative session).

TABLE 6

General Fund Amounts Necessary for a Balanced Budget

	<u>In Millions</u>	
	<u>1st Year</u>	<u>2nd Year</u>
For the 2007-09 Biennium (thru 2005 Act 487)	\$691	\$846
For the 2007-09 Biennium (2005 Act 25)	582	779
For the 2007-09 Biennium (Senate/Legislature)	389	567
For the 2007-09 Biennium (Assembly)	370	552
For the 2007-09 Biennium (Joint Finance)	352	524
For the 2007-09 Biennium (Governor)	555	707
For the 2005-07 Biennium	701	845
For the 2003-05 Biennium	1,340	1,527
For the 2001-03 Biennium	693	1,026
For the 1999-01 Biennium	589	914
For the 1997-99 Biennium	624	908

If you have questions regarding this memorandum, please feel free to contact me.

BL/sas