



Legislative Fiscal Bureau

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October 23, 2002

TO: Representative Steve Wieckert
Room 16 West, State Capitol

FROM: Bob Lang, Director

SUBJECT: 2003-05 General Fund Budget

On August 13, 2002, I prepared a memorandum for the Legislature that discussed the condition of the state's general fund for the 2003-05 biennium. The memorandum compared ongoing revenues, appropriations and commitments for each year of the next biennium and determined that, after consideration of the required statutory balance, \$2.8 billion would be needed in 2003-05 to produce a balanced budget (\$1.3 billion in 2003-04 and \$1.5 billion in 2004-05).

The \$2.8 billion figure is based upon current commitments, caseloads and population estimates. No assumptions were made about growth in these areas or for such items as state employee compensation. In addition, no assumption was made about growth in general fund taxes.

You asked for information regarding the percentage of reduction in general purpose revenue (GPR) appropriations that would be necessary if the entire \$2.8 billion were to be realized by across-the-board cuts.

In addressing your inquiry, recognition should be given to revenue growth that the state might realize in each year of the next biennium. Any growth in revenue collections would offset the amounts needed from appropriations reductions.

Base revenues for 2002-03 are approximately \$11,000 million. Thus, each 1% growth in revenues would produce an increase of \$110 million over the previous year's collections. For the 2003-05 biennium, an increase of 1% in 2003-04 and an additional 1% in 2004-05 would result in additional collections of \$331 million over 2002-03. Under this example, revenues would be \$11,110 million in 2003-04 and \$11,221 million in 2004-05; an increase for the biennium of \$331 million over the \$11,000 million base year amount in 2002-03 doubled.

Net general fund appropriations in the August 13 memorandum total approximately \$12,000 million in 2003-04 and \$12,215 million in 2004-05. These amounts include approximately \$410 million in 2003-04 and \$440 million in 2004-05 for principal and interest payments on general fund supported borrowing. Because these amounts must be paid, they should be removed from any consideration regarding across-the-board reductions.

The following chart displays the across-the-board percentage reductions that would be necessary at various levels of revenue growth. For example, the chart indicates that if general fund revenues grew by 3% per year, the across-the-board reduction in all general purpose revenue appropriations (except debt service) would need to be 8.6% in 2003-04 and 7.2% in 2004-05.

	<u>Across-the-Board Percentage Reductions</u>	
	<u>2003-04</u>	<u>2004-05</u>
If No Revenue Growth	11.4%	12.7%
If Annual Revenue Growth of 1%	10.4%	10.9%
If Annual Revenue Growth of 3%	8.6%	7.2%
If Annual Revenue Growth of 5%	6.7%	3.3%

Two points should be noted about the figures in the chart. First, the percentage reductions shown in each year are reductions from 2002-03 net appropriations, adjusted for commitments currently in place for each year of the 2003-05 biennium. Second, in this exercise the only appropriations not subject to the across-the-board reduction are those for debt service. If other appropriations would not be subject to the reductions, the percentages shown on the chart would increase.

BL/sas