



The
Hamilton Consulting Group

Legislative, Regulatory & Information Services

The Wisconsin State Budget

2005-2007 Budget Overview

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INTRODUCTION

Development of the 2005-07 biennial budget is ongoing. Over the past several months, state agencies have been putting together their two-year funding requests, which were due Sept. 15, 2004 for review and consideration by the Administration. In addition to the September budget requests, agencies are under budget instructions to submit recommendations by November 15th for cutting 10 percent of their GPR-supported administrative operations budget. Agency requests approved by the governor will ultimately be included in the biennial budget bill that will be advanced to the Legislature in January of 2005.

Following is a broad overview of the 2003-05 biennial budget and an assessment of fiscal considerations and challenges going into the 2005-07 biennium. (*Note: The biennial budget runs from July 1 of one odd-numbered calendar year to June 30 of the next odd numbered calendar. In terms of fiscal years, the current fiscal year (FY05) and the 2003-05 biennial budget, ends June 30, 2005. For the 2005-07 biennial budget, FY06 is July 1, 2005 - June 30, 2006, and FY07 is July 1, 2006 - June 30, 2007.*)

2003-05 Biennial Budget

The last biennial budget was considered one of the most difficult two-year balancing acts in history. Faced with a \$3.2 billion budget deficit, and a shared commitment by Governor Doyle and the Republican controlled Legislature to not raise general fund taxes, both sides managed to find ways to meet their constitutional responsibility to adopt a balanced two-year spending plan.

In general, the budget was balanced through a combination of increased reliance on borrowing, reductions in state agency budgets, aggressive revenue growth projections, and substantial transfers and lapses of revenue from selected programs and agencies to supplement the general fund.

By the numbers -- the 2003-05 budget totaled \$52.15 billion (all funds) compared to a total of \$48.87 billion in 2001-03. General purpose revenue (GPR) accounted for \$22.9 billion or 43.9 percent of the total budget compared to \$23.45 billion or 48 percent of the total budget in 2001-03. Federal funding accounted for \$12.5 billion or 24 percent of the total budget, which represented an increase of nearly \$1.5 billion in federal funding compared to the 2001-03 budget.



In biennial terms, the 2003-05 GPR budget was reduced by \$554 million compared to the previous budget. However, the GPR savings were front loaded into the first year of the biennium, which is material considering that cost-to-continue funding in the 2005-07 budget is built off of the second year appropriations (base year doubled) from the 2003-05 budget. The GPR budget of \$11.94 billion in FY05 (the base year) is nearly \$1 billion higher than the FY04 GPR budget of \$10.96 billion. Going forward, this base year GPR budget of \$11.94 billion, compared to estimated general fund tax collections of \$11.35 billion the same fiscal year (Act 33 collection estimate), will continue to constrain any new GPR spending in the next biennium. It also demonstrates that, while one-time “fixes” have utility in balancing a GPR deficit through a tough two-year budget period, the underlying imbalance between GPR spending and GPR revenues has not yet been fully addressed. The governor’s budget instruction to state agencies reinforces the point by calling for a zero increase in GPR spending.

Below is a partial summary of how the 2003-05 budget was balanced.

Bonding: State general obligation and revenue bonding totaled \$3.57 billion or 6.8 percent of the 2003-05 biennial budget. The level of borrowing increased by \$1.55 billion over the \$2.02 billion total bonding in the 2001-03 budget. The figure includes unprecedented bonding for the transportation program, which was used, in part, to backfill \$675 million transferred from the Transportation Fund to supplement the general fund and specific GPR supported programs (i.e., shared revenue and school aids).

State Agency Cuts: According to the Administration, a total of \$1.5 billion was cut from state agency budgets in 2003-05. With regard to overall spending (all funds) the budget increased by \$3.28 billion. The overall GPR budget was reduced by a net \$554 million compared to 2001-03, with more than 100 percent of the savings in the first year as discussed above. Current law calls for an additional \$100 million in GPR savings to be cut from agency operation budgets in the upcoming 2005-07 budget.

Aggressive Revenue Growth Projections: The general fund tax collections used in adopting the 2003-05 budget (Act 33) were \$10.74 billion in FY04 and \$11.35 billion in FY05, which represents a 5.3 percent increase in FY04 (\$543 million) and a 5.6 percent increase in FY05 (\$604 million) over the previous year. At the time, the revenue growth projections were considered, by some, to be optimistic. In fact, after only six months into the two-year cycle, the Legislative Fiscal Bureau (LFB) prepared a revised estimate [[See Feb. 10, 2004 Fiscal Bureau Memo](#)] that projected general fund tax collections would be \$222 million short of budget projection. (\$72 million short in 04 and \$150 million short in 05).

More recently, based on Department of Revenue preliminary data on actual collections in FY04, general fund tax collections for the fiscal year are reported at \$10.74 billion, which is a 5.3 percent increase over FY03 collections and right on with the original Act 33 projection. While collecting \$69 million more in FY04 than previously estimated by LFB in early 2004 is positive budget news, and bodes well for realizing original projection for collections in FY 2005, the actual collections simply meet original budget projections for the first year of the current biennium. No new GPR in revenue growth, over and above Act 33 projections, has been realized to date nor should be expected in the second year.

Transfers and Lapses: The 2003-05 budget contained a number of transfers from various Segregated and Program Revenue fund sources and lapses of funds from various agencies to shore up the GPR budget. Lapses are amounts of GPR appropriations not expected to be fully expended, which are then reverted to the general fund at the close of each fiscal year. According to LFB re-estimates in January of 2004, Act 33 contains general fund lapses of \$453 million.

With respect to transfers, the most notable transfer involved shifting \$675 million from the Transportation Fund directly to the general fund (\$175 million) and supplement GPR spending for Shared Revenue (\$400 million) and School Aids (\$100 million). All of these transfers are one-time in nature with the exception of the transfer to School Aids, which was vetoed in as an ongoing transfer.



2005-07 Biennial Budget

Looking ahead to the 2005-07 biennial budget, there are a number of factors that indicate this budget cycle will be as difficult to balance as the last one.

1. As discussed above, the last budget was precariously balanced with substantial borrowing and one-time transfers, which leaves gaps to fill in base GPR funding in 2005-07.
2. The condition of the state's general fund remains tenuous. In a [July 28, 2004 LFB memo](#) to Senator Michael Ellis, the LFB analyzed GPR commitments made in the last and previous budgets, which affect the 2005-07 budget. Their analysis indicates that an additional \$701 million GPR would need to be generated in FY06 and another \$845 million over that in FY07 in order to meet current commitments, maintain the required statutory balance and balance the budget for that year. While this structural deficit underscores the scarcity of GPR to meet new budget demands, it should also be noted that it compares favorably to the last budget. Structural deficit amounts for the 2003-05 biennium were pegged at \$1.34 billion in FY04 and \$1.53 billion in FY05.
3. Even before the Governor and the Legislature address the 2005-07 budget, there is a \$220 million deficit in the current fiscal year Medical Assistance (MA) budget that will have to be resolved early in 2005 to avoid shutting the program down before the end of the current fiscal year.
4. The MA budget has been and will continue to be one of the primary drivers of GPR demand in the budget. Last session base spending in the MA program, necessary to maintain current law benefits and eligibility, was originally estimated to increase by \$823 million in state GPR and matching federal funds over the biennium. Based on DHFS September 15, 2004 budget request, providing base funding for the MA program will be even more challenging this session. The department estimates that an additional \$644 million GPR will be needed over the current base to meet MA program demands in 2005-07. Plus \$16 million GPR and \$48 million GPR to cover base funding in the BadgerCare and SeniorCare programs respectively. In total, factoring proposed savings initiatives and other GPR budget items, the department is requesting \$658 million in new GPR for the biennium. (Note: GPR funding requests for MA, BadgerCare and SeniorCare base funding were exempted from the Governor's general budget directive to hold GPR request to zero).
5. The operating assumption is that neither the governor nor the current Legislative leadership has modified their previously stated position against raising general fund taxes to balance the budget. Consequently, previous commitments included in the structural deficit, along with new GPR pressures in the MA budget, and all other GPR spending demands, will have to be addressed through spending cuts and/or alternative funding sources and standard revenue growth in current GPR taxes.
6. The fate of Tribal Gaming Revenues in the 2005-07 biennium is not clear and could further exacerbate GPR funding issues. (Tribal Gaming Revenues account for \$161 million GPR in the current biennium.)

Summary

In summary, the 2005-07 budget is shaping up to be every bit as challenging as last session's strained balancing act. Revenue growth for the current biennium appears solid and should not create a deeper hole going forward, but current tax collections are not expected to generate much, if any, new GPR over original Act 33 estimates.

The dollar amount of prior spending commitments alone will consume most, if not all, of revenue growth over the 2005-07 biennium, even in a rebounding economy. Meeting new demand for GPR funding, such as the requested \$644 million in base funding for the MA program alone, will not be possible without further GPR cuts in agency budgets and other GPR programs, and/or finding alternative revenue sources, which do not constitute raising general fund taxes.



Finally, this analysis does not even touch on TABOR and related property tax budget issues or what is likely to be a difficult and contested Transportation Budget. In other words, it's deja vue all over again, with a slightly improved GPR budget starting point compared to last session.

Postscript

The Hamilton Consulting Group will be monitoring 2005-07 budget developments throughout the various stages of the biennial budget and will provide periodic updates and reports. Agency budget requests are currently being pursued and reviewed and will be summarized or noted in future editions of Tidbits.

Sidebar:

For general background purposes, and for purposes of tracking the GPR budget, there are five GPR biennial appropriations that currently exceed \$1 billion dollars. The five largest General Fund Programs, which account for roughly 70% of all GPR spending in each of the last three biennia are shown in the Table below. (Source information taken from LFB budget summary documents.)

Table 1

Five Largest General Fund Programs for 1999-2005 (in millions)			
Program	1999-01 (%)	2001-03 (%)	2003-05 (%)
School Aids	\$8,602 (38.1)	\$9,310 (39.7)	\$9,472 (41.4)
Medical Assistance	\$1,959 (8.7)	\$2,131 (9.1)	\$2,146 (9.4)
UW System	\$1,892 (8.4)	\$2,086 (8.9)	\$1,885 (8.2)
Correctional Ops	\$1,233 (5.5)	\$1,450 (6.2)	\$1,469 (6.4)
Shared Revenue	\$2,028 (9.0)	\$2,049 (8.8)	\$1,351 (5.9)
TOTAL GPR (all programs)	\$22,550	\$23,452	\$22,898