



The Hamilton Consulting Group

Legislative, Regulatory & Information Services

The Wisconsin State Budget Update

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Synopsis

Going into the 2003-05 biennial budget, the Governor and the Legislature are facing an unparalleled challenge in structuring a balanced budget. January 2003 estimates identify a 2003-05 biennial deficit of \$3.23 billion (\$2.00 billion in FY 03-04 and \$1.23 billion in FY 04-05). These figures incorporate an opening negative balance of \$373 million and assumes an optimistic revenue growth of 5.1 percent and 5.6 percent for the biennium.

Both the Governor and Legislature repeatedly state their commitment not to balance the budget with tax increases. And, GPR revenue growth alone can not bridge the gap. So reducing the size of state government appears imminent. The first real answers to the \$3.2 billion question will be unveiled on February 18 when the Governor presents his biennial budget recommendations to the Legislature. Thereafter, the Legislature will spend roughly five months reviewing and modifying the Governor's budget bill before sending it back to the Governor for veto review and signature.

Before the Governor and the Legislature tackle the biennial budget deficit, they first have to deal with the current 2002-03 fiscal year shortfall, currently projected at \$507 million (\$373 million revenue shortfall, plus a \$134 million statutory reserve amount). They must also address a projected shortfall of \$64.4 million in the medical assistance and BadgerCare programs and find \$16.5 million to fill the gap in the 2002-03 Department of Corrections budget. On January 30, 2003, Governor Doyle's Special Session Senate Bill 1 was introduced to partially address the current deficit.

Background

The State of Wisconsin operates on a two-year biennial budget basis. It is currently operating under the 2001 – 03 budget, which runs from July 1, 2001 to June 30, 2003. The total budget for the two-year period (all funds) is roughly \$47 billion, with general purpose revenue (GPR - primarily general state income and sales tax revenue) accounting for \$23.5 billion or 50 percent of the total, and Federal Revenue accounting for \$11 billion or roughly 23 percent of the total budget. Program Revenue (PR - fee for service programs) and Segregated Revenue (SEG - dedicated fees and taxes for specified purpose, e.g., gas tax for highway funding) make up the balance at roughly 12.5 percent each.

Budget Process

Each even-numbered year, state agencies are required to submit budget requests to the Department of Administration (DOA). (See, our [Updates Index](#) for summaries of key agency

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requests.) DOA's budget analysts review the agency requests and the secretary provides recommendations to the Governor for inclusion in the executive budget bill. Approved agency requests form the foundation of the biennial budget bill, which is delivered to the Legislature on or before the last Tuesday in January of each odd-numbered year. This year, incoming Governor Doyle has requested, and the Legislature has agreed to, a later introduction on February 18, 2003.

Budget issues are traditionally identified in the context of a change in appropriation (plus or minus) compared to the previous fiscal year or base-year. The budget operates on an implied cost-to-continue basis. If there are no explicit changes sought or made to an appropriation, the appropriation is considered approved in the new budget at the previous base-year level. The process for this budget cycle will be different, however, based on provisions contained in the budget repair bill. Under the new provision, all agencies must go through zero-based budgeting at least once every six years.

Under zero-based budgeting, every dollar an agency receives and every program it administers is on the table whether appropriation changes to base-year are being sought or not. One-third of the state agencies will be required to do zero-based budgeting this budget cycle, another one-third the following biennium, and the remaining one-third the next to complete the six-year cycle. DOA determines which agencies will be subject to zero-based budgeting, and 20 agencies were identified for review this cycle. Agencies selected for base budget review in 2003/05 include:

- Department of Agriculture, Trade and Consumer Protection
- Department of Commerce
- Department of Financial Institutions
- Department of Natural Resources
- Department of Public Instruction
- Department of Revenue
- Department of Tourism
- Department of Workforce Development.

Current Fiscal Situation

This biennial budget will be the most difficult a governor and legislature have faced in decades, and the main issues will clearly revolve around the GPR budget deficit. A quick review of the state's current fiscal situation underscores the challenge that lies ahead.

- (1) The general fund deficit, as projected by the Legislative Fiscal Bureau following the passage of the budget repair bill (2001 WI Act 109), was \$1.34 billion in 2003-04 and \$1.53 billion in 2004-05. (See the [LFB general fund statement](#).) Those figures did not include revenue growth projections for the next biennium. The Legislative Fiscal Bureau updated revenue estimates and deficit projections in January of 2003. (See the [LFB January 2003 Revenue Estimates](#).) The latest estimates identify a 2003-05 biennial deficit of \$3.26 billion (\$2.00 billion in FY 2003-04 and \$1.23 billion in FY 2004-05). The latest deficit figure is based on an opening balance of negative \$373 million (discussed below) *and assumes revenue growth of 5.1 percent and 5.6 percent for the biennium*.
- (2) It is now projected that the current budget year, ending June 30, 2003, is \$373 million out of balance. Governor Doyle has introduced a Special Session Bill ([SS Senate Bill 1](#)) to partially address the current fiscal year imbalance, which is summarized below.
- (3) The DHFS budget request for Medical Assistance funding calls for an increase of \$165 million GPR in 2003-04 and \$353 million in 2004-05 to deal with a then projected \$58 million deficit in FY 2002-03 funding and anticipated caseload increases in the next biennium.

- (4) There are no apparent one-time pots of money, akin to the tobacco settlement funds, that the state can draw upon to balance the budget in the short-term as it did in Act 109.

Special Session Budget Repair Bill (SS SB 1)

Before the Governor and the Legislature tackle the biennial budget deficit, they first have to deal with the current fiscal year shortfall. That shortfall is currently projected at \$373 million, which does not include a statutory reserve amount. If the Governor and the Legislature are going to address the deficit and maintain a statutory reserve balance, a total of \$507 million is needed in 2002-2003. In addition, the deficit does not include a projected shortfall of \$64.4 million in the medical assistance and BadgerCare programs and \$16.5 million the administration has identified as needed in the 2002/03 Department of Corrections budget.

On January 30, 2003, Governor Doyle's [Special Session Senate Bill 1](#) was introduced to partially address the current deficit. The bill reduces the \$373 million deficit by net \$81 million that includes \$31.8 million in GPR reductions and lapses, \$61.7 million in program revenue and segregated revenue reductions and lapses to the general fund, a \$4 million transfer of GPR debt service from Stewardship to the SEG Forestry Account, and a \$16.5 million GPR increase for Corrections. The bill also addresses the projected shortfall in MA and BadgerCare by borrowing \$64.4 million from the Segregated MA Trust Fund so as not to affect GPR this year. (See the [Legislative Fiscal Bureau Summary](#) for additional details.)

Republican Legislative leaders have been critical of the Governor for sending them a partial solution. In addition, the Legislative Council issued a [Jan. 29 Opinion](#) that SS Senate Bill 1, as proposed, did not meet the statutory requirements of s 16.50 (7), which requires the Governor to submit a budget correction bill to the Legislature upon notification of a projected revenue shortfall. To date, it is unclear whether the Governor will provide additional recommendations. In any event, the clock is ticking and delayed action will only exacerbate the current fiscal year deficit. The Senate is currently expected to take up the Special Session Bill on February 19, 2003.

Budget Solutions

While the problem has been widely recognized for months, the \$3.2 billion question remains – how will the state deal with the deficit? Simply put, the state needs to balance two years of state GPR spending with two years of GPR revenue (tax collections). Assuming the state begins \$3.2 billion (plus) in the hole – the first key consideration is anticipated revenue growth. The LFB's January 2003 revenue estimates and deficit projection assume 5.1 percent and 5.6 percent revenue growth in 2003-05. Over the past twenty years, state tax collections have increased an average of 5.5 percent a year. Since that average growth includes the boom economy of the 90s, current revenue growth projections may be optimistic, but are based on the best indicators available today.

Under the current revenue projections, a total of \$22.1 billion in general fund taxes would be collected in 2003-05 compared to the \$20.2 billion in general fund taxes actually collected in 2001-02 and estimated to be collected in 2002-03. Any shortfall in anticipated revenue growth will add to the currently projected \$3.2 billion biennial deficit and underscores the impact and importance of economic recovery. Beyond revenue growth, solutions become increasingly controversial and harder to come by. Governor Doyle has remained steadfast in his pledge to not increase general fund taxes to deal with the deficit, which has been well received by the Republican-controlled Legislature and focuses the current debate on spending cuts.

On the spending side, both the Governor and the Legislature have indicated they will reduce the size of state government. Generally, this translates into reductions in what is referred to as GPRR state operations. Assuming across the board spending reductions of 5 percent per year in state operations next biennium, similar to what the Governor and Legislature cut in the budget repair bill (Act 109), state spending in this area would be reduced by roughly \$224 million over the biennium.

Under this set of assumptions, additional spending cuts would still be needed to erase the deficit, let alone fund any new spending initiatives. In other words, GPR reductions would have to come from popular GPR programs, which largely provide financial aid to local government and individuals. It is not coincidental that the largest GPR supported programs are also the most politically difficult to reduce. The three largest GPR programs – K-12 school aids (roughly \$4.8 billion per year), Shared Revenue and Tax Relief (roughly \$1.1 billion per year), and Medical Assistance (roughly \$1.1 billion per year) – account for nearly 60 percent of all state GPR spending.

Summary

Going into the 2003-05 biennial budget, the Governor and the Legislature are facing an unparalleled challenge in structuring a balanced budget. GPR revenue growth alone, even under optimistic assumptions, will not address the deficit. Reducing the size of state government appears imminent, although the amounts and specific cuts will be debated. Absent an increase in general fund taxes, GPR supported programs also will likely need to be reduced to eliminate the deficit and balance the budget.

Of course there are any number of revenue generating and spending reduction options that have and will continue to get thrown into the debate. The first real answers to the \$3.2 billion question will be unveiled on February 18 when the Governor presents his biennial budget recommendations to the Legislature. Thereafter, the Legislature will spend roughly five months reviewing and modifying the Governor's budget bill before sending it back to the Governor for veto review and signature. The Hamilton Consulting Group will be monitoring the debate throughout and providing analysis and summaries of key developments. Budget and other updates can be found in our [Political Tidbits](#) newsletter or elsewhere on our website at www.hamilton-consulting.com.

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